

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

IN THE MATTER OF:)
)
Selective Insurance Company of South Carolina)
40 Wantage Avenue)
Branchville, NJ 07890)

Examination of Selective Insurance Company of South Carolina

NOTICE OF ENTRY OF ORDER

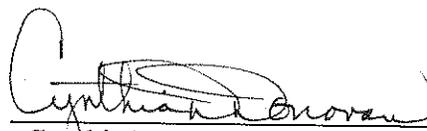
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Selective Insurance Company of South Carolina, any relevant examination work papers, and any written submissions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

Date

1/13/14



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0025 7521 64

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

IN THE MATTER OF:)
)
Selective Insurance Company of South Carolina)
329 West Washington Street)
Greensburg, Indiana 47240)

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, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 19, 2013.

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 November 20, 2013 and was received by the Company on November 25, 2013.

On December 6, 2013, 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, 2012.
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 and Sealed this 13 day of
January, 2014.


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.

Robert A. ...

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA

NAIC COMPANY CODE 19259

NAIC GROUP CODE 0242

As of

December 31, 2012

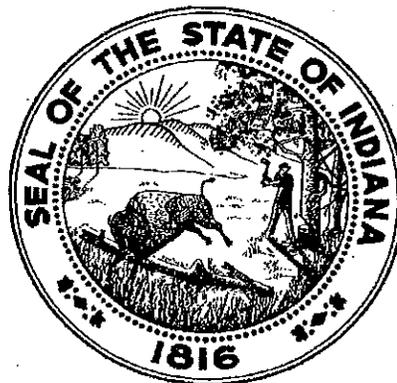


TABLE OF CONTENTS

SALUTATION.....3
SCOPE OF EXAMINATION.....4
HISTORY.....4
CAPITAL AND SURPLUS.....5
DIVIDENDS TO STOCKHOLDERS.....5
TERRITORY AND PLAN OF OPERATION.....5
GROWTH OF THE COMPANY.....6
MANAGEMENT AND CONTROL.....6
 Directors.....6
 Officers.....7
 Corporate Governance.....8
CONFLICT OF INTEREST.....8
OATH OF OFFICE.....8
CORPORATE RECORDS.....8
 Articles of Incorporation.....8
 Bylaws.....8
 Minutes.....8
AFFILIATED COMPANIES.....9
 Organizational Structure.....9
 Affiliated Agreements.....9
FIDELITY BOND AND OTHER INSURANCE.....10
STATUTORY AND SPECIAL DEPOSITS.....11
REINSURANCE.....11
 Reinsurance Agreements with Affiliates.....11
 Reinsurance Agreements with Non-Affiliates.....11
ACCOUNTS AND RECORDS.....13
FINANCIAL STATEMENTS.....14
 Assets.....14
 Liabilities, Surplus and Other Funds.....15
 Statement of Income.....16
 Capital and Surplus Account.....17
COMMENTS ON THE FINANCIAL STATEMENTS.....18
OTHER SIGNIFICANT FINDINGS.....18
SUBSEQUENT EVENTS.....18
AFFIDAVIT.....19



STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

September 19, 2013

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

Dear Commissioner,

Pursuant to the authority vested in Appointment Number 3736, an examination has been made of the affairs and financial condition of:

Selective Insurance Company of South Carolina
40 Wantage Avenue
Branchville, NJ 07890

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, 2012, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Insurance Department (INDOI) as of the period ending December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc., (Noble) and covered the period from January 1, 2008 through December 31, 2012, 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 and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations

The examination of the New Jersey domestic insurance companies of Selective Insurance Group, Inc., (SIGI) was called by the 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 loss reserves and loss adjustment expense reserves as of December 31, 2012.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

No comments and recommendations were noted from the most recent report of examination for the Company.

HISTORY

The Company was incorporated on 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 (SCDOI) to transact the business of a property and casualty stock insurer. On January 1, 1952, the Company commenced business. The Company became part of SIGI insurance company holding 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 (SICSE) which owned 100% of the outstanding shares of common stock of the Company. SICSC was adopted on January 2, 1986. On July 1, 1992, the SIGI organizational structure was changed whereby the Company 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. Effective June 30, 2008, the Company 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, 2012, 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 common stock.

