

CHUBB CORP  
Form 10-Q  
November 06, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended SEPTEMBER 30, 2009

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 1-8661  
THE CHUBB CORPORATION**

(Exact name of registrant as specified in its charter)

NEW JERSEY

13-2595722

(State or other jurisdiction of incorporation or organization)

(I. R. S. Employer Identification No.)

15 MOUNTAIN VIEW ROAD, WARREN, NEW JERSEY

07059

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (908) 903-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The number of shares of common stock outstanding as of September 30, 2009 was 341,572,078.



THE CHUBB CORPORATION  
INDEX

	Page Number
<u>Part I. Financial Information:</u>	
<u>Item 1 Financial Statements:</u>	
<u>Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2009 and 2008</u>	1
<u>Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended September 30, 2009 and 2008</u>	3
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 4 Controls and Procedures</u>	42
<u>Part II. Other Information:</u>	
<u>Item 1A Risk Factors</u>	43
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 6 Exhibits</u>	44
<u>Signatures</u>	44
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

---

Table of Contents

Page 1

## Part I. FINANCIAL INFORMATION

## Item 1 Financial Statements

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
PERIODS ENDED SEPTEMBER 30

	Third Quarter		Nine Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Revenues				
Premiums Earned	\$ 2,836	\$ 2,964	\$ 8,490	\$ 8,926
Investment Income	414	439	1,224	1,316
Other Revenues	1	13	7	25
Realized Gains (Losses), Net				
Total Other-Than-Temporary Impairment Losses on Investments	(24)	(96)	(117)	(217)
Other-Than-Temporary Impairment Losses on Investments Recognized in Other Comprehensive Income	4		19	
Other Realized Gains (Losses), Net	89	(17)	(72)	96
Total Realized Gains (Losses), Net	69	(113)	(170)	(121)
Total Revenues	3,320	3,303	9,551	10,146
Losses and Expenses				
Losses and Loss Expenses	1,534	2,006	4,721	5,339
Amortization of Deferred Policy Acquisition Costs	775	781	2,260	2,336
Other Insurance Operating Costs and Expenses	116	104	321	330
Investment Expenses	11	8	27	25
Other Expenses	2	13	9	30
Corporate Expenses	73	73	221	210
Total Losses and Expenses	2,511	2,985	7,559	8,270
Income Before Federal and Foreign Income Tax	809	318	1,992	1,876
Federal and Foreign Income Tax	213	54	504	479
Net Income	\$ 596	\$ 264	\$ 1,488	\$ 1,397
Net Income Per Share				
Basic	\$ 1.70	\$ .74	\$ 4.21	\$ 3.84
Diluted	1.69	.73	4.18	3.78

Dividends Declared Per Share	.35	.33	1.05	.99
See Notes to Consolidated Financial Statements.				

---

**Table of Contents**

Page 2

THE CHUBB CORPORATION  
CONSOLIDATED BALANCE SHEETS

	Sept. 30, 2009	Dec. 31, 2008
	<i>(in millions)</i>	
Assets		
Invested Assets		
Short Term Investments	\$ 2,587	\$ 2,478
Fixed Maturities		
Tax Exempt (cost \$18,672 and \$18,299)	19,758	18,345
Taxable (cost \$15,957 and \$14,592)	16,510	14,410
Equity Securities (cost \$1,224 and \$1,563)	1,353	1,479
Other Invested Assets	1,838	2,026
TOTAL INVESTED ASSETS	42,046	38,738
Cash	61	56
Accrued Investment Income	452	435
Premiums Receivable	2,034	2,201
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	2,142	2,212
Prepaid Reinsurance Premiums	318	373
Deferred Policy Acquisition Costs	1,545	1,532
Deferred Income Tax	340	1,144
Goodwill	467	467
Other Assets	1,373	1,271
TOTAL ASSETS	\$ 50,778	\$ 48,429
Liabilities		
Unpaid Losses and Loss Expenses	\$ 22,902	\$ 22,367
Unearned Premiums	6,198	6,367
Long Term Debt	3,975	3,975
Dividend Payable to Shareholders	121	118
Accrued Expenses and Other Liabilities	2,064	2,170
TOTAL LIABILITIES	35,260	34,997
Contingent Liabilities (Note 6)		

## Shareholders' Equity

Common Stock - \$1 Par Value; 371,980,460 and 371,980,710 Shares	372	372
Paid-In Surplus	209	253
Retained Earnings	15,658	14,509
Accumulated Other Comprehensive Income (Loss)	721	(735)
Treasury Stock, at Cost - 30,408,382 and 19,726,097 Shares	(1,442)	(967)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>15,518</b>	<b>13,432</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 50,778</b>	<b>\$ 48,429</b>

See Notes to Consolidated Financial Statements.

---



**Table of Contents**

Page 3

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
PERIODS ENDED SEPTEMBER 30

	Third Quarter		Nine Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Net Income	\$ 596	\$ 264	\$ 1,488	\$ 1,397
Other Comprehensive Income (Loss), Net of Tax				
Change in Unrealized Appreciation or Depreciation of Investments	813	(350)	1,328	(814)
Change in Unrealized Other-Than-Temporary Impairment Losses on Investments	3		(6)	
Foreign Currency Translation Gains (Losses)	98	(113)	143	(57)
Amortization of Net Loss and Prior Service Cost Included in Net Postretirement Benefit Costs	9	8	21	18
	923	(455)	1,486	(853)
Comprehensive Income (Loss)	\$ 1,519	\$ (191)	\$ 2,974	\$ 544

See Notes to Consolidated Financial Statements.

---

**Table of Contents**

Page 4

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED SEPTEMBER 30

	2009	2008
	<i>(in millions)</i>	
Cash Flows from Operating Activities		
Net Income	\$ 1,488	\$ 1,397
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Increase in Unpaid Losses and Loss Expenses, Net	306	793
Decrease in Unearned Premiums, Net	(196)	(43)
Decrease in Premiums Receivable	167	93
Change in Income Tax Recoverable or Payable	(39)	(318)
Amortization of Premiums and Discounts on Fixed Maturities	140	157
Depreciation	46	49
Realized Investment Losses, Net	170	121
Other, Net	(236)	(105)
 Net Cash Provided by Operating Activities	 1,846	 2,144
 Cash Flows from Investing Activities		
Proceeds from Fixed Maturities		
Sales	2,512	2,893
Maturities, Calls and Redemptions	2,031	1,801
Proceeds from Sales of Equity Securities	368	267
Purchases of Fixed Maturities	(5,838)	(5,486)
Purchases of Equity Securities	(13)	(163)
Investments in Other Invested Assets, Net	(1)	(102)
Increase in Short Term Investments, Net	(108)	(571)
Increase in Net Payable from Security Transactions Not Settled	143	183
Purchases of Property and Equipment, Net	(38)	(35)
Other, Net	4	
 Net Cash Used in Investing Activities	 (940)	 (1,213)
 Cash Flows from Financing Activities		
Proceeds from Issuance of Long Term Debt		1,200
Repayment of Long Term Debt		(685)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	26	103
Repurchase of Shares	(564)	(1,170)
Dividends Paid to Shareholders	(366)	(353)
Other, Net	3	(29)

Net Cash Used in Financing Activities	(901)	(934)
Net Increase (Decrease) in Cash	5	(3)
Cash at Beginning of Year	56	49
Cash at End of Period	\$ 61	\$ 46

See Notes to Consolidated Financial Statements.

---

**Table of Contents**

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) General

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of The Chubb Corporation (Chubb) and its subsidiaries (collectively, the Corporation). Significant intercompany transactions have been eliminated in consolidation.

Effective April 1, 2009, the Corporation adopted new guidance issued by the Financial Accounting Standards Board (FASB) related to the recognition and presentation of other-than-temporary impairments. This guidance may not be retroactively applied to prior periods' financial statements; accordingly, consolidated financial statements for periods prior to April 1, 2009 have not been restated for this change in accounting policy. This accounting change is further described in Note (2).

The amounts included in this report are unaudited but include those adjustments, consisting of normal recurring items, that management considers necessary for a fair presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Notes to Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008. The Corporation has performed an evaluation of subsequent events through November 6, 2009, which is the date the financial statements were issued. No significant subsequent events were identified.

2) Adoption of New Accounting Pronouncements

Effective April 1, 2009, the Corporation adopted new guidance issued by the FASB related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The FASB provided additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The FASB also included guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of this guidance did not have a significant effect on the Corporation's financial position or results of operations.

---

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective April 1, 2009, the Corporation adopted new guidance issued by the FASB related to the recognition and presentation of other-than-temporary impairments. The FASB modified the guidance on the recognition of other-than-temporary impairments of debt securities. Under this guidance, an entity is required to recognize an other-than-temporary impairment when the entity concludes it has the intent to sell or it is more likely than not the entity will be required to sell an impaired debt security before the security recovers to its amortized cost value or it is likely the entity will not recover the entire amortized cost value of an impaired debt security. This guidance also changes the presentation in the financial statements of other-than-temporary impairments and provides for enhanced disclosures of both debt and equity securities. Under this guidance, if an entity has the intent to sell or it is more likely than not the entity will be required to sell an impaired debt security before the security recovers to its amortized cost value, the security is written down to fair value and the entire amount of the writedown is charged to income as a realized investment loss. For all other impaired debt securities, the impairment loss is separated into the amount representing the credit loss and the amount representing the loss related to all other factors. The portion of the impairment loss that represents the credit loss is charged to income as a realized investment loss and the amount representing the loss that relates to all other factors is included in other comprehensive income. This guidance requires a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption with a corresponding adjustment to accumulated other comprehensive income. The cumulative effect adjustment from adopting this guidance resulted in a \$30 million increase to retained earnings and a corresponding decrease to accumulated other comprehensive income. The adoption of this guidance did not have a significant effect on the Corporation's financial position or results of operations.

Effective January 1, 2009, the Corporation adopted new guidance issued by the FASB related to the accounting for financial guarantee insurance contracts, which clarifies the guidance for such contracts. The adoption of this guidance did not have a significant effect on the Corporation's financial position or results of operations.

Effective January 1, 2009, the Corporation adopted new guidance issued by the FASB related to determining whether instruments granted in share-based payment transactions are participating securities. This guidance addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting in computing earnings per share. The adoption of this guidance did not have a significant effect on the Corporation's earnings per share.

