

CHUBB CORP  
Form 10-Q  
November 07, 2013  
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, 2013

**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  
(State or other jurisdiction of  
incorporation or organization)

13-2595722  
(I. R. S. Employer  
Identification No.)

15 MOUNTAIN VIEW ROAD, WARREN, NEW JERSEY  
(Address of principal executive offices)

07059  
(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.

Edgar Filing: CHUBB CORP - Form 10-Q

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  Smaller reporting company   
(Do not check if a 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, 2013 was 251,759,971.

**Table of Contents**

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, 2013 and 2012</u>	1
<u>Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended September 30, 2013 and 2012</u>	2
<u>Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	3
<u>Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2013 and 2012</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 4 Controls and Procedures</u>	50
<u>Part II. Other Information:</u>	
<u>Item 1A Risk Factors</u>	51
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
<u>Item 6 Exhibits</u>	52
<u>Signatures</u>	52
<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

*(in millions)*

	Third Quarter		Nine Months	
	2013	2012	2013	2012
<b>Revenues</b>				
Premiums Earned	\$ 3,027	\$ 2,977	\$ 9,026	\$ 8,911
Investment Income	358	383	1,098	1,174
Other Revenues		2	12	7
Realized Investment Gains (Losses), Net				
Total Other-Than-Temporary Impairment Losses on Investments	(4)	(5)	(11)	(40)
Other-Than-Temporary Impairment Losses on Investments Recognized in Other Comprehensive Income		(2)		(4)
Other Realized Investment Gains, Net	22	7	346	147
<b>Total Realized Investment Gains, Net</b>	<b>18</b>	<b></b>	<b>335</b>	<b>103</b>
Total Revenues	3,403	3,362	10,471	10,195
<b>Losses and Expenses</b>				
Losses and Loss Expenses	1,600	1,597	4,862	5,164
Amortization of Deferred Policy Acquisition Costs	619	620	1,823	1,803
Other Insurance Operating Costs and Expenses	368	341	1,085	1,058
Investment Expenses	11	9	37	30
Other Expenses	3	3	20	9
Corporate Expenses	63	65	193	198
Total Losses and Expenses	2,664	2,635	8,020	8,262
Income Before Federal and Foreign Income Tax	739	727	2,451	1,933
Federal and Foreign Income Tax	198	194	675	490
Net Income	\$ 541	\$ 533	\$ 1,776	\$ 1,443

Edgar Filing: CHUBB CORP - Form 10-Q

Net Income Per Share

Basic	\$ 2.11	\$ 1.99	\$ 6.83	\$ 5.32
Diluted	2.10	1.98	6.80	5.29
Dividends Declared Per Share	.44	.41	1.32	1.23

See Notes to Consolidated Financial Statements.

Table of Contents

Page 2

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
PERIODS ENDED SEPTEMBER 30  
*(in millions)*

	Third Quarter		Nine Months	
	2013	2012	2013	2012
Net Income	\$ 541	\$ 533	\$ 1,776	\$ 1,443
Other Comprehensive Income (Loss), Net of Tax				
Change in Unrealized Appreciation of Investments	(3)	229	(699)	350
Change in Unrealized Other-Than-Temporary Impairment Losses on Investments				2
Foreign Currency Translation Gains (Losses)	(41)	20	(63)	(17)
Change in Postretirement Benefit Costs Not Yet Recognized in Net Income	15	12	46	40
	(29)	261	(716)	375
Comprehensive Income	\$ 512	\$ 794	\$ 1,060	\$ 1,818

See Notes to Consolidated Financial Statements.

**Table of Contents**

Page 3

THE CHUBB CORPORATION  
CONSOLIDATED BALANCE SHEETS  
*(in millions)*

	September 30 2013	December 31 2012
<b>Assets</b>		
Invested Assets		
Short Term Investments	\$ 1,881	\$ 2,528
Fixed Maturities (cost \$36,246 and \$35,398)	37,610	38,076
Equity Securities (cost \$1,163 and \$1,244)	1,821	1,663
Other Invested Assets	1,665	1,954
<b>TOTAL INVESTED ASSETS</b>	<b>42,977</b>	<b>44,221</b>
Cash	46	50
Accrued Investment Income	428	424
Premiums Receivable	2,145	2,185
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	1,778	1,941
Prepaid Reinsurance Premiums	306	337
Deferred Policy Acquisition Costs	1,268	1,206
Deferred Income Tax	202	
Goodwill	467	467
Other Assets	1,450	1,353
<b>TOTAL ASSETS</b>	<b>\$ 51,067</b>	<b>\$ 52,184</b>
<b>Liabilities</b>		
Unpaid Losses and Loss Expenses	\$ 23,397	\$ 23,963
Unearned Premiums	6,450	6,361
Long Term Debt	3,300	3,575
Dividend Payable to Shareholders	113	108
Deferred Income Tax		162
Accrued Expenses and Other Liabilities	2,186	2,188
<b>TOTAL LIABILITIES</b>	<b>35,446</b>	<b>36,357</b>

Shareholders' Equity

Edgar Filing: CHUBB CORP - Form 10-Q

Common Stock - \$1 Par Value; 371,980,460 Shares	372	372
Paid-In Surplus	150	178
Retained Earnings	21,443	20,009
Accumulated Other Comprehensive Income	715	1,431
Treasury Stock, at Cost - 120,220,489 and 110,217,445 Shares	(7,059)	(6,163)
TOTAL SHAREHOLDERS EQUITY	15,621	15,827
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 51,067	\$ 52,184

See Notes to Consolidated Financial Statements.



Table of Contents

Page 4

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY  
NINE MONTHS ENDED SEPTEMBER 30  
*(in millions)*

	2013	2012
<b>Common Stock</b>		
Balance, Beginning and End of Period	\$ 372	\$ 372
<b>Paid-In-Surplus</b>		
Balance, Beginning of Year	178	190
Changes Related to Stock-Based Employee Compensation (includes tax benefit of \$28 and \$24)	(28)	(28)
Balance, End of Period	150	162
<b>Retained Earnings</b>		
Balance, Beginning of Year	20,009	18,903
Net Income	1,776	1,443
Dividends Declared (per share \$1.32 and \$1.23)	(342)	(331)
Balance, End of Period	21,443	20,015
<b>Accumulated Other Comprehensive Income</b>		
<b>Unrealized Appreciation of Investments Including Unrealized Other-Than-Temporary Impairment Losses</b>		
Balance, Beginning of Year	2,013	1,736
Change During Period, Net of Tax	(699)	352
Balance, End of Period	1,314	2,088
<b>Foreign Currency Translation Gains</b>		
Balance, Beginning of Year	135	146
Change During Period, Net of Tax	(63)	(17)
Balance, End of Period	72	129
<b>Postretirement Benefit Costs Not Yet Recognized in Net Income</b>		
Balance, Beginning of Year	(717)	(687)
Change During Period, Net of Tax	46	40
Balance, End of Period	(671)	(647)

Edgar Filing: CHUBB CORP - Form 10-Q

Accumulated Other Comprehensive Income, End of Period	715	1,570
Treasury Stock, at Cost		
Balance, Beginning of Year	(6,163)	(5,359)
Repurchase of Shares	(975)	(907)
Shares Issued Under Stock-Based Employee Compensation Plans	79	121
Balance, End of Period	(7,059)	(6,145)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>\$ 15,621</b>	<b>\$ 15,974</b>

See Notes to Consolidated Financial Statements.

Table of Contents

Page 5

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED SEPTEMBER 30  
*(in millions)*

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 1,776	\$ 1,443
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
Increase (Decrease) in Unpaid Losses and Loss Expenses, Net	(303)	237
Increase in Unearned Premiums, Net	160	51
Decrease in Premiums Receivable	40	82
Change in Income Tax Payable or Recoverable	26	(1)
Amortization of Premiums and Discounts on Fixed Maturities	138	121
Depreciation	42	39
Realized Investment Gains, Net	(335)	(103)
Other, Net	(223)	(29)
Net Cash Provided by Operating Activities	1,321	1,840
<b>Cash Flows from Investing Activities</b>		
<b>Proceeds from Fixed Maturities</b>		
Sales	1,781	1,838
Maturities, Calls and Redemptions	3,525	2,985
Proceeds from Sales of Equity Securities	399	128
Purchases of Fixed Maturities	(6,464)	(5,505)
Purchases of Equity Securities	(98)	(88)
Investments in Other Invested Assets, Net	394	248
Decrease (Increase) in Short Term Investments, Net	629	(384)
Change in Receivable or Payable from Security Transactions Not Settled, Net	88	136
Purchases of Property and Equipment, Net	(38)	(31)
Net Cash Provided by (Used in) Investing Activities	216	(673)
<b>Cash Flows from Financing Activities</b>		
Repayment of Long Term Debt	(275)	
Decrease in Funds Held Under Deposit Contracts	(5)	(8)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	38	68
Repurchase of Shares	(962)	(903)
Dividends Paid to Shareholders	(337)	(329)

Edgar Filing: CHUBB CORP - Form 10-Q

Net Cash Used in Financing Activities	(1,541)	(1,172)
Net Decrease in Cash	(4)	(5)
Cash at Beginning of Year	50	58
Cash at End of Period	\$ 46	\$ 53

See Notes to Consolidated Financial Statements.

**Table of Contents**

## THE CHUBB CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1) General

The accompanying condensed 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.

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 condensed 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, 2012.

