

CHUBB CORP
Form 10-K
February 28, 2008

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
 EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007
 OR
 o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
 EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO
 Commission File No. 1-8661

The Chubb Corporation

(Exact name of registrant as specified in its charter)

New Jersey

13-2595722

(State or other jurisdiction of incorporation or organization)

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

15 Mountain View Road

Warren, New Jersey

(Address of principal executive offices)

07059

(Zip Code)

(908) 903-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)

(Name of each exchange on which registered)

Common Stock, par value \$1 per share

New York Stock Exchange

Series B Participating Cumulative

New York Stock Exchange

Preferred Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of the registrant was \$21,242,705,472 as of June 30, 2007, computed on the basis of the closing sale price of the common stock on that date.

370,249,648

Number of shares of common stock outstanding as of February 15, 2008

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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PART I.

Item 1. *Business*

General

The Chubb Corporation (Chubb) was incorporated as a business corporation under the laws of the State of New Jersey in June 1967. Chubb and its subsidiaries are referred to collectively as the Corporation. Chubb is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the P&C Group). Since 1882, the P&C Group has provided property and casualty insurance to businesses and individuals around the world. According to A.M. Best, the P&C Group is the 11th largest U.S. property and casualty insurance group based on 2006 net written premiums.

At December 31, 2007, the Corporation had total assets of \$51 billion and shareholders' equity of \$14 billion. Revenues, income before income tax and assets for each operating segment for the three years ended December 31, 2007 are included in Note (12) of the Notes to Consolidated Financial Statements. The Corporation employed approximately 10,600 persons worldwide on December 31, 2007.

The Corporation's principal executive offices are located at 15 Mountain View Road, Warren, New Jersey 07059, and our telephone number is (908) 903-2000.

The Corporation's internet address is www.chubb.com. The Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are available free of charge on this website as soon as reasonably practicable after they have been electronically filed with or furnished to the Securities and Exchange Commission. Chubb's Corporate Governance Guidelines, charters of certain key committees of its Board of Directors, Restated Certificate of Incorporation, By-Laws, Code of Business Conduct and Code of Ethics for CEO and Senior Financial Officers are also available on the Corporation's website or by writing to the Corporation's Corporate Secretary.

Property and Casualty Insurance

The P&C Group is divided into three strategic business units. Chubb Commercial Insurance offers a full range of commercial insurance products, including coverage for multiple peril, casualty, workers' compensation and property and marine. Chubb Commercial Insurance is known for writing niche business, where our expertise can add value for our agents, brokers and policyholders. Chubb Specialty Insurance offers a wide variety of specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms and healthcare organizations. Chubb Specialty Insurance also includes our surety business. Chubb Personal Insurance offers products for individuals with fine homes and possessions who require more coverage choices and higher limits than standard insurance policies.

In December 2005, the Corporation transferred its ongoing reinsurance assumed business to Harbor Point Limited. For a transition period of about two years, Harbor Point underwrote specific reinsurance business on the P&C Group's behalf. The P&C Group retained a portion of this business and ceded the balance to Harbor Point.

The P&C Group provides insurance coverages principally in the United States, Canada, Europe, Australia, and parts of Latin America and Asia. Revenues of the P&C Group by geographic area for the three years ended December 31, 2007 are included in Note (12) of the Notes to Consolidated Financial Statements.

The principal members of the P&C Group are Federal Insurance Company (Federal), Pacific Indemnity Company (Pacific Indemnity), Vigilant Insurance Company (Vigilant), Great Northern Insurance Company (Great Northern), Chubb Custom Insurance Company (Chubb Custom), Chubb National Insurance Company (Chubb National), Chubb Indemnity Insurance Company (Chubb Indemnity), Chubb Insurance Company of New Jersey (Chubb New Jersey), Texas Pacific Indemnity

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Company, Northwestern Pacific Indemnity Company, Executive Risk Indemnity Inc. (Executive Risk Indemnity) and Executive Risk Specialty Insurance Company (Executive Risk Specialty) in the United States, as well as Chubb Atlantic Indemnity Ltd. (a Bermuda company), Chubb Insurance Company of Canada, Chubb Insurance Company of Europe, S.A., Chubb Insurance Company of Australia Limited, Chubb Argentina de Seguros, S.A. and Chubb do Brasil Companhia de Seguros.

Federal is the manager of Vigilant, Pacific Indemnity, Great Northern, Chubb National, Chubb Indemnity, Chubb New Jersey, Executive Risk Indemnity and Executive Risk Specialty. Federal also provides certain services to other members of the P&C Group. Acting subject to the supervision and control of the boards of directors of the members of the P&C Group, Federal provides day to day executive management and operating personnel and makes available the economy and flexibility inherent in the common operation of a group of insurance companies.

Premiums Written

A summary of the P&C Group's premiums written during the past three years is shown in the following table:

Year	Direct Premiums Written	Reinsurance Premiums Assumed(a)	Reinsurance Premiums Ceded(a)	Net Premiums Written
(in millions)				
2005	\$ 12,180	\$ 1,120	\$ 1,017	\$ 12,283
2006	12,224	954	1,204	11,974
2007	12,432	775	1,335	11,872

(a) Intercompany items eliminated.

The net premiums written during the last three years for major classes of the P&C Group's business are included in the Property and Casualty Insurance Underwriting Results section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

One or more members of the P&C Group are licensed and transact business in each of the 50 states of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, Canada, Europe, Australia, and parts of Latin America and Asia. In 2007, approximately 78% of the P&C Group's direct business was produced in the United States, where the P&C Group's businesses enjoy broad geographic distribution with a particularly strong market presence in the Northeast. The five states accounting for the largest amounts of direct premiums written were New York with 12%, California with 9%, Texas with 5%, New Jersey with 5% and Florida with 5%. No other state accounted for 5% of such premiums. Approximately 11% of the P&C Group's direct premiums written was produced in Europe and 5% was produced in Canada.

Underwriting Results

A frequently used industry measurement of property and casualty insurance underwriting results is the combined loss and expense ratio. The P&C Group uses the combined loss and expense ratio calculated in accordance with statutory accounting principles applicable to property and casualty insurance companies. This ratio 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. Investment income is not reflected in the combined ratio. The profitability of property and casualty insurance companies depends on the results of both underwriting and investments operations.

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The combined loss and expense ratios during the last three years in total and for the major classes of the P&C Group's business are included in the Property and Casualty Insurance Underwriting Operations section of MD&A.

Another frequently used measurement in the property and casualty insurance industry is the ratio of statutory net premiums written to policyholders' surplus. At December 31, 2007 and 2006, the ratio for the P&C Group was .91 and 1.05, respectively.

Producing and Servicing of Business

The P&C Group does not utilize a significant in-house distribution model for its products. Instead, in the United States, the P&C Group offers products through approximately 5,000 independent insurance agencies and accepts business on a regular basis from approximately 500 insurance brokers. In most instances, these agencies and brokers also offer products of other companies that compete with the P&C Group. The P&C Group's branch and service offices assist these agencies and brokers in producing and servicing the P&C Group's business. In addition to the administrative offices in Warren and Whitehouse Station, New Jersey, the P&C Group has zone, branch and service offices throughout the United States.

The P&C Group offers products through approximately 3,000 insurance brokers outside the United States. Local branch offices of the P&C Group assist the brokers in producing and servicing the business. In conducting its foreign business, the P&C Group mitigates the risks relating to currency fluctuations by generally maintaining investments in those foreign currencies in which the P&C Group has loss reserves and other liabilities. The net asset or liability exposure to the various foreign currencies is regularly reviewed.

Business for the P&C Group is also produced through participation in certain underwriting pools and syndicates. Such pools and syndicates provide underwriting capacity for risks which an individual insurer cannot prudently underwrite because of the magnitude of the risk assumed or which can be more effectively handled by one organization due to the need for specialized loss control and other services.

Reinsurance Ceded

In accordance with the normal practice of the insurance industry, the P&C Group cedes reinsurance to other insurance companies. Reinsurance is ceded to provide greater diversification of risk and to limit the P&C Group's maximum net loss arising from large risks or from catastrophic events.

A large portion of the P&C Group's ceded reinsurance is effected under contracts known as treaties under which all risks meeting prescribed criteria are automatically covered. Most of the P&C Group's treaty reinsurance arrangements consist of excess of loss and catastrophe contracts that protect against a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. In certain circumstances, reinsurance is also effected by negotiation on individual risks. The amount of each risk retained by the P&C Group is subject to maximum limits that vary by line of business and type of coverage. Retention limits are regularly reviewed and are revised periodically as the P&C Group's capacity to underwrite risks changes. For a discussion of the P&C Group's reinsurance program and the cost and availability of reinsurance, see the Property and Casualty Insurance Underwriting Results section of MD&A.

Ceded reinsurance contracts do not relieve the P&C Group of the primary obligation to its policyholders. Thus, an exposure exists with respect to reinsurance recoverable to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities assumed under the reinsurance contracts. The collectibility of reinsurance is subject to the solvency of the reinsurers, coverage interpretations and other factors. The P&C Group is selective in regard to its reinsurers, placing reinsurance with only those reinsurers that the P&C Group believes have strong balance sheets and superior underwriting ability. The P&C Group monitors the financial strength of its reinsurers on an ongoing basis.

