SELECTIVE INSURANCE GROUP INC
Form 424B3
April 01, 2005

Table of Contents

Filed pursuant to Rule 424(b)3
Registration No. 333-123315

PROSPECTUS

Selective Insurance Group, Inc.
Offer to Exchange
$50,000,000 aggregate principal amount of 7.25% Senior Notes due 2034
(CUSIP No. 816300 AC1)
for
$50,000,000 aggregate principal amount of 7.25% Senior Notes due 2034
(CUSIP No. 816300 AD9)
that have been registered under the Securities Act of 1933
The exchange offer will expire at 5:00 p.m.,
New York City time, on May 2, unless extended.

Terms of the exchange offer:

The exchange notes are being registered with the Securities and Exchange Commission and are being offered in exchange for the original notes that were previously issued in an offering exempt from the Securities and Exchange Commission s registration requirements. The terms of the exchange offer are summarized below and more fully described in this prospectus.

We will exchange all original notes that are validly tendered and not withdrawn prior to the expiration of the exchange offer.

You may withdraw tenders of original notes at any time prior to the expiration of the exchange offer.

The exchange of original notes for exchange notes generally will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the exchange notes are substantially identical to the original notes, except that the exchange notes are registered under the Securities Act of 1933, as amended (the Securities Act) and the transfer restrictions and registration rights applicable to the original notes do not apply to the exchange notes.

The exchange notes will not be listed on any national securities exchange or the Nasdaq Stock Market.

See Risk Factors beginning on page 12 to read about important factors you should consider before tendering your original notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 31, 2005.

TABLE OF CONTENTS

Page

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. This prospectus is an offer to exchange only the notes offered by this prospectus and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is accurate only as of the date of this prospectus.

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. This information is available to security holders without charge upon written or oral request to:

Selective Insurance Group, Inc.
40 Wantage Avenue
Branchville, NJ 07890
(973) 948-3000
Attention: Corporate Secretary

To obtain timely delivery, security holders must request the information incorporated by reference no later than five business days prior to the expiration date of the exchange offer.

References in this prospectus to we, us, our and Selective refer to Selective Insurance Group, Inc., an insurance holding company incorporated in New Jersey, and its subsidiaries, unless the context otherwise requires.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. These statements relate to our intentions, beliefs, current expectations and projections regarding our future operations and performance. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by words such as anticipates, believes, expects, will, should and intends and their negatives. We caution prospective investors that such forward-looking statements are not guarantees of future performance. Risks and uncertainties are inherent in our future performance. Factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, those discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and its section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2004. Those portions of the Annual Report are incorporated by reference into this report. We make forward-looking statements based on currently available information and assume no obligation to update these statements due to changes in underlying factors, new information, future developments, or otherwise.

Factors which could cause our actual results to differ materially from those projected, forecasted or estimated by us in forward-looking statements, include, but are not limited to:

- the frequency and severity of catastrophic events, including hurricanes, tornadoes, windstorms, earthquakes, hail, severe winter weather, fires, explosions and terrorism;
- adverse economic, market or regulatory conditions;
- the concentration of our business in a number of East Coast and Midwestern states;
- the adequacy of our loss reserves;
- the cost and availability of reinsurance;
- our ability to collect on reinsurance and the solvency of our reinsurers;
- uncertainties related to insurance rate increases and business retention;
- changes in insurance regulations that impact our ability to write and/or cease writing insurance policies in one or more states particularly changes in New Jersey automobile insurance laws and regulations;
- our ability to maintain favorable ratings from A.M. Best, S&P, Moody s and Fitch;
- fluctuations in interest rates and the performance of the financial markets which may affect our investment income;
- our entry into new markets and businesses; and
- other risks and uncertainties we identify in this prospectus and other documents incorporated by reference.

We undertake no obligation, other than as may be required under the federal securities laws, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Risk Factors.