---

Table of Contents

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3) Invested Assets

(a) The amortized cost and fair value of invested assets were as follows:

	Amortized Cost	September 30, 2009 Gross Unrealized		Fair Value
		Appreciation	Depreciation	
		<i>(in millions)</i>		
Fixed maturities				
Tax exempt	\$ 18,672	\$ 1,164	\$ 78	\$ 19,758
Taxable				
U.S. Government and government agency and authority obligations	631	22	2	651
Corporate bonds	3,787	262	11	4,038
Foreign bonds	7,864	338	21	8,181
Residential mortgage-backed securities	1,988	90	24	2,054
Commercial mortgage-backed securities	1,687	5	106	1,586
	15,957	717	164	16,510
Total fixed maturities	\$ 34,629	\$ 1,881	\$ 242	\$ 36,268
Equity securities	\$ 1,224	\$ 213	\$ 84	\$ 1,353

At September 30, 2009, the gross unrealized depreciation of fixed maturities included \$15 million of unrealized other-than-temporary impairment losses recognized in accumulated other comprehensive income.

The amortized cost and fair value of fixed maturities at September 30, 2009 by contractual maturity were as follows:

	Amortized Cost	Fair Value
	<i>(in millions)</i>	
Due in one year or less	\$ 1,156	\$ 1,175
Due after one year through five years	10,385	10,879
Due after five years through ten years	12,305	13,131
Due after ten years	7,108	7,443
	30,954	32,628
Residential mortgage-backed securities	1,988	2,054
Commercial mortgage-backed securities	1,687	1,586

\$ 34,629      \$ 36,268

Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations.

---

Table of Contents

Page 8

THE CHUBB CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) The components of unrealized appreciation or depreciation, including unrealized other-than-temporary impairment losses, of investments carried at fair value were as follows:

		September 30, 2009 <i>(in millions)</i>
Fixed maturities		
Gross unrealized appreciation	\$	1,881
Gross unrealized depreciation		242
		1,639
Equity securities		
Gross unrealized appreciation		213
Gross unrealized depreciation		84
		129
		1,768
Deferred income tax liability		619
	\$	1,149

When the fair value of any investment is lower than its cost, an assessment is made to determine whether the decline is temporary or other than temporary. The assessment of other-than-temporary impairment of fixed maturities and equity securities is based on both quantitative criteria and qualitative information and also considers a number of other factors including, but not limited to, the length of time and the extent to which the fair value has been less than the cost, the financial condition and near term prospects of the issuer, whether the issuer is current on contractually obligated interest and principal payments, general market conditions and industry or sector specific factors.

For fixed maturities, prior to April 1, 2009, the Corporation considered many factors including its intent and ability to hold a security for a period of time sufficient to allow for the recovery of the security's cost. When an impairment was deemed other-than-temporary, the security was written down to fair value and the entire writedown was charged to income as a realized investment loss. Effective April 1, 2009, the Corporation adopted new guidance issued by the FASB which modified the guidance on the recognition of other-than-temporary impairments of debt securities. Under this guidance, the Corporation is required to recognize an other-than-temporary impairment loss when it concludes it has the intent to sell or it is more likely than not it will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value or it is likely it will not recover the entire amortized cost value of an impaired debt security. Also under this guidance, if the Corporation has the intent to sell or it is more likely than not that the Corporation will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value, the security is written down to fair value and the entire amount of the writedown is charged to income as a realized investment loss. For all other impaired fixed maturities, the impairment loss is separated into the amount representing the credit loss and the amount representing the loss related to all other factors. The amount of the



impairment loss that represents the credit loss is charged to income as a realized investment loss and the amount of the impairment loss that relates to all other factors is included in other comprehensive income.

---

Table of Contents

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For equity securities, the Corporation considers its intent and ability to hold a security for a period of time sufficient to allow for the recovery of cost. If the decline in the fair value of an equity security is deemed to be other than temporary, the security is written down to fair value and the amount of the writedown is charged to income as a realized investment loss.

For fixed maturities, the split between the amount of other-than-temporary impairment losses that represents credit losses and the amount that relates to all other factors is principally based on assumptions regarding the amount and timing of projected cash flows. For fixed maturities other than mortgage-backed securities, cash flow estimates are based on assumptions regarding the probability of default and estimates regarding the timing and amount of recoveries associated with a default. For mortgage-backed securities, cash flow estimates are based on assumptions regarding future prepayment rates, default rates, loss severity and timing of recoveries. The Corporation has developed the estimates of projected cash flows using information based on historical market data, industry analyst reports and forecasts and other data relevant to the collectability of a security.

The following table summarizes, for all investment securities in an unrealized loss position at September 30, 2009, the aggregate fair value and gross unrealized depreciation, including unrealized other-than-temporary impairment losses, by investment category and length of time that individual securities have continuously been in an unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Gross		Gross		Gross	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Depreciation	Value	Depreciation	Value	Depreciation
	<i>(in millions)</i>					
Fixed maturities						
Tax exempt	\$ 29	\$ 1	\$ 1,346	\$ 77	\$ 1,375	\$ 78
Taxable						
U.S. Government and government agency and authority obligations	34	1	19	1	53	2
Corporate bonds	47	4	91	7	138	11
Foreign bonds	747	18	45	3	792	21
Residential mortgage- backed securities	21	5	90	19	111	24
Commercial mortgage- backed securities			1,430	106	1,430	106
	849	28	1,675	136	2,524	164
Total fixed maturities	878	29	3,021	213	3,899	242
Equity securities	392	40	178	44	570	84
	\$ 1,270	\$ 69	\$ 3,199	\$ 257	\$ 4,469	\$ 326

Table of Contents

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At September 30, 2009, approximately 590 individual fixed maturity and equity securities were in an unrealized loss position, of which approximately 550 were fixed maturities. The Corporation does not have the intent to sell and it is not more likely than not that the Corporation will be required to sell these fixed maturities before the securities recover to their amortized cost value. In addition, the Corporation believes that none of the declines in the fair values of these fixed maturities relate to credit losses. The Corporation has the intent and ability to hold the equity securities in an unrealized loss position for a period of time sufficient to allow for the recovery of cost. The Corporation believes that none of the declines in fair value of these fixed maturities and equity securities were other than temporary at September 30, 2009.

The change in unrealized appreciation or depreciation of investments carried at fair value, including the change in unrealized other-than-temporary impairment losses and the cumulative effect adjustment as a result of adopting new guidance issued by the FASB related to the recognition and presentation of other-than-temporary impairments effective April 1, 2009 (see Note (2)), was as follows:

	Periods Ended September 30, 2009	
	Third Quarter	Nine Months
	<i>(in millions)</i>	
Change in unrealized appreciation or depreciation of fixed maturities	\$ 1,081	\$ 1,775
Change in unrealized appreciation or depreciation of equity securities	175	213
	1,256	1,988
Deferred income tax	440	696
	\$ 816	\$ 1,292

(c) Realized investment gains and losses were as follows:

	Periods Ended September 30, 2009	
	Third Quarter	Nine Months
	<i>(in millions)</i>	
Fixed maturities		
Gross realized gains	\$ 30	\$ 95
Gross realized losses	(13)	(30)
Other-than-temporary impairment losses	(3)	(22)
	14	43
Equity securities		

Gross realized gains	7	78
Other-than-temporary impairment losses	(17)	(76)
	(10)	2
Other invested assets	65	(215)
	\$ 69	\$ (170)

(d) As of September 30, 2009, fixed maturities still held by the Corporation for which a portion of their other-than-temporary impairment losses were recognized in other comprehensive income had cumulative credit-related losses of \$21 million recognized in net income.

---

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4) Fair Values of Financial Instruments

Fair values of financial instruments are determined using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical assets or liabilities or other inputs, such as quoted prices for similar assets or liabilities, that are observable, either directly or indirectly. In those instances where observable inputs are not available, fair values are measured using unobservable inputs for the asset or liability. Unobservable inputs reflect the Corporation's own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange. Certain financial instruments, particularly insurance contracts, are excluded from fair value disclosure requirements.

The methods and assumptions used to estimate the fair values of financial instruments are as follows:

- (i) The carrying value of short term investments approximates fair value due to the short maturities of these investments.
  - (ii) Fair values for fixed maturities are determined by management, utilizing prices obtained from an independent, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from independent brokers. For fixed maturities that have quoted prices in active markets, market quotations are provided. For fixed maturities that do not trade on a daily basis, the pricing services and brokers provide fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing services and brokers. In addition, management, using the prices received for the securities from the pricing services and brokers, determines the aggregate portfolio price performance and reviews it against applicable indices. If management believes that significant discrepancies exist, it will discuss these with the relevant pricing service or broker to resolve the discrepancies.
  - (iii) Fair values of equity securities are based on quoted market prices.
  - (iv) Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from an independent, nationally recognized pricing service.
-

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The carrying values and fair values of financial instruments were as follows:

	September 30, 2009	
	Carrying Value	Fair Value
	<i>(in millions)</i>	
Assets		
Invested assets		
Short term investments	\$ 2,587	\$ 2,587
Fixed maturities	36,268	36,268
Equity securities	1,353	1,353
Liabilities		
Long term debt	3,975	4,221

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets.

Level 2 Other inputs that are observable for the asset, either directly or indirectly.

Level 3 Inputs that are unobservable.

The fair values of fixed maturities and equity securities at September 30, 2009 categorized based upon the lowest level of input that was significant to the fair value measurement were as follows:

	Level 1	Level 2	Level 3	Total
	<i>(in millions)</i>			
Fixed maturities	\$	\$ 36,047	\$ 221	\$ 36,268
Equity securities	1,135		218	1,353

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5) Segments Information

The principal business of the Corporation is the sale of property and casualty insurance. The profitability of the property and casualty insurance business depends on the results of both underwriting operations and investments, which are viewed as two distinct operations. The underwriting operations are managed and evaluated separately from the investment function.