Table of Contents*Unpaid Losses and Loss Adjustment Expenses and Related Amounts Recoverable from Reinsurers*

Insurance companies are required to establish a liability in their accounts for the ultimate costs (including loss adjustment expenses) of claims that have been reported but not settled and of claims that have been incurred but not reported. Insurance companies are also required to report as assets the portion of such liability that will be recovered from reinsurers.

The process of establishing the liability for unpaid losses and loss adjustment expenses is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process.

The anticipated effect of inflation is implicitly considered when estimating liabilities for unpaid losses and loss adjustment expenses. Estimates of the ultimate value of all unpaid losses are based in part on the development of paid losses, which reflect actual inflation. Inflation is also reflected in the case estimates established on reported open claims which, when combined with paid losses, form another basis to derive estimates of reserves for all unpaid losses. There is no precise method for subsequently evaluating the adequacy of the consideration given to inflation, since claim settlements are affected by many factors.

The P&C Group continues to emphasize early and accurate reserving, inventory management of claims and suits, and control of the dollar value of settlements. The number of outstanding claims at year-end 2007 was approximately 9% lower than the number at year-end 2006. The number of new arising claims during 2007 was 4% lower than in the prior year.

Additional information related to the P&C Group's estimates related to unpaid losses and loss adjustment expenses and the uncertainties in the estimation process is presented in the Property and Casualty Insurance Loss Reserves section of MD&A.

The table on page 7 presents the subsequent development of the estimated year-end liability for unpaid losses and loss adjustment expenses, net of reinsurance recoverable, for the ten years prior to 2007. The Corporation acquired Executive Risk Inc. in 1999. The amounts in the table for the years 1997 and 1998 do not include Executive Risk's unpaid losses and loss adjustment expenses.

The top line of the table shows the estimated net liability for unpaid losses and loss adjustment expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid at the balance sheet date, including losses that had been incurred but not yet reported to the P&C Group.

The upper section of the table shows the reestimated amount of the previously recorded net liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of losses for each individual year. The increase or decrease is reflected in operating results of the period in which the estimate is changed. The cumulative deficiency (redundancy) as shown in the table represents the aggregate change in the reserve estimates from the original balance sheet dates through December 31, 2007. The amounts noted are cumulative in nature; that is, an increase in a loss estimate that is related to a prior period occurrence generates a deficiency in each intermediate year. For example, a deficiency recognized in 2007 relating to losses incurred prior to December 31, 1997 would be included in the cumulative deficiency amount for each year in the period 1997 through 2006. Yet, the deficiency would be reflected in operating results only in 2007. The effect of changes in estimates of the liabilities for losses occurring in prior years on income before income taxes in each of the past three years is shown in the reconciliation of the beginning and ending liability for unpaid losses and loss adjustment expenses in the Property and Casualty Insurance Loss Reserves section of MD&A.

Table of Contents**ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT****December 31**

Year Ended	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	(in millions)										
Net Liability for Unpaid Losses and Loss Adjustment Expenses	\$8,564	\$ 9,050	\$ 9,749	\$10,051	\$11,010	\$12,642	\$14,521	\$16,809	\$18,713	\$19,699	\$20,316
Net Liability Reestimated as of:											
One year later	8,346	8,855	9,519	9,856	11,799	13,039	14,848	16,972	18,417	19,002	
Two years later	7,900	8,517	9,095	10,551	12,143	13,634	15,315	17,048	17,861		
Three years later	7,565	8,058	9,653	10,762	12,642	14,407	15,667	16,725			
Four years later	7,145	8,527	9,740	11,150	13,246	14,842	15,584				
Five years later	7,571	8,656	9,999	11,605	13,676	14,907					
Six years later	7,694	8,844	10,373	11,936	13,812						
Seven years later	7,822	9,119	10,602	12,019							
Eight years later	8,061	9,324	10,702								
Nine years later	8,247	9,434									

Ten
years
later 8,383

Total Cumulative Net Deficiency (Redundant)	(181)	384	953	1,968	2,802	2,265	1,063	(84)	(852)	(697)
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Cumulative Net Deficiency Related to Asbestos and Toxic Waste Claims (Included in Above Total)	1,420	1,352	1,305	1,274	1,213	472	222	147	112	88
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Cumulative Amount of Net Liability Paid as of: One year later	1,798	2,520	2,483	2,794	3,085	3,399	3,342	4,031	3,948	3,873
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Two years later	3,444	3,708	4,079	4,669	5,354	5,671	6,095	6,594	6,586
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Three years later	4,161	4,653	5,286	5,981	6,932	7,753	8,039	8,487
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Four years later	4,711	5,351	6,139	7,012	8,390	9,147	9,466
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Five years later	5,133	5,894	6,829	7,894	9,378	10,250
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Six years later	5,481	6,326	7,382	8,635	10,126
	5,807	6,680	7,926	9,159	

Seven
years
later

Eight
years
later

6,060 7,040 8,310

Nine
years
later

6,335 7,330

Ten
years
later

6,599

Gross
Liability,
End of

Year \$9,772 \$10,357 \$11,435 \$11,904 \$15,515 \$16,713 \$17,948 \$20,292 \$22,482 \$22,293 \$22,623

Reinsurance
Recoverable,
End of

Year 1,208 1,307 1,686 1,853 4,505 4,071 3,427 3,483 3,769 2,594 2,307

Net
Liability,
End of

Year \$8,564 \$ 9,050 \$ 9,749 \$10,051 \$11,010 \$12,642 \$14,521 \$16,809 \$18,713 \$19,699 \$20,316

Reestimated
Gross

Liability \$9,807 \$11,050 \$13,117 \$14,828 \$19,243 \$19,688 \$19,318 \$20,119 \$21,410 \$21,565

Reestimated
Reinsurance

Recoverable 424 1,616 2,415 2,809 5,431 4,781 3,734 3,394 3,549 2,563

Reestimated
Net

Liability \$8,383 \$ 9,434 \$10,702 \$12,019 \$13,812 \$14,907 \$15,584 \$16,725 \$17,861 \$19,002

Cumulative
Gross
Deficiency

(Redundancy) \$5 \$ 693 \$ 1,682 \$ 2,924 \$ 3,728 \$ 2,975 \$ 1,370 \$ (173) \$ (1,072) \$ (728)

The amounts for the years 1997 and 1998 do not include the unpaid losses and loss adjustment expenses of Executive Risk, which was acquired in 1999.

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The subsequent development of the net liability for unpaid losses and loss adjustment expenses as of year-ends 1997 through 2003 was adversely affected by substantial unfavorable development related to asbestos and toxic waste claims. The cumulative net deficiencies experienced related to asbestos and toxic waste claims were the result of: (1) an increase in the actual number of claims filed; (2) an increase in the estimated number of potential claims; (3) an increase in the severity of actual and potential claims; (4) an increasingly adverse litigation environment; and (5) an increase in litigation costs associated with such claims. For the years 1997 through 1999, the unfavorable development related to asbestos and toxic waste claims was offset in varying degrees by favorable loss experience in the professional liability classes, particularly directors and officers liability and fiduciary liability. For 2000, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the commercial casualty and workers' compensation classes. For the years 2001 through 2003, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the professional liability classes—principally directors and officers liability and errors and omissions liability, due in large part to adverse loss trends related to corporate failures and allegations of management misconduct and accounting irregularities—and the commercial casualty classes and, to a lesser extent, workers' compensation. For the years 2005 and 2006, there was significant favorable development, primarily in the professional liability classes due to favorable loss trends in recent years and in the homeowners and commercial property classes due to lower than expected emergence of losses.

Conditions and trends that have affected development of the liability for unpaid losses and loss adjustment expenses in the past will not necessarily recur in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on the data in this table.

The middle section of the table on page 7 shows the cumulative amount paid with respect to the reestimated net liability as of the end of each succeeding year. For example, in the 1997 column, as of December 31, 2007 the P&C Group had paid \$6,599 million of the currently estimated \$8,383 million of net losses and loss adjustment expenses that were unpaid at the end of 1997; thus, an estimated \$1,784 million of net losses incurred on or before December 31, 1997 remain unpaid as of December 31, 2007, approximately 53% of which relates to asbestos and toxic waste claims.

The lower section of the table on page 7 shows the gross liability, reinsurance recoverable and net liability recorded at the balance sheet date for each of the indicated years and the reestimation of these amounts as of December 31, 2007.

The liability for unpaid losses and loss adjustment expenses, net of reinsurance recoverable, reported in the accompanying consolidated financial statements prepared in accordance with generally accepted accounting principles (GAAP) comprises the liabilities of U.S. and foreign members of the P&C Group as follows:

	December 31	
	2007	2006
	(in millions)	
U.S. subsidiaries	\$16,597	\$16,492
Foreign subsidiaries	3,719	3,207
	\$20,316	\$19,699

Members of the P&C Group are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). The difference between the liability for unpaid losses and loss expenses reported in the statutory basis financial statements of the U.S. members of the P&C Group and such liability reported on a GAAP basis in the consolidated financial statements is not significant.