We caution you that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict such new risk factors, nor can we assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from those expressed or implied by any forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act.

You should carefully read this prospectus and the documents incorporated by reference in their entirety. They contain information that you should consider when making your investment decision.

Table of Contents

SUMMARY

The following summary highlights selected information contained or incorporated by reference in this prospectus and does not contain all the information that you should consider before participating in the exchange offer. The following summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this prospectus. You should read the entire prospectus, as well as the information incorporated by reference, before participating in this exchange offer.

Selective Insurance Group, Inc.

We are a holding company that, through our subsidiaries, offers property and casualty insurance products and diversified insurance services products. Through our six property and casualty insurance subsidiaries, which we refer to collectively as the Insurance Subsidiaries, Selective Insurance Company of America, Selective Way Insurance Company, Selective Insurance Company of New England, Selective Insurance Company of New York, Selective Insurance Company of the Southeast and Selective Insurance Company of South Carolina, we offer primary and alternative market property and casualty insurance for commercial and personal risks. We primarily write business in the following states: Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Kentucky, Maryland, Michigan, Minnesota, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Virginia and Wisconsin.

We offer a broad range of commercial insurance and alternative risk management products to small and medium-sized businesses and state and local government entities. Our commercial insurance products represented approximately 84% of our net premiums written for the year ended December 31, 2004. We also provide personal insurance products to individuals and families in approximately ten states, which represented approximately 16% of our net premiums written for the year ended December 31, 2004.

Since our inception in 1926, we have distributed almost 100% of our insurance products through non-exclusive independent agents. We have agency agreements with approximately 800 independent insurance agents. We do not distribute our products through insurance brokerages nor do we use marketing service agreements. Pursuant to our agency agreements, we pay independent agent commissions for the business they write with us. The general commission structure paid on each policy is disclosed as part of our public rate filings made in the state in which we write insurance business. We also pay additional commission based on the annual underwriting results and growth of an agent s entire book of business not specific individual accounts with us.

Our Diversified Insurance Services products, which include flood insurance, human resource administration outsourcing and managed care, are sold by: Alta Services LLC, a New Jersey-based managed care company that provides medical claims handling services to our Insurance Subsidiaries and other insurers, Consumer Health Network Plus, LLC, a New Jersey-based preferred provider organization, Northeast Health Direct, LLC, a New England-based preferred provider organization, SelecTech, LLC, a New Jersey-based third party administrator, Selective HR Solutions, Inc. (SHRS), a Florida-based human resource administration outsourcing organization, and a division of Selective Insurance Company of America that provides flood insurance and flood claim administration services to homeowners and commercial customers. The flood insurance that we write is 100% reinsured by the federal government.

Corporate Strategy

Our corporate strategy is to create profitable growth and long-term shareholder value. Our goal is to establish ourselves as the market of choice for each of the independent agents who distribute our products and services. We intend to achieve this goal by focusing on our customers needs and tailoring our products and services to meet and exceed those needs.

We place a high value on the quality of the independent agents selling our products and services. The strength of our relationships with our agents is the foundation of our success. As insurance counselors, independent agents help their customers determine the coverages and services they need to protect their assets and help us analyze potential exposures to loss.

Table of Contents

Our agency management specialists work closely with agents in their offices. This on-site approach, supported by six regional offices and technology links to automated systems, enables a quick response to business opportunities. A parallel program puts claim management specialists in the field working with agents, insureds and claimants.

Behind the risk management products and services we offer are a strong underwriting tradition and knowledge of our regional markets. The field and regional staffs are backed by customer-focused strategic business units that quickly develop and market products designed to meet customers developing needs.

Our long-standing service ethic is strengthened by the use of new technology tools. By using Internet technology to remove friction and redundant work from both the sales and service processes, we are significantly increasing both our effectiveness and efficiency. We have taken major steps toward creating a straight-through processing environment empowering agents and employees to spend more time attending to customer needs and less on administrative tasks.