The property and casualty insurance subsidiaries (P&C Group) underwrite most lines of property and casualty insurance. Underwriting operations consist of four separate business units: personal insurance, commercial insurance, specialty insurance and reinsurance assumed. The personal segment targets the personal insurance market. The personal classes include automobile, homeowners and other personal coverages. The commercial segment includes those classes of business that are generally available in broad markets and are of a more commodity nature. Commercial classes include multiple peril, casualty, workers' compensation and property and marine. The specialty segment includes those classes of business that are available in more limited markets since they require specialized underwriting and claim settlement. Specialty classes include professional liability coverages and surety. The reinsurance assumed business is effectively in run-off following the sale, in 2005, of the ongoing business to a Bermuda-based reinsurance company, Harbor Point Limited.

Corporate and other includes investment income earned on corporate invested assets, corporate expenses and the results of the Corporation's non-insurance subsidiaries.

---

Table of Contents

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenues and income before income tax of the operating segments were as follows:

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Revenues				
Property and casualty insurance				
Premiums earned				
Personal insurance	\$ 930	\$ 950	\$ 2,754	\$ 2,837
Commercial insurance	1,192	1,253	3,585	3,801
Specialty insurance	704	731	2,110	2,219
Total insurance	2,826	2,934	8,449	8,857
Reinsurance assumed	10	30	41	69
	2,836	2,964	8,490	8,926
Investment income	400	418	1,180	1,254
Other revenues				4
Total property and casualty insurance	3,236	3,382	9,670	10,184
Corporate and other	15	34	51	83
Realized investment gains (losses), net	69	(113)	(170)	(121)
Total revenues	\$ 3,320	\$ 3,303	\$ 9,551	\$ 10,146
Income before income tax				
Property and casualty insurance				
Underwriting				
Personal insurance	\$ 166	\$ (21)	\$ 409	\$ 293
Commercial insurance	147	(51)	368	161
Specialty insurance	125	135	373	398
Total insurance	438	63	1,150	852
Reinsurance assumed	16	13	56	37



Edgar Filing: CHUBB CORP - Form 10-Q

	454	76	1,206	889
Increase (decrease) in deferred policy acquisition costs	(31)	(7)	(11)	29
Underwriting income	423	69	1,195	918
Investment income	390	411	1,156	1,231
Other income (charges)	(12)	4	(7)	7
Total property and casualty insurance	801	484	2,344	2,156
Corporate and other loss	(61)	(53)	(182)	(159)
Realized investment gains (losses), net	69	(113)	(170)	(121)
Total income before income tax	\$ 809	\$ 318	\$ 1,992	\$ 1,876

---

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6) Contingent Liabilities

Chubb and certain of its subsidiaries have been involved in the investigations by various Attorneys General and other regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities with respect to certain business practices in the property and casualty insurance industry including (1) potential conflicts of interest and anti-competitive behavior arising from the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. In connection with these investigations, Chubb and certain of its subsidiaries received subpoenas and other requests for information from various regulators. The Corporation has cooperated fully with these investigations. The Corporation has settled with several state Attorneys General and insurance departments all issues arising out of their investigations. As described in more detail below, the Attorney General of Ohio in August 2007 filed an action against Chubb and certain of its subsidiaries, as well as several other insurers and one broker, as a result of the Ohio Attorney General's business practices investigation. Although no other Attorney General or regulator has initiated an action against the Corporation, it is possible that such an action may be brought against the Corporation with respect to some or all of the issues that are the focus of these ongoing investigations.

Individual actions and purported class actions arising out of the investigations into the payment of contingent commissions to brokers and agents have been filed in a number of federal and state courts. On August 1, 2005, Chubb and certain of its subsidiaries were named in a putative class action entitled *In re Insurance Brokerage Antitrust Litigation* in the U.S. District Court for the District of New Jersey (the N.J. District Court). This action, brought against several brokers and insurers on behalf of a class of persons who purchased insurance through the broker defendants, asserts claims under the Sherman Act and state law and the Racketeer Influenced and Corrupt Organizations Act (RICO) arising from the alleged unlawful use of contingent commission agreements. On September 28, 2007, the N.J. District Court dismissed the second amended complaint filed by the plaintiffs in the *In re Insurance Brokerage Antitrust Litigation* in its entirety. In so doing, the court dismissed the plaintiffs' Sherman Act and RICO claims with prejudice for failure to state a claim, and it dismissed the plaintiffs' state law claims without prejudice because it declined to exercise supplemental jurisdiction over them. The plaintiffs have appealed the dismissal of their second amended complaint to the U.S. Court of Appeals for the Third Circuit, and that appeal is currently pending.

Chubb and certain of its subsidiaries also have been named as defendants in other putative class actions relating or similar to the *In re Insurance Brokerage Antitrust Litigation* that have been filed in various state courts or in U.S. district courts between 2005 and 2007. These actions have been subsequently removed and ultimately transferred to the N.J. District Court for consolidation with the *In re Insurance Brokerage Antitrust Litigation*. These actions have either been dismissed or are currently stayed.

---

Table of Contents

THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 24, 2007, Chubb and certain of its subsidiaries were named as defendants in an action filed by the Ohio Attorney General against several insurers and one broker. This action alleges violations of Ohio's antitrust laws. In July 2008, the court denied the Corporation's and the other defendants' motions to dismiss the Attorney General's complaint. In August 2008, Chubb and its subsidiaries and the other defendants filed answers to the complaint and discovery is proceeding.

In these actions, the plaintiffs generally allege that the defendants unlawfully used contingent commission agreements and conspired to reduce competition in the insurance markets. The actions seek treble damages, injunctive and declaratory relief, and attorneys' fees. The Corporation believes it has substantial defenses to all of the aforementioned legal proceedings and intends to defend the actions vigorously.

The Corporation cannot predict at this time the ultimate outcome of the aforementioned ongoing investigations and legal proceedings, including any potential amounts that the Corporation may be required to pay in connection with them. Nevertheless, management believes that it is likely that the outcome will not have a material adverse effect on the Corporation's results of operations or financial condition.

## 7) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Periods Ended September 30			
	Third Quarter 2009	2008	Nine Months 2009	2008
	<i>(in millions, except for per share amounts)</i>			
Basic earnings per share:				
Net income	\$ 596	\$ 264	\$ 1,488	\$ 1,397
Weighted average shares outstanding	350.3	356.8	353.4	363.6
Basic earnings per share	\$ 1.70	\$ .74	\$ 4.21	\$ 3.84
Diluted earnings per share:				
Net income	\$ 596	\$ 264	\$ 1,488	\$ 1,397
Weighted average shares outstanding	350.3	356.8	353.4	363.6

Edgar Filing: CHUBB CORP - Form 10-Q

Additional shares from assumed exercise of stock-based compensation awards	3.2	5.5	3.0	5.6
Weighted average shares and potential shares assumed outstanding for computing diluted earnings per share	353.5	362.3	356.4	369.2
Diluted earnings per share	\$ 1.69	\$ .73	\$ 4.18	\$ 3.78

---

**Table of Contents**

Page 17

**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses the financial condition of the Corporation as of September 30, 2009 compared with December 31, 2008 and the results of operations for the nine months and three months ended September 30, 2009 and 2008. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes contained in this report and the consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008.

**Cautionary Statement Regarding Forward-Looking Information**

Certain statements in this document are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements are made pursuant to the safe harbor provisions of the PSLRA and include statements regarding our loss reserve and reinsurance recoverable estimates; the impact of changes to our ceded reinsurance program, including its cost and terms; property and casualty insurance market conditions, including premium volume, rates and policy terms and conditions; the impact of the continuation of the weak economy; the repurchase of common stock under our share repurchase program; the impact of a downgrade of our credit ratings; and our capital adequacy and funding of liquidity needs. Forward-looking statements are made based upon management's current expectations and beliefs concerning trends and future developments and their potential effects on us. These statements are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties, which include, among others, those discussed or identified from time to time in our public filings with the Securities and Exchange Commission and those associated with:

global political conditions and the occurrence of terrorist attacks, including any nuclear, biological, chemical or radiological events;

the effects of the outbreak or escalation of war or hostilities;

premium pricing and profitability or growth estimates overall or by lines of business or geographic area, and related expectations with respect to the timing and terms of any required regulatory approvals;

adverse changes in loss cost trends;

our ability to retain existing business and attract new business;

our expectations with respect to cash flow and investment income and with respect to other income;

---

**Table of Contents**

Page 18

the adequacy of loss reserves, including:  
our expectations relating to reinsurance recoverables;

the willingness of parties, including us, to settle disputes;

developments in judicial decisions or regulatory or legislative actions relating to coverage and liability, in particular, for asbestos, toxic waste and other mass tort claims;

development of new theories of liability;

our estimates relating to ultimate asbestos liabilities;

the impact from the bankruptcy protection sought by various asbestos producers and other related businesses; and

the effects of proposed asbestos liability legislation, including the impact of claims patterns arising from the possibility of legislation and those that may arise if legislation is not passed;

the availability and cost of reinsurance coverage;

the occurrence of significant weather-related or other natural or human-made disasters, particularly in locations where we have concentrations of risk;

the impact of economic factors on companies on whose behalf we have issued surety bonds, and in particular, on those companies that file for bankruptcy or otherwise experience deterioration in creditworthiness;

the effects of disclosures by, and investigations of, companies relating to possible accounting irregularities, practices in the financial services industry, investment losses or other corporate governance issues, including:  
claims and litigation arising out of stock option backdating, spring loading and other equity grant practices by public companies;

the effects on the capital markets and the markets for directors and officers and errors and omissions insurance;

claims and litigation arising out of actual or alleged accounting or other corporate malfeasance by other companies;

claims and litigation arising out of practices in the financial services industry;

claims and litigation relating to uncertainty in the credit and broader financial markets; and

legislative or regulatory proposals or changes;

the effects of changes in market practices in the U.S. property and casualty insurance industry, in particular contingent commissions and loss mitigation and finite reinsurance arrangements, arising from any legal or regulatory proceedings, related settlements and industry reform, including changes that have been announced and changes that may occur in the future;

the impact of legislative and regulatory developments on our business, including those relating to terrorism, catastrophes and the financial markets;

any downgrade in our claims-paying, financial strength or other credit ratings;

the ability of our subsidiaries to pay us dividends;

---

**Table of Contents**

general economic and market conditions including:  
changes in interest rates, market credit spreads and the performance of the financial markets;  
  
currency fluctuations;  
  
the effects of inflation;  
  
changes in domestic and foreign laws, regulations and taxes;  
  
changes in competition and pricing environments;  
  
regional or general changes in asset valuations;  
  
the inability to reinsure certain risks economically; and  
  
changes in the litigation environment;  
our ability to implement management's strategic plans and initiatives.