Table of Contents*Investments*

Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the respective boards of directors for each company in the P&C Group.

Additional information about the Corporation's investment portfolio as well as its approach to managing risks is presented in the Invested Assets section of MD&A, the Investment Portfolio section of Quantitative and Qualitative Disclosures About Market Risk and Note (4) of the Notes to Consolidated Financial Statements.

The investment results of the P&C Group for each of the past three years are shown in the following table.

Year	Average Invested Assets(a)	Investment Income(b)	Percent Earned	
			Before Tax	After Tax
(in millions)				
2005	\$30,570	\$1,315	4.30%	3.45%
2006	33,492	1,454	4.34	3.48
2007	36,406	1,590	4.37	3.50

- (a) Average of amounts with fixed maturity securities at amortized cost, equity securities at market value and other invested assets, which include private equity limited partnerships, at the P&C Group's equity in the net assets of the partnerships.
- (b) Investment income after deduction of investment expenses, but before applicable income tax.

Competition

The property and casualty insurance industry is highly competitive both as to price and service. Members of the P&C Group compete not only with other stock companies but also with mutual companies, other underwriting organizations and alternative risk sharing mechanisms. Some competitors produce their business at a lower cost through the use of salaried personnel rather than independent agents and brokers. Rates are not uniform among insurers and vary according to the types of insurers, product coverage and methods of operation. The P&C Group competes for business not only on the basis of price, but also on the basis of financial strength, availability of coverage desired by customers and quality of service, including claim adjustment service. The P&C Group's products and services are generally designed to serve specific customer groups or needs and to offer a degree of customization that is of value to the insured. The P&C Group continues to work closely with its customers and to reinforce with them the stability, expertise and added value the P&C Group's products provide.

There are approximately 3,100 property and casualty insurance companies in the United States operating independently or in groups and no single company or group is dominant. However, the relatively large size and underwriting capacity of the P&C Group provide it opportunities not available to smaller companies.

Regulation and Premium Rates

Chubb is a holding company with subsidiaries primarily engaged in the property and casualty insurance business and is therefore subject to regulation by certain states as an insurance holding company. All states have enacted legislation that regulates insurance holding company systems such as the Corporation. This legislation generally provides that each insurance company in the system is required to register with the department of insurance of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance commissioners is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any person in its

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holding company system and, in addition, certain of such transactions cannot be consummated without the commissioners' prior approval.

Companies within the P&C Group are subject to regulation and supervision in the respective states in which they do business. In general, such regulation is designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. The extent of such regulation varies but generally has its source in statutes that delegate regulatory, supervisory and administrative powers to a department of insurance. The regulation, supervision and administration relate, among other things, to: the standards of solvency that must be met and maintained; the licensing of insurers and their agents; restrictions on insurance policy terminations; unfair trade practices; the nature of and limitations on investments; premium rates; restrictions on the size of risks that may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; limitations on dividends to policyholders and shareholders; and the adequacy of provisions for unearned premiums, unpaid losses and loss adjustment expenses, both reported and unreported, and other liabilities.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which the P&C Group operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in many countries are subject to greater restrictions than domestic competitors. In certain countries, the P&C Group has incorporated insurance subsidiaries locally to improve its competitive position.

The National Association of Insurance Commissioners (NAIC) has a risk-based capital requirement for property and casualty insurance companies. The risk-based capital formula is used by state regulatory authorities to identify insurance companies that may be undercapitalized and that merit further regulatory attention. The formula prescribes a series of risk measurements to determine a minimum capital amount for an insurance company, based on the profile of the individual company. The ratio of a company's actual policyholders' surplus to its minimum capital requirement will determine whether any state regulatory action is required. At December 31, 2007, each member of the P&C Group had more than sufficient capital to meet the risk-based capital requirement. The NAIC periodically reviews the risk-based capital formula and changes to the formula could be considered in the future.

Regulatory requirements applying to premium rates vary from state to state, but generally provide that rates cannot be excessive, inadequate or unfairly discriminatory. In many states, these regulatory requirements can impact the P&C Group's ability to change rates, particularly with respect to personal lines products such as automobile and homeowners insurance, without prior regulatory approval. For example, in certain states there are measures that limit the use of catastrophe models or credit scoring as well as premium rate freezes or limitations on the ability to cancel or nonrenew certain policies, which can affect the P&C Group's ability to charge adequate rates.

Subject to legislative and regulatory requirements, the P&C Group's management determines the prices charged for its policies based on a variety of factors including loss and loss adjustment expense experience, inflation, anticipated changes in the legal environment, both judicial and legislative, and tax law and rate changes. Methods for arriving at prices vary by type of business, exposure assumed and size of risk. Underwriting profitability is affected by the accuracy of these assumptions, by the willingness of insurance regulators to approve changes in those rates that they control and by certain other matters, such as underwriting selectivity and expense control.

In all states, insurers authorized to transact certain classes of property and casualty insurance are required to become members of an insolvency fund. In the event of the insolvency of a licensed insurer writing a class of insurance covered by the fund in the state, companies in the P&C Group, together with the other fund members, are assessed in order to provide the funds necessary to pay certain claims against the insolvent insurer. Generally, fund assessments are proportionately based on the members' written premiums for the classes of insurance written by the insolvent insurer. In certain states, the P&C Group can recover a portion of these assessments through premium tax offsets and

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policyholder surcharges. In 2007, assessments of the members of the P&C Group amounted to \$9 million. The amount of future assessments cannot be reasonably estimated.

Insurance regulation in certain states requires the companies in the P&C Group, together with other insurers operating in the state, to participate in assigned risk plans, reinsurance facilities and joint underwriting associations, which are mechanisms that generally provide applicants with various basic insurance coverages when they are not available in voluntary markets. Such mechanisms are most prevalent for automobile and workers' compensation insurance, but a majority of states also mandate that insurers, such as the P&C Group, participate in Fair Plans or Windstorm Plans, which offer basic property coverages to insureds where not otherwise available. Some states also require insurers to participate in facilities that provide homeowners, crime and other classes of insurance where periodic market constrictions may occur. Participation is based upon the amount of a company's voluntary written premiums in a particular state for the classes of insurance involved. These involuntary market plans generally are underpriced and produce unprofitable underwriting results.

In several states, insurers, including members of the P&C Group, participate in market assistance plans. Typically, a market assistance plan is voluntary, of limited duration and operates under the supervision of the insurance commissioner to provide assistance to applicants unable to obtain commercial and personal liability and property insurance. The assistance may range from identifying sources where coverage may be obtained to pooling of risks among the participating insurers. A few states require insurers, including members of the P&C Group, to purchase reinsurance from a mandatory reinsurance fund.

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives often have an impact on the business in a variety of ways. Current and proposed federal measures that may significantly affect the P&C Group's business and the market as a whole include federal terrorism insurance, asbestos liability reform measures, tort reform, natural catastrophes, corporate governance, ergonomics, health care reform including the containment of medical costs, medical malpractice reform and patients' rights, privacy, e-commerce, international trade, federal regulation of insurance companies and the taxation of insurance companies.

Companies in the P&C Group are also affected by a variety of state and federal legislative and regulatory measures as well as by decisions of their courts that define and extend the risks and benefits for which insurance is provided. These include: redefinitions of risk exposure in areas such as water damage, including mold, flood and storm surge; products liability and commercial general liability; credit scoring; and extension and protection of employee benefits, including workers' compensation and disability benefits.

Pursuant to a December 2006 settlement agreement with the Attorneys General of New York, Connecticut and Illinois, the Corporation, among other things, agreed to no longer pay compensation to agents and brokers in the form of contingent commissions on all lines of its business. A number of other property and casualty insurance carriers and a number of insurance producers also have agreed with various regulatory agencies to no longer pay or accept, as applicable, contingent commissions in some or all lines of business. A small number of states have enacted compensation disclosure rules and it is possible that additional states may adopt such rules in the future.

Legislative and judicial developments pertaining to asbestos and toxic waste exposures are discussed in the Property and Casualty Insurance - Loss Reserves section of MD&A.

Real Estate

The Corporation's wholly owned subsidiary, Bellemead Development Corporation (Bellemead), and its subsidiaries were involved in commercial development activities primarily in New Jersey and

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residential development activities primarily in central Florida. The real estate operations are in run-off. Additional information related to the Corporation's real estate operations is included in the Corporate and Other Real Estate section of MD&A.

Chubb Financial Solutions

Chubb Financial Solutions (CFS) provided customized financial products to corporate clients. CFS's business was primarily structured credit derivatives, principally as a counterparty in portfolio credit default swaps. CFS has been in run-off since April 2003. Since that date, CFS has terminated early or run-off nearly all of its contractual obligations within its financial products portfolio. Additional information related to CFS's operations is included in the Corporate and Other Chubb Financial Solutions section of MD&A.

Item 1A. Risk Factors

The Corporation's business is subject to a number of risks, including those described below, that could have a material effect on the Corporation's results of operations, financial condition or liquidity and that could cause our operating results to vary significantly from period to period. References to we, us and our appearing in this Form 10-K should be read to refer to the Corporation.

If our property and casualty loss reserves are insufficient, our results could be adversely affected.