Headquarters

Our principal executive offices are located at 40 Wantage Avenue, Branchville, New Jersey 07890. Our telephone number at that address is (973) 948-3000. Our Web site address is www.selective.com. We do not intend the information on our Web site to constitute part of this prospectus.

Table of Contents

Summary of the Exchange Offer

On November 16, 2004, we completed the private placement of $50,000,000 aggregate principal amount of 7.25% senior notes due 2034. As part of that offering, we entered into a registration rights agreement with Keefe, Bruyette & Woods, Inc., the initial purchaser of the original notes, dated as of November 16, 2004, in which we agreed, among other things, to deliver this prospectus to you and to complete an exchange offer for the original notes. Below is a summary of the exchange offer.

Securities offered	Up to $50,000,000 aggregate principal amount of new 7.25% senior notes due 2034, which have been registered under the Securities Act. The form and terms of these exchange notes are identical in all material respects to those of the original notes except that (i) interest thereon shall accrue from the last date to which interest has been paid on the original notes or, if no such interest has been paid, from November 16, 2004, (ii) provisions relating to an increase in the stated rate of interest thereon upon the occurrence of a registration default shall be eliminated and (iii) the transfer restrictions, minimum purchase requirements and legends relating to restrictions on ownership and transfer thereof as a result of the issuance of the original notes without registration under the Securities Act shall be eliminated other than requiring transfers in multiples of $1,000.
The exchange offer	We are offering to exchange up to $50,000,000 principal amount of our 7.25% senior notes due 2034 that have been registered under the Securities Act for a like principal amount of the original notes outstanding. You may tender original notes only in integral multiples of $1,000 principal amount. We will issue exchange notes as soon as practicable after the expiration of the exchange offer. In order to be exchanged, an original note must be properly tendered and accepted. All original notes that are validly tendered and not withdrawn will be exchanged. As of the date of this prospectus, there are $50,000,000 aggregate principal amount of original notes outstanding. The $50,000,000 aggregate principal amount of our original 7.25% senior notes due 2034 were offered under an indenture dated November 16, 2004.
Expiration date; Tenders	The exchange offer will expire at 5:00 p.m., New York City time, on May 2, 2005, unless we extend the exchange offer in our sole and absolute discretion. By tendering your original notes, you represent that: you are neither our affiliate (as defined in Rule 405 under the Securities Act) nor a broker-dealer tendering notes acquired directly from us for its own account; any exchange notes you receive in the exchange offer are being acquired by you in the ordinary course of business; at the time of commencement of the exchange offer, neither you nor, to your knowledge, anyone receiving exchange notes from you, has any arrangement or understanding with any person to participate in the distribution, as defined in the

Table of Contents

	Securities Act, of the original notes or the exchange notes in violation of the Securities Act;
	if you are not a participating broker-dealer, you are not engaged in, and do not intend to engage in, the distribution, as defined in the Securities Act, of the original notes or the exchange notes; and
	if you are a broker-dealer, you will receive the exchange notes for your own account in exchange for the original notes that you acquired as a result of your market-making or other trading activities and you will deliver a prospectus in connection with any resale of the exchange notes that you receive. For further information regarding resales of the exchange notes by participating broker-dealers, see the discussion under the caption Plan of Distribution.
Accrued interest on the exchange notes and original notes	The exchange notes will bear interest from the most recent date to which interest has been paid on the original notes or, if no such interest has been paid, from November 16, 2004. If your original notes are accepted for exchange, you will receive interest on the exchange notes and not on the original notes. Any original notes not tendered will remain outstanding and continue to accrue interest according to their terms.
Conditions to the exchange offer	The exchange offer is subject to customary conditions. We may assert or waive these conditions in our sole discretion. If we materially change the terms of the exchange offer, we will resolicit tenders of the original notes. See The Exchange Offer Conditions to the Exchange Offer for more information regarding conditions to the exchange offer.
Procedures for tendering original notes	Except as described in the section titled The Exchange Offer Guaranteed Delivery Procedures, a tendering holder must, on or prior to the expiration date:
	transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to the exchange agent at the address listed in this prospectus; or
	if original notes are tendered in accordance with the book-entry procedures described in this prospectus, the tendering holder must transmit an agent s message to the exchange agent at the address listed in this prospectus. See The Exchange Offer Procedures for Tendering.
Special procedures for beneficial holders	If you are a beneficial holder of original notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee, and you wish to tender in the exchange offer, you should promptly contact the person in whose name your original notes are registered and instruct that person to tender on your behalf. See The Exchange Offer Procedures for Tendering.