Chubb assumes no obligation to update any forward-looking information set forth in this document, which speak as of the date hereof.

**Critical Accounting Estimates and Judgments**

The consolidated financial statements include amounts based on informed estimates and judgments of management for transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the financial statements. Those estimates and judgments that were most critical to the preparation of the financial statements involved the determination of loss reserves and the recoverability of related reinsurance recoverables and the evaluation of whether a decline in value of any investment is temporary or other than temporary. These estimates and judgments, which are discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008 as supplemented within the following analysis of our results of operations, require the use of assumptions about matters that are highly uncertain and therefore are subject to change as facts and circumstances develop. If different estimates and judgments had been applied, materially different amounts might have been reported in the financial statements.

---

**Table of Contents**

Page 20

**Overview**

*The following highlights do not address all of the matters covered in the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to Chubb's shareholders or the investing public. This overview should be read in conjunction with the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Net income was \$1.5 billion in the first nine months of 2009 and \$596 million in the third quarter compared with \$1.4 billion and \$264 million, respectively, in the comparable periods of 2008. The modestly higher net income in the first nine months of 2009 was due to higher underwriting income in our property and casualty insurance business, due to lower catastrophe losses, offset in part by lower investment income and higher realized investment losses compared with the same period in 2008. The higher net income in the third quarter of 2009 compared with the same period in 2008 was attributable to two factors. First, underwriting income was higher in the third quarter of 2009 due to lower catastrophe losses. Second, we had realized investment gains in the third quarter of 2009 compared to realized investment losses in the third quarter of 2008.

Underwriting results were highly profitable in the first nine months of 2009 and 2008, but more so in 2009. Underwriting results in the third quarter of 2009 were highly profitable compared to modestly profitable results in the same period of 2008. Our combined loss and expense ratio was 86.5% in the first nine months of 2009 and 85.4% in the third quarter compared with 90.2% and 98.1% in the respective periods of 2008. The more profitable results in the first nine months of 2009 were primarily due to lower catastrophe losses, offset in part by a lower amount of favorable prior year loss development as well as the cumulative impact of rate reductions experienced in our commercial and professional liability classes over the past several years. The more profitable results in the third quarter of 2009 were due to lower catastrophe losses. Catastrophe losses were \$91 million in the first nine months of 2009 and \$22 million in the third quarter compared with \$616 million and \$402 million, respectively, in the corresponding periods of 2008.

During the first nine months of 2009, we estimate that we experienced overall favorable development of about \$545 million on loss reserves established as of the previous year end, due to better than expected results in several classes, particularly the professional liability classes. During the third quarter of 2009, we estimate that we experienced overall favorable development of about \$205 million, primarily in the professional liability and personal insurance classes. During the first nine months and third quarter of 2008, we estimate that we experienced overall favorable development of about \$660 million and \$210 million, respectively, due primarily to favorable loss experience in certain professional liability and commercial liability classes and lower than expected emergence of losses in the homeowners and commercial property classes.

Total net premiums written decreased by 7% in the first nine months and third quarter of 2009 compared with the same periods in 2008. In both periods, the decrease was primarily due to the general downturn in the economy. Premium growth was also adversely impacted by currency fluctuation on business written outside the United States due to the strength of the U.S. dollar in the first nine months of 2009 compared to the same period in 2008. We have continued our emphasis on underwriting discipline in a market environment that remains competitive.

---



Table of Contents

Property and casualty investment income after tax decreased 5% in the first nine months of 2009 and 3% in the third quarter compared with the same periods in 2008. The decline in each period was due to lower yields, particularly on short term investments, as well as the effects of currency fluctuation on income from our non-U.S. investments. For more information on this non-GAAP financial measure, see Property and Casualty Insurance Investment Results.

Net realized investment losses before taxes were \$170 million in the first nine months of 2009 compared with \$121 million in the same period of 2008. Net realized investment gains in the third quarter of 2009 were \$69 million compared with net realized investment losses of \$113 million in the same period in 2008. The net realized losses in the first nine months of 2009 were primarily attributable to losses in the first quarter from investments in limited partnerships. The net realized gains in the third quarter of 2009 were primarily attributable to gains related to investments in limited partnerships. The net realized losses in the first nine months and third quarter of 2008 were primarily attributable to other-than-temporary impairment losses.

A summary of our consolidated net income is as follows:

	Third Quarter		Nine Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Property and Casualty Insurance	\$ 801	\$ 484	\$ 2,344	\$ 2,156
Corporate and Other	(61)	(53)	(182)	(159)
Realized Investment Gains (Losses)	69	(113)	(170)	(121)
Consolidated Income Before Income Tax	809	318	1,992	1,876
Federal and Foreign Income Tax	213	54	504	479
Consolidated Net Income	\$ 596	\$ 264	\$ 1,488	\$ 1,397

---

**Table of Contents****Property and Casualty Insurance**

A summary of the results of operations of our property and casualty insurance business is as follows:

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Underwriting				
Net Premiums Written	\$ 2,705	\$ 2,900	\$ 8,294	\$ 8,883
Decrease in Unearned Premiums	131	64	196	43
Premiums Earned	2,836	2,964	8,490	8,926
Losses and Loss Expenses	1,534	2,006	4,721	5,339
Operating Costs and Expenses	841	871	2,541	2,669
Decrease (Increase) in Deferred Policy Acquisition Costs	31	7	11	(29)
Dividends to Policyholders	7	11	22	29
Underwriting Income	423	69	1,195	918
Investments				
Investment Income Before Expenses	400	418	1,180	1,254
Investment Expenses	10	7	24	23
Investment Income	390	411	1,156	1,231
Other Income (Charges)	(12)	4	(7)	7
Property and Casualty Income Before Tax	\$ 801	\$ 484	\$ 2,344	\$ 2,156
Property and Casualty Investment Income After Tax	\$ 317	\$ 327	\$ 935	\$ 981

Property and casualty income before tax was higher in the first nine months of 2009 compared to the same period in 2008. The higher income in 2009 was attributable to an increase in underwriting income, offset in part by lower investment income. The increase in underwriting income in 2009 was primarily due to lower catastrophe losses, offset in part by a lower amount of favorable prior year loss development as well as the cumulative impact of rate reductions experienced in our commercial and professional liability classes over the past several years. The decrease in

investment income in 2009 was due to lower yields, particularly on short term investments, as well as the effects of currency fluctuation on income from our non-U.S. investments. Property and casualty income before tax was significantly higher in the third quarter of 2009 compared to the same period in 2008 due to substantially higher underwriting income as a result of lower catastrophe losses.

The profitability of the property and casualty insurance business depends on the results of both our underwriting and investment operations. We view these as two distinct operations since the underwriting functions are managed separately from the investment function. Accordingly, in assessing our performance, we evaluate underwriting results separately from investment results.

---

**Table of Contents****Underwriting Results**

We evaluate the underwriting results of our property and casualty insurance business in the aggregate and also for each of our separate business units.

*Net Premiums Written*

Net premiums written were \$8.3 billion in the first nine months of 2009 and \$2.7 billion in the third quarter, compared with \$8.9 billion and \$2.9 billion, respectively, in the comparable periods of 2008.

Net premiums written by business unit were as follows:

	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2009	2008	% Decr.	2009	2008	% Decr.
	<i>(in millions)</i>			<i>(in millions)</i>		
Personal insurance	\$ 2,750	\$ 2,887	(5)%	\$ 946	\$ 995	(5)%
Commercial insurance	3,559	3,819	(7)	1,086	1,178	(8)
Specialty insurance	1,968	2,123	(7)	669	709	(6)
Total insurance	8,277	8,829	(6)	2,701	2,882	(6)
Reinsurance assumed	17	54	(69)	4	18	(78)
Total	\$ 8,294	\$ 8,883	(7)	\$ 2,705	\$ 2,900	(7)

Net premiums written decreased by 7% in the first nine months and third quarter of 2009 compared with the comparable periods in 2008. The decline in premiums written in both periods in 2009 was due in large part to the general downturn in the economy, which began in 2008 and has continued in 2009. The impact of currency fluctuation on business written outside the United States as a result of the strengthening of the U.S. dollar that began in the latter part of 2008 also contributed to the decline. The weaker economy will continue to adversely impact premium growth for the remainder of 2009.

During the first nine months of 2009, we continued our emphasis on underwriting discipline in a competitive market. Overall, renewal rates in the U.S. commercial and professional liability businesses increased slightly in the first nine months of 2009, following several years of decline. We continued to retain a high percentage of our existing customers and to renew those accounts at what we believe are acceptable rates relative to the risks. We have written some new business due to the dislocation in the insurance markets caused by the impact on some of our competitors of the financial market crisis that began in the second half of 2008. However, the modestly positive effect was offset by the decrease in demand in nearly all classes of our insurance business caused by the general downturn in the economy that has continued in 2009.

*Reinsurance Ceded*

Our premiums written are net of amounts ceded to reinsurers who assume a portion of the risk under the insurance policies we write that are subject to reinsurance.

Reinsurance rates for property risks have increased somewhat in 2009. Capacity restrictions continued in some segments of the marketplace.

---

**Table of Contents**

The most significant component of our ceded reinsurance program is property reinsurance of which we purchase two coverages: catastrophe and property per risk. We renewed our major traditional property catastrophe treaties and our commercial property per risk treaty in April 2009.

For the United States and Canada, we refer to our traditional catastrophe reinsurance treaty as the North American catastrophe treaty. In recent years, we have reduced the amount of reinsurance purchased under this treaty and replaced it with multi-year, collateralized reinsurance coverage funded through the issuance of securitized risk linked securities, known as catastrophe bonds.

In 2009, we modified the structure of our North American catastrophe treaty. For the 2009 treaty, our initial retention is \$500 million per occurrence. We did not renew the coverage for 45% of covered losses between \$350 million and \$500 million we had under the 2008 treaty. We also converted a northeastern United States-only layer into a layer that covers all of the United States and Canada. The overall impact of these changes was to slightly reduce the maximum amount that we can recover per occurrence under the North American catastrophe treaty.