The process of establishing loss reserves is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process. Variations between our loss reserve estimates and the actual emergence of losses could be material and could have a material adverse effect on our results of operations and financial condition.

A further discussion of the risk factors related to our property and casualty loss reserves is presented in the Property and Casualty Insurance Loss Reserves section of MD&A.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social, environmental and other conditions change, unexpected or unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these issues may not become apparent for some time after we have written the insurance policies that are affected by such issues. As a result, the full extent of liability under our insurance policies may not be known for many years after the policies are issued. Emerging claim and coverage issues could have a material adverse effect on our results of operations and financial condition.

Catastrophe losses could materially and adversely affect our business.

As a property and casualty insurance holding company, our insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various natural perils, including hurricanes and other windstorms, earthquakes, severe winter weather and brush fires. Catastrophes can also be man-made, such as a terrorist attack. The frequency and severity of catastrophes are inherently unpredictable. It is possible that both the frequency and severity of natural and man-made catastrophic events will increase.

The extent of losses from a catastrophe is a function of both the total amount of exposure under our insurance policies in the area affected by the event and the severity of the event. Most catastrophes are restricted to relatively small geographic areas; however, hurricanes and earthquakes may produce significant damage over larger areas, especially those that are heavily populated. Natural or man-made catastrophic events could cause claims under our insurance policies to be higher than we

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anticipated and could cause substantial volatility in our financial results for any fiscal quarter or year. Our ability to write new business could also be affected. We believe that increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophic events in the future. In addition, states have from time to time passed legislation that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from withdrawing from catastrophe-exposed areas.

As a result of the foregoing, it is possible that the occurrence of any natural or man-made catastrophic event could have a material adverse effect on our business, results of operations, financial condition and liquidity. A further discussion of the risk factors related to catastrophes is presented in the Property and Casualty Insurance Catastrophe Risk Management section of MD&A.

The occurrence of certain catastrophic events could have a materially adverse effect on our systems and could impact our ability to conduct business effectively.

Our computer, information technology and telecommunications systems, which we use to conduct our business, interface with and rely upon third-party systems. Systems failures or outages could compromise our ability to perform business functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, our systems may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees or third party providers are able to report to work, they may be unable to perform their duties for an extended period of time if our computer, information technology or telecommunication systems are disabled or destroyed. Our systems could also be subject to physical and electronic break-ins, and subject to similar disruptions from unauthorized tampering. This may impede or interrupt our business operations, which could have a material adverse effect on our results of operations and financial condition.

If we experience difficulties with outsourcing relationships, our ability to conduct our business might be negatively impacted.

We outsource certain business and administrative functions to third parties. If we fail to develop and implement our outsourcing strategies or our third party providers fail to perform as anticipated, we may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on our results of operations and financial condition.

The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations.

We utilize a number of strategies to mitigate our risk exposure, such as:

engaging in vigorous underwriting;

carefully evaluating terms and conditions of our policies;

focusing on our risk aggregations by geographic zones, industry type, credit exposure and other bases; and

ceding reinsurance.

However, there are inherent limitations in all of these tactics and no assurance can be given that an event or series of unanticipated events will not result in loss levels in excess of our probable maximum loss models, which could have a material adverse effect on our financial condition or results of operations.

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Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all and we may not be able to collect all amounts due to us from reinsurers from whom we have purchased coverage.

The availability and cost of reinsurance are subject to prevailing market conditions that are beyond our control. No assurances can be made that reinsurance will remain continuously available to us in amounts that we consider sufficient and at prices that we consider acceptable, which would cause us to increase the amount of risk we retain, reduce the amount of business we underwrite or look for alternatives to reinsurance. This, in turn, could have a material adverse effect on our financial condition or results of operations.

With respect to reinsurance coverages we have purchased, our ability to recover amounts due from reinsurers may be affected by the creditworthiness and willingness to pay of the reinsurers from whom we have purchased coverage. The inability or unwillingness of any of our reinsurers to meet their obligations to us could have a material adverse effect on our results of operations.

Cyclical nature of the property and casualty insurance industry may cause fluctuations in our results.

The property and casualty insurance business historically has been cyclical, experiencing periods characterized by intense price competition, relatively low premium rates and less restrictive underwriting standards followed by periods of relatively low levels of competition, high premium rates and more selective underwriting standards. We expect this cyclical nature to continue. The periods of intense price competition in the cycle could adversely affect our financial condition, profitability or cash flows.

A number of factors, including many that are volatile and unpredictable, can have a significant impact on cyclical trends in the property and casualty insurance industry and the industry's profitability. These factors include:

- an apparent trend of courts to grant increasingly larger awards for certain damages;

- catastrophic hurricanes, windstorms, earthquakes and other natural disasters, as well as the occurrence of man-made disasters (e.g., a terrorist attack);

- availability, price and terms of reinsurance;

- fluctuations in interest rates;

- changes in the investment environment that affect market prices of and income and returns on investments; and

- inflationary pressures that may tend to affect the size of losses experienced by insurance companies.

We cannot predict whether or when market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to write insurance at rates that we consider appropriate relative to the risk assumed. If we cannot write insurance at appropriate rates, our ability to transact business would be materially and adversely affected.

Payment of obligations under surety bonds could adversely affect our future operating results.

The surety business tends to be characterized by infrequent but potentially high severity losses. The majority of our surety obligations are intended to be performance-based guarantees. When losses occur, they may be mitigated, at times, by recovery rights to the customer's assets, contract payments, collateral and bankruptcy recoveries. We have substantial commercial and construction surety exposure for current and prior customers. In that regard, we have exposures related to surety bonds issued on behalf of companies that have experienced or may experience deterioration in creditworthiness. If the financial condition of these companies were adversely affected by the economy or otherwise, we may experience an increase in filed claims and may incur high severity losses, which could have a material adverse effect on our results of operations.

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A downgrade in our credit ratings and financial strength ratings could adversely impact the competitive positions of our operating businesses.

Credit ratings and financial strength ratings can be important factors 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. If our credit ratings were downgraded in the future, we could incur higher borrowing costs and may have more limited means to access capital. In addition, 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.

Our businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

Our insurance subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they conduct business. This regulation is generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders or other investors. The regulation relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and nonfinancial components of an insurance company's business.

Virtually all states in which we operate require us, together with other insurers licensed to do business in that state, to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. In addition, in various states, our insurance subsidiaries must participate in mandatory arrangements to provide various types of insurance coverage to individuals or other entities that otherwise are unable to purchase that coverage from private insurers. A few states require us to purchase reinsurance from a mandatory reinsurance fund. Such reinsurance funds can create a credit risk for insurers if not adequately funded by the state and, in some cases, the existence of a reinsurance fund could affect the prices charged for our policies. The effect of these and similar arrangements could reduce our profitability in any given period or limit our ability to grow our business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, including scrutiny by federal officials, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs.

We cannot predict the outcome of the investigations into business practices in the property and casualty insurance industry or related legal proceedings, including any potential amounts that we may be required to pay.

In recent years, Attorneys General and regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities commenced investigations into certain business practices in the property and casualty insurance industry involving, among other things, (1) the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. We have received, and may continue to receive, subpoenas and other information requests from Attorneys General or other regulatory agencies regarding similar issues.

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In August 2007, the Attorney General of Ohio filed an action against us, as well as several other insurers and one broker, as a result of the Ohio Attorney General's business practices investigation. Although no other Attorney General or regulator has initiated an action against us and we have settled matters arising out of the investigations into business practices in the property and casualty insurance market by the Attorneys General of Connecticut, Illinois and New York, it is possible that such an action may be brought against us with respect to some or all of the issues that are the focus of the ongoing investigations. In addition, we have been named in legal proceedings brought by private plaintiffs arising out of these investigations. We cannot predict the ultimate outcome of these or any future investigations or legal proceedings, including any potential amounts that we may be required to pay in connection with them.

In addition, it is possible that one or more jurisdictions may adopt regulatory reforms as a result of these investigations. We cannot predict the impact of any such regulatory reforms on our ability to renew business or write new business.

Intense competition for our products could harm our ability to maintain or increase our profitability and premium volume.

The property and casualty insurance industry is highly competitive. We compete not only with other stock companies but also with mutual companies, other underwriting organizations and alternative risk sharing mechanisms. We compete for business not only on the basis of price, but also on the basis of financial strength, availability of coverage desired by customers and quality of service, including claim adjustment service. We may have difficulty in continuing to compete successfully on any of these bases in the future.

If competition limits our ability to write new business at adequate rates, our results of operations could be adversely affected.

We are dependent on a distribution network comprised of independent insurance brokers and agents to distribute our products.

We generally do not use salaried employees to promote or distribute our insurance products. Instead, we rely on a large number of independent insurance brokers and agents. Accordingly, our business is dependent on the willingness of these brokers and agents to recommend our products to their customers. Deterioration in relationships with our broker and agent distribution network could materially and adversely affect our ability to sell our products, which, in turn, could have a material adverse effect on our results of operations and financial condition.

The inability of our insurance subsidiaries to pay dividends in sufficient amounts would harm our ability to meet our obligations and to pay future dividends.