Guaranteed delivery procedures	If you wish to tender your original notes and you cannot deliver your original notes, the letter of transmittal or any other required documents to the exchange agent before the expiration date, you may tender your original notes by following the guaranteed delivery procedures under the heading The Exchange Offer Guaranteed Delivery Procedures.
Withdrawal rights	Tenders may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date.
Acceptance of original notes and delivery of exchange notes	Subject to the conditions stated in the section The Exchange Offer Conditions to the Exchange Offer of this prospectus, we will accept for exchange any and all original notes which are properly tendered in the exchange offer before 5:00 p.m., New York City time, on the expiration date. The exchange notes will be delivered as soon as practicable after the expiration date. See The Exchange Offer Terms of the Exchange Offer.
Material U.S. federal tax consequences	Your exchange of original notes for exchange notes pursuant to the exchange offer generally will not be a taxable event for U.S. federal income tax purposes.
Regulatory requirements	Following the effectiveness of the registration statement covering the exchange offer with the SEC, no other material federal regulatory requirement must be complied with in connection with this exchange offer.
Exchange agent	Wachovia Bank, National Association is serving as exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are listed under the heading The Exchange Offer Exchange Agent.
Use of proceeds	We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and certain transfer taxes and will indemnify holders of the notes, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act.
Resales	Based on interpretations by the staff of the SEC as detailed in a series of no-action letters issued to third parties, we believe that the exchange notes issued in the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act as long as: you are acquiring the exchange notes in the ordinary course of your business; you are not participating, do not intend to participate and have no arrangement or understanding with any person to participate, in a distribution of the exchange notes; and

Table of Contents

	you are neither an affiliate of ours nor a broker-dealer tendering notes acquired directly from us for your own account. If you are an affiliate of ours, are engaged in or intend to engage in or have any arrangement or understanding with any person to participate in the distribution of the exchange notes: you cannot rely on the applicable interpretations of the staff of the SEC; and you must comply with the registration requirements of the Securities Act in connection with any resale transaction. Each broker or dealer that receives exchange notes for its own account in exchange for original notes that were acquired as a result of market-making or other trading activities must acknowledge that it will comply with the registration and prospectus delivery requirements of the Securities Act in connection with any offer to resell, resale, or other transfer of the exchange notes issued in the exchange offer, including the delivery of a prospectus that contains information with respect to any selling holder required by the Securities Act in connection with any resale of the exchange notes. Furthermore, any broker-dealer that acquired any of its original notes directly from us: may not rely on the applicable interpretation of the staff of the SEC s position contained in Exxon Capital Holdings Corp., SEC no-action letter (April 13, 1988), Morgan, Stanley & Co. Inc., SEC no-action letter (June 5, 1991), and Shearman & Sterling, SEC no-action letter (July 2, 1993); and must also be named as a selling holder in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction. As a condition to participation in the exchange offer, each holder will be required to represent that they are not our affiliate or a broker-dealer that acquired the original notes directly from us.
Consequences of not exchanging original notes	If you do not exchange your original notes in the exchange offer, you will continue to be subject to the restrictions on transfer described in the legend on your original notes. In general, you may offer or sell your original notes only: if they are registered under the Securities Act and applicable state securities laws; if they are offered or sold under an exemption from registration under the Securities Act and applicable state securities laws; or if they are offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

