

# SELECTIVE INSURANCE TCFD REPORT

## INTRODUCTION

Selective Insurance Group, Inc. (“Selective,” “we,” “us,” or “our”) is a New Jersey insurance holding company incorporated in 1977 that owns ten property and casualty insurance subsidiaries (“Insurance Subsidiaries”). The Insurance Subsidiaries sell products and services only in the United States (“U.S.”) and exclusively through independent insurance agents and wholesale brokers.

We have four reportable segments, each potentially impacted by climate-related risks or events:

**Standard Commercial Lines:** This segment’s underwriting risk appetite is focused on small-to-medium sized accounts, with risks weighted more towards low- to medium-hazard than high-hazard. Standard Commercial Lines provides insurance products and services to commercial enterprises, typically businesses, non-profit organizations, and local government agencies. This business represented 73% of “Total revenues” in 2023.

**Standard Personal Lines:** This segment provides insurance products and services to individuals (primarily auto and homeowners insurance) acquiring coverage in the standard marketplace. This business represented 9% of our “Total revenues” in 2023. Our Personal Lines segment also includes flood insurance coverage sold through the Write Your Own (“WYO”) program of the National Flood Insurance Program (“NFIP”). Based on 2023 direct premiums written, we are the fourth-largest writer of this coverage through the NFIP.

**Excess and Surplus Lines (“E&S”):** This segment comprises commercial property and casualty insurance products and services provided to customers unable to obtain coverage in the standard marketplace, generally because of unusual or higher-risk exposures. This business represented 9% of “Total revenues” in 2023.

**Investments:** This segment represents 9% (including net realized and unrealized gains and losses) of “Total revenues” and invests the (i) premiums our Insurance Subsidiaries collect and (ii) amounts generated through our capital management strategies, which include the issuance of debt and equity securities.

## OVERVIEW OF OUR APPROACH TO MANAGING CLIMATE RISKS

Our Standard Commercial Lines, Standard Personal Lines, and E&S segments issue policies that cover thousands of individuals and businesses against the financial impact of insured losses, including catastrophic events. We support economic growth by providing our

policyholders the contingent capital that gives them the peace of mind and confidence to take economic risk and protect them and their communities.

Changing climate conditions increase the unpredictability of weather-related loss frequency and severity, posing a long-term risk to our customers' lives and livelihoods – and our business. We aim to mitigate the impacts of climate change by (i) prudently overseeing and managing catastrophe risk exposure, (ii) helping our customers through responsive claims handling, risk management services, and proactive weather alerts, (iii) preparing for the continuing transition to clean energy, and (iv) reducing our carbon footprint. Understanding and helping mitigate climate change perils for our business and customers is core to our operations and strategy.

Our understanding of changing climate conditions permits us to develop products and services that increase customer resiliency and respond to evolving customer needs. Over the medium- to long-term, we believe that the economic transition to a low-carbon future creates new business opportunities in emerging industries, such as those associated with renewable energy and related construction projects.

Our Investments segment incorporates sustainability considerations into our robust investment due diligence processes. To establish appropriate sustainability investment governance, we maintain (i) a well-diversified portfolio across issuers, sectors, and asset classes and (ii) a high credit quality fixed income securities portfolio with a duration and maturity profile at an acceptable risk level that provides ample liquidity. In addition, we work with our third-party investment managers to ensure they incorporate sustainability guidelines and protocols into their investment process while managing our mandates.

We believe our climate change-related efforts (i) demonstrate our corporate responsibility to help mitigate the impact of climate change and (ii) reward our shareholders with sustained superior financial and operating performance over time.

We have embraced the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) for the four core elements of an organization's climate approach: (i) Governance, (ii) Strategy, (iii) Risk Management, and (iv) Metrics & Targets. This report outlines our initiatives and progress in each of these areas.

## Governance

### Board Oversight: Our board's oversight of climate-related risks and opportunities.

Our Board of Directors oversees our Enterprise Risk Management ("ERM") process, which includes identifying, assessing, and managing risks related to climate change. The Board has six standing committees that oversee and report to the full Board on certain major risks,

including climate risk. Our Board's Risk Committee meets at least quarterly and is responsible for helping the Board oversee and monitor our ERM function, including climate change-related risks and oversight of our reinsurance program.

All Board committees oversee risks specific to their supervisory areas, and report their activities and findings to the entire Board. For example, the Finance and Investments Committee oversees management's incorporation of Environmental, Social, and Governance ("ESG") considerations into their due diligence and investment decision-making process; and the Corporate Governance and Nominating Committee ("CGNC") oversees how management addresses sustainability trends.

The Board also oversees how we set our overall strategy, including monitoring and addressing climate risks and opportunities.

### **Management: Management's role in assessing and managing climate-related risks and opportunities.**

Our senior leadership team implements our strategy, including assessing and pursuing climate change-related business opportunities. The Executive Risk Committee ("ERC"), chaired by our Chief Risk Officer ("CRO"), is responsible for operational oversight of climate-related risks. The ERM unit is responsible for assessing and managing climate change-related financial risks. We describe the roles of the ERC and ERM unit below.

#### **Executive Risk Committee:**

Our ERC, which includes our Chief Executive Officer ("CEO"), his direct reports, the CRO, and other key functional leaders, provides management oversight of the ERM function. The ERC is responsible for the holistic evaluation and supervision of our risk profile and determines future risk management actions supporting our overall risk appetite. Several other management committees are responsible for the detailed analysis and management of various individual risks, some of which are climate related. At least quarterly, the ERC reviews all major risks.

For example, the ERM unit reports our modeled results for hurricane losses (our peak catastrophe risk peril in more severe loss scenarios), gross and net of reinsurance in our quarterly Reinsurance Risk Scorecard provided to the ERC and Board's Risk Committee.

#### **ERM Unit:**

The ERM unit, led by the CRO, is responsible for identifying, measuring, monitoring, and reporting key individual and aggregated enterprise-wide risks. The CRO chairs the Emerging Risk Committee and Market Security Committee ("MSC") and is a member of the Management Investment Committee ("MIC"), the Large Claims Committee, and the Underwriting Committee. The CRO attends the quarterly Reserve Committee presentation,

quarterly Disclosure Committee meetings, and various other senior management leadership meetings. These management committees and functions are responsible for monitoring various risks, including climate-related risks, described further in this report's Risk Management section.