As a holding company, Chubb relies primarily on dividends from its insurance subsidiaries to meet its obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders. The ability of our insurance subsidiaries to pay dividends in the future will depend on their statutory surplus, on earnings and on regulatory restrictions. We are subject to regulation by some states as an insurance holding company system. Such regulation generally provides that transactions between companies within the holding company system must be fair and equitable. Transfers of assets among affiliated companies, certain dividend payments from insurance subsidiaries and certain material transactions between companies within the system may be subject to prior notice to, or prior approval by, state regulatory authorities. The ability of our insurance subsidiaries to pay dividends is also restricted by regulations that set standards of solvency that must be met and maintained, that limit investments and that limit dividends to shareholders. These regulations may affect Chubb's insurance subsidiaries' ability to provide Chubb with dividends.

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Our investments may suffer reduced returns or losses.

The returns on our investment portfolio may be reduced or we may incur losses as a result of changes in general economic conditions, exchange rates, global capital market conditions and numerous other factors that are beyond our control. These factors may cause us to realize less than expected returns on invested assets, sell investments for a loss or write off or write down investments, any of which could have a material adverse effect on our results of operations or financial condition.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

The executive offices of the Corporation are in Warren, New Jersey. The administrative offices of the P&C Group are located in Warren and Whitehouse Station, New Jersey. The P&C Group maintains zone, branch and service offices in major cities throughout the United States and also has offices in Canada, Europe, Australia, Latin America and Asia. Office facilities are leased with the exception of buildings in Whitehouse Station, New Jersey and Simsbury, Connecticut. Management considers its office facilities suitable and adequate for the current level of operations.

Item 3. *Legal Proceedings*

As previously disclosed, beginning in December 2002, Chubb Indemnity was named in a series of actions commenced by various plaintiffs against Chubb Indemnity and other non-affiliated insurers in the District Courts in Nueces, Travis and Bexar Counties in Texas. The plaintiffs generally allege that Chubb Indemnity and the other defendants breached duties to asbestos product end-users and conspired to conceal risks associated with asbestos exposure. The plaintiffs seek to impose liability on insurers directly. The plaintiffs seek unspecified monetary damages and punitive damages. Pursuant to the asbestos reform bill passed by the Texas legislature in May 2005, these actions were transferred to the Texas state asbestos Multidistrict Litigation on December 1, 2005. Chubb Indemnity is vigorously defending all of these actions and has been successful in getting a number of them dismissed through summary judgment, special exceptions, or voluntary withdrawal by the plaintiff.

Beginning in June 2003, Chubb Indemnity was also named in a number of similar cases in Cuyahoga, Mahoning, and Trumbull Counties in Ohio. The allegations and the damages sought in the Ohio actions are substantially similar to those in the Texas actions. In May 2005, the Ohio Court of Appeals sustained the trial court's dismissal of a group of nine cases for failure to state a claim. Following the appellate court's decision, Chubb Indemnity and other non-affiliated insurers were dismissed from the remaining cases filed in Ohio, except for a single case which had been removed to federal court and transferred to the federal asbestos Multidistrict Litigation. There has been no activity in that case since its removal.

In December 2007, certain of Chubb's subsidiaries were named in an action filed in the Superior Court of Los Angeles County, California that contains allegations similar to those made in the Texas and Ohio actions. The subsidiaries are vigorously defending this action.

As previously disclosed, Chubb and certain of its subsidiaries have been involved in the investigations of certain business practices in the property and casualty insurance industry by various Attorneys General and other regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities with respect to, among other things, (1) potential conflicts of interest and anti-competitive behavior arising from the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. In connection with these investigations, Chubb and certain of its subsidiaries received subpoenas and other requests for information from various regulators. The Corporation has been cooperating fully with these investigations. In December 2006, the Corporation settled with the Attorneys General of New York, Connecticut and Illinois all issues arising out of their investigations. As described in more detail below, the Attorney General of Ohio in

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August 2007 filed an action against Chubb and certain of its subsidiaries, as well as several other insurers and one broker, as a result of the Ohio Attorney General's business practices investigation. Although no other Attorney General or regulator has initiated an action against the Corporation, it is possible that such an action may be brought against the Corporation with respect to some or all of the issues that are the focus of these ongoing investigations.

As previously disclosed, individual actions and purported class actions arising out of the investigations into the payment of contingent commissions to brokers and agents have been filed in a number of federal and state courts. On August 1, 2005, Chubb and certain of its subsidiaries were named in a putative class action entitled *In re Insurance Brokerage Antitrust Litigation* in the U.S. District Court for the District of New Jersey. This action, brought against several brokers and insurers on behalf of a class of persons who purchased insurance through the broker defendants, asserts claims under the Sherman Act and state law and the Racketeer Influenced and Corrupt Organizations Act (RICO) arising from the alleged unlawful use of contingent commission agreements.

Chubb and certain of its subsidiaries have also been named as defendants in two purported class actions relating to allegations of unlawful use of contingent commission arrangements that were originally filed in state court. The first was filed on February 16, 2005 in Seminole County, Florida. The second was filed on May 17, 2005 in Essex County, Massachusetts. Both cases were removed to federal court and then transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the District of New Jersey for consolidation with the *In re Insurance Brokerage Antitrust Litigation*. Since being transferred to the District of New Jersey, the plaintiff in the former action has been inactive, and that action currently is stayed. The latter action has been voluntarily dismissed. On September 28, 2007, the U.S. District Court for the District of New Jersey dismissed the second amended complaint filed by the plaintiffs in *In re Insurance Brokerage Antitrust Litigation* in its entirety. In so doing, the court dismissed the plaintiffs' Sherman Act and RICO claims with prejudice for failure to state a claim, and it dismissed the plaintiffs' state law claims without prejudice because it declined to exercise supplemental jurisdiction over them. The plaintiffs have appealed the dismissal of their second amended complaint to the U.S. Court of Appeals for the Third Circuit, and that appeal is currently pending.

In December 2005, Chubb and certain of its subsidiaries were named in a putative class action similar to the *In re Insurance Brokerage Antitrust Litigation*. The action is pending in the U.S. District Court for the District of New Jersey and has been assigned to the judge who is presiding over the *In re Insurance Brokerage Antitrust Litigation*. The complaint has never been served in this matter. Separately, in April 2006, Chubb and one of its subsidiaries were named in an action similar to the *In re Insurance Brokerage Antitrust Litigation*. This action was filed in the U.S. District Court for the Northern District of Georgia and subsequently was transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District for the District of New Jersey for consolidation with the *In re Insurance Brokerage Antitrust Litigation*. This action currently is stayed. On May 21, 2007, Chubb and one of its subsidiaries were named as defendants in another action similar to *In re Insurance Brokerage Antitrust Litigation*. This action was filed in the U.S. District Court for the District of New Jersey and consolidated with *In re Insurance Brokerage Antitrust Litigation*. This action currently is stayed.

On October 12, 2007, certain of Chubb's subsidiaries were named as defendants in an action similar to *In re Insurance Brokerage Antitrust Litigation*. This action was filed in the U.S. District Court for the Northern District of Georgia. This action has been identified to the Judicial Panel on Multidistrict Litigation as a potential tag-along action to *In re Insurance Brokerage Antitrust Litigation*. The Corporation currently anticipates that this action will be transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the District of New Jersey and consolidated with *In re Insurance Brokerage Antitrust Litigation*.

On August 24, 2007, Chubb and certain of its subsidiaries were named as defendants in an action filed by the Ohio Attorney General against several insurers and one broker. This action alleges

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violations of Ohio's antitrust laws. On November 18, 2007, the Corporation filed a motion to dismiss the Attorney General's complaint which is still pending.

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

Information regarding certain litigation to which the P&C Group is a party is included in the Property and Casualty Insurance - Loss Reserves section of MD&A.

Chubb and its subsidiaries are also defendants in various lawsuits arising out of their businesses. It is the opinion of management that the final outcome of these matters will not materially affect the Corporation's results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the shareholders during the quarter ended December 31, 2007.

Executive Officers of the Registrant

	Age(a)	Year of Election(b)
John D. Finnegan, Chairman, President and Chief Executive Officer	59	2002
Maureen A. Brundage, Executive Vice President and General Counsel	51	2005
Robert C. Cox, Executive Vice President of Chubb & Son, a division of Federal	50	2003
John J. Degnan, Vice Chairman and Chief Administrative Officer	63	1994
Paul J. Krump, Executive Vice President of Chubb & Son, a division of Federal	48	2001
Andrew A. McElwee, Jr., Executive Vice President of Chubb & Son, a division of Federal	53	1997
Thomas F. Motamed, Vice Chairman and Chief Operating Officer	59	1997
Dino E. Robusto, Executive Vice President of Chubb & Son, a division of Federal	49	2006
Michael O. Reilly, Vice Chairman and Chief Financial Officer	64	1976
Henry B. Schram, Senior Vice President and Chief Accounting Officer	61	1985

(a) Ages listed above are as of April 29, 2008.

(b) Date indicates year first elected or designated as an executive officer.

All of the foregoing officers serve at the pleasure of the Board of Directors of the Corporation and have been employees of the Corporation for more than five years except for Ms. Brundage.