DIVIDENDS TO STOCKHOLDERS

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

<u>Year</u>	<u>Ordinary Dividends</u>
2012	\$ 750,000
2011	3,000,000
2010	4,000,000
2009	3,500,000
2008	4,600,000
Total	<u>\$15,850,000</u>

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of ten percent (10%) of the prior year's surplus or the net gains from operations 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 twenty-six (26) states as of December 31, 2012:

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

Through a sales force of independent agents, the Company offers primary and alternative market insurance for commercial and personal risks. Commercial insurance for light industry, public entities, and small and medium-sized businesses represented 86% of the Company's insurance operations during 2012. The Company also offers personal insurance products, including automobile, homeowners, and personal umbrella representing 14% of the Company's insurance operations during 2012.

As of December 31, 2012, the commercial lines included bond risks, business owners' policy, commercial automobile, commercial property, general liability, and workers' compensation through traditional insurance and alternative risk management products. The personal lines included homeowners, personal automobile, and other various risks, including excess and dwelling fire coverage.

GROWTH OF THE COMPANY

The following exhibit, shown in thousands, summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2012	\$ 496,670	\$ 405,303	\$ 91,367	\$ 142,548	\$ 2,784
2011	476,224	385,692	90,532	129,538	644
2010	437,470	343,576	93,895	127,315	7,272
2009	435,002	345,196	89,794	129,606	10,171
2008	422,127	340,503	81,624	136,546	9,401

The Company's total capital and surplus was approximately \$91.4 million at December 31, 2012, a decrease of approximately 3.1% compared to December 31, 2007. Surplus has increased in three (3) out of the past five (5) years with 2008 and 2011 being the exception years when surplus declined 13.4% and 3.6%, respectively. The increase in capital and surplus is primarily attributable to an increase in net underwriting income during 2008 to 2012, resulting primarily from an increase in written premiums for commercial lines policies and stable persistence within the personal lines policies.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the Board of Directors shall be composed of not less than nine (9) and no more than fifteen (15) persons. The stockholder, at its annual meeting, elects the members of the Board of Directors.

The following is a listing of persons serving as Directors at December 31, 2012:

Name and Address	Principal Occupation
Susan Blennerhassett Sweeney Farmington, Connecticut	Senior Vice President, Chief Investment Officer Selective Insurance Company of America
Erik Alvin Reidenbach Fishers, Indiana	Senior Vice President, Heartland Regional Manager Selective Insurance Company of America
Ronald Edward St. Clair Sparta, New Jersey	Executive Vice President, Chief Information Officer Selective Insurance Company of America
Michael Haran Lanza Jamestown, Rhode Island	Executive Vice President and General Counsel Selective Insurance Company of America
John Joseph Marchioni Andover, New Jersey	Executive Vice President, Insurance Operations Selective Insurance Company of America
Gregory Edward Murphy Sparta, New Jersey	Chairman, President, and Chief Executive Officer Selective Insurance Company of America
Charles Anthony Musilli, III Wantage, New Jersey	Senior Vice President, Selective Specialty and Distribution Selective Insurance Company of America
Dale Allen Thatcher Sparta, New Jersey	Executive Vice President, Chief Financial Officer Selective Insurance Company of America
Ronald Joseph Zaleski, Sr. Andover, New Jersey	Executive Vice President, Chief Actuary Selective Insurance Company of America

Officers

The Bylaws state the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, one (1) or more Executive Vice Presidents, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such other officers the Board of Directors may elect. Any two (2) offices may be held by the same person. The following is a list of key officers and their respective titles as of December 31, 2012:

Name	Office
Gregory Edward Murphy	President, Chief Executive Officer
Michael Haran Lanza	Secretary, Executive Vice President
Jennifer Wilson DiBerardino	Treasurer, Senior Vice President
Anthony David Harnett	Senior Vice President, Corporate Controller
Dale Allen Thatcher	Executive Vice President, Chief Financial Officer
John Joseph Marchioni	Executive Vice President, Insurance Operations
Ronald Joseph Zaleski, Sr.	Executive Vice President, Chief Actuary
Ronald Edward St. Clair	Executive Vice President, Chief Information Officer

Corporate Governance

The corporate governance was evaluated through a review of the Company's Corporate Governance Guidelines, Executive Officer and Board of Director member interviews, Board of Director general meeting minutes, SIGI committee minutes, and other various examination documentation obtained from the NJDOBI in its coordinated examination of the Company's affiliates. The Corporate Governance review followed the format provided by Exhibit M of the Handbook.