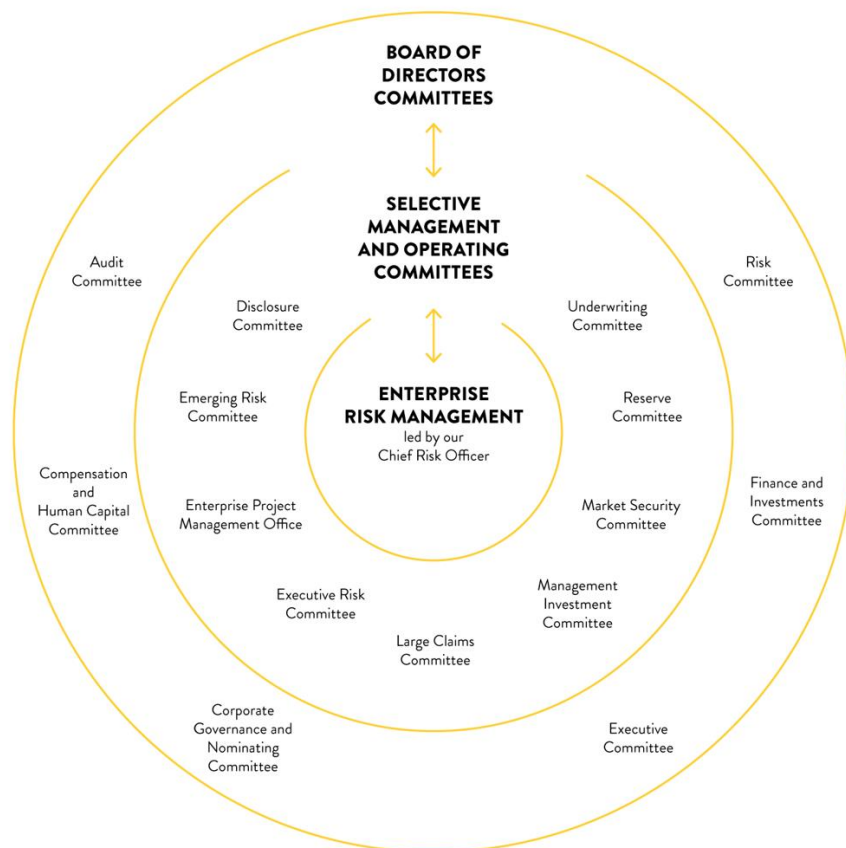
The ERM unit is actively involved in climate-related issues, such as catastrophe exposure coverages and pricing. The ERM unit also manages our economic capital model and integrates catastrophe exposure into our holistic view of enterprise risk and capital management.

*The Graph below illustrates our three levels of corporate governance of Enterprise Risk Management:*

***Board oversight at the highest level***, through the Executive Committee, Audit Committee, Compensation and Human Capital Committee, Corporate Governance and Nominating Committee, Finance and Investments Committee, and Risk Committee.

***Selective's Management and Operating Committees***, including the Management Investment Committee, Underwriting Committee, Emerging Risk Committee, Enterprise Project Management Office, Large Claims Committee, Disclosure Committee, Executive Risk Committee, Market Security Committee, and Reserve Committee.

***Enterprise Risk Management***, overseen by the Chief Risk Officer.



## STRATEGY

**Identified Climate-related Risks and Opportunities:** The climate-related risks and opportunities the organization has identified over the short-, medium-, and long- term.

The following table includes examples of climate-related risks and opportunities Selective has identified for each time horizon.

Time Horizon	Climate Risks	Climate Opportunities
<b>Short-term:</b> 1 – 5 years	<ul style="list-style-type: none"><li>• Increased model uncertainty around severe weather events resulting from potentially higher catastrophe loss activity</li></ul>	<ul style="list-style-type: none"><li>• Producing renewable energy</li><li>• Enhancing customer resiliency</li><li>• Providing products and services to lower customers' carbon footprint</li><li>• Investment opportunities</li></ul>
<b>Medium-term:</b> 5 – 10 years	<ul style="list-style-type: none"><li>• Potential investment losses from climate risk-related impacts</li><li>• Insurance market transition risk</li><li>• Regulatory risk</li></ul>	<ul style="list-style-type: none"><li>• Developing new insurance products tailored to emerging industries</li></ul>
<b>Long-term:</b> 10 – 30 years	<ul style="list-style-type: none"><li>• Climate change impact on frequency and severity of weather events</li><li>• Reinsurance risk</li></ul>	<ul style="list-style-type: none"><li>• Additional investment opportunities</li></ul>

### Climate Risks

#### 1. Increased model uncertainty around severe weather events resulting from potentially higher catastrophe loss activity (short-term)

The insurance industry has used traditional catastrophe risk models for decades to inform underwriting strategy. A significant component of climate risk is that the frequency and severity of extreme weather events may evolve differently than historical levels – leading to increased model uncertainty. Our third-party modeling providers are starting to develop models incorporating forward-looking climate variables. Later in this report we discuss how we mitigate this uncertainty.

## 2. Potential investment losses from climate risk-related impacts (medium-term)

We maintain (i) a well-diversified investment portfolio across issuers, sectors, and asset classes and (ii) a high credit quality fixed income securities portfolio with a duration and maturity profile at an acceptable risk level that provides ample liquidity. Our investment portfolio is exposed to climate change risk through (i) direct physical loss to assets and infrastructure from catastrophic loss activity and (ii) transition risk related to technology and energy production advances that could lead to stranded assets in certain carbon-intensive sectors.

**Physical investment risks:** Climate-related catastrophic losses can cause business disruption, destroy capital, increase costs to recover from disasters, reduce revenue, and cause population displacement and migration. These, in turn, can lead to lower residential and commercial property values, household wealth, and corporate profitability, which can create financial and credit market losses impacting insurer asset values.

**Transition investment risks:** These arise from society's transition towards a low-carbon economy, driven by policy and regulations, low-carbon technology advancement, and shifting sentiment and societal preferences. This transition towards renewable energy sources may lead to stranded assets in areas such as the fossil fuel and automotive industries. Further, it could result in higher infrastructure reinvestment and replacement costs and increased litigation against carbon-intensive industries. Transition risks may lead to corporate asset devaluation and lower corporate profitability, property values, and household wealth, creating financial and credit market losses impacting insurer asset values.