## 2) Invested Assets

(a) The amortized cost and fair value of fixed maturities and equity securities were as follows:

	Amortized Cost	September 30, 2013		Fair Value
		Gross Unrealized Appreciation	Gross Unrealized Depreciation	
		<i>(in millions)</i>		
<b>Fixed maturities</b>				
Tax exempt	\$ 18,210	\$ 905	\$ 164	\$ 18,951
<b>Taxable</b>				
U.S. government and government agency and authority obligations	790	35	7	818
Corporate bonds	8,838	399	77	9,160
Foreign government and government agency obligations	6,773	238	24	6,987
Residential mortgage-backed securities	302	23	1	324
Commercial mortgage-backed securities	1,333	39	2	1,370
	18,036	734	111	18,659
<b>Total fixed maturities</b>	\$ 36,246	\$ 1,639	\$ 275	\$ 37,610
<b>Equity securities</b>	\$ 1,163	\$ 665	\$ 7	\$ 1,821

**Table of Contents**

Page 7

	December 31, 2012			Fair Value
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	
<i>(in millions)</i>				
<b>Fixed maturities</b>				
Tax exempt	\$ 18,410	\$ 1,522	\$ 19	\$ 19,913
<b>Taxable</b>				
U.S. government and government agency and authority obligations	973	66		1,039
Corporate bonds	7,331	609	3	7,937
Foreign government and government agency obligations	6,614	395	1	7,008
Residential mortgage-backed securities	421	36	2	455
Commercial mortgage-backed securities	1,649	76	1	1,724
	16,988	1,182	7	18,163
<b>Total fixed maturities</b>	<b>\$ 35,398</b>	<b>\$ 2,704</b>	<b>\$ 26</b>	<b>\$ 38,076</b>
<b>Equity securities</b>	<b>\$ 1,244</b>	<b>\$ 453</b>	<b>\$ 34</b>	<b>\$ 1,663</b>

The fair value and amortized cost of fixed maturities at September 30, 2013 by contractual maturity were as follows:

	Fair Value	Amortized Cost
<i>(in millions)</i>		
Due in one year or less	\$ 2,180	\$ 2,149
Due after one year through five years	14,165	13,581
Due after five years through ten years	11,717	11,148
Due after ten years	7,854	7,733
	35,916	34,611
Residential mortgage-backed securities	324	302
Commercial mortgage-backed securities	1,370	1,333
	\$ 37,610	\$ 36,246

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

The Corporation's equity securities comprise a diversified portfolio of primarily U.S. publicly-traded common stocks.

The Corporation is involved in the normal course of business with variable interest entities (VIEs) primarily as a passive investor in residential mortgage-backed securities, commercial mortgage-backed securities and private equity limited partnerships issued by third party VIEs. The Corporation is not the primary beneficiary of these VIEs. The Corporation's maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Corporation's consolidated balance sheet and any unfunded partnership commitments.

**Table of Contents**

Page 8

(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 2013	December 31 2012
	<i>(in millions)</i>	
<b>Fixed maturities</b>		
Gross unrealized appreciation	\$ 1,639	\$ 2,704
Gross unrealized depreciation	275	26
	1,364	2,678
<b>Equity securities</b>		
Gross unrealized appreciation	665	453
Gross unrealized depreciation	7	34
	658	419
	2,022	3,097
Deferred income tax liability	708	1,084
	\$ 1,314	\$ 2,013

The following table summarizes, for all investment securities in an unrealized loss position at September 30, 2013, 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	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
	<i>(in millions)</i>					
<b>Fixed maturities</b>						
Tax exempt	\$ 2,900	\$ 145	\$ 128	\$ 19	\$ 3,028	\$ 164
<b>Taxable</b>						
U.S. government and government agency and authority obligations	139	3	34	4	173	7
Corporate bonds	2,512	75	42	2	2,554	77
Foreign government and government agency obligations	1,519	22	36	2	1,555	24
Residential mortgage-backed securities	3		15	1	18	1
Commercial mortgage-backed securities	94	2	16		110	2
	4,267	102	143	9	4,410	111
Total fixed maturities	7,167	247	271	28	7,438	275

Edgar Filing: CHUBB CORP - Form 10-Q

Equity securities	45	4	11	3	56	7
	\$ 7,212	\$ 251	\$ 282	\$ 31	\$ 7,494	\$ 282



**Table of Contents**

At September 30, 2013, approximately 1,090 individual fixed maturities and 10 individual equity securities were in an unrealized loss position. 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 the fair value of these fixed maturities and equity securities were other than temporary at September 30, 2013.

The following table summarizes, for all investment securities in an unrealized loss position at December 31, 2012, 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	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
	<i>(in millions)</i>					
<b>Fixed maturities</b>						
Tax exempt	\$ 344	\$ 6	\$ 104	\$ 13	\$ 448	\$ 19
<b>Taxable</b>						
U.S. government and government agency and authority obligations	28		20		48	
Corporate bonds	289	2	14	1	303	3
Foreign government and government agency obligations	429	1	13		442	1
Residential mortgage-backed securities	1		19	2	20	2
Commercial mortgage-backed securities	105	1	3		108	1
	852	4	69	3	921	7
<b>Total fixed maturities</b>	1,196	10	173	16	1,369	26
<b>Equity securities</b>	182	21	63	13	245	34
	\$ 1,378	\$ 31	\$ 236	\$ 29	\$ 1,614	\$ 60

**Table of Contents**

Page 10

The change in unrealized appreciation or depreciation of investments carried at fair value, including the change in unrealized other-than-temporary impairment losses, was as follows:

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2013	2012	2013	2012
	<i>(in millions)</i>			
Change in unrealized appreciation of fixed maturities	\$ (99)	\$ 295	\$ (1,314)	\$ 411
Change in unrealized appreciation of equity securities	94	57	239	131
	(5)	352	(1,075)	542
Deferred income tax (credit)	(2)	123	(376)	190
	\$ (3)	\$ 229	\$ (699)	\$ 352

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

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2013	2012	2013	2012
	<i>(in millions)</i>			
<b>Fixed maturities</b>				
Gross realized gains	\$ 17	\$ 35	\$ 44	\$ 97
Gross realized losses	(22)	(8)	(32)	(18)
Other-than-temporary impairment losses	(2)	(2)	(2)	(4)
	(7)	25	10	75
<b>Equity securities</b>				
Gross realized gains	5	25	179	50
Gross realized losses	(1)	(5)	(1)	(40)
Other-than-temporary impairment losses	(2)	(5)	(9)	(40)
	2	20	169	10
<b>Other invested assets</b>				
	23	(45)	156	18
	\$ 18	\$	\$ 335	\$ 103

(d) As of September 30, 2013 and December 31, 2012, 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 \$20 million and \$22 million, respectively, recognized in net income.

**Table of Contents**

## 3) Comprehensive Income

Comprehensive income is defined as all changes in shareholders' equity, except those arising from transactions with shareholders. Comprehensive income includes net income and other comprehensive income or loss, which for the Corporation consists of changes in unrealized appreciation or depreciation of investments carried at fair value, changes in unrealized other-than-temporary impairment losses of fixed maturities, changes in foreign currency translation gains or losses and changes in postretirement benefit costs not yet recognized in net income.

The components of other comprehensive income or loss were as follows:

	Periods Ended September 30, 2013					
	Third Quarter			Nine Months		
	Before Tax	Income Tax	Net of Tax	Before Tax	Income Tax	Net of Tax
	<i>(in millions)</i>					
Net unrealized holding losses arising during the period	\$ (10)	\$ (3)	\$ (7)	\$ (896)	\$ (313)	\$ (583)
Reclassification adjustment for net realized gains (losses) included in net income	(5)	(1)	(4)	179	63	116
Net unrealized losses recognized in other comprehensive income or loss	(5)	(2)	(3)	(1,075)	(376)	(699)
Postretirement benefit costs not yet recognized in net income arising during the period	1	1		2	1	1
Reclassification adjustment for the amortization of net actuarial loss and prior service cost (a)	(23)	(8)	(15)	(70)	(25)	(45)
Net change in postretirement benefit costs not yet recognized in net income	24	9	15	72	26	46
Foreign currency translation losses	(64)	(23)	(41)	(99)	(36)	(63)
Total other comprehensive loss	\$ (45)	\$ (16)	\$ (29)	\$ (1,102)	\$ (386)	\$ (716)

(a) Postretirement benefit costs recognized in net income during the period are included among several of the loss and expense components presented in the Consolidated Statements of Income.

**Table of Contents**

Page 12

4) 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 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 in runoff following the transfer of the ongoing business to a reinsurance company in 2005.

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**

Revenues and income before income tax of each operating segment were as follows:

	Periods Ended September 30			
	Third Quarter 2013	2012	2013	Nine Months 2012
<i>(in millions)</i>				
<b>Revenues</b>				
Property and casualty insurance				
Premiums earned				
Personal insurance	\$ 1,060	\$ 1,009	\$ 3,141	\$ 3,013
Commercial insurance	1,321	1,299	3,928	3,890
Specialty insurance	648	669	1,959	2,005
<b>Total insurance</b>	<b>3,029</b>	<b>2,977</b>	<b>9,028</b>	<b>8,908</b>
Reinsurance assumed	(2)		(2)	3
	3,027	2,977	9,026	8,911
Investment income	352	373	1,076	1,145
<b>Total property and casualty insurance</b>	<b>3,379</b>	<b>3,350</b>	<b>10,102</b>	<b>10,056</b>
Corporate and other	6	12	34	36
Realized investment gains, net	18		335	103
<b>Total revenues</b>	<b>\$ 3,403</b>	<b>\$ 3,362</b>	<b>\$ 10,471</b>	<b>\$ 10,195</b>
<b>Income (loss) before income tax</b>				
Property and casualty insurance				
Underwriting				
Personal insurance	\$ 108	\$ 155	\$ 333	\$ 374
Commercial insurance	215	194	534	263
Specialty insurance	108	63	299	194
<b>Total insurance</b>	<b>431</b>	<b>412</b>	<b>1,166</b>	<b>831</b>
Reinsurance assumed		15	10	34
	431	427	1,176	865
Increase (decrease) in deferred policy acquisition costs	12	(9)	69	15

Edgar Filing: CHUBB CORP - Form 10-Q

Underwriting income	443	418	1,245	880
Investment income	342	364	1,042	1,117
Other income (charges)	(3)	1	11	6
Total property and casualty insurance	782	783	2,298	2,003
Corporate and other loss	(61)	(56)	(182)	(173)
Realized investment gains, net	18		335	103
Total income before income tax	\$ 739	\$ 727	\$ 2,451	\$ 1,933

---

**Table of Contents**

## 5) Fair Values of Financial Instruments

Fair values of financial instruments are determined by management 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 a third party, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from third party 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 service 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 rates and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing service and brokers. In addition, management, using the prices received for the securities from the pricing service 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 determined by management, utilizing quoted market prices.
- (iv) Fair values of warrants included in other invested assets are determined by management, utilizing an option pricing model.
- (v) Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service.

**Table of Contents**

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

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in millions)</i>			
<b>Assets</b>				
Invested assets				
Short term investments	\$ 1,881	\$ 1,881	\$ 2,528	\$ 2,528
Fixed maturities	37,610	37,610	38,076	38,076
Equity securities	1,821	1,821	1,663	1,663
Other invested assets			46	46
<b>Liabilities</b>				
Long term debt	3,300	3,834	3,575	4,372

A pricing service provides fair value amounts for approximately 99% of the Corporation's fixed maturities. The prices obtained 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, 2013 and December 31, 2012, the Corporation held an insignificant amount of financial instruments in its investment portfolio for which a lack of market liquidity impacted the determination of fair value.