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of year-end 2012.

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 corporation and will not knowingly violate any of the laws applicable to such corporation. It was determined that each director subscribed to an Oath of Office statement as of 2012.

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 of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board of Directors meetings were held in accordance with the Company's Bylaws.

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:

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

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B - Holding Company Registration Statement in accordance with IC 27-1-23-3 and filed individually, as required, with the INDOI 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, as well as to make certain equipment, facilities, and property available for use. Expenses are allocated back to its affiliates to be reimbursed based on the percentages set forth in the Second Amended and Restated Reinsurance Pooling Agreement (2012) (see the Reinsurance section of this Report of Examination for further details). During 2012, the Company paid SICA \$21,482,000 under the terms of the Service Agreement.

Joint Investment Operations Agreement

Effective July 1, 1995, SICA entered into a Joint Investment Operations Agreement with the Company, SICSE, and SWIC (with amendments and additional signatories on July 1, 2004 (SICNE), January 1, 2006 (SAICNJ), and June 30, 2008). 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 Investment Services Agreements with MUSIC (effective January 1, 2012), SCIC (effective July 1, 2012), and SFCIC (effective July 1, 2012). Under these agreements, SICA provides investment services to each of these affiliates on a cost reimbursement basis. During 2012, the Company paid SICA \$774,000 under the terms of this agreement.

Effective January 1, 1993, SICA entered into an Investment Services Agreement with SICNY whereby SICA performs certain investment and related advisor services to help achieve certain operating economies and improve the investment performance of SICNY.

Revolving Demand Loan Agreement

SICA and its affiliated companies, SAICNJ, SICNE, SICSC, SICSE, and SWIC, entered into a Revolving Demand Loan Agreement effective June 1, 2006, under which SICA agrees to make revolving loans to each of these affiliates. The agreement was amended effective June 30, 2008 to reflect the re-domestication of the Company and SICSE to Indiana. No loans were made or outstanding under this agreement as of December 31, 2012.

Intercompany Revolving Demand Loan Agreement

SIGI and its subsidiaries, the Company and SICSE, entered into an Intercompany Revolving Demand Loan Agreement effective March 31, 2009, under which the Company and SICSE agree to make revolving loans to SIGI. On various dates in 2009 the Company lent in aggregate \$19 million to SIGI, as well as an additional loan of \$27 million on December 16, 2011. The loans are payable in full demand with interest payable monthly at the "Federal Funds Effective Rate" published by the Wall Street Journal. As of December 31, 2011 and 2012, the total principal amounts outstanding were \$39,666,667 and \$38,083,333, respectively.

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 entered into the Amended and Restated Tax Allocation Agreement (2012), 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 and its affiliates entered into the First Amendment to Amended and Restated Tax Allocation Agreement (2012) effective July 1, 2012 to add SCIC and SFCIC to the agreement. These agreements provide for the allocation of federal income taxes based upon separate return calculations with current credit for net losses. As of December 31, 2012, the Company had \$4,200 of tax credit carry forwards and \$1,251,086 of alternative minimum tax carry forwards. There is \$734,576 of net operating loss carry forwards.

Reinsurance

See the 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 employees through a fidelity bond issued to SIGI from 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.