For United States and Canadian exposures, the North American catastrophe treaty and catastrophe bond coverage purchased in 2008 collectively provide coverage of approximately 72% of losses (net of recoveries from other available reinsurance) between \$500 million and \$1.15 billion and 60% of losses between \$1.15 billion and \$1.65 billion.

The first of the catastrophe bond coverages, which we purchased in 2007, is a \$250 million, four-year reinsurance arrangement that provides coverage for homeowners-related hurricane losses in the northeastern part of the United States, where we have our greatest concentration of catastrophe exposure. The second of the catastrophe bond coverages, which we purchased in 2008, is a \$200 million, three-year reinsurance arrangement that provides coverage for homeowners and commercial exposures. A portion of this coverage is limited to loss events in the northeastern part of the United States and the remainder provides coverage for losses occurring anywhere in the continental United States or Canada. Our third catastrophe bond coverage, which we purchased in 2009, is a \$150 million, three-year reinsurance arrangement that provides coverage for homeowners-related hurricane losses in Florida.

For events in the northeastern part of the United States, we have additional reinsurance that covers approximately 35% of losses (net of recoveries from other available reinsurance) between \$1.15 billion and \$2.05 billion. This coverage is provided through a combination of our North American catastrophe reinsurance treaty and the catastrophe bond coverage that we purchased in 2008. Additionally, the catastrophe bond coverage purchased in 2007 provides coverage for approximately 30% of homeowners-related hurricane losses between \$1.45 billion and \$2.25 billion.

In addition to the United States and Canadian coverages described above, for hurricane events in Florida, we have a combination of reinsurance coverages. We have reinsurance from the Florida Hurricane Catastrophe Fund (FHCF), which is a state-mandated fund designed to reimburse insurers for a portion of their residential catastrophic hurricane losses. Our participation in this program, limits our initial retention in Florida for homeowners-related losses to approximately \$190 million and provides coverage of 90% of covered losses between approximately \$190 million and \$700 million. Additionally, the 2009 catastrophe bond coverage provides coverage of 50% of homeowners-related hurricane losses between \$850 million and \$1,150 million.

---

**Table of Contents**

For any catastrophe losses, we are subject to certain coinsurance requirements that affect the interaction of some elements of our catastrophe reinsurance program.

Our property catastrophe treaty for events outside the United States was renewed with only modest changes in coverage. We increased both our initial retention and the reinsurance coverage in the top layer of the treaty by \$25 million and increased our participation in the program. The treaty now provides coverage of approximately 75% of losses (net of recoveries from other available reinsurance) between \$100 million and \$350 million.

Our commercial property per risk treaty was renewed with only slight changes in coverage. This treaty provides approximately \$560 million of coverage per risk in excess of our initial retention, which is generally \$25 million.

Our property reinsurance treaties generally contain terrorism exclusions for acts perpetrated by foreign terrorists, and for nuclear, biological, chemical and radiological loss causes whether such acts are perpetrated by foreign or domestic terrorists.

The overall cost of our property reinsurance program was modestly higher in the first nine months of 2009 than in the comparable period in 2008. We do not expect the changes we made to our reinsurance program during 2009 to have a material effect on our results of operations, financial condition or liquidity.

*Profitability*

The combined loss and expense ratio, expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance business. Management evaluates the performance of our underwriting operations and of each of our business units using, among other measures, the combined loss and expense ratio calculated in accordance with statutory accounting principles. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of statutory underwriting expenses to premiums written (expense ratio) after reducing both premium amounts by dividends to policyholders. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the combined ratio is over 100%, underwriting results are generally considered unprofitable.

Statutory accounting principles applicable to property and casualty insurance companies differ in certain respects from generally accepted accounting principles (GAAP). Under statutory accounting principles, policy acquisition and other underwriting expenses are recognized immediately, not at the time premiums are earned. Management uses underwriting results determined in accordance with GAAP, among other measures, to assess the overall performance of our underwriting operations. To convert statutory underwriting results to a GAAP basis, policy acquisition expenses are deferred and amortized over the period in which the related premiums are earned. Underwriting income determined in accordance with GAAP is defined as premiums earned less losses and loss expenses incurred and GAAP underwriting expenses incurred.

---

**Table of Contents**

Underwriting results were highly profitable in the first nine months of 2009 and 2008. Results in the third quarter of 2009 were highly profitable compared to modestly profitable results in the same period in 2008. The combined loss and expense ratio for our overall property and casualty business was as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2009	2008	2009	2008
Loss ratio	55.8%	60.0%	54.2%	67.9%
Expense ratio	30.7	30.2	31.2	30.2
Combined ratio	86.5%	90.2%	85.4%	98.1%

The loss ratio was lower in both the first nine months and third quarter of 2009 compared with the respective periods in 2008. The decrease was primarily due to substantially lower catastrophe losses. The loss ratio in all periods reflects the favorable loss experience which we believe resulted from our disciplined underwriting in recent years as well as relatively mild loss trends in certain classes of business. However, excluding the impact of catastrophes, the loss ratio in the first nine months of 2009 was slightly higher compared with the same period in 2008, reflecting the cumulative impact of rate reductions experienced in our commercial and professional liability classes over the past several years as well as a lower amount of favorable prior year loss development.

Catastrophe losses were \$91 million in the first nine months of 2009, which represented 1.1 percentage points of the combined loss and expense ratio, compared with \$616 million, or 6.9 percentage points, in the same period in 2008. Catastrophe losses were \$22 million in the third quarter of 2009, which represented 0.8 percentage points of the combined ratio, compared with \$402 million or 13.6 percentage points in the same period in 2008. Of the catastrophe losses in the third quarter of 2008, about \$340 million related to Hurricane Ike, including our estimated share of an assessment from the Texas Windstorm Insurance Association, a windstorm insurance entity created by the State of Texas.

The expense ratio was higher in the first nine months and third quarter of 2009 compared with the same periods in 2008. The increase in the 2009 periods was due to two factors: a decline in premiums written at a rate that exceeded the rate of reduction of our overhead expenses and a slight increase in commission rates in certain classes of business in the United States.



**Table of Contents****Review of Underwriting Results by Business Unit***Personal Insurance*

Net premiums written from personal insurance, which represented 33% of our premiums written in the first nine months of 2009, decreased by 5% in the first nine months and third quarter of 2009 compared with the comparable periods in 2008. The decrease in the 2009 periods was largely due to the impact of currency fluctuation on business written outside the U.S. and the downturn in the economy, particularly in the U.S. Net premiums written for the classes of business within the personal insurance segment were as follows:

	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2009 <i>(in millions)</i>	2008	% Decr.	2009 <i>(in millions)</i>	2008	% Decr.
Automobile	\$ 428	\$ 457	(6)%	\$ 150	\$ 154	(3)%
Homeowners	1,771	1,859	(5)	620	646	(4)
Other	551	571	(4)	176	195	(10)
Total personal	\$ 2,750	\$ 2,887	(5)	\$ 946	\$ 995	(5)

Personal automobile premiums decreased in the 2009 periods due to a highly competitive U.S. marketplace as well as the impact of currency fluctuation on business written outside the United States. Premium growth in our homeowners business was constrained by the downturn in the economy, which resulted in a slowdown in construction of new homes as well as lower demand for jewelry and fine arts endorsements. The in-force policy count for this class decreased modestly during the first nine months of 2009. Premiums from our other personal business, which includes insurance for excess liability, yacht and accident and health coverages, decreased in the first nine months and third quarter of 2009 compared with the same periods in 2008. The decrease in both periods in 2009 was driven by our accident and health business, due primarily to the effect of currency fluctuation on the non-U.S. component of this business. The adverse impact of currency fluctuation was offset in part by growth in the U.S. component of this business in the first nine months of 2009, due primarily to a select initiative.

Our personal insurance business produced highly profitable underwriting results in the first nine months of both 2009 and 2008. Results in the third quarter of 2009 were also highly profitable compared with near breakeven results in the same period of 2008. The combined loss and expense ratios for the classes of business within the personal insurance segment were as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2009	2008	2009	2008
Automobile	89.1%	88.5%	87.2%	85.7%
Homeowners	81.9	85.8	77.3	102.9
Other	92.8	100.5	90.9	105.8
Total personal	85.2	89.1	81.6	100.7

Our personal automobile business produced highly profitable results in the first nine months and third quarter of 2009 and 2008.

---

**Table of Contents**

Homeowners results were highly profitable in the first nine months of 2009 and 2008. Results in the third quarter of 2009 were highly profitable compared with unprofitable results in the same period in 2008. The more profitable results in the 2009 periods were largely attributable to lower catastrophe losses. Catastrophe losses represented only 2.1 percentage points of the combined ratio for this class in the first nine months of 2009 compared with 11.0 percentage points in the same period in 2008. The impact of catastrophe losses, which included subrogation recoveries related to the California wildfires of 2007, slightly reduced the combined ratio in the third quarter of 2009. Catastrophe losses represented 23.8 percentage points of the combined ratio in the same period in 2008.

Other personal results were profitable in the first nine months and third quarter of 2009 compared with near breakeven results in the first nine months of 2008 and unprofitable results in the third quarter of 2008, due primarily to significant improvement in our excess liability business and, to a lesser extent, improvement in our yacht business. Our excess liability business produced profitable results in the first nine months and third quarter of 2009 compared with unprofitable results in the same periods in 2008. Our excess liability business experienced favorable prior year loss development in the first nine months of 2009 compared with adverse development in the same period in 2008. Our yacht business produced highly profitable results in the first nine months and third quarter of 2009 compared to unprofitable results in the same periods of 2008. Yacht results in the 2008 periods were adversely affected by several large non-catastrophe losses as well as \$10 million of losses related to Hurricane Ike. Our accident and health business produced unprofitable results in the first nine months and third quarter of 2009 compared with profitable results in the same periods in 2008.