## 3. Insurance market transition risk (medium-term)

Increased climate-related regulations and evolving consumer preferences could change manufacturing and construction methods. As an insurer of small- and mid-sized businesses in the construction, mercantile, and manufacturing sectors, we could experience reduced demand for specific products. While we have minimal direct underwriting exposure to environmentally hazardous classes of business, changing societal preferences and climate change regulations may impact our customers.

## 4. Regulatory risk (medium-term)

Insurance regulations could limit our flexibility in reducing exposure to certain lines of business most vulnerable to climate change. While our Personal Lines segment

represented 9% of “Total revenues” in 2023, it is subject to significant state regulation, that limits our flexibility to exit lines quickly if results meaningfully deteriorate. We also may not receive regulatory approvals for adequate rate levels reflecting catastrophe loss exposure within our products. There is also a risk of expanded climate-related state and federal disclosure requirements.

## **5. Climate change impact on frequency and severity of weather events (long-term)**

The United Nation’s Intergovernmental Panel on Climate Change (“IPCC”) is an international body responsible for assessing climate change science. In 2021, the IPCC estimated in its “Sixth Assessment Report: Physical Science Basis” that human activities (i) have caused approximately 1.1°C of global warming to date above pre-industrial levels and (ii) this could rise to an increase between 1.2°C and 3.0°C above pre-industrial levels between 2041 and 2060. Climate change models also project significant differences in global regional warming above pre-industrial levels, depending on future levels of climate mitigation and geographic location. These global regional differences, whether attributable to nature or human activities, include increases in (i) mean temperature in most land and ocean regions, (ii) hot extremes in most inhabited regions, (iii) heavy precipitation in several regions, and (iv) the probability of drought and precipitation deficits in some regions. These temperature changes can impact weather patterns and the frequency and/or severity of catastrophes, including hurricanes, wildfires, severe convective storms, and flooding — all of which could cause our catastrophe losses to increase relative to historical levels.

## **6. Reinsurance risk (long-term)**

The availability, quality, amount, and cost of reinsurance depend on market conditions, including traditional privately placed reinsurance, retrocessional reinsurance, and catastrophe bond market capacity. Most of our reinsurance contracts have annual terms. Consequently, reinsurance costs may fluctuate significantly, not necessarily correlating to the loss experience of our specific book of business. State insurance regulators generally permit us to consider catastrophe reinsurance expense in our filed rates and rating plans. However, the conditions and timing of regulatory approval may not align with the actual expense of new reinsurance terms. Disproportionate increases in our reinsurance expense that we cannot include in our filed rates and rating plans will reduce our earnings. If we cannot negotiate desired reinsurance amounts or terms, we may experience increased reinsurance expense and increased risk retention on individual or aggregate claim losses that could limit our ability to write future business.



## **Climate Opportunities**

### **1. Producing renewable energy (short-term)**

Selective strongly believes in a clean energy future. We built ground-mount and garage-canopy solar photovoltaic facilities at our corporate headquarters. The facilities can generate approximately five million kWh of electricity annually, and we sell the related solar renewable energy credits to others. As we sell these solar renewable energy credits to others, our GHG emissions are not offset – but we are invested in cleaner energy production.

### **2. Enhancing customer resiliency (short-term)**

Helping our customers prepare for severe weather events mitigates loss activity. Examples include proactive messaging and outreach before catastrophic weather events and risk management services, including risk evaluations, internet-based risk management educational resources, and thermographic infrared surveys that help strengthen our customer relationships. We are also evaluating value-added services and technologies within our Standard Commercial Lines and Personal Lines segments to enhance customer resiliency, such as our newly rolled out Risk Management Center found on our website and our partnerships with LeakBot and Phyn for intelligent water solutions.

### **3. Providing products and services to lower customers' carbon footprint (short-term)**

We recognize that customer demand for climate-friendly products and services may increase, and we see opportunities to provide these services to our customers. We describe programs we have implemented in the Impact of Risks and Opportunities on Businesses, Strategy, and Financial Planning section below.

### **4. Investment Opportunities (short-term)**

Selective currently invests in green bonds and energy-transition-related infrastructure instruments. In addition, we invest in tax credit transactions that help encourage the installation of solar energy systems.

### **5. Developing new insurance products tailored to emerging industries (medium-term)**

As part of an economic transition to a low-carbon future, we expect new technologies, infrastructure, and processes to be introduced – all of which will require insurance



coverage. We believe that, over time, this will present a sizeable business opportunity. In the following sections, we describe how new product development is a component of our business strategy.

## **6. Additional investment opportunities (long-term)**

We believe the transition to a low-carbon economy will provide new investment opportunities, such as green bonds or investments in energy-transition-related infrastructure instruments. These investment opportunities could increase our diversification of financial assets. As the clean energy sector grows and matures, we expect to continue to invest in new assets that support the transition to a low-carbon economy.

### **Impact of Risks and Opportunities on Businesses, Strategy, and Financial Planning: The impact of climate-related risks and opportunities on our businesses, strategy, and financial planning.**

The impact of climate-related risks and opportunities on our underwriting and investment segments follows.

## **Underwriting**

The principal impact of climate change on our Standard Commercial Lines, Standard Personal Lines, and E&S business is the potential for greater frequency and/or severity of insured property catastrophic loss activity.