Before joining the Corporation in 2005, Ms. Brundage was a partner in the law firm of White & Case LLP, where she headed the securities practice in New York and co-chaired its global securities practice.

Table of Contents**PART II.****Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters**

The common stock of Chubb is listed and principally traded on the New York Stock Exchange (NYSE) under the trading symbol **CB**. The following are the high and low closing sale prices as reported on the NYSE Composite Tape and the quarterly dividends declared per share for each quarter of 2007 and 2006.

2007				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock prices				
High	\$53.34	\$55.91	\$54.63	\$55.52
Low	48.82	51.68	47.36	49.80
Dividends declared	.29	.29	.29	.29

2006				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock prices				
High	\$49.45	\$52.55	\$52.55	\$54.65
Low	46.80	47.60	47.40	51.35
Dividends declared	.25	.25	.25	.25

At February 15, 2008, there were approximately 9,300 common shareholders of record.

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 the Corporation's operating results, financial condition and capital requirements, and the impact of regulatory constraints discussed in Note (19)(f) of the Notes to Consolidated Financial Statements.

The following table summarizes the stock repurchased by Chubb during each month in the quarter ended December 31, 2007.

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(b)
October 2007	1,183,564	\$53.96	1,183,564	6,742,558
November 2007	2,402,166	51.87	2,402,166	4,340,392
December 2007	6,227,722	54.07	6,227,722	26,112,670
Total	9,813,452	53.52	9,813,452	

- (a) The stated amounts exclude 28,677 shares, 42,773 shares and 6,803 shares delivered to Chubb during the months of October 2007, November 2007 and December 2007, respectively, by employees of the Corporation to cover option exercise prices and withholding taxes in connection with the Corporation's stock-based compensation plans.
- (b) On December 7, 2006, the Board of Directors authorized the repurchase of up to 20,000,000 shares of common stock. On March 21, 2007, the Board of Directors authorized an increase of 20,000,000 shares to the authorization approved in December 2006. No shares remain under this share repurchase authorization. On December 13, 2007, the Board of Directors authorized the repurchase of up to 28,000,000 additional shares of common stock. The authorization has no expiration date.

Table of Contents**Stock Performance Graph**

The following performance graph compares the performance of Chubb's common stock during the five-year period from December 31, 2002 through December 31, 2007 with the performance of the Standard & Poor's 500 Index and the Standard & Poor's Property & Casualty Insurance Index. The graph plots the changes in value of an initial \$100 investment over the indicated time periods, assuming all dividends are reinvested.

Cumulative Total Return
Based upon an initial investment of \$100 on December 31, 2002
with dividends reinvested

	December 31					
	2002	2003	2004	2005	2006	2007
Chubb	\$ 100	\$ 134	\$ 154	\$ 200	\$ 221	\$ 233
S&P 500	100	129	143	150	173	183
S&P 500 Property & Casualty Insurance	100	126	140	161	181	156

Our filings with the Securities and Exchange Commission (SEC) may incorporate information by reference, including this Form 10-K. Unless we specifically state otherwise, the information under this heading "Stock Performance Graph" shall not be deemed to be soliciting materials and shall not be deemed to be filed with the SEC or incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Table of Contents**Item 6. Selected Financial Data**

	2007	2006	2005	2004	2003
(in millions except for per share amounts)					
FOR THE YEAR					
Revenues					
Property and Casualty Insurance					
Premiums Earned	\$ 11,946	\$ 11,958	\$ 12,176	\$ 11,636	\$ 10,183
Investment Income	1,622	1,485	1,342	1,207	1,083
Other Revenues	11				
Corporate and Other	154	315	181	116	44
Realized Investment Gains	374	245	384	218	84
Total Revenues	\$ 14,107	\$ 14,003	\$ 14,083	\$ 13,177	\$ 11,394
Income					
Property and Casualty Insurance					
Underwriting Income (a)	\$ 2,116	\$ 1,905	\$ 921(b)	\$ 846	\$ 105
Investment Income	1,590	1,454	1,315	1,184	1,058
Other Income (Charges)	6	10	(1)	(4)	(30)
Property and Casualty Insurance Income	3,712	3,369	2,235	2,026	1,133
Corporate and Other	(149)	(89)	(172)	(176)	(283)
Realized Investment Gains	374	245	384	218	84
Income Before Income Tax	3,937	3,525	2,447	2,068	934
Federal and Foreign Income Tax	1,130	997	621	520	125
Net Income	\$ 2,807	\$ 2,528	\$ 1,826	\$ 1,548	\$ 809
Per Share					
Net Income	\$ 7.01	\$ 5.98	\$ 4.47	\$ 4.01	\$ 2.23
Dividends Declared on Common Stock	1.16	1.00	.86	.78	.72
AT DECEMBER 31					
Total Assets	\$50,574	\$50,277	\$48,061	\$44,260	\$38,361
Long Term Debt	3,460	2,466	2,467	2,814	2,814
Total Shareholders Equity	14,445	13,863	12,407	10,126	8,522
Book Value Per Share	38.56	33.71	29.68	26.28	22.67

- (a) Underwriting income reflected net losses of \$88 million (\$57 million after-tax or \$0.14 per share) in 2007, \$24 million (\$16 million after-tax or \$0.04 per share) in 2006, \$35 million (\$23 million after-tax or \$0.06 per share) in 2005, \$75 million (\$49 million after-tax or \$0.13 per share) in 2004 and \$250 million (\$163 million after-tax or \$0.45 per share) in 2003 related to asbestos and toxic waste claims.
- (b) Underwriting income in 2005 reflected net costs of \$462 million (\$300 million after-tax or \$0.74 per share) related to Hurricane Katrina.

Table of Contents**Item 7. *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 December 31, 2007 compared with December 31, 2006 and the results of operations for each of the three years in the period ended December 31, 2007. This discussion should be read in conjunction with the consolidated financial statements and related notes and the other information contained in this report.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements are made pursuant to the safe harbor provisions of the PSLRA and include statements regarding our loss reserve and reinsurance recoverable estimates; the impact of future catastrophes on our results of operations, financial condition or liquidity; asbestos liability developments; the number and severity of surety-related claims; the impact of changes to our reinsurance program in 2006 and 2007 on our results of operations, financial condition or liquidity and the cost and availability of reinsurance in 2008; the adequacy of the rates at which we renewed and wrote new business; premium volume and competition in 2008; the impact of investigations into market practices in the property and casualty insurance industry and any resulting business reforms; changes to our producer compensation program; estimates with respect to our credit derivatives exposure; provisions for impairment of our real estate assets; the repurchase of common stock under our share repurchase program; our capital adequacy and funding of liquidity needs; and the overall effect of interest rate risk on us. Forward-looking statements are made based upon management's current expectations and beliefs concerning trends and future developments and their potential effects on us. These statements are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties, which include, among others, those discussed or identified from time to time in our public filings with the Securities and Exchange Commission and those associated with:

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

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

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

adverse changes in loss cost trends;

our ability to retain existing business;

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

the adequacy of loss reserves, including:

our expectations relating to reinsurance recoverables;

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

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

development of new theories of liability;

our estimates relating to ultimate asbestos liabilities;

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

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

the availability and cost of reinsurance coverage;

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

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

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

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

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

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

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

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

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

the ability of our subsidiaries to pay us dividends;

general economic and market conditions including:
changes in interest rates, market credit spreads and the performance of the financial markets;

uncertainty in the credit markets and its impact on specific types of investments as well as on the broader financial markets;

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; and
our ability to implement management's strategic plans and initiatives.

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

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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. These estimates and judgments, which are discussed 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.

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 \$2.8 billion in 2007 compared with \$2.5 billion in 2006 and \$1.8 billion in 2005. Net income in 2007 and 2006 benefited from substantially higher underwriting income in our property and casualty insurance business compared with 2005.

Underwriting results were significantly more profitable in 2007 and 2006 compared with 2005. Our combined loss and expense ratio was 82.9% in 2007 compared with 84.2% in 2006 and 92.3% in 2005. The impact of catastrophes accounted for 3.0 percentage points of the combined ratio in 2007 compared with 1.4 percentage points in 2006 and 5.6 percentage points in 2005. The greater catastrophe impact in 2005 was due to costs of \$462 million related to Hurricane Katrina, including estimated net losses of \$403 million and net reinsurance reinstatement premium costs of \$59 million.

Total net premiums written decreased by 1% in 2007 and 3% in 2006. Net premiums written in our insurance business increased 1% in 2007 and 2% in 2006. The low growth in our insurance business in both years reflected our continued emphasis on underwriting discipline in an increasingly competitive market environment. In the reinsurance assumed business, net premiums written decreased 65% in 2007 and 57% in 2006, reflecting our sale of the ongoing business to Harbor Point Limited in December 2005.

During 2007, we experienced overall favorable development of \$697 million on loss reserves established as of the previous year end, due primarily to favorable loss trends in recent years in the professional liability classes, lower than expected emergence of losses in the homeowners and commercial property classes and better than expected reported loss activity in the run-off of our reinsurance assumed business. During 2006, we experienced overall favorable development of \$296 million due primarily to lower than expected emergence of losses in the homeowners and commercial property classes. During 2005, we experienced overall unfavorable development of \$163 million due to adverse development in the professional liability and commercial liability classes offset in part by favorable development in the homeowners and commercial property classes.