*Commercial Insurance*

Net premiums written from commercial insurance, which represented 43% of our premiums written in the first nine months of 2009, decreased by 7% in the first nine months of 2009 and 8% in the third quarter compared with the same periods a year ago. Net premiums written for the classes of business within the commercial insurance segment were as follows:

	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2009	2008	% Decr.	2009	2008	% Decr.
	<i>(in millions)</i>			<i>(in millions)</i>		
Multiple Peril	\$ 835	\$ 915	(9)%	\$ 274	\$ 308	(11)%
Casualty	1,161	1,281	(9)	346	385	(10)
Workers compensation	610	666	(8)	186	205	(9)
Property and marine	953	957		280	280	
Total commercial	\$ 3,559	\$ 3,819	(7)	\$ 1,086	\$ 1,178	(8)

**Table of Contents**

About half of the decrease in premiums in our commercial insurance business in the first nine months of 2009 was attributable to the impact of currency fluctuation on business written outside the United States, with the remaining decrease due to the adverse effects of the economic downturn. The decrease in premiums in the third quarter of 2009 was primarily attributable to the economic downturn, and, to a much lesser extent, the impact of currency fluctuation. Overall, renewal rates were up slightly in the first nine months of 2009. Retention levels of our existing customers remained strong, similar to those in the first nine months of 2008. However, new business volume in the first nine months of 2009 was down from 2008 levels. While we obtained some new business in 2009 due to the dislocation in the insurance markets caused by the impact of the financial market crisis on some of our competitors, the impact was offset by a general reduction in insurance demand due to the effects of the economic downturn. We have continued to maintain our underwriting discipline in this competitive market, renewing business and writing new business only where we believe we are securing acceptable rates and appropriate terms and conditions for the exposures. These market conditions are expected to continue for the remainder of this year.

Our commercial insurance business produced highly profitable underwriting results in the first nine months of 2009 compared with profitable results in the same period in 2008. Underwriting results for our commercial insurance business were also profitable in the third quarter of 2009 compared with unprofitable results in the same period in 2008. The combined loss and expense ratios for the classes of business within the commercial insurance segment were as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2009	2008	2009	2008
Multiple peril	85.5%	87.0%	91.0%	103.6%
Casualty	96.4	94.6	93.9	99.8
Workers compensation	91.5	80.5	95.7	81.3
Property and marine	85.0	116.0	83.0	133.3
Total commercial	89.9	95.6	90.5	106.0

Results for our commercial insurance business were more profitable in the 2009 periods due to a lower impact from catastrophe losses than in 2008, particularly in the property and marine and multiple peril classes. Catastrophe losses represented 1.6 percentage points of the combined ratio for the commercial insurance segment in the first nine months of 2009 and 2.6 percentage points for the third quarter compared with 10.6 and 19.9 percentage points, respectively, in the same periods in 2008. The lower impact of catastrophe losses in the first nine months and the third quarter of 2009 was offset in part by the cumulative impact of rate reductions experienced over the past several years. Results in both years benefited from disciplined risk selection and appropriate policy terms and conditions in recent years.

**Table of Contents**

Page 30

Multiple peril results were highly profitable in the first nine months of both 2009 and 2008. Results in the third quarter of 2009 were profitable compared with unprofitable results in the same period in 2008. Substantial improvement in the results for the property component of this business in the 2009 periods, due to lower catastrophe losses, was offset in part by less profitable results in the liability component. Catastrophe losses represented 2.4 percentage points of the combined ratio for this class in the first nine months of 2009 and 4.5 percentage points in the third quarter compared with 12.1 and 28.2 percentage points, respectively, in the same periods of 2008. The results in the 2009 periods, excluding the impact of catastrophes, were less profitable compared with the 2008 periods due primarily to less favorable prior year loss development.

Our casualty business produced similarly profitable results in the first nine months of 2009 and 2008. Results in the third quarter of 2009 were profitable compared with near breakeven results in the same period in 2008. The improvement in the third quarter of 2009 compared to the same period in 2008 was due to more profitable results in the excess liability component of this business. The excess liability component produced profitable results in the first nine months and in the third quarter of both years. Results in all periods, but more so in the third quarter of 2009, benefited from favorable prior year loss development. The automobile component of this business produced profitable results in the first nine months of 2009 and breakeven results in the third quarter compared with highly profitable results in the corresponding periods in 2008. Results for the primary liability component were profitable in the first nine months of 2009 and near breakeven in the third quarter compared with profitable results in the same periods in 2008. Casualty results in the first nine months of both years were adversely affected by incurred losses related to toxic waste claims. These losses represented 3.8 and 5.0 percentage points of the combined ratio in the first nine months of 2009 and 2008, respectively, and 2.8 percentage points of the combined ratio in the third quarter of 2009 compared with 7.1 percentage points in the same period in 2008.

Workers compensation results were profitable in the first nine months and third quarter of 2009 compared with highly profitable results in the comparable periods in 2008. Results in both years benefited from our disciplined risk selection during the past several years. The less profitable results in the 2009 periods were due in part to lower rate levels associated with state reforms and increased competition and partly to increased large loss activity. Results in the 2008 periods also benefited from favorable prior year loss development.

Property and marine results were highly profitable in the first nine months and third quarter of 2009 compared with highly unprofitable results in the same periods in 2008. The more profitable results in 2009 were due primarily to lower catastrophe losses. Catastrophe losses represented 2.6 percentage points of the combined ratio for this class in the first nine months of 2009 and 5.0 percentage points in the third quarter compared with 29.5 and 49.0 percentage points, respectively, in the same periods of 2008.

---

**Table of Contents***Specialty Insurance*

Net premiums written from specialty insurance, which represented 24% of our premiums written in the first nine months of 2009, decreased by 7% in the first nine months of 2009 and 6% in the third quarter compared with the same periods a year ago. Net premiums written for the classes of business within the specialty insurance segment were as follows:

	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2009 <i>(in millions)</i>	2008	% Decr.	2009 <i>(in millions)</i>	2008	% Decr.
Professional liability	\$ 1,725	\$ 1,847	(7)%	\$ 588	\$ 617	(5)%
Surety	243	276	(12)	81	92	(12)
Total specialty	\$ 1,968	\$ 2,123	(7)	\$ 669	\$ 709	(6)

The decrease in net premiums written in our professional liability business in the first nine months and third quarter of 2009 was due to several factors: the impact of currency fluctuation on business written outside the U.S., lower retention levels, reduced purchases of certain coverages and reduced new business volume in the U.S. compared to the comparable periods in 2008. Renewal rates in the U.S. increased slightly overall in 2009, after several years of decline. While we have obtained some new business as a result of the market dislocation in the insurance industry, this was offset by the decrease in the demand for insurance resulting from the general economic downturn. We have continued our focus on underwriting discipline, obtaining what we believe are acceptable rates and appropriate terms and conditions on both new business and renewals.

The decrease in net premiums written for our surety business in the first nine months of 2009 was due primarily to the effects of the weaker economy, a trend that will continue for the remainder of the year.

Our specialty insurance business produced highly profitable underwriting results in the first nine months and third quarter of 2009 and 2008. The combined loss and expense ratios for the classes of business within the specialty insurance segment were as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2009	2008	2009	2008
Professional liability	90.4%	84.0%	90.0%	84.3%
Surety	36.5	76.1	32.5	65.0
Total specialty	84.2	83.2	83.6	82.3

**Table of Contents**

Page 32

Our professional liability business produced highly profitable results in the first nine months and third quarter of 2009 and 2008. Results in both years were particularly profitable in the fiduciary liability, employment practices liability and fidelity classes. The directors and officers liability class was profitable in the first nine months of both years; results in the third quarter of 2009 were profitable compared to near breakeven results in the same period in 2008. Results in the errors and omissions liability class were highly unprofitable in the first nine months and third quarter of 2009. Results for this class in the first nine months of 2008 were modestly unprofitable, but results in the third quarter were profitable. The overall results for our professional liability business were less profitable in the 2009 periods compared with the same periods in 2008 due mainly to a lower amount of favorable prior year loss development. The favorable development in both years was driven by continued positive loss trends related to accident years 2006 and prior. These trends were largely the result of a favorable business climate, lower policy limits and better terms and conditions. The expected combined ratio for the current accident year in our professional liability business is modestly above breakeven, due in part to the uncertainty surrounding the crisis in the financial markets that began in 2008 and has continued in 2009.

Surety results were highly profitable in the first nine months and third quarter of 2009 and 2008. Our surety business tends to be characterized by infrequent but potentially severe losses.

*Reinsurance Assumed*

Net premiums written from our reinsurance assumed business, which is in runoff, were not significant in the first nine months and third quarter of 2009 or 2008.

Reinsurance assumed results were profitable in the first nine months and third quarter of 2009 and 2008. Results in the first nine months and third quarter of both years benefited from favorable prior year loss development.

**Loss Reserves**

Unpaid losses and loss expenses, also referred to as loss reserves, are the largest liability of our business.

Our loss reserves include case estimates for claims that have been reported and estimates for claims that have been incurred but not reported at the balance sheet date as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past loss experience modified for current trends as well as prevailing economic, legal and social conditions. Our loss reserves are not discounted to present value.

We regularly review our loss reserves using a variety of actuarial techniques. We update the reserve estimates as historical loss experience develops, additional claims are reported and/or settled and new information becomes available. Any changes in estimates are reflected in operating results in the period in which the estimates are changed.