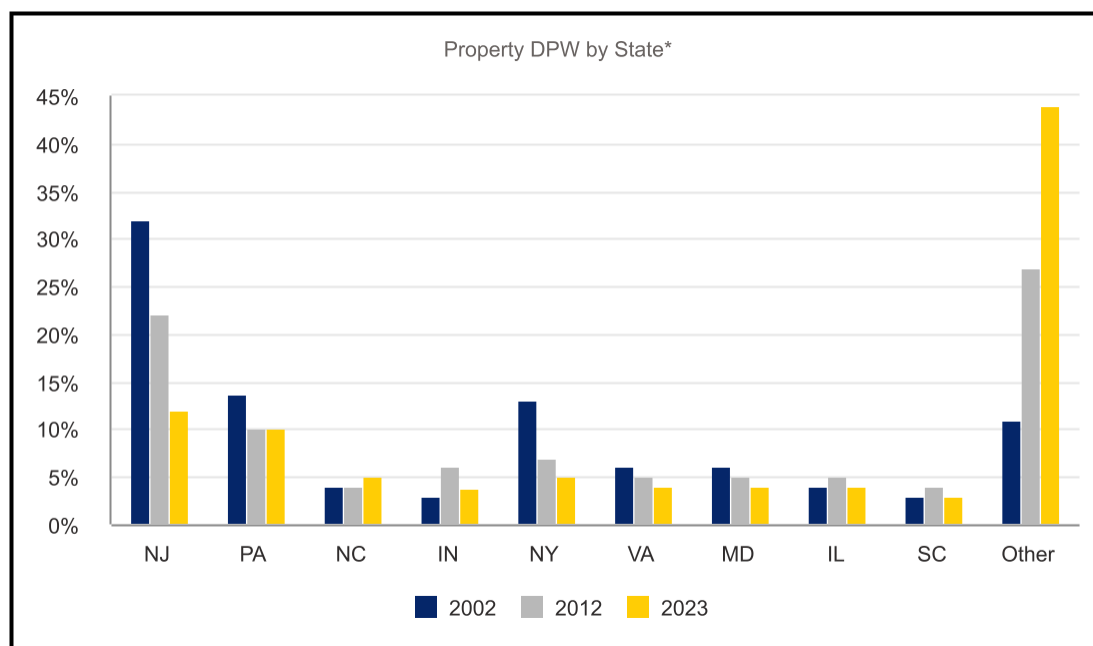
## **Catastrophe Risk Management**

The ERM function models and monitors catastrophe risk, including the ongoing assessment of catastrophe risks within our pre-determined limits. Our underwriting and risk management frameworks employ risk mitigation tools, including:

1. Comprehensive underwriting standards;
2. Limits on coastal property exposure;
3. Risk-sharing through (a) use of appropriate wind/weather-related deductibles, and (b) prudent reinsurance placements with high-quality third parties;
4. Modeling and managing our catastrophe risk aggregations; and
5. Active oversight from senior management and the Board of Directors.

Due to our business risk profile and geographic concentration in the Northeast and Mid-Atlantic states, hurricane risk is our portfolio's most significant natural catastrophe peril exposure. This risk influenced our decision to diversify our underwriting portfolio geographically and set rigorous coastal property exposure guidelines. The following depiction of our property writings in 2002, 2012, and 2023 shows our book's geographical diversification as we have grown the business.

*The table below illustrates results of our efforts to diversify our premium geographically. Direct premiums written ("DPW") concentration in NJ/PA/NY decreased from 59% in 2002 to 27% in 2023.*



*Excludes NFIP business and Auto*

We review our hurricane risk exposure using third-party vendor models and conducting our proprietary analysis. The third-party vendor models provide a long-term view that closely relates modeled event frequency to historical hurricane activity. However, climate change may cause hurricane frequency and severity to differ from historical levels. In the short- to medium-term, we mitigate this risk by purchasing significant reinsurance protection and setting our retained loss thresholds at levels well below the amounts we believe would cause significant financial stress. In the medium- to longer-term, we expect to continually evolve our risk modeling and stress thresholds based on scientific and modeling advances.

We incorporate these modeled catastrophe loss expectations within our pricing plans and have underwriting guidelines reflecting our catastrophe exposure appetite. Modeled results are reported to the MSC and impact our reinsurance purchasing and strategic growth decisions.

In addition to managing our peak hurricane exposure risk, we seek to manage our exposures to other perils, such as severe convective storms, winter storms, flooding, and wildfires. By building a geographically diverse book of business, implementing strong underwriting guidelines, conducting risk modeling, and purchasing reinsurance, we seek to manage our exposure to these types of losses.

In our standard commercial lines segment, we look to our insureds to retain an appropriate level of risk in wind/hail exposure states to severe convective storms through the use of wind/hail deductibles and use of endorsements that put limitations on coverage for roof surfacing including for cosmetic damage or determining roof surfacing values on an actual cash value basis. In our Personal Lines segment, we implement mandatory wind/hail deductibles in states exposed to severe convective storms, where allowed by law.

## **Opportunities**

In the short term, we have several initiatives aimed at helping customers lower their carbon footprint and increase their resiliency to catastrophic losses.

- We send messages to our customers, helping them prepare for severe weather events. For example, we send weather preparation notices for large storms or hurricanes, including guides on structural improvements, roof and drainage maintenance, and measures to prevent clogged or frozen plumbing and sprinkler systems.
- Our field-based Risk Management Specialists visit the business locations of certain current and potential commercial lines customers to conduct safety evaluations. Risk Management staff provide risk mitigation recommendations to improve worker safety and limit potential property losses, such as from flood, wind, or fire.
- We are a member company that supports the Insurance Institute for Business & Home Safety (“IBHS”) and regularly leverage its research to help our customers, distribution partners, and internal staff further their knowledge to mitigate severe weather losses. We have in person events as well as a library of training courses available.
- Our GreenPAC® endorsement allows Commercial Lines policyholders (within the coverage limits) to repair or replace covered loss property damage using building materials, components, products, equipment, construction and design methods, and technologies that reduce environmental impact by conserving energy, water, and other natural resources.
- We have enhanced our commercial Automobile ElitePac® coverage form to include a green automobile replacement coverage. Similar to our GreenPAC® commercial

property endorsement, this coverage permits policyholders to replace their insured auto after a total loss with a hybrid or electric vehicle within the coverage limits.

- We are assessing the incorporation of value-added services within our Commercial Lines, Personal Lines, and Flood operations that will better prepare our customers for potentially heightened environmental and climate risks. In 2024, we launched our new Risk Management Center in the MySelective app and on our website for Commercial Lines customers, which features online assessments, expert support, and on-demand training. The Risk Management Center allows us to more broadly provide resources to insureds.