Property and casualty investment income after tax increased by 9% in 2007 and 10% in 2006. The growth was due to an increase in invested assets over the period. For more information on this non-GAAP financial measure, see Property and Casualty Insurance Investment Results.

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A summary of our consolidated net income is as follows:

	Years Ended December 31		
	2007	2006	2005
	(in millions)		
Property and casualty insurance	\$3,712	\$3,369	\$2,235
Corporate and other	(149)	(89)	(172)
Realized investment gains	374	245	384
Consolidated income before income tax	3,937	3,525	2,447
Federal and foreign income tax	1,130	997	621
Consolidated net income	\$2,807	\$2,528	\$1,826

PROPERTY AND CASUALTY INSURANCE

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

	Years Ended December 31		
	2007	2006	2005
	(in millions)		
Underwriting			
Net premiums written	\$11,872	\$11,974	\$12,283
Decrease (increase) in unearned premiums	74	(16)	(107)
Premiums earned	11,946	11,958	12,176
Losses and loss expenses	6,299	6,574	7,813
Operating costs and expenses	3,564	3,467	3,436
Increase in deferred policy acquisition costs	(52)	(19)	(17)
Dividends to policyholders	19	31	23
Underwriting income	2,116	1,905	921
Investments			
Investment income before expenses	1,622	1,485	1,342
Investment expenses	32	31	27
Investment income	1,590	1,454	1,315
Other income (charges)	6	10	(1)
Property and casualty income before tax	\$ 3,712	\$ 3,369	\$ 2,235
Property and casualty investment income after tax	\$ 1,273	\$ 1,166	\$ 1,056

Property and casualty income before tax in 2007 was higher than in 2006 which, in turn, was substantially higher than in 2005. Income in each year, but more so in 2007 and 2006, benefited from highly profitable underwriting results. Underwriting income in 2007 was higher than in 2006, particularly in our specialty insurance business unit. Underwriting income in 2006 was substantially higher than in 2005, due largely to significantly lower catastrophe losses, particularly in our commercial insurance business unit, as well as improvement in our specialty insurance business unit. Results in 2007 and 2006 also benefited from significant increases in investment income due to an increase in invested assets in both years.

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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 Operations**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 amounted to \$11.9 billion in 2007, a decrease of 1% compared with 2006. Net premiums written in 2006 decreased 3% compared with 2005. In both years, a slight increase in premiums from our insurance business was more than offset by a substantial decline in premiums from our reinsurance assumed business.

Net premiums written by business unit were as follows:

	Years Ended December 31				
	2007	% Increase (Decrease) 2007 vs. 2006	2006	% Increase (Decrease) 2006 vs. 2005	2005
	(dollars in millions)				
Personal insurance	\$ 3,709	5%	\$ 3,518	6%	\$ 3,307
Commercial insurance	5,083	(1)	5,125	2	5,030
Specialty insurance	2,944		2,941	(3)	3,042
Total insurance	11,736	1	11,584	2	11,379
Reinsurance assumed	136	(65)	390	(57)	904
Total	\$11,872	(1)	\$11,974	(3)	\$12,283

Net premiums written from our insurance business grew 1% in 2007 and 2% in 2006. Premiums in 2005 were reduced by reinsurance reinstatement premium costs of \$102 million related to Hurricane Katrina. Premiums in 2006 benefited from a \$20 million reduction of previously accrued reinsurance reinstatement premium costs. Premiums in the United States, which represent about 75% of our insurance premiums, decreased 1% in 2007 and increased 1% in 2006. Insurance premiums outside the U.S. grew 10% in 2007 and 4% in 2006. In both years, such growth was 3% when measured in local currencies.

The slight overall growth in net written premiums in our insurance business in both 2007 and 2006 reflected our continued emphasis on underwriting discipline in an increasingly competitive market environment. Rates were under competitive pressure that varied by class of business and geographic area. In both years, we retained a high percentage of our existing customers and renewed these accounts at prices we believe to be appropriate relative to the exposure. In addition, while we continued to be selective, we found opportunities to write new business at acceptable rates; however, we saw fewer such opportunities as 2007 progressed. We expect the competitive market environment to continue in 2008. We expect that overall premiums in our insurance business will be flat to modestly down in 2008 compared with 2007, with a modest increase for personal insurance and modest decreases for both commercial insurance and specialty insurance.

Net reinsurance assumed premiums written decreased by 65% in 2007 and 57% in 2006. Premiums in 2005 included net reinstatement premium revenue of \$43 million related to Hurricane Katrina. The significant premium

decline reflects the sale of our ongoing reinsurance assumed business to Harbor Point Limited in December 2005, which is discussed below.

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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 the reinsurance.

As a result of the substantial losses incurred by reinsurers from the catastrophes in 2004 and 2005, the cost of property catastrophe reinsurance increased significantly in 2006 and there were capacity restrictions in the marketplace.

Although property catastrophe reinsurance rates increased in 2006, our overall ceded reinsurance premiums for our insurance business, excluding the impact of reinstatement premiums related to Hurricane Katrina, were only modestly higher than in 2005 due to modifications to certain of our reinsurance treaties. On our casualty clash treaty, our initial retention remained at \$75 million. We reduced our reinsurance coverage at the top of the program by \$50 million and increased our participation in the program. On our commercial property per risk treaty, we increased our retention from \$15 million to \$25 million. Our property catastrophe treaty for events in the United States was modified to increase our initial retention from \$250 million to \$350 million and to increase our participation in the program. At the same time, we increased the insurance coverage in the northeastern part of the country by \$400 million. Our property catastrophe treaty for events outside the United States was modified to increase our initial retention from \$50 million to \$75 million.

Reinsurance rates generally remained steady in 2007, due in part to a relatively low level of catastrophes in 2006. However, capacity restrictions continued in some segments of the marketplace. Our overall reinsurance costs in 2007 were similar to those in 2006.

We did not renew our casualty clash treaty in 2007 as we believed the cost was not justified given the limited capacity and terms available. The treaty had provided coverage of approximately 55% of losses between \$75 million and \$150 million per insured event.

On our commercial property per risk treaty, we increased the reinsurance coverage at the top of the program by \$100 million. This treaty now provides approximately \$500 million of coverage per risk in excess of our \$25 million retention.

The structure of our property catastrophe program for events in the United States was modified in 2007 but the overall coverage is similar to the previous program. The principal catastrophe treaty provides coverage of approximately 70% of losses (net of recoveries from other available reinsurance) between \$350 million and \$1.3 billion, with additional coverage of 55% of losses between \$1.3 billion and \$2.05 billion in the northeastern part of the country, where we have our greatest concentration of catastrophe exposure.

We also purchased in April 2007 fully collateralized four-year reinsurance coverage for homeowners-related losses sustained from qualifying hurricane loss events in the northeastern part of the United States. This reinsurance was purchased from East Lane Re Ltd., a Cayman Islands reinsurance company, which financed the provision of reinsurance through the issuance of \$250 million in catastrophe bonds to investors under two separate bond tranches. This reinsurance provides coverage of approximately 30% of covered losses between \$1.3 billion and \$2.05 billion.

We purchased additional reinsurance from the Florida Hurricane Catastrophe Fund, which is a state-mandated fund designed to reimburse insurers for a portion of their residential catastrophic hurricane losses. Our participation in the Fund limits our initial retention in Florida for homeowners related losses to approximately \$150 million.

Our property catastrophe treaty for events outside the United States was renewed in 2007 with no modification of its terms. The treaty provides coverage of approximately 90% of losses (net of recoveries from other available reinsurance) between \$75 million and \$275 million.

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Our property reinsurance treaties generally contain limitations on the losses that we can recover relating to acts of terrorism, depending on the geographic location where the act is committed and the class of business affected.

We do not expect the changes we made to our reinsurance program during 2006 and 2007 to have a material effect on the Corporation's results of operations, financial condition or liquidity.

Most of our ceded reinsurance arrangements consist of excess of loss and catastrophe contracts that protect against a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. Therefore, unless we incur losses that exceed our initial retention under these contracts, we do not receive any loss recoveries. As a result, in certain years, we cede premiums to other insurance companies and receive few, if any, loss recoveries. However, in a year in which there is a significant catastrophic event (such as Hurricane Katrina) or a series of large individual losses, we may receive substantial loss recoveries. The impact of ceded reinsurance on net premiums written and earned and on net losses and loss expenses incurred for the three years ended December 31, 2007 is presented in Note (11) of the Notes to Consolidated Financial Statements.

Our property reinsurance treaties expire on April 1, 2008. While we expect that reinsurance rates for property risks will decline somewhat in 2008, the final structure of our program and amount of coverage purchased will be determinants of our ceded reinsurance premium cost in 2008. We expect that the availability of reinsurance for certain coverages, such as terrorism, will continue to be very limited in 2008.