6

Table of Contents

	Although your original notes will continue to accrue interest, they will retain no rights under the registration rights agreement.
	We currently do not intend to register the original notes under the Securities Act. Under some circumstances, holders of the original notes, including holders who are not permitted to participate in the exchange offer or who may not freely sell exchange notes received in the exchange offer, however, may require us to file, and to cause to become effective, a shelf registration statement covering resales of the original notes by these holders. For more information regarding the consequences of not tendering your original notes and our obligations to file a shelf registration statement, see The Exchange Offer Consequences of Exchanging or Failing to Exchange the Original Notes and Description of the Notes Registration Rights.
Risk factors	See Risk Factors and the other information in this prospectus for a discussion of factors you should consider carefully before deciding to invest in the exchange notes.

Table of Contents

Summary of the Terms of the Exchange Notes

The following is a summary of the terms of the exchange notes. The form and terms of these exchange notes are identical in all material respects to those of the original notes except that (i) interest thereon shall accrue from the last date to which interest has been paid on the original notes or, if no such interest has been paid, from November 16, 2004, (ii) provisions relating to an increase in the stated rate of interest thereon upon the occurrence of a registration default shall be eliminated and (iii) the transfer restrictions, minimum purchase requirements and legends relating to restrictions on ownership and transfer thereof as a result of the issuance of the original notes without registration under the Securities Act shall be eliminated other than requiring transfers in multiples of $1,000. The exchange notes will evidence the same debt as the original notes and will be governed by the same indenture. When we refer to the terms of note or notes in this prospectus, we are referring to the original notes and the exchange notes. For a more complete description of the terms of the exchange notes, see Description of the Notes in this prospectus.

Issuer	Selective Insurance Group, Inc.
Exchange notes offered	$50,000,000 aggregate principal amount of 7.25% Senior Notes due 2034
Maturity date	November 15, 2034
Interest payment dates	May 15 and November 15, commencing on May 15, 2005
Ranking	The notes will be unsecured senior obligations and will rank equally with our other unsecured senior indebtedness. The notes will be effectively subordinated to any of our future secured indebtedness as to the assets securing such indebtedness. As of December 31, 2004, we had outstanding $264.350 million of unsecured indebtedness, including (1) $115.937 million of senior convertible notes, (2) $147.380 million of senior notes and (3) $1.033 million of convertible subordinated debentures. The notes will rank equally with the senior convertible notes and the senior notes. The notes will be senior to the convertible subordinated debentures. As of December 31, 2004, we had no secured indebtedness outstanding. We are structured as a holding company, and we conduct most of our business operations through our subsidiaries. The notes will be effectively subordinated to all existing and future indebtedness and other liabilities and commitments of our subsidiaries. As of December 31, 2004, our subsidiaries had an aggregate of approximately $238.6 million of liabilities (excluding $1.84 billion of reserves for losses and loss expenses and $702.1 million of unearned premium reserves).
Optional redemption	The notes may not be redeemed at our option or at the option of any noteholder.
Sinking fund	There is no provision for a sinking fund.
Governing law	The notes will be governed by New York law.
Covenants	Except for certain limitations on liens on stock of Restricted Subsidiaries (see Description of the Notes Limitation on Liens on Stock of Restricted Subsidiaries), the indenture does not contain any provisions restricting us or any of our subsidiaries from incurring, assuming or becoming liable with respect to

Table of Contents

	any indebtedness or other obligations, whether secured or unsecured, or any financial covenants or provisions restricting us or our subsidiaries from paying dividends or making other distributions on capital stock or from purchasing or redeeming capital stock. In addition, we are not required to repurchase, redeem or modify the terms of any of the notes upon a change of control or other event involving us, which may adversely affect the value of the notes.
Listing	The notes will not be listed on any exchange, PORTAL or any quotation system.
Clearance and settlement	The notes will be cleared through DTC, Euroclear Bank S.A./N.V., as operator of the Euroclear system (Euroclear), or Clearstream Banking, S.A. (Clearstream Banking).