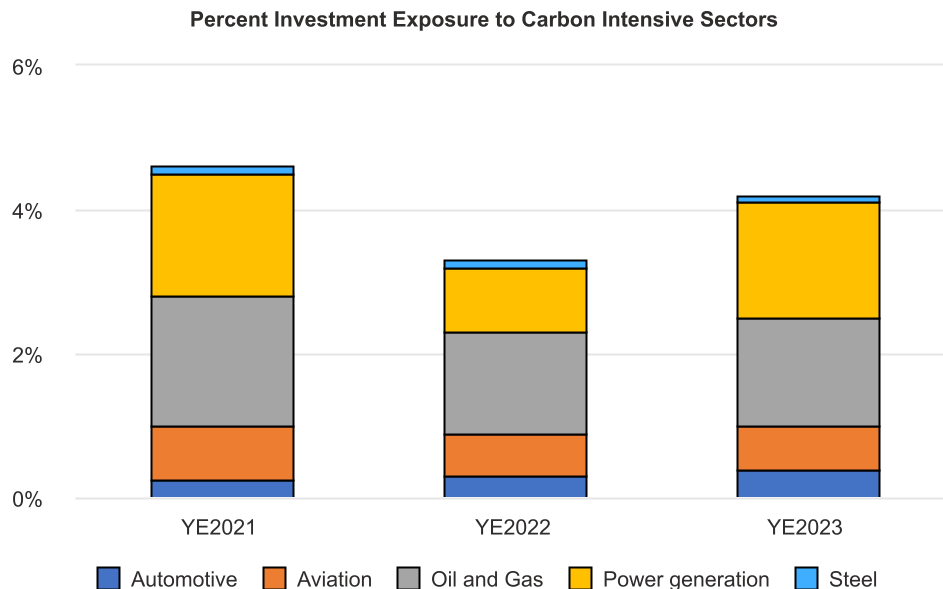
In the medium-term, we continue to actively evaluate modifications to our existing coverages and increase our product suite to match our expected new areas of insurance coverage demand. As a significant writer of contractors and small manufacturing risks, we believe Selective is well-positioned to support growing market share opportunities from new low-carbon construction processes. Providing insurance capacity to renewable energy production facilities and related construction projects would be a longer-term growth opportunity.

## Investments

Our investment portfolio is exposed to climate change risk through (i) direct physical loss to assets and infrastructure from catastrophic loss activity and (ii) transition risk related to technology and energy production advances that could lead to stranded assets in certain carbon-intensive sectors.

**Physical risks:** Our investment managers take a conservative approach when investing in commercial and residential real estate products that are potentially vulnerable to climate change-related risks. As of December 31, 2023, around 70% of our residential mortgage-backed securities were government agency-backed. We generally invest in the top tranches of commercial mortgage-backed securities, with ample support to protect against losses from property value declines.

**Transition risk:** We also monitor our exposure to specific carbon-intensive sectors defined by the Paris Agreement Capital Transition Assessment (PACTA) as vulnerable to longer-term climate change transition risks. As of December 31, 2023, sectors we identified in our corporate fixed income portfolio as carbon-intensive represented less than 5% of our total invested assets. The identified sectors and their associated percentage of invested assets are Automotive (0.4%), Aviation (0.6%), Cement (0.0%), Coal Mining (0.0%), Oil and Gas (1.5%), Power Generation (1.6%), Shipping (0.0%), and Steel (0.1%).



*The table above compares corporate fixed income portfolio Carbon Intensive Sector exposure for 2021, 2022, and 2023.*

### **Integrating ESG into our Investment Process:**

We incorporate ESG considerations into our investment process. To establish appropriate ESG investment governance, we work with our third-party investment managers to ensure they have ESG guidelines and protocols in their investment process while managing our mandates.

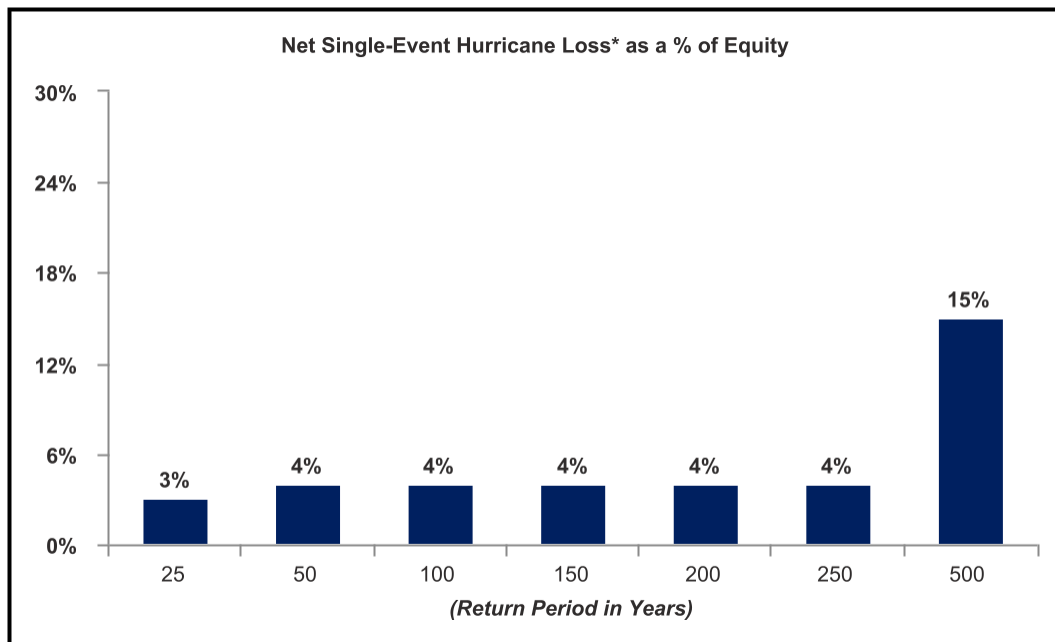
We also are not making any new direct debt or equity investments in thermal coal enterprises, including companies that generate 30% or more of (i) their revenue from the ownership, exploration, mining, or refining of thermal coal or (ii) their electricity generation from thermal coal.

**Resilience of Strategy Considering Climate-Related Scenarios:** The resilience of our strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Evaluating perils with different return periods is crucial to identifying, assessing, and managing climate-related risks that influence our business strategy. Modeled estimates provide a range of potential outcomes. We review multiple models from various vendors over several time periods to understand our catastrophic risk, including physical risks that may materialize more frequently because of climate change. We manage our catastrophe risk conservatively, adjusting third-party vendor models to reflect assumptions for certain un-

modeled costs, such as the impact of loss expenses, residual market assessments, and automobile-related losses.

Our current catastrophe reinsurance program exhausts at approximately a 1-in-260-year return period. As of December 31, 2023, we estimated net exposure to a 1-in-250-year (0.4% probability of exceedance) hurricane event to equal 4% of our GAAP equity, within our established risk tolerance and unlikely to have a material adverse effect on our financial condition.