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 financial instruments.
- Level 2 Other inputs that are observable for the financial instrument, either directly or indirectly.
- Level 3 Significant unobservable inputs.



**Table of Contents**

Page 16

The fair value of financial instruments categorized based upon the lowest level of input that was significant to the fair value measurement was as follows:

	Level 1	September 30, 2013 (in millions)		Total
		Level 2	Level 3	
<b>Assets</b>				
Short term investments	\$ 209	\$ 1,672	\$	\$ 1,881
<b>Fixed maturities</b>				
Tax exempt		18,946	5	18,951
<b>Taxable</b>				
U.S. government and government agency and authority obligations		818		818
Corporate bonds		9,031	129	9,160
Foreign government and government agency obligations		6,977	10	6,987
Residential mortgage-backed securities		318	6	324
Commercial mortgage-backed securities		1,327	43	1,370
		18,471	188	18,659
Total fixed maturities		37,417	193	37,610
Equity securities	1,814		7	1,821
	\$ 2,023	\$ 39,089	\$ 200	\$ 41,312
<b>Liabilities</b>				
Long term debt	\$	\$ 3,834	\$	\$ 3,834

**Table of Contents**

Page 17

	Level 1	December 31, 2012		Total
		Level 2	Level 3	
<i>(in millions)</i>				
<b>Assets</b>				
Short term investments	\$ 182	\$ 2,346	\$	\$ 2,528
<b>Fixed maturities</b>				
Tax exempt		19,907	6	19,913
<b>Taxable</b>				
U.S. government and government agency and authority obligations		1,039		1,039
Corporate bonds		7,779	158	7,937
Foreign government and government agency obligations		7,008		7,008
Residential mortgage-backed securities		446	9	455
Commercial mortgage-backed securities		1,724		1,724
		17,996	167	18,163
Total fixed maturities		37,903	173	38,076
Equity securities	1,655		8	1,663
Other invested assets			46	46
	\$ 1,837	\$ 40,249	\$ 227	\$ 42,313
<b>Liabilities</b>				
Long term debt	\$	\$ 4,372	\$	\$ 4,372

**Table of Contents**

Page 18

## 6) Earnings Per Share

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

	Periods Ended September 30			
	Third Quarter 2013	2012	Nine Months 2013	2012
	<i>(in millions, except for per share amounts)</i>			
<b>Basic earnings per share:</b>				
Net income	\$ 541	\$ 533	\$ 1,776	\$ 1,443
<b>Weighted average shares outstanding</b>	<b>256.0</b>	<b>267.3</b>	<b>259.9</b>	<b>271.0</b>
Basic earnings per share	\$ 2.11	\$ 1.99	\$ 6.83	\$ 5.32
<b>Diluted earnings per share:</b>				
Net income	\$ 541	\$ 533	\$ 1,776	\$ 1,443
<b>Weighted average shares outstanding</b>	<b>256.0</b>	<b>267.3</b>	<b>259.9</b>	<b>271.0</b>
Additional shares from assumed issuance of shares under stock- based compensation awards	1.1	1.9	1.2	1.9
<b>Weighted average shares and potential shares assumed outstanding for computing diluted earnings per share</b>	<b>257.1</b>	<b>269.2</b>	<b>261.1</b>	<b>272.9</b>
Diluted earnings per share	\$ 2.10	\$ 1.98	\$ 6.80	\$ 5.29

**Table of Contents**

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, 2013 compared with December 31, 2012 and the results of operations for the nine months and three months ended September 30, 2013 and 2012. 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, 2012.

**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 market conditions in 2013, including premium volume, rate trends, the pricing environment and competition; the cost of our property reinsurance program in 2013; our loss reserve and reinsurance recoverable estimates; property and casualty investment income after taxes for the full year 2013; the repurchase of common stock under our share repurchase program; and our financial position, capital adequacy and funding of liquidity needs. Forward-looking statements frequently can be identified by words such as believe, expect, anticipate, intend, plan, will, should, could, would, likely, estimate, predict, potential, continue, or other similar expressions. Forward-looking statements are made 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, economic and market conditions, particularly in the jurisdictions in which we operate and/or invest, including:

changes in credit ratings, 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;

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

the occurrence of terrorist attacks, including any nuclear, biological, chemical or radiological events;

**Table of Contents**

Page 20

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 at acceptable rates;

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

the adequacy of our 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; and

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

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 or changes to our estimates (or the assessments of rating agencies and other third parties) of our potential exposure to such events;

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;

## Edgar Filing: CHUBB CORP - Form 10-Q

the effects of disclosures by, and investigations of, companies we insure, particularly with respect to our lines of business that have a longer time span, or tail, between the incidence of a loss and the settlement of the claim;

the impact of legislative, regulatory, judicial and similar developments on companies we insure, particularly with respect to our longer tail lines of business;

the impact of legislative, regulatory, judicial and similar developments on our business, including those relating to insurance industry reform, terrorism, catastrophes, the financial markets, solvency standards, capital requirements, accounting guidance and taxation;

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

**Table of Contents**

Page 21

the ability of our subsidiaries to pay us dividends;

our plans to repurchase shares of our common stock, including as a result of changes in:

our financial position and financial results;

our capital position and/or capital adequacy levels required to maintain our existing ratings from independent rating agencies;

our share price;

investment opportunities;

opportunities to profitably grow our property and casualty insurance business;

corporate and regulatory requirements; and

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, 2012 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****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 \$1.8 billion in the first nine months of 2013 and \$541 million in the third quarter compared with \$1.4 billion and \$533 million, respectively in the same periods of 2012. Net income was higher in the first nine months of 2013 compared to the same period of 2012 due to higher operating income and higher net realized investment gains. We define operating income as net income excluding realized investment gains and losses after tax.

Operating income was \$1.6 billion in the first nine months of 2013 and \$529 million in the third quarter compared with \$1.4 billion and \$533 million, respectively, in the same periods of 2012. The higher operating income in the first nine months of 2013 was due to substantially higher underwriting income in our property and casualty insurance business, offset in part by a decrease in property and casualty investment income. Operating income was similar in the third quarter of 2013 and 2012 as a modest increase in underwriting income was offset by a modest decrease in property and casualty investment income. Management uses operating income, a non-GAAP financial measure, among other measures, to evaluate its performance because the realization of investment gains and losses in any period could be discretionary as to timing and can fluctuate significantly, which could distort the analysis of operating trends.

Underwriting results were highly profitable in the first nine months and third quarter of 2013 and 2012. Our combined loss and expense ratio was 86.4% in the first nine months of 2013 and 85.7% in the third quarter compared with 90.1% and 86.3% in the respective periods of 2012. Results were more profitable in the first nine months of 2013 compared to the same period in 2012 due to a lower current accident year loss ratio excluding catastrophes and a higher amount of favorable prior year loss development, offset in part by a higher impact of catastrophes. Results were slightly more profitable in the third quarter of 2013 compared to the same period in 2012 due to a lower current accident year loss ratio excluding catastrophes and a higher amount of favorable prior year loss development, offset in large part by a higher impact of catastrophes. The impact of catastrophes accounted for 3.9 percentage points of the combined ratio in the first nine months of 2013 and 3.0 percentage points in the third quarter compared with 3.0 and 0.6 percentage points, respectively, in the same periods of 2012.

During the first nine months and third quarter of 2013, we estimate that we experienced overall favorable prior year loss development of about \$595 million and \$190 million, respectively. We estimate that during the first nine months and third quarter of 2012, we experienced overall favorable prior year loss development of about \$410 million and \$145 million, respectively. In each period we experienced favorable prior year loss development in each segment of our insurance business.

**Table of Contents**

Page 23

Total net premiums written increased by 2% in the first nine months of 2013 and 4% in the third quarter compared with the same periods of 2012. Net premiums written in the United States increased by 3% in the first nine months of 2013 and 5% in the third quarter. Net premiums written outside the United States expressed in U.S. dollars increased by 1% in the first nine months of 2013 and were flat in the third quarter. When measured in local currencies, such premiums increased modestly in the first nine months of 2013 and increased slightly in the third quarter.

Property and casualty investment income after tax decreased by 6% in the first nine months and third quarter of 2013 compared with the same periods of 2012, due to a decline in the average yield on our investment portfolio. Management uses property and casualty investment income after tax, a non-GAAP financial measure, to evaluate its investment results because it reflects the impact of any change in the proportion of tax exempt investment income to total investment income and is therefore more meaningful for analysis purposes than investment income before income tax.

Net realized investment gains before tax were \$335 million (\$218 million after tax) in the first nine months of 2013 compared with \$103 million (\$67 million after tax) in the same period of 2012. Net realized investment gains before tax were \$18 million (\$12 million after tax) in the third quarter of 2013 compared to negligible net realized investment losses before tax in the third quarter of 2012. In the first nine months of 2013, net realized investment gains included the recognition of a gain in connection with the merger of an issuer in which we held equity securities and warrants. The remaining net realized gains in the first nine months of 2013 were primarily related to investments in limited partnerships, which generally are reported on a quarter lag, and sales of equity securities. The net realized gains in the first nine months of 2012 were primarily related to sales of fixed maturity and equity securities. The net realized gains in the third quarter of 2013 were primarily related to investments in limited partnerships.