Table of Contents

Summary Historical Consolidated Financial and Other Data

The following table sets forth our summary historical consolidated financial data. The statement of operations data, and balance sheet data as of and for each of the years in the five-year period ended December 31, 2004 have been derived from our audited financial statements.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Statement of Operations Data:					
Net premiums written	$ 1,365,148	$ 1,219,159	$ 1,053,487	$ 925,420	$ 843,604
Net premiums earned	1,318,390	1,133,070	988,268	883,048	821,265
Net investment income earned	120,540	114,748	103,067	96,767	99,495
Net realized gains	24,587	12,842	3,294	6,816	4,191
Diversified Insurance Services revenue(1, 2)	104,396	91,840	80,796	69,626	57,527
Total revenues	1,571,536	1,356,116	1,178,950	1,059,020	986,217
Underwriting gain (loss)	40,768	(25,252)	(38,743)	(60,638)	(65,122)
Diversified Insurance Services net income (loss) from continuing operations(1, 2)	14,170	9,223	5,914	(427)	5,509
Net income from continuing operations(2)	128,639	66,344	42,138	26,318	26,686
Loss from discontinued operations(2)			(169)	(625)	(151)
Net income	128,639	66,344	41,969	25,693	26,535
Comprehensive income	134,723	99,362	59,366	24,405	49,166

	As of December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Balance Sheet Data:					
Total cash and investments	2,841,543	$ 2,437,656	$ 2,128,779	$ 1,820,604	$ 1,785,822
Total assets	3,929,400	3,438,782	3,029,847	2,684,344	2,590,903
Total liabilities	3,047,382	2,688,998	2,377,745	2,093,184	2,013,106
Total shareholders equity	882,018	749,784	652,102	591,160	577,797
Senior convertible notes	115,937	115,937	115,937		
Notes payable(3)	147,380	121,500	145,500	152,643	159,786
Convertible subordinated debentures	1,033	1,184	1,331	3,790	3,848
Short-term debt					
Total debt	264,350	238,621	262,768	156,433	163,634

10

Table of Contents

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Selected Ratios:					
Ratio of debt to capitalization	23.1%	24.1%	28.7%	21.0%	22.1%
Return on average equity	15.8%	9.5%	6.8%	4.4%	4.6%
Yield on investment	4.7%	5.1%	5.4%	5.4%	5.8%
Statutory premiums to surplus(4, 5)	1.7:1	1.8:1	1.9:1	1.8:1	1.7:1
Ratio of earnings to fixed charges(4)	10.5x	5.4x	4.0x	2.4x	2.5x
Statutory combined ratio(1, 4, 6)	95.9%	101.5%	103.2%	106.7%	108.2%
Combined ratio(1, 4, 6)	96.9%	102.2%	103.9%	106.9%	107.9%

(1) Flood business is included in statutory underwriting results in accordance with prescribed statutory accounting practices. On a basis in accordance with GAAP only, flood servicing revenue and expense has been reclassified from underwriting results to Diversified Insurance Services. Prior years have been restated to reflect the exclusion of results from discontinued operations.

(2) See Item 8, Financial Statements and Supplementary Data, Note 14 to the consolidated financial statements, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, the section entitled Results of Operations for a discussion of discontinued operations, and Item 8, Financial Statements and Supplementary Data, Note 11 for components of income (loss), in each case included in our annual report on Form 10-K for the year ended December 31, 2004 incorporated by reference herein.

(3) See Item 8, Financial Statements and Supplementary Data, Note 8 to the consolidated financial statements, in each case included in our annual report on Form 10-K for the year ended December 31, 2004 incorporated by reference herein, for a discussion of senior convertible notes issued during 2002.