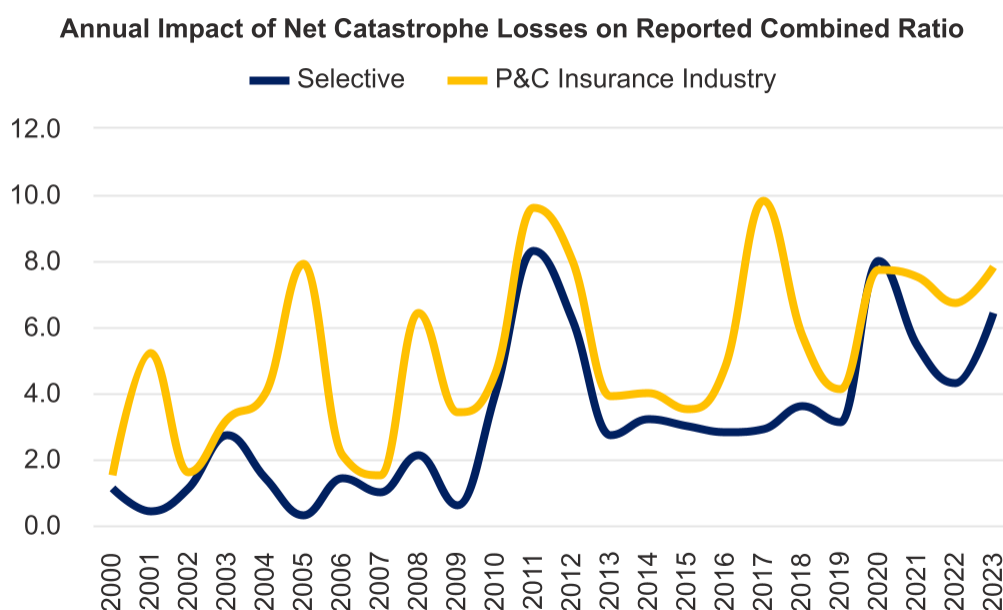


\*Single-event hurricane losses are net of reinsurance, after-tax, and reinstatement premiums as of 1/1/24. Total stockholders' equity as of 12/31/23.

We assess the resilience of our strategy to mitigate climate-related risks quantitatively, through natural catastrophe modeling, and qualitatively. Based on our assessment, we are more vulnerable to physical climate risks than transitional risks. Accordingly, more severe warming scenarios will likely increase catastrophe risk. Our primary exposure to transitional risk is through our investment portfolio, where the percentage of fixed income assets invested in carbon-intensive sectors was less than 5% of total assets as of December 31, 2023.

Our mix of business and underwriting approach has historically resulted in less of an impact from catastrophe losses than the P&C insurance industry average (shown in the graph

below). We will continue to evaluate climate scenario analysis as a tool to complement our catastrophe risk scenario analysis as industry guidance and models evolve.



Note: Catastrophe loss impact for P&C Insurance Industry based on estimates from AM Best Aggregates & Averages.

*The graph above compares the annual impact of net catastrophe losses on reported combined ratios for Selective and the P&C insurance industry. Over time, Selective has consistently outperformed the industry.*

## RISK MANAGEMENT

**Processes for Identifying and Assessing Climate-related Risks:** Our processes for identifying and assessing climate-related risks.

Selective has a robust ERM framework that includes identifying and assessing our most significant risks through a combination of quantitative analysis and metrics and qualitative assessment. Our ERM unit identifies and assesses physical, transition, and liability risks related to climate change.

Our ERM framework includes an emerging risk management component led by a designated Emerging Risk Committee. This committee identifies and monitors new and evolving risk issues that may significantly impact our financial performance, reputation, or long-term strategy. The Emerging Risk Committee has identified climate change as a “high” level emerging risk, reviewing it at least quarterly with the ERC and our Board’s Risk Committee. The ERM unit, the ERC, and other specific employees stay informed on key



climate change risk developments through industry publications, webinars, conferences, and regular engagement with outside sources, such as our reinsurance brokers, investment managers, and trade associations.

The ERM unit evaluates our catastrophe risk exposure relative to our established tolerances. This evaluation incorporates the results of third-party vendor models and proprietary analysis in its review of exposure to hurricanes and other perils on both a gross and net basis.

*The table below shows the gross and net losses modeled results by peril of our underwriting property portfolio as of July 1, 2023. The table highlights hurricane peril as our most significant natural catastrophe exposure, driving the more significant events, or “tail,” of our modeled catastrophe loss distribution.*

Occurrence Exceedance Probability (Return Period)						
(\$ in millions)	Hurricane		Other Wind		Earthquake	
	Gross Loss*	Net Loss**	Gross Loss*	Net Loss**	Gross Loss*	Net Loss**
25 yr	238.2	97.6	125.7	73.6	9.6	7.6
50 yr	401.9	110.9	169.5	82.9	31.3	24.7
100 yr	650.9	122.7	226.2	90.6	100.1	79.0
150 yr	913.6	127.4	266.5	97.1	155.0	85.1
200 yr	1,034.5	127.4	295.2	98.4	216.5	97.8
250 yr	1,184.0	127.4	308.9	100.2	245.6	100.3
500 yr	1,692.2	443.2	398.7	104.8	398.0	113.1

\*Gross modeled loss before reinsurance and tax; includes assumptions for certain un-modeled costs, such as the impact of loss expenses, residual market assessments, and automobile related losses, which collectively increase our gross losses by an estimated 13%.

\*\* Net losses are after-tax losses net of catastrophe reinsurance treaty, effective January 1, 2024, including reinstatement premiums.

We currently do not write crop insurance, have minimal exposure to private flood, and have a small geographic footprint in the Western U.S., so our exposures to perils such as droughts, wildfires, and flooding, tend to be relatively modest.

On the investment side, we monitor our exposure to carbon-intensive industries to measure our vulnerability to climate-related risks from the transition to a low-carbon economy.

**Processes for Managing Climate-related Risks:** Our processes for managing climate-related risks.

### Underwriting

In managing physical climate-related risks to our insurance business, we model our property portfolio for hurricanes and other wind events semi-annually, as of July and January. Earthquake risk, which presents significantly lower exposure for our portfolio, is modeled each July.

Annually, our Reinsurance team works closely with our reinsurance broker to produce an in-depth analysis of the modeled results, which the MSC reviews.