A summary of our consolidated net income is as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2013	2012	2013	2012
	<i>(in millions)</i>			
Property and casualty insurance	\$ 2,298	\$ 2,003	\$ 782	\$ 783
Corporate and other	(182)	(173)	(61)	(56)
<b>Consolidated operating income before income tax</b>	<b>2,116</b>	<b>1,830</b>	<b>721</b>	<b>727</b>
Federal and foreign income tax	558	454	192	194
<b>Consolidated operating income</b>	<b>1,558</b>	<b>1,376</b>	<b>529</b>	<b>533</b>
Realized investment gains after income tax	218	67	12	
<b>Consolidated net income</b>	<b>\$ 1,776</b>	<b>\$ 1,443</b>	<b>\$ 541</b>	<b>\$ 533</b>

**Table of Contents**

Page 24

**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			
	Nine Months 2013	2012	Third Quarter 2013	2012
	<i>(in millions)</i>			
<b>Underwriting</b>				
Net premiums written	\$ 9,186	\$ 8,962	\$ 3,029	\$ 2,913
Decrease (increase) in unearned premiums	(160)	(51)	(2)	64
Premiums earned	9,026	8,911	3,027	2,977
<b>Losses and loss expenses</b>	4,862	5,164	1,600	1,597
Operating costs and expenses	2,960	2,859	986	946
Decrease (increase) in deferred policy acquisition costs	(69)	(15)	(12)	9
Dividends to policyholders	28	23	10	7
<b>Underwriting income</b>	1,245	880	443	418
<b>Investments</b>				
Investment income before expenses	1,076	1,145	352	373
Investment expenses	34	28	10	9
<b>Investment income</b>	1,042	1,117	342	364
Other income (charges)	11	6	(3)	1
<b>Property and casualty income before tax</b>	\$ 2,298	\$ 2,003	\$ 782	\$ 783
<b>Property and casualty investment income after tax</b>	\$ 854	\$ 908	\$ 280	\$ 297

Property and casualty income before tax was higher in the first nine months of 2013 compared with the same period of 2012. The higher income in the first nine months of 2013 was due to substantially higher underwriting income, offset in part by a decline in investment income. Property and casualty income before tax was similar in the third quarter of 2013 and 2012, as modestly higher underwriting income in the 2013 period was offset by a modest decrease in investment income. The increase in underwriting income in the first nine months of 2013 compared with the same period of 2012 was attributable to a lower current accident year loss ratio excluding catastrophes and a higher amount of favorable prior year loss development, offset in part by a higher impact of catastrophes. The modestly higher underwriting income in the third quarter of 2013 compared with the same period in 2012 was due to a lower current accident year loss ratio excluding catastrophes and a higher amount of favorable prior year loss development, offset in large part by a higher impact of catastrophes. The decrease in investment income in the first nine months and third quarter of 2013 compared with the same periods of 2012 was due to a decline in the average yield on our investment portfolio.

**Table of Contents**

The profitability of our 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.

**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 \$9.2 billion in the first nine months of 2013 and \$3.0 billion in the third quarter compared with \$9.0 billion and \$2.9 billion, respectively, in the same periods of 2012. Net premiums written by business unit were as follows:

	Nine Months Ended September 30			Quarter Ended September 30		
	2013 <i>(in millions)</i>	2012 <i>(in millions)</i>	% Incr.	2013 <i>(in millions)</i>	2012 <i>(in millions)</i>	% Incr.
Personal insurance	\$ 3,247	\$ 3,111	4%	\$ 1,106	\$ 1,062	4%
Commercial insurance	4,014	3,969	1	1,255	1,211	4
Specialty insurance	1,928	1,880	3	670	640	5
Total insurance	9,189	8,960	3	3,031	2,913	4
Reinsurance assumed	(3)	2	*	(2)		*
Total	\$ 9,186	\$ 8,962	2	\$ 3,029	\$ 2,913	4

\* The change in net premiums written is not presented since the business is in runoff.

Net premiums written increased by 2% in the first nine months of 2013 and 4% in the third quarter compared with the same periods of 2012. Net premiums written in the United States, which represented 75% of our total net premiums written in the first nine months of 2013, increased by 3% in the first nine months of 2013 and 5% in the third quarter. Net premiums written outside the United States, expressed in U.S. dollars, increased by 1% in the first nine months of 2013 and were flat in the third quarter. When measured in local currencies, net premiums written outside the United States increased modestly in the first nine months of 2013 and increased slightly in the third quarter.

We classify business as written in the United States or outside the United States based on the location of the risk associated with the underlying policies. The method of determining location of risk varies by class of business. Location of risk for property classes is typically based on the physical location of the covered property, while location of risk for liability classes may be based on the main location of the insured, or in the case of the workers' compensation class, the primary work location of the covered employee.

---

**Table of Contents**

Page 26

Growth in net premiums written in the United States in the first nine months of 2013 occurred in each segment of our business, with the most significant growth occurring in our personal insurance segment. Net premiums written in the United States increased slightly in the first nine months of 2013 in both our commercial insurance and specialty insurance segments. Growth in net premiums written in the United States in the third quarter of 2013 occurred in each segment of our business. Growth in our personal insurance business in both periods of 2013 was attributable to new business, strong retention of existing business as well as higher rates and insured exposures upon renewal. In both the first nine months and third quarter of 2013, growth in our commercial insurance segment and our professional liability insurance business, which is the predominant component of our specialty insurance segment, while reflecting higher rates and continued strong retention, remained constrained by our underwriting actions and judicious approach to new business in the highly competitive market.

Average renewal rates for our personal insurance business in the United States were up modestly in the first nine months and third quarter of 2013, driven particularly by our homeowners business. Average renewal rates in the first nine months and third quarter of 2013 in the United States were up significantly in both our commercial and professional liability businesses. The amounts of coverage purchased or the insured exposures, both of which are bases upon which we calculate the premiums we charge, were down slightly in the first nine months and third quarter of 2013 compared to the same periods in 2012 in our commercial insurance and our professional liability businesses. We continued to retain a high percentage of our existing commercial and professional liability business. Renewal retention levels in the first nine months of 2013 were similar in our commercial insurance business and slightly higher in our professional liability business compared to those in the same period of 2012. As part of our ongoing catastrophe management activities, during the first nine months of 2013 we did not renew or reduced our participation in some commercial accounts that had catastrophe-related exposure. Retention levels in the third quarter of 2013 were slightly higher in our commercial insurance business and modestly higher in our professional liability business than in the same period of 2012. During the first nine months of 2013, we continued to seek renewal rate increases in most of the classes within these businesses and to take underwriting actions to improve profitability, particularly in some of the professional liability classes. The overall level of new business in the United States in our commercial and professional liability businesses was down modestly in the first nine months of 2013 compared with the same period of 2012, reflecting both the competitive market as well as our underwriting discipline. However, the overall level of new business was up slightly in the third quarter of 2013 for both our commercial insurance and professional liability insurance business compared with the same period of 2012.

Outside the United States, growth in net premiums written in the first nine months of 2013 was driven by modest growth in our specialty insurance segment. Net premiums written increased only slightly in our personal insurance segment and were flat in our commercial insurance segment. In the third quarter of 2013, net premiums written outside the United States were flat, as a modest increase in our specialty insurance segment and a slight increase in our commercial insurance segment were offset by a decrease in our personal insurance segment. Overall growth in net premiums written outside the United States in the first nine months and third quarter of 2013 reflected a slight negative impact from foreign currency translation.

---

**Table of Contents**

Page 27

Growth in our personal insurance business outside the United States in the first nine months and third quarter of 2013 reflected modest increases in average renewal rates. Average renewal rates outside the United States were up modestly in our commercial insurance business in the first nine months of 2013 but up only slightly in the third quarter. Average renewal rates in our professional liability business were up slightly in the first nine months and third quarter of 2013. Retention levels for our commercial insurance business written outside the United States were similar in the first nine months of 2013 and 2012 and were modestly higher in the third quarter of 2013 than in the same period of 2012. Retention levels for our professional liability business written outside the United States were slightly higher in the first nine months of 2013 and modestly higher in the third quarter than in the same periods of 2012. For our commercial insurance business, the level of new business written outside the United States was slightly higher in the first nine months and third quarter of 2013 compared to the respective periods of 2012. The level of new business written outside the United States for our professional liability business was slightly lower in both periods of 2013 compared to the same periods of 2012.

We expect our net written premiums for the full year 2013 will increase at a rate similar to the rate in the first nine months of the year. We expect that market conditions will remain competitive but that the positive pricing environment, particularly in the United States, will continue during the remainder of 2013.

*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.

The most significant component of our ceded reinsurance program is property reinsurance. We purchase two main types of property reinsurance: catastrophe and property per risk.

For property risks in the United States and Canada, we purchase traditional catastrophe reinsurance, including our primary treaty which we refer to as our North American catastrophe treaty, as well as supplemental catastrophe reinsurance that provides additional coverage for our exposures in the northeast United States. For certain exposures in the United States, we have also arranged for the purchase of multi-year, collateralized reinsurance funded through the issuance of collateralized risk-linked securities, known as catastrophe bonds. For events outside the United States, we also purchase traditional catastrophe reinsurance.

We renewed our primary traditional property catastrophe treaties and our commercial property per risk treaty in April 2013 with no changes in coverage. A portion of the supplemental catastrophe reinsurance that provides coverage for our exposures in the northeast United States was renewed in June 2013 with no changes in coverage. The remaining portion is in effect until June 2014. The two catastrophe bond arrangements currently in place expire between 2014 and 2016.

---

**Table of Contents**

Page 28

The North American catastrophe treaty has an initial retention of \$500 million and provides coverage for exposures in the United States and Canada of approximately 34% of losses (net of recoveries from other available reinsurance) between \$500 million and \$900 million and approximately 72% of losses (net of recoveries) between \$900 million and \$1.65 billion. For certain catastrophic events in the northeast United States or along the southern U.S. coastline, the combination of the North American catastrophe treaty, supplemental catastrophe reinsurance and/or the catastrophe bond arrangements provide additional coverages as discussed below.

The catastrophe bond arrangements provide reinsurance coverage for specific types of losses in specific geographic locations. They are generally designed to supplement coverage provided under the North American catastrophe treaty. We currently have two catastrophe bond arrangements in effect. We have a \$475 million reinsurance arrangement, a portion of which expires in March 2014 and the remainder in March 2015, that provides coverage for our exposure to homeowners and commercial losses related to certain hurricane, earthquake, severe thunderstorm and winter storm loss events in twelve states in the northeast United States and the District of Columbia. We also have a \$150 million reinsurance arrangement that expires in March 2016 that provides coverage for homeowners-related hurricane and severe thunderstorm losses in eight states along the southern U.S. coastline.

For the indicated catastrophic events in the northeast United States, the combination of the North American catastrophe treaty, the supplemental catastrophe reinsurance and the \$475 million catastrophe bond arrangement provides additional coverage of approximately 65% of losses (net of recoveries from other available reinsurance) between \$1.65 billion and \$3.65 billion.

For hurricane and severe thunderstorm events along the southern U.S. coastline, the \$150 million catastrophe bond arrangement provides additional coverage of approximately 50% of homeowners-related hurricane and severe thunderstorm losses (net of recoveries from other available reinsurance) between \$860 million and \$1.16 billion.

For hurricane events in Florida, in addition to the coverage provided by the North American catastrophe treaty and the \$150 million catastrophe bond arrangement discussed above, 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 mandatory program limits our initial retention in Florida for hurricane-related homeowners losses to approximately \$160 million and provides coverage of 90% of covered losses between approximately \$160 million and \$585 million.

Our primary property catastrophe treaty for events outside the United States, including Canada, provides coverage of approximately 75% of losses (net of recoveries from other available reinsurance) between \$100 million and \$350 million. For catastrophic events in Australia and Canada, additional reinsurance provides coverage of 80% of losses (net of recoveries from other available reinsurance) between \$350 million and \$475 million.