---

**Table of Contents**

Page 33

Our gross case and incurred but not reported (IBNR) loss reserves and related reinsurance recoverable by class of business were as follows:

September 30, 2009	Gross Loss Reserves			Reinsurance Recoverable	Net Loss Reserves
	Case	IBNR	Total		
	<i>(in millions)</i>				
Personal insurance					
Automobile	\$ 227	\$ 182	\$ 409	\$ 12	\$ 397
Homeowners	405	303	708	35	673
Other	379	678	1,057	183	874
Total personal	1,011	1,163	2,174	230	1,944
Commercial insurance					
Multiple peril	585	1,067	1,652	33	1,619
Casualty	1,540	4,782	6,322	391	5,931
Workers compensation	884	1,436	2,320	211	2,109
Property and marine	788	458	1,246	454	792
Total commercial	3,797	7,743	11,540	1,089	10,451
Specialty insurance					
Professional liability	1,640	6,316	7,956	440	7,516
Surety	21	49	70	9	61
Total specialty	1,661	6,365	8,026	449	7,577
Total insurance	6,469	15,271	21,740	1,768	19,972
Reinsurance assumed	312	850	1,162	374	788
Total	\$ 6,781	\$ 16,121	\$ 22,902	\$ 2,142	\$ 20,760

December 31, 2008	Gross Loss Reserves			Reinsurance Recoverable	Net Loss Reserves
	Case	IBNR	Total		
	<i>(in millions)</i>				
Personal insurance					
Automobile	\$ 210	\$ 195	\$ 405	\$ 14	\$ 391



Edgar Filing: CHUBB CORP - Form 10-Q

Homeowners	434	310	744	29	715
Other	382	608	990	175	815
Total personal	1,026	1,113	2,139	218	1,921
Commercial insurance					
Multiple peril	589	1,034	1,623	37	1,586
Casualty	1,431	4,621	6,052	392	5,660
Workers compensation	832	1,377	2,209	227	1,982
Property and marine	889	449	1,338	499	839
Total commercial	3,741	7,481	11,222	1,155	10,067
Specialty insurance					
Professional liability	1,690	5,959	7,649	474	7,175
Surety	28	51	79	11	68
Total specialty	1,718	6,010	7,728	485	7,243
Total insurance	6,485	14,604	21,089	1,858	19,231
Reinsurance assumed	370	908	1,278	354	924
Total	\$ 6,855	\$ 15,512	\$ 22,367	\$ 2,212	\$ 20,155

---

**Table of Contents**

Loss reserves, net of reinsurance recoverable, increased by \$605 million during the first nine months of 2009. Loss reserves related to our insurance business increased by \$741 million, which included an increase of approximately \$300 million related to currency fluctuation due to the weakening of the U.S. dollar. Loss reserves related to our reinsurance assumed business, which is in runoff, decreased by \$136 million.

Total gross case reserves related to our insurance business were virtually unchanged during the first nine months of 2009. Increases in gross case reserves in our casualty and workers' compensation classes were offset by decreases in previously existing case reserves in the homeowners and commercial property classes related to the settlement of catastrophe losses as well as decreases in case reserves in the professional liability classes.

In establishing the loss reserves of our property and casualty subsidiaries, we consider facts currently known and the present state of the law and coverage litigation. Based on all information currently available, we believe that the aggregate loss reserves at September 30, 2009 were adequate to cover claims for losses that had occurred as of that date, including both those known to us and those yet to be reported. However, as discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, there are significant uncertainties inherent in the loss reserving process. It is therefore possible that management's estimate of the ultimate liability for losses that had occurred as of September 30, 2009 may change, which could have a material effect on the Corporation's results of operations and financial condition.

Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that actual results can differ from expectations and time is required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development or reserve releases.

We estimate that we experienced overall favorable prior year development of about \$545 million during the first nine months of 2009 and \$205 million in the third quarter compared with favorable prior year development of about \$660 million and \$210 million, respectively, in the comparable periods of 2008.

There was favorable development in the first nine months of 2009 in the professional liability classes, due to continued favorable loss trends related to accident years 2006 and prior, in the commercial property classes, largely related to the 2008 accident year, in the commercial liability classes related to accident years 2006 and prior and in the personal insurance classes. The favorable development in the first nine months of 2008 was primarily in certain professional liability and commercial liability classes, due to favorable loss trends related mainly to accident years 2005 and prior, and in the short tail homeowners and commercial property classes, largely related to the lower than expected emergence of losses in the 2007 accident year.

---

**Investment Results**

Property and casualty investment income before taxes decreased by 6% for the first nine months of 2009 compared with the same period in 2008. About half of the decline was related to currency fluctuation on income from our non-U.S. investments. For the third quarter of 2009, property and casualty investment income before taxes decreased 5% compared with the third quarter of 2008, although the effect of currency fluctuation was less significant. Lower yields, primarily on short term investments, also contributed to the decrease in investment income. Average invested assets of the property and casualty subsidiaries for the first nine months and third quarter of 2009 and 2008 were similar as a result of substantial dividend distributions made by the property and casualty subsidiaries to Chubb during 2008, particularly in the latter part of the year.

The effective tax rate on investment income was 19.1% in the first nine months of 2009 compared with 20.3% in the same period of 2008. The effective tax rate fluctuates as a result of holding a different proportion of our investment portfolio in tax exempt securities during different periods.

On an after-tax basis, property and casualty investment income decreased by 5% in the first nine months of 2009 and 3% in the third quarter compared with the same periods in 2008. The after-tax annualized yield on the investment portfolio that supports the property and casualty insurance business was 3.40% and 3.49% in the first nine months of 2009 and 2008, respectively. Management uses property and casualty investment income after tax, a non-GAAP financial measure, to evaluate its investment performance because it reflects the impact of any change in the proportion of the investment portfolio invested in tax exempt securities and is therefore more meaningful for analysis purposes than investment income before income tax.

**Corporate and Other**

Corporate and other comprises investment income earned on corporate invested assets, interest expense and other expenses not allocated to our operating subsidiaries and the results of our non-insurance subsidiaries.

Corporate and other produced a loss before taxes of \$182 million in the first nine months of 2009 compared with a loss of \$159 million in the first nine months of 2008. The higher loss in 2009 was due primarily to lower investment income and higher interest expense. The lower investment income was primarily the result of lower yields, especially on short term investments. The higher interest expense was the result of the issuance of additional debt during the first half of 2008, the proceeds of which were used to repurchase shares of Chubb's common stock.

---

**Table of Contents****Realized Investment Gains and Losses**

Net realized investment gains and losses were as follows:

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Net realized gains (losses)				
Fixed maturities	\$ 17	\$ 30	\$ 65	\$ 27
Equity securities	7	(52)	78	
Other invested assets	65	5	(215)	69
	89	(17)	(72)	96
Other-than-temporary impairment losses				
Fixed maturities	(3)	(43)	(22)	(74)
Equity securities	(17)	(53)	(76)	(143)
	(20)	(96)	(98)	(217)
Realized investment gains (losses) before tax	\$ 69	\$ (113)	\$ (170)	\$ (121)
Realized investment gains (losses) after tax	\$ 44	\$ (74)	\$ (111)	\$ (79)

The net realized gains and losses on other invested assets represent the aggregate of distributions to us from the limited partnerships in which we have an interest and changes in our equity in the net assets of the partnerships based on valuations provided to us by the manager of each partnership. Due to the timing of our receipt of valuation data from the investment managers, these investments are generally reported on a one quarter lag. In the first nine months of 2009, limited partnerships losses were \$215 million which were largely due to losses on the underlying assets held by the limited partnerships and reflected both the decline in the value of equities and the increase in credit spreads that occurred during late 2008 and into 2009.

We regularly review those invested assets whose fair value is less than cost to determine if an other-than-temporary decline in value has occurred. We have a monitoring process overseen by a committee of investment and accounting professionals that is responsible for identifying those securities to be specifically evaluated for potential other-than-temporary impairment.

The determination of whether a decline in value of any investment is temporary or other-than-temporary requires the judgment of management. The assessment of other-than-temporary impairment of fixed maturities and equity securities is based on both quantitative criteria and qualitative information and also considers a number of factors

including, but not limited to, the length of time and the extent to which the fair value has been less than the cost, the financial condition and near term prospects of the issuer, whether the issuer is current on contractually obligated interest and principal payments, general market conditions and industry or sector specific factors. The decision to recognize a decline in the value of a security carried at fair value as other-than-temporary rather than temporary has no impact on shareholders' equity.

---

**Table of Contents**

For fixed maturities, prior to April 1, 2009, we considered many factors including the intent and ability to hold a security for a period of time sufficient to allow for the recovery of the security's cost. When an impairment was deemed other than temporary, the security was written down to fair value and the entire writedown was charged to income as a realized investment loss. Effective April 1, 2009, the Corporation adopted new guidance issued by the Financial Accounting Standards Board (FASB) related to the recognition and presentation of other-than-temporary impairments. The new guidance modified the previous guidance on the recognition of other-than-temporary impairments of debt securities. Under the new guidance, we are required to recognize an other-than-temporary impairment loss for a fixed maturity when we conclude that we have the intent to sell or it is more likely than not that we will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value or it is likely we will not recover the entire amortized cost value of an impaired security. If we have the intent to sell or it is more likely than not we will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value, the security is written down to fair value and the entire amount of the writedown is charged to income as a realized investment loss. For all other impaired fixed maturities, the impairment loss is separated into the amount representing the credit loss and the amount representing the loss related to all other factors. The amount of the impairment loss that represents the credit loss is charged to income as a realized investment loss and the amount of the impairment loss that relates to all other factors is included in other comprehensive income.

For equity securities, we consider our intent and ability to hold a security for a period of time sufficient to allow us to recover our cost. If a decline in the fair value of an equity security is deemed to be other than temporary, the security is written down to fair value and the amount of the writedown is charged to income as a realized investment loss.

**Capital Resources and Liquidity**

Capital resources and liquidity represent a company's overall financial strength and its ability to generate cash flows, borrow funds at competitive rates and raise new capital to meet operating and growth needs.

**Capital Resources**

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. At September 30, 2009, the Corporation had shareholders' equity of \$15.5 billion and total debt of \$4.0 billion.

Management regularly monitors the Corporation's capital resources. In connection with our long term capital strategy, Chubb from time to time contributes capital to its property and casualty subsidiaries. In addition, in order to satisfy capital needs as a result of any rating agency capital adequacy or other future rating issues, or in the event we were to need additional capital to make strategic investments in light of market opportunities, we may take a variety of actions, which could include the issuance of additional debt and/or equity securities. We believe that our strong financial position and existing debt levels provide us with the flexibility and capacity to obtain funds externally through debt or equity financings on both a short term and long term basis.

---

**Table of Contents**

Page 38

In December 2008, the Board of Directors authorized the repurchase of up to 20,000,000 shares of Chubb's common stock. The authorization has no expiration date. During the first nine months of 2009, we repurchased 12,781,031 shares of Chubb's common stock in open market transactions at a cost of \$576 million. As of September 30, 2009, 7,002,869 shares remained under the share repurchase authorization. We expect to repurchase all of the shares remaining under the authorization by the end of 2009, subject to market conditions.

**Ratings**

Chubb and its insurance subsidiaries are rated by major rating agencies. These ratings reflect the rating agency's opinion of our financial strength, operating performance, strategic position and ability to meet our obligations to policyholders.

Ratings are an important factor in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed.