We use various authority levels as underwriting controls for significant individual property risks and large property accounts that could create or exacerbate a property aggregation issue. If any individual location exceeds the Chief Underwriting Officer's property limit authority, it must be approved by the Underwriting Committee (comprised of the Standard Lines Chief Operating Officer, CFO, Standard Commercial Lines Chief Underwriting Officer, Executive Vice President of E&S Lines, and CRO). When considering large property accounts, the Underwriting Committee typically reviews an evaluation of property aggregations in the particular county and state, projecting the marginal impact the specific risk has on our aggregate modeled losses. The evaluation includes analysis of catastrophe risk aggregation appetite and appropriate pricing for assuming the increased risk aggregation.

We believe that we have created an effective control environment for managing natural catastrophe risk on a gross exposure basis by (i) setting overall portfolio growth expectations, (ii) monitoring actual results and property aggregations, (iii) having appropriate underwriting authority controls around our largest accounts, and (iv) consistently focusing on appropriate pricing of catastrophe risk.

Property insurance is our primary climate-related insurance operations risk. However, we have potential climate-related claims under liability policies, such as directors' and officers' ("D&O") liability insurance policies. We monitor these liability risks, but partially mitigate our liability-related climate exposure through our (i) D&O appetite selection, which excludes public companies and financial institutions, (ii) focus on business with small regional footprints and without environmentally-hazardous risks, and (iii) reinsurance, should there be a claim in excess of our \$2 million casualty reinsurance retention.

### **Investments**

Our internal investment team and external investment managers execute our investment strategy and objectives. The MIC is responsible for (i) setting and implementing the investment objectives and asset allocation, (ii) administering investment policies, (iii) selecting qualified external investment managers and advisors, and (iv) monitoring performance, transactions, and specific risk metrics, including those related to climate change.

### **Operational Continuity**

In addition to mitigating underwriting and investment risk, we have robust plans to ensure operational continuity during unforeseen or catastrophic events. We have Business Continuity Plans for our key data processing facility (Disaster Recovery Plan), the leadership team (Executive Crisis Management Plan), and critical operational areas. We review,

update, and test these plans at least annually. Testing includes “tabletop” exercises and planned hands-on tests.

**Integration into Overall Risk Management:** Our processes for identifying, assessing, and managing climate-related risks are integrated into our overall risk management.

Because we are in the business of assuming risk, our management of climate-related risks naturally integrates into our existing ERM framework.

We categorize our major risks into five broad categories:

1. Asset risk, which primarily stems from our investment portfolio and reinsurance recoverables, including credit and market risk;
2. Underwriting risk, or the risk our insured losses exceed our expectations, including:
  - a. Losses from inadequate loss reserves;
  - b. Larger than expected non-catastrophe current accident year losses; and
  - c. Catastrophe losses that exceed our expectations or our reinsurance treaty limits.
3. Liquidity risk, or the risk we will be unable to meet our contractual obligations as they become due because we cannot liquidate assets or obtain adequate funding without incurring unacceptable investment losses or borrowing expenses;
4. Other risks, which include a broad range of operational risks, many challenging to quantify, such as talent/human capital, market conditions, economic, legal, regulatory, reputational, and strategic risks – and the risks of fraud, human failure, modeling, inadequate business continuity plans, or failure of controls or systems, including cybersecurity risk; and
5. Emerging risks, which can include risks in all categories that are new, rapidly evolving, or increasing substantially compared to historical levels. For example, we consider (i) heightened levels of economic and social inflation, (ii) the enactment of reviver statutes for abuse victims, (iii) climate change, (iv) the increased threat of cyber incidents, and (v) the increased use of artificial intelligence all to be emerging risks.

The table below maps our management committees to their responsibilities for our five major risks.

	Major Risk Management Committees								
	Emerging Risk	MIC	MSC	Disclosure	EPMO	Reserve	Large Claims	ERC	Underwriting
Asset Risk		X	X					X	
Underwriting Risk			X			X	X	X	X
Liquidity Risk		X	X					X	
Other Risks				X	X		X	X	
Emerging Risks	X							X	

Climate-related risks can impact these risk categories in a variety of ways. For example, asset risk includes climate-related risks in our investment portfolio overseen by the MIC, and underwriting risk includes catastrophe risk overseen by the MSC.

## METRICS & TARGETS

**Metrics:** Our metrics assess climate-related risks and opportunities in line with our strategy and risk management process.

Selective measures and reports on climate risks and opportunities in several different ways. Our chief metrics and targets are the following:

### 1. Probability of hurricane losses and capital exposed

Our established catastrophic risk tolerance requires that we expose no more than 10% of stockholders' equity to a hurricane loss event at a 99.6% confidence level (1-in-250 year event or 0.4% probability) on a net of reinsurance and after-tax basis. [For context, Superstorm Sandy in 2012 was the largest tropical cyclone event in Selective's history. Net of reinsurance and after-tax basis, our Superstorm Sandy loss was approximately 3% of our prior year stockholders' equity.](#)

In addition to the 1-in-250-year modeled event, we evaluate the impact of several other scenarios on stockholders' equity. The table below projects hurricane losses, gross and net of reinsurance, from the following scenarios:

- Stochastic catastrophe modeling of our portfolio (1-in-100, 1-in-200, etc.);
- Recasts of two large hurricanes that impacted our geographic footprint:
  - 1938 New England Hurricane, one of the largest hurricanes to impact the Northeast United States; and

- Hurricane Hazel, a Category 4 storm that made landfall near the border between North Carolina and South Carolina in 1954; and
- Realistic disaster scenarios (“RDS”) for significant potential storms in the Northeast and the Carolinas based on Lloyds of London methodology:

Scenario (\$ in millions)		Gross Loss*	Net Loss**	Net Losses% of Equity***
1 in 100 year hurricane	1% probability	650,920	122,731	4%
1 in 200 year hurricane	0.5% probability	1,034,491	127,388	4%
1 in 250 year hurricane	0.4% probability	1,184,048	127,388	4%
1 in 500 year hurricane	0.2% probability	1,692,236	443,173	15%
1938 New England Hurricane	Historical Recast	537,612	118,487	4%
Lloyd's RDS North-East (AIR Cat 4)	Lloyd's RDS	968,663	127,388	4%
1954 Hurricane Hazel	Historical	351,030	106,159	4%
Lloyd's RDS Carolinas (AIR Cat 5)	Lloyd's RDS	539,364	118,608	4%

\*Gross losses include uncertainty associated with damage/loss estimation, demand and storm surge, and assumptions for certain un-modeled costs, such as the impact of loss expenses, residual market assessments, and automobile-related losses, which collectively increase our gross losses by approximately 13%

\*\*Net losses are after-tax losses net of catastrophe reinsurance including reinstatement premiums based on the treaty structure effective January 1, 2024

\*\*\*Stockholders' equity as of December 31, 2023

We are within our established catastrophic risk tolerance as the table above reflects.