**Table of Contents**

Page 29

Our commercial property per risk treaty provides coverage for property exposures both inside and outside the United States. Depending upon the currency in which the covered insurance policy was issued, the treaty provides coverage per risk of approximately \$565 million to \$815 million in excess of our initial retention, which is generally between \$25 million and \$35 million.

In addition to our major property catastrophe and property per risk treaties, we purchase several smaller property treaties that only cover specific classes of business or locations having concentrations of risk.

Recoveries under our property reinsurance treaties are subject to certain coinsurance requirements that affect the interaction of some elements of our reinsurance program.

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.

For the North American catastrophe treaty, we incurred a slight increase in cost upon renewal. However, the renewal costs associated with the catastrophe treaty that covers events outside the United States and the commercial property per risk treaty were lower. We expect that the overall cost of our property reinsurance program will be modestly lower in 2013 than in 2012.

*Profitability*

The combined loss and expense ratio (or combined 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 U.S. 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, certain 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**

Page 30

An accident year is the calendar year in which a loss is incurred or, in the case of claims-made policies, the calendar year in which a loss is reported. The total losses and loss expenses incurred for a particular calendar year include current accident year losses and loss expenses as well as any increases or decreases to our estimates of losses and loss expenses that occurred in all prior accident years, which we refer to as prior year loss development.

Underwriting results were highly profitable in the first nine months and third quarter of both 2013 and 2012. The combined loss and expense ratio for our overall property and casualty business was as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2013	2012	2013	2012
Loss ratio	54.1%	58.1%	53.0%	53.8%
Expense ratio	32.3	32.0	32.7	32.5
<b>Combined ratio</b>	<b>86.4%</b>	<b>90.1%</b>	<b>85.7%</b>	<b>86.3%</b>

The loss ratio was lower in the first nine months and third quarter of 2013 compared with the same periods of 2012, especially in the nine month period. The lower loss ratio in the first nine months of 2013 compared with the same period of 2012 was due to a lower current accident year loss ratio excluding catastrophes and a higher amount of favorable prior year loss development, offset in part by a higher impact of catastrophes. The lower loss ratio in the third quarter of 2013 compared with the same period of 2012 was due to a lower current accident year loss ratio excluding catastrophes and a higher amount of favorable prior year loss development, offset in large part by a higher impact of catastrophes. The current accident year loss ratio excluding catastrophes was lower in the first nine months and third quarter of 2013 compared with the same periods of 2012 in each of our three insurance business segments, but by a greater margin in our commercial insurance and specialty insurance segments. The overall loss ratio excluding catastrophes in the first nine months and third quarter of both years reflected favorable loss experience that we believe resulted from our disciplined underwriting in recent years as well as relatively moderate loss trends and the positive impact on earned premiums of rate increases in most classes of business.

We define a catastrophe as an event that is estimated to cause \$25 million or more in industry-wide insured property losses and affects a significant number of policyholders and insurers. The net impact of catastrophes in the first nine months of 2013 was \$347 million, which represented 3.9 percentage points of the combined ratio, compared to the net impact in the first nine months of 2012 of \$264 million, which represented 3.0 percentage points of the combined ratio. The net impact of catastrophes in the third quarter of 2013 was \$92 million, which represented 3.0 percentage points of the combined ratio, compared to the net impact in the third quarter of 2012 of \$17 million, which represented 0.6 of a percentage point of the combined ratio. A significant portion of the catastrophe losses in the first nine months of 2013 related to several severe storms in the central United States, primarily in the second and third quarters, as well as flooding in southern Alberta, Canada, in the second quarter and flooding in Ontario, Canada, in the third quarter. A significant portion of the catastrophe losses in the first nine months of 2012 related to

**Table of Contents**

several severe hail and wind storms in the United States, primarily in the second quarter. Our overall estimate of gross and net losses related to the Storm Sandy event in 2012 did not change during the first nine months of 2013, although in the first quarter the estimate related to our commercial insurance business decreased slightly and the estimate related to our personal insurance business increased by the same amount.

The expense ratio was slightly higher in the first nine months and third quarter of 2013 compared with the same periods of 2012. The higher ratio in the first nine months of 2013 was due mainly to higher commissions. The higher ratio in the third quarter of 2013 was due to higher taxes.

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

Net premiums written from personal insurance, which represented 35% of our premiums written in the first nine months of 2013, increased by 4% in the first nine months and third quarter of 2013 compared with the same periods of 2012. Net premiums written for the classes of business within the personal insurance segment were as follows:

	Nine Months Ended September 30			Quarter Ended September 30		
	2013 (in millions)	2012 (in millions)	% Incr.	2013 (in millions)	2012 (in millions)	% Incr.
Automobile	\$ 556	\$ 519	7%	\$ 185	\$ 170	9%
Homeowners	2,011	1,940	4	707	679	4
Other	680	652	4	214	213	
Total personal	\$ 3,247	\$ 3,111	4	\$ 1,106	\$ 1,062	4

Growth in net premiums written in our personal insurance business in the first nine months and third quarter of 2013 occurred in most classes of this business. Overall, the increase in net premiums written in our personal insurance business in the first nine months and third quarter of 2013 was driven by growth inside the United States. Net premiums written outside the United States increased only slightly in the first nine months of 2013 and decreased slightly in the third quarter, due in part to the negative impact of foreign currency translation. The overall growth in our personal insurance business was attributable to new business, strong retention of existing business as well as higher rates and insured exposures upon renewal. Growth in personal automobile premiums in the first nine months and third quarter of 2013 occurred both inside and outside the United States. Personal automobile premiums written outside the United States represent about 40% of our worldwide automobile business annually. Premiums in our homeowners business increased modestly in the first nine months and third quarter of 2013 compared with the same periods of 2012, driven by growth in the United States, reflecting increases in coverage on existing policies and higher renewal rates. Homeowners premiums outside the United States decreased in the first nine months and third quarter of 2013 compared to the same periods of 2012, due in part to the negative impact of foreign currency translation. Premiums from our other personal business, which includes accident and health, excess liability and yacht coverages, increased in the first nine

**Table of Contents**

months of 2013, but were flat in the third quarter compared with the same periods of 2012. Growth occurred inside the United States in both periods. Premiums from our other personal business outside the United States grew modestly in the first nine months of 2013 but decreased modestly in the third quarter compared to the same periods in 2012. Premiums from our accident and health business were flat in the first nine months of 2013 and decreased modestly in the third quarter. Growth in our accident and health business was significant in the first nine months and third quarter of 2013 inside the United States, but decreased in both periods outside the United States, particularly in the third quarter. Our excess liability business grew modestly in both periods.

Our personal insurance business produced highly profitable underwriting results in the first nine months and third quarter of both 2013 and 2012, but more so in the 2012 periods. 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	
	2013	2012	2013	2012
Automobile	95.1%	92.2%	95.8%	92.0%
Homeowners	84.4	82.1	84.3	76.2
Other	94.0	95.1	94.9	95.5
Total personal	88.2	86.5	88.3	82.8

The less profitable underwriting results for our personal insurance business in the first nine months and third quarter of 2013 compared with the same periods of 2012 were driven mainly by less profitable results in our homeowners business due to a higher impact of catastrophes. The impact of catastrophes represented 7.9 percentage points of the combined ratio for our personal insurance business in the first nine months of 2013 and 7.0 percentage points in the third quarter compared with 4.8 and 1.5 percentage points, respectively, in the same periods of 2012. Of the 7.9 percentage points impact of catastrophes in the first nine months of 2013, 0.9 of a percentage point related to an increase in the first quarter in estimated losses from Storm Sandy.

Our personal automobile business produced profitable results in the first nine months and third quarter of 2013 and 2012, but more so in 2012. Results in all periods benefited from favorable prior year loss development.

Homeowners results were highly profitable in the first nine months and third quarter of both 2013 and 2012, but more so in the 2012 periods. The less profitable results in the first nine months and third quarter of 2013 were due to a higher impact of catastrophes. Catastrophe losses represented 12.5 percentage points of the combined ratio for this class in the first nine months of 2013 and 11.1 percentage points in the third quarter compared with 7.5 and 2.4 percentage points, respectively, in the same periods of 2012.

Our other personal business produced similarly profitable results in the first nine months and third quarter of 2013 and 2012. Our accident and health business produced slightly profitable results in the first nine months of 2013 and 2012. Results for this business were slightly unprofitable in the third quarter of 2013 compared with breakeven results in the same period of 2012. Our

**Table of Contents**

personal excess liability business produced highly profitable results in the first nine months and third quarter of 2013 compared with profitable results in the same periods of 2012. Results for our personal excess liability business in all periods, but more so in the 2013 periods, reflected favorable prior year loss development. Our yacht business produced highly profitable results in the first nine months and third quarter of both years.

*Commercial Insurance*

Net premiums written from commercial insurance, which represented 44% of our premiums written in the first nine months of 2013, increased by 1% in the first nine months of 2013 and 4% in the third quarter compared with the same periods of 2012. Net premiums written for the classes of business within the commercial insurance segment were as follows:

	Nine Months Ended			Quarter Ended		
	September 30 2013	September 30 2012	% Incr. (Decr.)	September 30 2013	September 30 2012	% Incr. (Decr.)
	<i>(in millions)</i>			<i>(in millions)</i>		
Multiple peril	\$ 834	\$ 840	(1)%	\$ 285	\$ 287	(1)%
Casualty	1,240	1,248	(1)	390	378	3
Workers compensation	846	789	7	281	242	16
Property and marine	1,094	1,092		299	304	(2)
<b>Total commercial</b>	<b>\$ 4,014</b>	<b>\$ 3,969</b>	<b>1</b>	<b>\$ 1,255</b>	<b>\$ 1,211</b>	<b>4</b>

Net premiums written in our commercial insurance business in the first nine months of 2013 increased slightly in the United States and were flat outside the United States. The increase in net premiums written in the third quarter of 2013 occurred both inside and outside the United States, but to a greater extent inside the United States. Overall, premium growth for our commercial insurance business in both periods of 2013 was constrained by lower renewal exposures and near flat, yet strong, retention levels in a market that continued to be highly competitive. The most significant growth in our commercial insurance business occurred in the workers compensation class, driven by a high level of rate increases, a high retention level as well as new business. The positive overall rate environment for commercial insurance in the United States we experienced in 2012 continued in the first nine months of 2013. Overall, average renewal rates in the United States increased significantly in the first nine months and third quarter of 2013 for our commercial insurance business, with increases occurring in all major classes. Improvement in the rate environment outside the United States has generally been slower and continued to lag the improvement in the United States. Overall, average renewal rates outside the United States were modestly higher in the first nine months and slightly higher in the third quarter of 2013. Retention levels of our existing policyholders remained strong, particularly in the United States, even though we continued our effort to increase rates in several classes of business and we did not renew some underperforming or catastrophe-exposed accounts. Overall, retention was down slightly in the first nine months of 2013 compared to the same period of 2012. Retention was near flat in the United States and down slightly outside the United States. Retention was up slightly both inside and outside the United States in the third quarter of 2013 compared with the same period in 2012. In the first nine months and third quarter of 2013, the average renewal exposure change was down slightly both inside and outside the United States. The amount of new business was down in the first nine months of

**Table of Contents**

Page 34

2013 compared with the same period in 2012, driven by a decline in the United States, as we continued to maintain our underwriting discipline in the competitive market. New business was up modestly in the third quarter, both inside and outside the United States, reflecting an increase in the volume of attractive new business opportunities available to us.