Other major insurance coverage in force at December 31, 2012, included Boiler & Machinery, Commercial Umbrella Liability, Directors & Officers, Employment Practices Liability, Errors & Omissions, Fiduciary Liability, Professional Liability, and Property. Also, the Company has insurance coverage for Automobile Liability, Building and Business Personal Property, Business Income, Difference in Conditions (Flood & Earthquake), ERISA Bond, General Liability, Inland Marine, Pollution Liability, and Workers' Compensation. All coverage was determined to be adequate as of December 31, 2012.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits at December 31, 2012:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Delaware	\$ 135,457	\$ 168,975
Georgia	108,366	135,180
Indiana	1,608,449	1,992,017
Massachusetts	596,011	743,490
North Carolina	325,097	405,540
Tennessee	162,548	202,770
Virginia	270,914	337,950
Total Deposits	<u>\$3,206,842</u>	<u>\$3,985,922</u>

REINSURANCE

Reinsurance Agreements with Affiliates

Effective July 1, 2012, the Company entered into the Second Amended and Restated Reinsurance Pooling Agreement (2012) (Pooling Agreement) with SICA, SWIC, SICSE, SICNY, SAICNJ, SICNE, MUSIC, SICIC, AND SFCIC (each, a pool member, and collectively, pool members). Under the Pooling Agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to SICA, and SICA then retrocedes the net underwriting activity back to each pool member in accordance with each pool member's participation percentage as set forth in the Pooling Agreement.

The pooled percentages as of December 31, 2012, by company are as follows:

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

Reinsurance Agreements with Non-Affiliates

The Group assumes required business from its participation from various voluntary and involuntary pools.

The Group had the following reinsurance program in effect at December 31, 2012:

CASUALTY

2012 Workers Compensation & Casualty Excess of Loss Treaty (various reinsurers)

Standard Lines

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$ 2,000,000	\$ 3,000,000	\$ 5,000,000
Second Layer	5,000,000	7,000,000	12,000,000
Third Layer	12,000,000	9,000,000	21,000,000
Fourth Layer	21,000,000	9,000,000	30,000,000
Fifth Layer	30,000,000	20,000,000	50,000,000
Sixth Layer	50,000,000	40,000,000	90,000,000

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.

PROPERTY

2012 Property Excess of Loss Treaty (various reinsurers)

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$ 2,000,000	\$ 8,000,000	\$10,000,000
Second Layer	10,000,000	20,000,000	30,000,000

2012 Property Catastrophe (various reinsurers)

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Total Limits
First Layer	\$ 40,000,000	\$ 60,000,000	\$100,000,000
Second Layer	100,000,000	125,000,000	225,000,000
Third Layer	225,000,000	250,000,000	475,000,000

The Company retains 5% in layer one (1) and 10% in the second and third layers.

OTHER REINSURANCE

2012 Surety and Fidelity Excess of Loss

	<u>Maximum Retention Each Occurrence</u>	<u>Reinsurance Limit Each Occurrence</u>	<u>Total Limits</u>
First Layer	\$1,000,000	\$3,000,000	\$ 4,000,000
Second Layer			
Contract Surety	4,000,000	5,000,000	9,000,000
Commercial Surety	4,000,000	2,000,000	6,000,000
Third Layer			
Contract Surety	9,000,000	3,000,000	12,000,000

The Company and its affiliates, as the case may be, retain the first \$1 million and 10% co- participation of each layer.

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 balance prepared from the Company's general ledger for the year ended December 31, 2012, was agreed to the Annual Statement without exception. The Annual Statements for the years ended December 31, 2008 through December 31, 2012, were agreed to each year's independent audit report with no exceptions noted. The Company's accounting procedures, practices, and account records were deemed satisfactory.

SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA

Assets

As of December 31, 2012

	<u>Per Examination*</u>
Bonds	\$342,372,766
Stocks:	
Common stocks	1,550,000
Cash, cash equivalents and short-term investments	11,699,039
Other invested assets	38,666,382
Subtotals, cash and invested assets	<u>394,288,187</u>
Investment income due and accrued	2,899,971
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	17,665,111
Deferred premiums, agents' balances and installments booked but deferred and not yet due	36,642,989
Accrued retrospective premiums	79,787
Reinsurance:	
Amounts recoverable from reinsurers	26,859,196
Net deferred tax asset	12,892,914
Guaranty funds receivable or on deposit	106,824
Receivables from parent, subsidiaries and affiliates	1,467,042
Aggregate write-ins for other than invested assets	3,767,927
Totals	<u>\$496,669,928</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, 2012