## 2. Capital allocation away from specifically environmentally hazardous classes of business

Included below are targets and objectives that we have established for our Underwriting and Investments segments:

- We do not underwrite specific environmentally hazardous risks related to production from coal mines, thermal coal plants, or oil sands extraction.
- We do not invest in any new direct debt or equity of companies generating more than 30% of their revenues from thermal coal mining or electricity produced from coal.

**Greenhouse Gas Emissions and Related Risks: Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and related risks.**

We track our Scope 1 and Scope 2 greenhouse gas (“GHG”) emissions. However, as an insurance holding company, we are a low greenhouse gas emitter relative to entities in many other industries. Our Scope 1 emissions include consumption of natural gas, diesel,

refrigerant, and the fuel employees use for work travel in company cars. Our Scope 2 emissions consist of our electricity usage.

The table below summarizes our Scope 1 and 2 CO<sub>2</sub> emissions across our operations and does not include emissions from investment portfolio holdings, including limited partnerships. For 2023, our overall Scope 1 and 2 emissions are down approximately 3% compared to our 2019 baseline year. We chose 2019 as our baseline because the COVID-19 pandemic significantly reduced office occupancy in 2020 and 2021, limiting our Scope 1 and 2 CO<sub>2</sub> emissions.

Type (mtons CO <sub>2</sub> e)	Baseline Year 2019	2021	2022	2023
Scope 1	2,690	1936**	2,158	2,632
Scope 2*	3,527	3,270	3,335	3,396
<b>Total Scope 1 + 2</b>	<b>6,217</b>	<b>5,206</b>	<b>5,493</b>	<b>6,028</b>
<b>Total Revenues</b>	<b>\$ 2,847</b>	<b>\$ 3,379</b>	<b>\$ 3,558</b>	<b>\$ 4,232</b>
<b>Percentage of Revenues</b>	<b>118 %</b>	<b>54 %</b>	<b>54 %</b>	<b>47 %</b>

\*Location-based method.

\*\* Our 2021 Scope 1 data has been restated to include an update to HFC-134A.

Since 2019, we have expanded our Commercial Lines footprint by three states, increased employee count by approximately 10%, and grown net premiums written at a 10% compound annual rate. Emissions remain below our 2019 reported baseline year despite our growth.

To help calculate our GHG emissions, we engaged a third-party multinational engineering firm specializing in energy management. Our 2019-2023 GHG inventory is consistent with the principles and guidance of the World Resources Institute (WRI) and the World Business Council for Sustainable Development's (WBCSD) Greenhouse Gas Protocol Initiative (GHG Protocol).

Our only owned office location is our approximately 300,000 square foot headquarters in Branchville, New Jersey, where we directly measure our GHG emissions. We lease 20 other office locations (approximately 273,000 square feet), and we estimate these locations' GHG emissions based on square foot occupancy. We can generate approximately five million kWh of solar energy annually at our Branchville location, but we sell the renewable energy credits to others, so our GHG emissions are not reduced.

## Targets: The targets we use to manage climate-related risks and opportunities and performance against targets.

We expect to continue to reduce our carbon emissions over the long term, and we have initiatives expected to reduce GHG emissions similarly. Some include:

- Upgrading our corporate headquarters building management system, which should reduce heating and cooling natural gas consumption;
- Re-designing work spaces to create more efficiencies and collaboration;
- Reducing the use of paper with distribution partners;
- Making efforts to transition our fleet from gasoline to hybrid vehicles; and
- Migrating our information technology systems to the cloud.

We have also implemented additional initiatives at our corporate headquarters to lower our environmental impact, including:

- Enhanced waste management and recycling;
- Recent LED conversion of all corporate headquarters light bulbs;
- Hybrid work schedule;
- Re-purposing commingled recyclables;
- Installed electric vehicle charging stations for employee use;
- Eliminating Styrofoam products in our cafeteria;
- Recycling and more efficient energy use of electronic equipment; and
- Reducing our water usage through automatic plumbing features.

## Conclusion

We believe Selective is well positioned for the transition to a low-carbon economy over time. This TCFD report underscores our commitment to transparency and robust management of climate-related risks and opportunities. Over the coming years, we will continue to refine our approach, engage with stakeholders, and report on our progress. By embedding sustainable initiatives into key aspects of our business, we have delivered significant value over time for our shareholders by serving our internal and external stakeholders.

## Important Legal Information

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” defined in the Private Securities Litigation Reform Act of 1995 (“PSLRA”). The PSLRA provides a forward-looking statement safe harbor under the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements discuss



to our intentions, beliefs, projections, estimations, or forecasts of future events and financial performance. They involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, activity levels, or performance to materially differ from those in or implied by the forward-looking statements. In some cases, forward-looking statements include the words "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "attribute," "confident," "strong," "target," "project," "intend," "believe," "estimate," "predict," "potential," "pro forma," "seek," "likely," "continue," or comparable terms. Our forward-looking statements are only predictions: we cannot guarantee or assure that such expectations will prove correct. We undertake no obligation to publicly update or revise any forward-looking statements for any reason except as may be required by law.

We discuss the factors that could cause our actual results to differ materially from our projections, forecasts, or estimates in forward-looking statements in Item 1A. "Risk Factors." in Part II. "Other Information" in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission. These risk factors may not be exhaustive. We operate in a constantly changing business environment, and new risk factors may emerge at any time. We can neither predict these new risk factors nor assess their impact, if any, on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from any forward-looking statements. Given these risks, uncertainties, and assumptions, the forward-looking events we discuss in this report might not occur.

The actual conduct of our activities, including the development, implementation, or continuation of any program, policy, or initiative discussed or forecasted in this report, may differ materially in the future. This report covers our owned and operated businesses and does not address the performance or operations of our suppliers, contractors, and partners unless otherwise noted.

Many of the standards and metrics used in this report continue to evolve. They are based on management assumptions believed to be reasonable at the time of preparation but are not and should not be considered guarantees. Any statements of intent in this report apply only as of the date of its publication. We undertake no obligation to update publicly any statements in this report.

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