Our commercial insurance business produced highly profitable underwriting results in the first nine months of 2013 compared with profitable results in the same period of 2012. Underwriting results for our commercial insurance business were highly profitable in the third quarter of both years, but more so in 2013. 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	
	2013	2012	2013	2012
Multiple peril	86.6%	90.4%	82.0%	77.2%
Casualty	95.4	91.6	98.5	89.2
Workers compensation	88.9	95.2	91.2	94.9
Property and marine	71.8	94.3	69.2	87.9
Total commercial	85.6	92.6	85.2	87.2

The more profitable results in our commercial insurance business in the first nine months of 2013 compared with the same period of 2012 were due to a higher amount of favorable prior year loss development and a lower current accident year combined ratio excluding catastrophes. The more profitable results in the third quarter of 2013 compared with the same period of 2012 were due to a lower current accident year combined ratio excluding catastrophes and a higher amount of favorable prior year loss development. The impact of catastrophes represented 2.6 percentage points of the combined ratio for our commercial insurance business in the first nine months of 2013 and 1.4 percentage points in the third quarter compared with 3.1 and 0.2 percentage points, respectively, in the same periods of 2012. The 2.6 percentage points impact of catastrophes in the first nine months of 2013 reflected a favorable impact of 0.7 of a percentage point related to a decrease in the first quarter in estimated losses from Storm Sandy. Results in all periods benefited from our disciplined risk selection in recent years.

Multiple peril results were highly profitable in the first nine months of 2013 and 2012, but more so in 2013. Results were also highly profitable in the third quarter of both years, but more so in 2012. The more profitable results in the first nine months of 2013 were due to improvement in both the property and liability components of this business. The property component of this business produced highly profitable results in the first nine months of both years, but more so in 2013 primarily due to a higher amount of favorable prior year loss development. The liability component of this business produced profitable results in the first nine months of both years, but more so in 2013, due to a higher amount of favorable prior year loss development and improved current accident year results. The less profitable results in the multiple peril class in the third quarter of 2013 compared to the same period of 2012 were due to less profitable results in the property component of this business. Results for the property component were highly profitable in both years, but

---

**Table of Contents**

Page 35

less so in 2013 primarily due to the impact of catastrophes. The liability component was also highly profitable in both periods, but slightly more so in 2013 reflecting improved current accident year results. In the multiple peril class overall, the impact of catastrophes represented 4.4 percentage points of the combined ratio in the first nine months of 2013 compared with 4.9 percentage points in the same period of 2012. The impact of catastrophes represented 3.2 percentage points of the combined ratio in the third quarter of 2013 compared with a favorable impact of 3.5 percentage points in the same period of 2012.

Results for our casualty business were profitable in the first nine months of 2013 and 2012, but more so in 2012. Results were modestly profitable in the third quarter of 2013 compared with highly profitable results in the same period of 2012. Results for the primary liability component were unprofitable in the first nine months and third quarter of 2013 and 2012. Results for this component in each period reflected a high volume of large reported losses, many of which related to prior accident years. The automobile component of our casualty business produced modestly profitable results in the first nine months of 2013 compared with slightly unprofitable results in the same period of 2012. Results for this component were slightly unprofitable in the third quarter of both years. Results for this component in the first nine months of 2013 benefited from a modest amount of favorable prior year loss development. Results for the excess liability component were highly profitable in the first nine months and third quarter of both 2013 and 2012. Results in all periods, but more so in 2012, benefited from substantial favorable prior year loss development. Our casualty results were adversely affected by incurred losses related to toxic waste and asbestos claims in the first nine months and third quarter of both years. Our analysis of these exposures resulted in increases in the estimate of our ultimate liabilities. Such losses represented 3.8 and 1.9 percentage points of the combined ratio for this class in the first nine months of 2013 and 2012, respectively, and 3.4 and 2.7 percentage points in the third quarter of 2013 and 2012, respectively.

Workers' compensation results were highly profitable in the first nine months of 2013 compared with profitable results in the same period of 2012. Results were profitable in the third quarter of both years. The more profitable results in the first nine months of 2013 were mainly due to improved current accident year results. Results in all periods benefited from our disciplined risk selection during the past several years.

Property and marine results were highly profitable in the first nine months of 2013 compared with profitable results in the same period of 2012. Results were also highly profitable in the third quarter of both years, but more so in 2013. The more profitable results in the 2013 periods were due to a significant amount of favorable prior year loss development, partly due to a lower than expected impact of large non-catastrophe losses from prior periods and, to a lesser extent, a lower current accident year combined ratio excluding catastrophes, also reflecting a low volume of large losses. Results in the first nine months and third quarter of 2012 reflected a modest amount of unfavorable prior year loss development. The impact of catastrophe losses represented 5.2 percentage points of the combined ratio for this class in the first nine months of 2013 and 2.2 percentage points in the third quarter compared with 6.2 and 2.2 percentage points, respectively, in the same periods of 2012.

**Table of Contents***Specialty Insurance*

Net premiums written from specialty insurance, which represented 21% of our premiums written in the first nine months of 2013, increased by 3% in the first nine months of 2013 and 5% in the third quarter compared with the same periods of 2012. Net premiums written for the classes of business within the specialty insurance segment were as follows:

	Nine Months Ended September 30			Quarter Ended September 30		
	2013 <i>(in millions)</i>	2012 <i>(in millions)</i>	% Incr.	2013 <i>(in millions)</i>	2012 <i>(in millions)</i>	% Incr.
Professional liability	\$ 1,692	\$ 1,660	2%	\$ 594	\$ 567	5%
Surety	236	220	7	76	73	4
<b>Total specialty</b>	<b>\$ 1,928</b>	<b>\$ 1,880</b>	<b>3</b>	<b>\$ 670</b>	<b>\$ 640</b>	<b>5</b>

Net premiums written in our professional liability business increased by 2% in the first nine months of 2013 and 5% in the third quarter compared with the same periods of 2012. Net premiums written in the United States and outside the United States were modestly higher in the first nine months and third quarter of 2013 compared with the same periods in 2012. Premium growth in both periods reflected a modestly positive effect of our decision to not renew a reinsurance program which expired July 1, 2013, that provided coverage for a portion of our professional liability business. Premium growth in the professional liability business remained constrained as we continued our focus on profitability in the pricing of renewal policies and due to the lack of opportunities to write suitably-priced new business, in what remains a highly competitive marketplace. Nevertheless, the overall rate environment remained positive, particularly in the United States. We continued to pursue rate increases on our professional liability business to address margin compression experienced in these classes of business in recent years. Retention levels for the classes within our professional liability business remained strong. Retention levels were higher in the first nine months and the third quarter of 2013 compared with those in the same periods of 2012, both inside and outside the United States, but more so in the third quarter. New business volume was down slightly in the first nine months of 2013 compared with the same period of 2012, both inside and outside the United States. New business volume was near flat in the third quarter of 2013 compared with the same period of 2012, as a modest increase in new business in the United States was offset by a decrease outside the United States. The constrained new business volume in the U.S. in the first nine months of 2013 was consistent with our desire to selectively reduce our exposure in some customer segments where rate levels were not attractive, as well as our commitment to maintaining underwriting discipline in this environment. Average renewal rates for our professional liability business in the United States increased significantly in the first nine months and third quarter of 2013 compared with the same periods of 2012. Rate increases occurred in all major classes of this business, particularly in our directors and officers liability and employment practices liability classes. Overall, renewal rates outside the United States were up modestly in the first nine months of 2013 and up slightly in the third quarter compared with the same periods of 2012.

**Table of Contents**

Page 37

Net premiums written in our surety business increased both inside and outside the United States in the first nine months of 2013. In the third quarter of 2013, net premiums written in our surety business increased in the United States but were flat outside the United States. The growth in premiums written in our surety business outside the United States in the first nine months of 2013 was driven by growth in Latin America. The timing of contract awards to our customers can vary and, as a result, premium growth in our surety business varies from period to period.

Our specialty insurance business produced highly profitable underwriting results in the first nine months and third quarter of 2013 compared with profitable results in the same periods of 2012. 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	
	2013	2012	2013	2012
Professional liability	90.6%	97.7%	87.6%	97.0%
Surety	44.9	51.4	41.3	55.8
Total specialty	85.2	92.3	82.3	91.9

Our professional liability business produced highly profitable results in the first nine months and third quarter of 2013 compared with profitable results in the same periods of 2012. The more profitable results in the 2013 periods were due to a lower current accident year combined ratio and a higher amount of favorable prior year loss development compared to the same periods of 2012.

Results for the directors and officers liability class were highly profitable in the first nine months and third quarter of 2013 and 2012, but more so in the 2013 periods. Results in all periods benefited from favorable prior year loss development, but more so in the 2013 periods. Results for the fidelity class were slightly profitable in the first nine months of 2013 compared with breakeven results in the same period of 2012. Results were profitable in the third quarter of 2013 compared with unprofitable results in the same period of 2012. Results for the fidelity class in the first nine months and third quarter of both years reflected unfavorable prior year loss development. Results for the employment practices liability class were highly unprofitable in the first nine months of both years. Results for this class were unprofitable in the third quarter of 2013 compared with highly unprofitable results in the same period of 2012. Results for this class in the first nine months of both years and the third quarter of 2012 were adversely affected by unfavorable prior year loss development. Employment practices liability claims have been more numerous and protracted in recent years due primarily to the effect of the economic downturn and resulting higher unemployment levels. Results for the errors and omissions liability class were unprofitable in the first nine months and third quarter of 2013 compared with highly unprofitable results in the same periods of 2012. Results in the first nine months and third quarter of both 2013 and 2012 reflected unfavorable prior year loss development, but more so in the 2012 periods. Results for the fiduciary liability class were highly profitable in the first nine months and third quarter of both 2013 and 2012; results in all periods reflected favorable prior year loss development.