(4) Combined ratio means a measure of underwriting profitability determined by dividing the sum of all GAAP expenses (losses, loss expenses, underwriting expenses, and dividends to policyholders) by GAAP net premiums earned for the period. Ratio of earnings to fixed charges indicates how many times interest charges have been earned by us on a pretax basis. Since failure to meet interest payments would be a default under the terms of indenture agreements, this coverage ratio measures a margin of safety. Statutory combined ratio means a measurement commonly used within the property and casualty insurance industry to measure underwriting profit or loss. It is a combination of an underwriting expense ratio, a loss and loss expense ratio and dividends to policyholders ratio. Statutory premiums to surplus ratio means a statutory measure of solvency risk that is calculated by dividing the net statutory premiums written for the year by the ending statutory surplus. For example, a ratio of 1.5:1 means that for every dollar of surplus, we wrote $1.50 in premiums.

(5) Regulatory and rating agencies use the statutory premiums to surplus ratio as a measure of solvency, viewing an increase in the ratio as a possible increase in solvency risk. Management and analysts also view this ratio as a measure of the effective use of capital since, as the ratio increases, revenue per dollar of invested capital increases, indicating the possible opportunity for an increased return.

(6) Changes in both the GAAP and statutory combined ratios are viewed by management and analysts as indicative of changes in the profitability of underwriting operations. A ratio over 100% is indicative of an underwriting loss,

and a ratio below 100% is indicative of an underwriting profit.

Table of Contents

RISK FACTORS

You should carefully consider the following risk factors in addition to the other information included, or incorporated by reference, in this prospectus before investing in the exchange notes. If any of the following risk factors actually occur, our business, financial condition or results of operations could likely suffer which, in turn, could materially and adversely affect the price of the exchange notes.

Risks Relating to the Exchange Offer

You may have difficulty selling the original notes that you do not exchange.

If you do not exchange your original notes for exchange notes pursuant to the exchange offer, the original notes you hold will continue to be subject to the existing transfer restrictions. The original notes may not be offered, sold or otherwise transferred, except in compliance with the registration requirements of the Securities Act, pursuant to an exemption from registration under the Securities Act or in a transaction not subject to the registration requirements of the Securities Act, and in compliance with applicable state securities laws. We do not anticipate that we will register the original notes under the Securities Act. After the exchange offer is consummated, the trading market for the remaining untendered original notes may be small and inactive. Consequently, you may find it difficult to sell any original notes you continue to hold because there will be fewer original notes of such series outstanding.

Some noteholders may be required to comply with the registration and prospectus delivery requirements of the Securities Act.

If you exchange your original notes in the exchange offer for the purpose of participating in a distribution of the exchange notes, you may be deemed to have received restricted securities and, if so, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

In addition, a broker-dealer that purchased original notes for its own account as part of market-making or trading activities must deliver a prospectus when it sells the exchange notes it received in the exchange offer. Our obligation to make this prospectus available to broker-dealers is limited. We cannot guarantee that a proper prospectus will be available to broker-dealers wishing to resell their exchange notes.

Late deliveries of original notes or any other failure to comply with the exchange offer procedures could prevent a holder from exchanging its old notes.

Noteholders are responsible for complying with all exchange offer procedures. The issuance of exchange notes in exchange for original notes will only occur upon completion of the procedures described in this prospectus under The Exchange Offer. Therefore, holders of original notes who wish to exchange them for exchange notes should allow sufficient time for timely completion of the exchange procedure. Neither we nor the exchange agent are obligated to extend the offer or notify you of any failure to follow the proper procedure.

Risks Relating to the Notes

Your right to receive payments on the notes will be effectively subordinated to the rights of any future secured creditors. The notes will be effectively subordinated to any existing and future liabilities of our subsidiaries.