It is possible that one or more of the rating agencies may raise or lower our existing ratings in the future. If our credit ratings were downgraded, we might incur higher borrowing costs and might have more limited means to access capital. A downgrade in our financial strength ratings could adversely affect the competitive position of our insurance operations, including a possible reduction in demand for our products in certain markets.

**Liquidity**

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short and long term cash requirements of its business operations.

The Corporation's liquidity requirements in the past have generally been met by funds from operations and we expect that funds from operations will continue to be sufficient to meet such requirements. Liquidity requirements could also be met by funds from the maturity or sale of marketable securities in our investment portfolio. The Corporation also has the ability to borrow under its existing \$500 million credit facility and we believe we could issue debt or equity securities.

Our property and casualty operations provide liquidity in that premiums are generally received months or even years before losses are paid under the policies purchased by such premiums. Historically, cash receipts from operations, consisting of insurance premiums and investment income, have provided more than sufficient funds to pay losses, operating expenses and dividends to Chubb. After satisfying our cash requirements, excess cash flows are used to build the investment portfolio and thereby increase future investment income.

---

**Table of Contents**

Page 39

Our strong underwriting results continued to generate substantial new cash. New cash from operations available for investment by our property and casualty subsidiaries was approximately \$1.1 billion in the first nine months of 2009 compared with \$800 million in the same period in 2008. New cash available was higher as a result of the property and casualty subsidiaries paying dividends of \$600 million to Chubb during the first nine months of 2009 compared with dividends of \$1.4 billion paid to Chubb in the first nine months of 2008. This was caused by a difference in the timing of subsidiary dividends in 2008 and those anticipated in 2009. Partially offsetting the lower dividend payments to Chubb was the impact of lower premium receipts in the first nine months of 2009 compared with the same period in 2008. In our U.S. property and casualty operations, during the first nine months of 2009 we invested new cash in tax exempt bonds and corporate bonds.

Our property and casualty subsidiaries maintain investments in highly liquid, short term marketable securities. Accordingly, we do not anticipate selling long term fixed maturity investments to meet any liquidity needs.

Chubb's liquidity requirements primarily include the payment of dividends to shareholders and interest and principal on debt obligations. The declaration and payment of future dividends to Chubb's shareholders will be at the discretion of Chubb's Board of Directors and will depend upon many factors, including our operating results, financial condition, capital requirements and any regulatory constraints.

As a holding company, Chubb's ability to continue to pay dividends to shareholders and to satisfy its debt obligations relies on the availability of liquid assets, which is dependent in large part on the dividend paying ability of its property and casualty subsidiaries. Our property and casualty subsidiaries are subject to laws and regulations in the jurisdictions in which they operate that restrict the amount of dividends they may pay without the prior approval of regulatory authorities. The restrictions are generally based on net income and on certain levels of policyholders surplus as determined in accordance with statutory accounting practices. Dividends in excess of such thresholds are considered extraordinary and require prior regulatory approval. The maximum dividend distribution that may be made by the property and casualty subsidiaries to Chubb during 2009 without prior approval is approximately \$1.2 billion. As noted above, during the first nine months of 2009, these subsidiaries paid dividends of \$600 million to Chubb compared with \$1.4 billion of dividends paid during the same period of 2008.

**Invested Assets**

The main objectives in managing our investment portfolios are to maximize after-tax investment income and total investment returns while minimizing credit risks in order to ensure that funds will be available to meet our insurance obligations. Investment strategies are developed based on many factors including underwriting results and our resulting tax position, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the boards of directors of Chubb and its respective operating companies.

---



**Table of Contents**

Page 40

Our investment portfolio is primarily comprised of high quality bonds, principally tax exempt securities, mortgage-backed securities, corporate issues and U.S. Treasury securities as well as foreign government and corporate bonds that support our operations outside the United States. The portfolio also includes equity securities, primarily publicly traded common stocks, and other invested assets, primarily private equity limited partnerships, all of which are held with the primary objective of capital appreciation.

Our objective is to achieve the appropriate mix of taxable and tax exempt securities in our portfolio to balance both investment and tax strategies. At September 30, 2009, 68% of our U.S. fixed maturity portfolio was invested in tax exempt bonds, compared with 69% at December 31, 2008. About 80% of our tax exempt bonds are rated AA or better by Moody's or Standard and Poor's, with about 25% rated AAA. The average rating of our tax exempt bonds is AA. While about 40% of our tax exempt bonds are insured, the effect of insurance on the average credit rating of these bonds is insignificant. The insured tax exempt bonds in our portfolio have been selected based on the quality of the underlying credit and not the value of the credit insurance enhancement.

At September 30, 2009, we held \$3.6 billion of mortgage-backed securities which comprised 22% of our taxable bond portfolio. About 96% of the mortgage-backed securities are rated AAA, and of the remaining 4%, about half are investment grade. Of the AAA rated securities, about 55% are residential mortgage-backed securities, consisting of government agency pass-through securities guaranteed by a government agency or a government sponsored enterprise (GSE), GSE collateralized mortgage obligations (CMOs) and other CMOs, all backed by single family home mortgages. The majority of the CMOs are actively traded in liquid markets. The other 45% of the AAA rated securities are call protected, commercial mortgage-backed securities (CMBS). About 90% of our CMBS are senior securities with the highest level of subordination. The remainder of our CMBS are seasoned securities that were issued in 2004 or earlier.

The net unrealized appreciation before tax of our fixed maturities and equity securities carried at fair value was \$1.8 billion at September 30, 2009 compared with net unrealized depreciation before tax of \$220 million at December 31, 2008. Such unrealized appreciation and depreciation is reflected in comprehensive income or loss, net of applicable deferred income tax.

Credit spreads, which refer to the differences between the yields on U.S. Treasury securities and the yields on other fixed maturity investments, decreased significantly for almost all fixed maturity investments during the first nine months 2009. This decrease resulted in an increase in the fair value of most of our fixed maturity investments.

---

**Table of Contents**

Page 41

**Fair Values of Financial Instruments**

Fair values of financial instruments are determined using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical assets or liabilities or other inputs, such as quoted prices for similar assets or liabilities that are observable, either directly or indirectly. In those instances where observable inputs are not available, fair values are measured using unobservable inputs for the asset or liability. Unobservable inputs reflect our own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure the fair values of our fixed maturities and equity securities into three broad levels as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets.

Level 2 Other inputs that are observable for the asset, either directly or indirectly.

Level 3 Inputs that are unobservable.

The methods and assumptions used to estimate the fair values of financial instruments are as follows:

Fair values for fixed maturities are determined by management, utilizing prices obtained from an independent, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from independent brokers. For fixed maturities that have quoted prices in active markets, market quotations are provided. For fixed maturities that do not trade on a daily basis, the pricing services and brokers provide fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing services and brokers. In addition, management, using the prices received for the securities from the pricing services and brokers, determines the aggregate portfolio price performance and reviews it against applicable indices. If management believes that significant discrepancies exist, it will discuss these with the relevant pricing service or broker to resolve the discrepancies.

Fair values of equity securities are based on quoted market prices.

The carrying value of short term investments approximates fair value due to the short maturities of these investments.

---

**Table of Contents**

Page 42

Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from an independent, nationally recognized pricing service. Such prices are subject to management review similar to the review of prices received related to our fixed maturities.

We use a pricing service to estimate fair value measurements for approximately 99% of our fixed maturities. The prices we obtain from a pricing service and brokers generally are non-binding, but are reflective of current market transactions in the applicable financial instruments. At September 30, 2009, we did not hold financial instruments in our investment portfolio for which a lack of market liquidity impacted our determination of fair value.

**Change in Accounting Principle**

Effective April 1, 2009, we adopted new guidance issued by the FASB related to the recognition and presentation of other-than-temporary impairments. The FASB modified the guidance on the recognition of other-than-temporary impairments of debt securities. The adoption of this guidance did not have a significant effect on the Corporation's financial position or results of operations. The adoption of this guidance is discussed further in Note(2) of the Notes to Consolidated Financial Statements.

**Item 4 Controls and Procedures**

As of September 30, 2009, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Corporation's management, including the chief executive officer and chief financial officer. Based on that evaluation, Chubb's chief executive officer and chief financial officer concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2009.

During the quarter ended September 30, 2009, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

---

**Table of Contents**

Page 43

## PART II. OTHER INFORMATION

## Item 1A Risk Factors

The Corporation's business is subject to a number of risks, including those identified in Item 1A of Chubb's Annual Report on Form 10-K for the year ended December 31, 2008, that could have a material effect on our business, results of operations, financial condition and/or liquidity and that could cause our operating results to vary significantly from fiscal period to fiscal period. The risks described in the Annual Report on Form 10-K and Quarterly Reports are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could have a material effect on our business, results of operations, financial condition and/or liquidity.

## Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes Chubb's stock repurchased each month in the quarter ended September 30, 2009.

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(b)
July 2009	1,183,671	\$ 40.91	1,183,671	14,485,700
August 2009	3,351,700	48.34	3,351,700	11,134,000
September 2009	4,131,131	48.85	4,131,131	7,002,869
Total	8,666,502	47.57	8,666,502	

(a) The stated amounts exclude 1,876 shares, 3,370 shares and 2,782 shares delivered to Chubb during the months of July 2009, August 2009 and September 2009, respectively, by employees of the

Corporation to cover option exercise prices and withholding taxes in connection with the Corporation's stock-based compensation plans.

- (b) On December 4, 2008, the Board of Directors authorized the repurchase of up to 20,000,000 shares of common stock. The authorization has no expiration date.
-

**Table of Contents**

## Item 6 Exhibits

Exhibit Number	Description
10.1	- Material Contracts Schedule of Salary Actions incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on September 4, 2009.
31.1	- Rule 13a-14(a)/15d-14(a) Certifications Certification by John D. Finnegan filed herewith.
31.2	Certification by Richard G. Spiro filed herewith.
32.1	- Section 1350 Certifications Certification by John D. Finnegan filed herewith.
32.2	Certification by Richard G. Spiro filed herewith.
101.INS*	- Interactive Data File XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Pursuant to applicable securities laws and regulations, the Corporation is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Corporation

has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Chubb Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CHUBB CORPORATION

(Registrant)

By: /s/ John J. Kennedy  
John J. Kennedy  
Senior Vice-President and Chief  
Accounting Officer

Date: November 6, 2009