**Table of Contents**

Our surety business produced highly profitable results in the first nine months and third quarter of both 2013 and 2012 due to favorable loss experience. Our surety business tends to be characterized by losses that are infrequent but have the potential to be highly severe.

*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 2013 and 2012.

Results for the reinsurance assumed business in runoff were profitable in the first nine months of 2013 and 2012. Results in the third quarter of 2013 were breakeven compared with profitable results in the same period of 2012. Results in the first nine months of both years and the third quarter of 2012 benefited from favorable prior year loss development.

**Catastrophe Risk Management**

Our property and casualty subsidiaries have exposure to losses caused by natural perils such as hurricanes and other windstorms, earthquakes, severe winter weather and brush fires as well as from man-made catastrophic events such as terrorism. The frequency and severity of catastrophes are inherently unpredictable.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. We regularly assess our concentrations of risk in catastrophe exposed areas globally and have strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in catastrophe exposed areas in the United States, such as California and the gulf and east coasts, as well as in catastrophe exposed areas in other countries. The information provided by the catastrophe modeling and the risk concentration management tool has resulted in our non-renewing some accounts and refraining from writing others.

Catastrophe modeling generally relies on multiple inputs based on experience, science, engineering and history, and the selection of those inputs requires a significant amount of judgment. The modeling results may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseen. Because of this, actual results may differ materially from those derived from our modeling exercises.

We also continue to actively explore and analyze credible scientific evidence, including the potential impact of global climate change, that may affect our ability to manage our exposure under the insurance policies we issue as well as the impact that laws and regulations intended to combat climate change may have on us.

Despite our efforts to manage our catastrophe exposure, the occurrence of one or more severe catastrophic events could have a material effect on the Corporation's results of operations, financial condition or liquidity.

**Table of Contents**

**Loss Reserves**

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

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.

Incurred but not reported (IBNR) reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. The IBNR reserve includes a provision for claims that have occurred but have not yet been reported to us, some of which are not yet known to the insured, as well as a provision for future development on reported claims. A relatively large proportion of our net loss reserves, particularly for long tail liability classes, are reserves for IBNR losses. In fact, about 70% of our aggregate net loss reserves at September 30, 2013 were for IBNR losses.

**Table of Contents**

Page 40

Our gross case and IBNR loss reserves and related reinsurance recoverable by class of business were as follows:

September 30, 2013	Gross Loss Reserves			Reinsurance Recoverable	Net Loss Reserves
	Case	IBNR	Total (in millions)		
<b>Personal insurance</b>					
Automobile	\$ 271	\$ 146	\$ 417	\$ 18	\$ 399
Homeowners	443	379	822	25	797
Other	370	710	1,080	124	956
<b>Total personal</b>	<b>1,084</b>	<b>1,235</b>	<b>2,319</b>	<b>167</b>	<b>2,152</b>
<b>Commercial insurance</b>					
Multiple peril	615	1,205	1,820	43	1,777
Casualty	1,522	5,422	6,944	372	6,572
Workers compensation	1,007	1,995	3,002	265	2,737
Property and marine	827	550	1,377	418	959
<b>Total commercial</b>	<b>3,971</b>	<b>9,172</b>	<b>13,143</b>	<b>1,098</b>	<b>12,045</b>
<b>Specialty insurance</b>					
Professional liability	1,350	6,025	7,375	355	7,020
Surety	20	56	76	4	72
<b>Total specialty</b>	<b>1,370</b>	<b>6,081</b>	<b>7,451</b>	<b>359</b>	<b>7,092</b>
<b>Total insurance</b>	<b>6,425</b>	<b>16,488</b>	<b>22,913</b>	<b>1,624</b>	<b>21,289</b>
<b>Reinsurance assumed</b>	<b>175</b>	<b>309</b>	<b>484</b>	<b>154</b>	<b>330</b>
<b>Total</b>	<b>\$ 6,600</b>	<b>\$ 16,797</b>	<b>\$ 23,397</b>	<b>\$ 1,778</b>	<b>\$ 21,619</b>

December 31, 2012	Gross Loss Reserves			Reinsurance Recoverable	Net Loss Reserves
	Case	IBNR	Total (in millions)		
<b>Personal insurance</b>					
Automobile	\$ 265	\$ 146	\$ 411	\$ 24	\$ 387
Homeowners	437	589	1,026	128	898
Other	369	687	1,056	130	926
<b>Total personal</b>	<b>1,071</b>	<b>1,422</b>	<b>2,493</b>	<b>282</b>	<b>2,211</b>

Edgar Filing: CHUBB CORP - Form 10-Q

Commercial insurance					
Multiple peril	598	1,257	1,855	56	1,799
Casualty	1,504	5,339	6,843	358	6,485
Workers compensation	963	1,862	2,825	218	2,607
Property and marine	825	940	1,765	449	1,316
<b>Total commercial</b>	<b>3,890</b>	<b>9,398</b>	<b>13,288</b>	<b>1,081</b>	<b>12,207</b>
Specialty insurance					
Professional liability	1,440	6,095	7,535	385	7,150
Surety	28	59	87	4	83
<b>Total specialty</b>	<b>1,468</b>	<b>6,154</b>	<b>7,622</b>	<b>389</b>	<b>7,233</b>
<b>Total insurance</b>	<b>6,429</b>	<b>16,974</b>	<b>23,403</b>	<b>1,752</b>	<b>21,651</b>
Reinsurance assumed	193	367	560	189	371
<b>Total</b>	<b>\$ 6,622</b>	<b>\$ 17,341</b>	<b>\$ 23,963</b>	<b>\$ 1,941</b>	<b>\$ 22,022</b>

---

**Table of Contents**

Page 41

Loss reserves, net of reinsurance recoverable, decreased by \$403 million during the first nine months of 2013. Loss reserves related to our insurance business decreased by \$362 million during the first nine months of 2013, which reflected decreases of \$386 million related to catastrophe losses and approximately \$100 million related to the effect of foreign currency translation due to the stronger U.S. dollar at September 30, 2013 compared to December 31, 2012. Loss reserves related to our reinsurance assumed business, which is in runoff, decreased by \$41 million.

The decreases in our homeowners and property and marine gross loss reserves during the first nine months of 2013 were due largely to payments during the first nine months of 2013 on catastrophe-related claims, primarily from Storm Sandy, that were unpaid at December 31, 2012. The overall decrease in reinsurance recoverable during the first nine months of 2013 was due in large part to reinsurance recoveries related to Storm Sandy in the homeowners and property and marine classes of business.

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, 2013 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, 2012, 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, 2013 may change, which could have a material effect on the Corporation's results of operations and financial condition.

Changes in loss reserve estimates are unavoidable because such estimates are subject to the outcome of future events. Loss trends vary 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 \$595 million during the first nine months of 2013 and \$190 million in the third quarter compared with favorable prior year development of about \$410 million and \$145 million, respectively, in the same periods of 2012, on loss reserves established as of the respective previous year end.

The favorable development in the first nine months of 2013 was primarily in the commercial property classes, partly due to lower than expected severity primarily in the 2012 accident year and, to a lesser extent, in the commercial liability classes due to continued favorable loss experience related mainly to accident years 2010 and prior, and in the professional liability classes due to favorable loss experience related mainly to accident years 2008 and prior. The favorable development in the first nine months of 2012 occurred primarily in the commercial liability classes, due to continued favorable loss experience related mainly to accident years 2008 and prior and, to a lesser extent, in the professional liability classes, also due to favorable loss experience related mainly to accident years 2008 and prior, and in the personal insurance classes.

---

**Table of Contents**

Page 42

**Investment Results**

Property and casualty investment income before taxes decreased by 7% in the first nine months of 2013 and 6% in the third quarter compared with the same periods in 2012. The decrease was due to a decline in average yields on our investment portfolio partially offset by the impact of an increase in our average invested assets. The average yield on the fixed maturity investment portfolio of the property and casualty subsidiaries for the first nine months and third quarter of 2013 decreased compared to the same periods of 2012 due to the continuing impact of lower reinvestment yields compared to the yields on fixed maturities that matured, were redeemed by the issuer or were sold since the third quarter of 2012. The increase in average invested assets during the first nine months and third quarter of 2013 compared with the same periods of 2012 was due to substantial operating cash flows in the last three months of 2012 and the first nine months of 2013 partially offset by dividend distributions made by the property and casualty subsidiaries to Chubb during the second half of 2012 and the first half of 2013.

The effective tax rate on our investment income was 18.0% in the first nine months of 2013 compared with 18.7% in the same period of 2012. The effective tax rate fluctuates as the proportion of tax exempt investment income relative to total investment income changes from period to period.

On an after-tax basis, property and casualty investment income decreased by 6% in the first nine months and the third quarter of 2013 compared with the same periods in 2012. The after-tax annualized yield on the investment portfolio that supports our property and casualty insurance business was 2.88% and 3.14% in the first nine months of 2013 and 2012, respectively.

If both investment yields and average foreign currency to U.S. dollar exchange rates for the last three months of 2013 are similar to September 30, 2013 levels, property and casualty investment income after taxes for the full year 2013 is expected to decline from the full year 2012 amount. This expected decline results from the effect of investing funds from securities that matured in 2012 and 2013 in securities with yields lower than the yields on the maturing securities and the expectation that this pattern will continue during the remainder of 2013. The expected decline includes the positive impact of a slightly higher amount of average invested assets estimated to be held during 2013, based on expectations of cash flows during the year.

**Other Income and Charges**

Other income and charges, which includes miscellaneous income and expenses of the property and casualty subsidiaries, was not significant in the first nine months of 2013 and 2012.

**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 2013 compared to a loss of \$173 million for the same period of 2012.