	<u>Per Examination*</u>
Losses	\$200,417,235
Reinsurance payable on paid losses and loss adjustment expenses	8,568,736
Loss adjustment expenses	38,480,424
Commissions payable, contingent commissions and other similar charges	4,707,376
Other expenses	3,786,316
Taxes, licenses and fees	2,348,863
Current federal and foreign income taxes	382,233
Borrowed money	31,021,418
Unearned premiums	75,786,158
Advance premiums	366,978
Dividends declared and unpaid:	
Policyholders	239,830
Ceded reinsurance premiums payable	31,175,634
Funds held by company under reinsurance treaties	297,722
Amounts withheld or retained by company for account of others	491,658
Provision for reinsurance	843,550
Aggregate write-ins for liabilities	6,388,606
Total liabilities	<u>405,302,737</u>
Common capital stock	5,000,000
Gross paid in and contributed surplus	16,231,209
Unassigned funds (surplus)	70,135,982
Surplus as regards policyholders	<u>91,367,191</u>
Totals	<u>\$496,669,928</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, 2012

	<u>Per Examination*</u>
UNDERWRITING INCOME	
Premiums earned	\$142,548,191
DEDUCTIONS	
Losses incurred	85,810,413
Loss adjustment expenses incurred	15,006,209
Other underwriting expenses incurred	49,312,496
Aggregate write-ins for underwriting deductions	64,539
Total underwriting deductions	<u>150,193,657</u>
Net underwriting gain (loss)	<u>(7,645,466)</u>
INVESTMENT INCOME	
Net investment income earned	10,027,660
Net realized capital gains (losses) less capital gains tax	518,210
Net investment gain (loss)	<u>10,545,870</u>
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	(305,864)
Finance and service charges not include in premium	621,254
Aggregate write-ins for miscellaneous income	317,109
Total other income	<u>632,499</u>
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,532,903
Dividends to policyholders	310,355
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,222,548
Federal and foreign income taxes incurred	438,356
Net income	<u>\$ 2,784,192</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
Capital and Surplus Account
As of December 31

	2012	2011	2010	2009	2008
Surplus as regards policyholders, December 31 prior year	\$90,532,199	\$93,894,555	\$89,793,886	\$81,623,970	\$94,298,372
Net income	2,784,192	643,690	7,272,016	10,170,835	9,400,914
Change in net unrealized capital gains or (losses) less capital gains tax	(17,102)	(246,185)	435,303	(1,834,970)	(9,705,351)
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-	-
Change in net deferred income tax	1,146,112	740,009	349,503	545,356	1,904,441
Change in nonadmitted assets	(79,998)	(439,912)	(535,584)	(782,496)	(7,458,619)
Change in provision for reinsurance	(645,327)	(10,675)	(181,482)	5,486	(8,354)
Cumulative effect of changes in accounting principles	3,775,115	-	-	369,239	-
Capital changes:					
Paid in	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Dividends to stockholders	(750,000)	(3,000,000)	(4,000,000)	(3,500,000)	(4,600,000)
Aggregate write-ins for gains and losses in surplus	(5,378,000)	(1,049,283)	760,913	3,196,466	(2,207,433)
Change in surplus as regards policyholders for the year	834,992	(3,362,356)	4,100,669	8,169,916	(12,674,402)
Surplus as regards policyholders, December 31 current year	<u>\$91,367,191</u>	<u>\$90,532,199</u>	<u>\$93,894,555</u>	<u>\$89,793,886</u>	<u>\$81,623,970</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2012, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work which were considered material events requiring disclosure in this Report of Examination.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination on Selective Insurance Company of South Carolina, as of December 31, 2012.

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 the 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, 2012, as determined by the undersigned.



William A. O'Connell, CPA, CFE, CFE, CIA
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 3 day of December 2013 before me personally appeared, William A. O'Connell, 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



Notary Public

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WASHINGTON, D.C.