The notes represent unsecured obligations for Selective. Accordingly, holders of any future secured indebtedness will have claims that are superior to your claims as holders of the notes to the extent of the value of the assets securing that other indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have superior claim to those of our assets that constitute their collateral. In any of the foregoing events, we cannot assure you that there will be sufficient assets to

Table of Contents

pay amounts due on the notes. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that ranks equally in right of payment with the notes, and potentially with all our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness.

In addition, we are a holding company and conduct substantially all our operations through our subsidiaries. As a result, holders of the notes are effectively subordinated to the debt and other liabilities of our subsidiaries. Therefore, in the event of the insolvency or liquidation of a subsidiary, following payment by such subsidiary of its liabilities, such subsidiary may not have sufficient remaining assets to make payments to us as a shareholder or otherwise. In the event of a default by a subsidiary under any credit arrangement or other indebtedness, its creditors could accelerate such debt, prior to such subsidiary distributing amounts to us that we could have used to make payments on the notes. In addition, if we caused a subsidiary to pay a dividend to us to make payment on the notes, and such dividend were determined to be a fraudulent transfer, holders of the notes would be required to return the payment to the subsidiary s creditors.

Except for certain limitations on liens of stock of Restricted Subsidiaries, the indenture does not contain restrictive covenants. Therefore, holders of the notes may not be protected in the event we are involved in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction in the future.

The indenture under which the notes will be issued may not sufficiently protect holders of notes in the event we are involved in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction. The indenture does not contain:

Any provision restricting us or any of our subsidiaries from incurring, assuming or being liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on capital stock or from purchasing or redeeming capital stock;

Any restrictions on the ability of our subsidiaries to issue securities that would be senior to the common stock of the subsidiary held by us;

Any financial ratios or specified level of net worth to which we or our subsidiaries must adhere;

Any restrictions on our ability to pledge our assets as collateral or otherwise encumber our assets, except for a limitation on liens on the capital stock of our Restricted Subsidiaries (see Description of the Notes Limitation on Liens on Stock of Restricted Subsidiaries); or

Any restrictions on our ability to contribute our assets to our subsidiaries.

There is no public market for the exchange notes.

The exchange notes are a new issue of securities and there is no existing trading market for the exchange notes. Although the initial purchaser of the original notes has informed us that it intends to make a market in the exchange notes, it has no obligation to do so and may discontinue making a market at any time without notice. Accordingly, we cannot assure you that a liquid market will develop for the exchange notes, that you will be able to sell your exchange notes at a particular time or that the prices that you receive when you sell the exchange notes will be favorable.

We do not intend to apply for listing or quotation of the exchange notes on any securities exchange or stock market or for inclusion of the notes in any automated quotation system. The liquidity of any market for the exchange notes will depend on a number of factors, including:

the number of holders of exchange notes;

our operating performance and financial condition;

our ability to complete the offer to exchange the original notes for the exchange notes;

Table of Contents

- the market for similar securities;
- the interest of securities dealers in making a market in the exchange notes; and
- prevailing interest rates.

Risks Relating to Our Business

The property and casualty insurance industry is cyclical.

Historically, the results of the property and casualty insurance industry have experienced significant fluctuations due to competition, economic conditions, interest rates and other factors. For example, commercial lines premium pricing increased from 2001 to 2004, but it decreased for several years before 2000. The industry s profitability also is affected by unpredictable developments, including:

- natural and man-made disasters;
- fluctuations in interest rates and other changes in the investment environment that affect investment returns;
- inflationary pressures that affect the size of losses;
- Medical losses; and
- judicial decisions that affect insurers liabilities.

The demand for property and casualty insurance, particularly commercial lines, can also vary with the overall level of economic activity.

Catastrophic events can have a significant impact on our financial and operational condition.

Results of property and casualty insurers are subject to weather and other conditions. While one year may be relatively free of major weather or other disasters, another year may have numerous such events causing results to be materially worse than other years.