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

Net realized investment gains and losses were as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2013	2012	2013	2012
	<i>(in millions)</i>			
Net realized gains (losses)				
Fixed maturities	\$ 12	\$ 79	\$ (5)	\$ 27
Equity securities	178	50	4	25
Other invested assets	156	18	23	(45)
	346	147	22	7
Other-than-temporary impairment losses				
Fixed maturities	(2)	(4)	(2)	(2)
Equity securities	(9)	(40)	(2)	(5)
	(11)	(44)	(4)	(7)
Realized investment gains before tax	\$ 335	\$ 103	\$ 18	\$
Realized investment gains after tax	\$ 218	\$ 67	\$ 12	\$

The net realized gains of equity securities and other invested assets in the first nine months of 2013 included \$74 million and \$10 million, respectively, related to the exchange of our holdings of common stock and warrants of Alterra Capital Holdings Limited for common stock of Markel Corporation and cash as a result of a business combination that took place during the second quarter of 2013.

The net realized gains and losses of other invested assets represent primarily the aggregate of realized gain distributions to us from the limited partnerships in which we have an interest and changes in our equity in the net assets of those 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, the value of these investments and any related realized gains and losses are generally reported on a one quarter lag.

The net realized gains of the limited partnerships reported in the first nine months of 2013 primarily reflected the positive performance of the global equity and high yield investment markets in the first quarter of 2013 and the fourth quarter of 2012. The net realized gains of the limited partnerships reported in the first nine months of 2012 primarily reflected the strong performance of the U.S. equity and high yield investment markets in the first quarter of 2012 partially offset by the negative performance of several non-U.S. equity markets, particularly in Asia, in the fourth quarter of 2011 and the global equity markets in the second quarter of 2012.

We regularly review the invested assets that have a fair value 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 a potential other-than-temporary impairment.

---

**Table of Contents**

Page 44

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. A number of factors are considered 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.

In determining whether fixed maturities are other than temporarily impaired, we are required to recognize an other-than-temporary impairment loss 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 that 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 included in net income as a realized investment loss. For all other impaired fixed maturities, when the impairment is determined to be other than temporary, 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 included in net 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.

In determining whether equity securities are other than temporarily impaired, 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 included in net 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, 2013, the Corporation had shareholders' equity of \$15.6 billion and total debt of \$3.3 billion.

On April 1, 2013, Chubb repaid \$275 million of outstanding 5.2% notes due on that date.



---

**Table of Contents**

Page 45

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 current debt level 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.

In January 2012, the Board of Directors authorized the repurchase of up to \$1.2 billion of Chubb's common stock. On January 31, 2013, the Board of Directors authorized the repurchase of up to \$1.3 billion of Chubb's common stock, which authorization replaced the January 2012 authorization. Under these authorizations, during the first nine months of 2013, we repurchased 11,418,615 shares of Chubb's common stock in open market transactions at a cost of \$975 million. The January 2013 authorization has no expiration date and as of September 30, 2013, \$433 million remained under this authorization. We expect to complete the repurchase of shares under this authorization by the end of January 2014, subject to market conditions and other factors.

**Ratings**

Chubb and its property and casualty 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.

Credit ratings assess a company's ability to make timely payments of interest and principal on its debt. Financial strength ratings assess an insurer's ability to meet its financial 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.

**Table of Contents**

Page 46

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

Our property and casualty operations provide liquidity in that insurance premiums are generally received months or even years before losses are paid under the policies purchased by such premiums. Cash receipts from operations, consisting of insurance premiums and investment income, provide 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, with the expectation of generating increased future investment income.

Our strong underwriting and investment results generated substantial positive operating cash flows in the first nine months of 2013 and 2012. The cash provided by the property and casualty subsidiaries' operating activities decreased in the first nine months of 2013 compared to the same period of 2012. The positive impact of modestly higher premium collections was more than offset by the impact of higher loss payments, higher tax payments and a lower amount of investment income received in the first nine months of 2013 compared to the same period of 2012. The higher amount of loss payments in the first nine months of 2013 compared with the same period in 2012 reflected substantially higher catastrophe-related payments during the period. During the first nine months of 2013, the cash provided by the operating activities of the property and casualty subsidiaries exceeded the cash used for financing activities by the property and casualty subsidiaries (primarily the payment of dividends to Chubb) by approximately \$430 million. In the first nine months of 2013, dividends paid to Chubb by the property and casualty subsidiaries decreased by \$196 million compared to the comparable period of 2012 reflecting, in part, a difference in the timing of the payment of subsidiary dividends in 2012 and those paid and anticipated to be paid in 2013. During the first nine months of 2012, the cash provided by operating activities of the property and casualty subsidiaries exceeded the cash used for financing activities by the property and casualty subsidiaries (primarily the payment of dividends to Chubb) by approximately \$700 million.

Our property and casualty subsidiaries maintain substantial 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.

---

**Table of Contents**

Page 47

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. The timing and amount of dividends paid by the property and casualty subsidiaries to Chubb may vary from year to year. Our property and casualty subsidiaries are subject to laws and regulations in the jurisdictions in which they operate that restrict the amount and timing of dividends they may pay within twelve consecutive months 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.

During the first nine months of 2013, the property and casualty subsidiaries paid dividends of \$964 million to Chubb. Whether regulatory approval would be required for any dividends the property and casualty subsidiaries may pay during the remainder of 2013 would depend on the amount and timing of the dividend payments. As of September 30, 2013, the maximum aggregate dividend distribution that may be made by the subsidiaries to Chubb during the remainder of 2013 without prior regulatory approval was approximately \$600 million.

**Invested Assets**

The main objectives in managing our investment portfolios are to maximize after-tax investment income and total investment return while managing credit risk and interest rate risk 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.

Our investment portfolio primarily comprises high quality bonds, principally tax exempt securities, corporate bonds, mortgage-backed securities 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 an appropriate mix of taxable and tax exempt securities in our portfolio to balance both investment and tax strategies. At September 30, 2013, 63% of our U.S. fixed maturity portfolio was invested in tax exempt securities. At September 30, 2013, about 70% of our tax exempt securities were rated Aa or better, with about 20% rated Aaa. The average rating of our tax exempt securities was Aa. While about 20% of our tax exempt securities were insured, the effect of insurance on the average credit rating of these securities was insignificant. The insured tax exempt securities in our portfolio have been selected based on the quality of the underlying credit and not the value of the credit insurance enhancement.

---

**Table of Contents**

Page 48

At September 30, 2013, 4% of our taxable fixed maturity portfolio was invested in U.S. government and government agency and authority obligations other than mortgage-backed securities and had an average rating of Aa. About 50% of the U.S. government and government agency and authority obligations other than mortgage-backed securities were U.S. Treasury securities with an average rating of Aaa and the remainder were taxable bonds issued by states, municipalities and political subdivisions within the United States with an average rating of Aa.

At September 30, 2013, 49% of our taxable fixed maturity portfolio consisted of corporate bonds other than mortgage-backed securities, which were issued by a diverse group of U.S. and foreign issuers and had an average rating of A. About 55% of our corporate bonds other than mortgage-backed securities were issued by U.S. companies and about 45% were issued by foreign companies. Our foreign corporate bonds included \$55 million, \$20 million and \$13 million issued by companies, including banks, in Ireland, Italy and Spain, respectively. We held no bonds issued by companies in Greece or Portugal.

At September 30, 2013, 38% of our taxable fixed maturity portfolio was invested in foreign government and government agency obligations, which had an average rating of Aa. The foreign government and government agency obligations consisted of high quality securities, primarily issued by national governments and, to a lesser extent, government agencies, regional governments and supranational organizations. The five largest issuers within this portfolio were Canada, Germany, the United Kingdom, Australia and Brazil, which collectively accounted for about 75% of our total foreign government and government agency obligations. Another 7% of our total foreign government and government agency obligations were issued by supranational organizations. We held no sovereign securities issued by Portugal, Ireland, Italy, Greece or Spain. We did not hold any foreign government or government agency fixed maturities that have third party guarantees.

At September 30, 2013, 9% of our taxable fixed maturity portfolio was invested in mortgage-backed securities. About 95% of the mortgage-backed securities were rated Aaa. About half of the remaining 5% were below investment grade. Of the Aaa rated securities, 15% were 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 our CMOs are actively traded in liquid markets. The other 85% of the Aaa rated securities were call protected, commercial mortgage-backed securities (CMBS). All of our CMBS were senior securities with the highest level of subordination.

The net unrealized appreciation before tax of our fixed maturities and equity securities carried at fair value was \$2.0 billion at September 30, 2013 compared with net unrealized appreciation before tax of \$3.1 billion at December 31, 2012. Such unrealized appreciation is reflected in accumulated other comprehensive income, net of applicable deferred income taxes.

During the first nine months of 2013, market yields on fixed maturity investments increased resulting in a decrease in the fair value of many of our fixed maturity investments.

---

**Table of Contents**

Page 49

**Fair Values of Financial Instruments**

Fair values of financial instruments are determined by management 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 fair value into three broad levels as follows:

- Level 1            Unadjusted quoted prices in active markets for identical financial instruments.
- Level 2            Other inputs that are observable for the financial instrument, either directly or indirectly.
- Level 3            Significant unobservable inputs.

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 a third party, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from third party 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 service 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 rates and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing service and brokers. In addition, management, using the prices received for the securities from the pricing service 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 determined by management, utilizing quoted market prices.

Fair values of warrants are determined by management, utilizing an option pricing model.

**Table of Contents**

Page 50

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

Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service.

A pricing service provides fair value amounts 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, 2013 and December 31, 2012, we held an insignificant amount of financial instruments in our investment portfolio for which a lack of market liquidity impacted our determination of fair value.

**Item 4 Controls and Procedures**

As of September 30, 2013, 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 Chubb's chief executive officer and chief financial officer. Based on that evaluation, the chief executive officer and chief financial officer concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2013.

During the quarter ended September 30, 2013, 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 51

## 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, 2012, 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 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, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(a) (in millions)
July 2013	1,714,295	\$ 86.35	1,714,295	\$ 610
August 2013	1,269,100	84.85	1,269,100	503
September 2013	798,230	87.90	798,230	433
Total	3,781,625	86.17	3,781,625	

- (a) On January 26, 2012, the Board of Directors authorized the repurchase of up to \$1.2 billion of Chubb's common stock. On January 31, 2013, the Board of Directors authorized the repurchase of up to \$1.3 billion of Chubb's common stock replacing the January 26, 2012 authorization. The authorization has no expiration date.

**Table of Contents**

Page 52

## Item 6 Exhibits

Exhibit Number	Description
	- Rule 13a-14(a)/15d-14(a) Certifications
31.1	Certification by John D. Finnegan filed herewith.
31.2	Certification by Richard G. Spiro filed herewith.
	- Section 1350 Certifications
32.1	Certification by John D. Finnegan filed herewith.
32.2	Certification by Richard G. Spiro filed herewith.
	- Interactive Data File
101.INS	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
	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 7, 2013