Profitability

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

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

Underwriting results were significantly more profitable in 2007 and 2006 compared with 2005. The combined loss and expense ratio for our overall property and casualty business was as follows:

	Years Ended December 31		
	2007	2006	2005
Loss ratio	52.8%	55.2%	64.3%
Expense ratio	30.1	29.0	28.0
Combined loss and expense ratio	82.9%	84.2%	92.3%

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The loss ratio improved in 2006 and again in 2007, reflecting the favorable loss experience which we believe resulted from our disciplined underwriting in recent years as well as relatively mild loss trends in certain classes of business. The loss ratio in 2005 was adversely affected by higher catastrophe losses, primarily from Hurricane Katrina.

In 2007, net catastrophe losses incurred were \$363 million, which represented 3.0 percentage points of the loss ratio. Net catastrophe losses incurred in 2006 were \$173 million, which were offset in part by a \$20 million reduction in previously accrued reinsurance reinstatement premium costs related to Hurricane Katrina. The net impact of catastrophes in 2006 accounted for 1.4 percentage points of the loss ratio. In 2005, we incurred \$630 million of net catastrophe losses and \$59 million in related net reinsurance reinstatement premium costs, which in the aggregate accounted for 5.6 percentage points of the loss ratio. The reinsurance reinstatement premium costs and a substantial portion of the catastrophe losses in 2005 related to Hurricane Katrina.

At the end of 2005, we estimated that our net losses from Hurricane Katrina were \$403 million and our net reinsurance reinstatement premium costs related to the hurricane were \$59 million. In our insurance business, estimated net losses were \$335 million and reinstatement premium costs were \$102 million, for an aggregate cost of \$437 million. In our reinsurance assumed business, estimated net losses were \$68 million and net reinstatement premium revenue was \$43 million, for a net cost of \$25 million. We estimated that our gross losses from Hurricane Katrina were about \$1.2 billion. Almost all of the losses were from property exposure and business interruption claims. Our net losses of \$403 million were significantly lower than the gross amount due to a property per risk treaty that limited our net loss per risk and our property catastrophe treaty.

During 2006, a large percentage of our claims from Hurricane Katrina were settled. As a result, there were many adjustments, both favorable and unfavorable, to our loss estimates for individual claims related to this event. These adjustments produced a reduction in our estimates for gross losses and reinsurance recoverable of \$190 million and \$175 million, respectively, as well as a \$20 million reduction of previously accrued reinsurance reinstatement premium costs.

Other than the reinsurance recoverable related to Hurricane Katrina, we did not have any recoveries from our catastrophe reinsurance treaties during the three year period ended December 31, 2007 because there were no other individual catastrophes for which our losses exceeded our initial retention under the treaties.

Our expense ratio increased in both 2007 and 2006. The increase in 2007 was due primarily to higher commissions, largely the result of premium growth outside the United States in certain classes of business for which commission rates are high. The increase in 2006 was due to a decrease in net premiums written whereas compensation and other operating costs increased.

In lieu of paying contingent commissions, beginning in 2007, we implemented a new guaranteed supplemental compensation program for agents and brokers in the United States with whom we previously had contingent commission agreements. Under this arrangement, agents and brokers are paid a percentage of written premiums on eligible lines of business in a calendar year based upon their prior performance. The total guaranteed supplemental compensation payout for 2007 will be substantially the same as the contingent commission payout for 2006. However, the change in our commission arrangements created a difference in the timing of expense recognition, which resulted in a one-time benefit to income during the 2007 transition year. The impact of the change in 2007 was to increase deferred policy acquisition costs by approximately \$70 million. The change had no effect on the expense ratio.

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

Net premiums written from personal insurance, which represented 31% of our premiums written in 2007, increased by 5% in 2007 and 6% in 2006. Net premiums written for the classes of business within the personal insurance segment were as follows:

Years Ended December 31					
	2007	% Increase 2007 vs. 2006	2006	% Increase 2006 vs. 2005	2005
(dollars in millions)					
Automobile	\$ 621	(7)%	\$ 670	4%	\$ 645
Homeowners	2,423	7	2,268	8	2,104
Other	665	15	580	4	558
 Total personal	 \$3,709	 5	 \$3,518	 6	 \$3,307

Personal automobile premiums in the U.S. decreased in 2007 and 2006 due to an increasingly competitive marketplace. The termination of a collector vehicle program also contributed to the decrease in 2007. The overall growth in personal automobile premiums in 2006 was due to selective initiatives outside the United States. The growth in our homeowners business in both years was due primarily to increased insurance-to-value. The in-force policy count for this class of business was relatively flat over the period. Homeowners premiums in 2005 were reduced by reinsurance reinstatement premium costs of \$17 million related to Hurricane Katrina. Our other personal business includes insurance for excess liability, yacht and accident coverages. The substantial growth in this business in 2007 was due primarily to a significant increase in accident premiums, particularly outside the United States. Excess liability premiums also grew, due in part to a modest increase in rates.

Our personal insurance business produced highly profitable underwriting results in each of the last three years. The combined loss and expense ratios for the classes of business within the personal insurance segment were as follows:

Years Ended December 31			
	2007	2006	2005
Automobile	89.8%	90.4%	95.3%
Homeowners	80.2	74.6	81.2
Other	96.4	98.6	96.2
 Total personal	 84.8%	 81.7%	 86.6%

Our personal automobile results were profitable in each of the past three years. Results in 2007 and 2006 were more profitable than in 2005 due to lower claim frequency and modest favorable prior year loss development.

Homeowners results were highly profitable in each of the last three years. Results in all three years reflected adequate pricing and a reduction in water damage losses primarily as a result of policy wording changes related to mold coverage and loss remediation measures that we have implemented over the past several years. Results in 2006 benefited from lower catastrophe losses. The impact of catastrophes accounted for 9.6 percentage points of the combined loss and expense ratio for this class in 2007 compared with 5.7 percentage points in 2006 and 9.8 percentage points in 2005.

Other personal business produced modestly profitable results in each of the past three years. Our accident business was highly profitable in all three years. Our yacht business was profitable in 2007 and 2006 compared with unprofitable results in 2005. Our excess liability business was unprofitable in each of the past three years, but more so in 2006, due to inadequate pricing and unfavorable prior year loss development.

Table of Contents***Commercial Insurance***

Net premiums written from commercial insurance, which represented 43% of our premiums written in 2007, decreased by 1% in 2007 and increased by 2% in 2006. Net premiums written for the classes of business within the commercial insurance segment were as follows:

Years Ended December 31

		% Increase (Decrease)		% Increase (Decrease)	
	2007	2007 vs. 2006	2006	2006 vs. 2005	2005
(dollars in millions)					
Multiple peril	\$1,252	(3)%	\$1,290	%	\$1,286
Casualty	1,726		1,731	(1)	1,755
Workers compensation	890	(1)	901	(3)	930
Property and marine	1,215	1	1,203	14	1,059
Total commercial	\$5,083	(1)	\$5,125	2	\$5,030

Growth in our commercial classes in 2007 and 2006 was constrained due to an increasingly competitive marketplace. In 2006, renewal rates were generally stable but were under competitive pressure in some classes of business, particularly non-catastrophe exposed property risks and certain casualty risks. During 2007, rates were down modestly. Certain classes of business and geographic areas, such as non-catastrophe exposed property risks and large company risks, experienced more competitive pressure than others. Rate pressure increased in the second half of the year across all classes of business, particularly for new business. Multiple peril and property and marine premiums in 2005 were reduced by reinsurance reinstatement premium costs of \$19 million and \$66 million, respectively, related to Hurricane Katrina. In 2006, property and marine premiums benefited from a \$20 million reduction of previously accrued reinsurance reinstatement premium costs. Excluding the reinsurance reinstatement premiums, multiple peril premiums declined 1% and property and marine premiums grew 5% in 2006 compared with the prior year.

Retention levels of our existing customers remained steady over the last three years. New business volume was slightly higher in 2006 and again in 2007 compared with the respective prior years. The increase in 2006 came from business outside the U.S. The increase in 2007 was due to a few large accounts written in the first half of the year. New business volume in the second half of 2007 was down as it became more difficult to find new opportunities at acceptable rates.

We have continued to maintain our underwriting discipline in the more competitive market, renewing business and writing new business only where we believe we are securing acceptable rates and appropriate terms and conditions for the exposures.

Our commercial insurance business produced profitable underwriting results in each of the past three years, particularly in 2007 and 2006. Results in all three years benefited from better terms and conditions and disciplined risk selection in recent years as well as low non-catastrophe property losses. Results in 2005 were less profitable than in 2007 and 2006, largely due to substantially higher catastrophe losses, primarily from Hurricane Katrina. The impact of catastrophes accounted for 8.3 percentage points of the combined loss and expense ratio for our commercial insurance business in 2005 whereas such impact was 2.6 percentage points in 2007 and negligible in 2006.

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The combined loss and expense ratios for the classes of business within commercial insurance were as follows:

	Years Ended December 31		
	2007	2006	2005
Multiple peril	80.8%	75.8%	87.8%
Casualty	94.6	96.8	96.1
Workers compensation	77.6	80.4	84.8
Property and marine	84.3	72.5	98.8
Total commercial	85.8%	83.1%	92.4%

Multiple peril results were highly profitable in each of the past three years. Results in 2005 were less profitable than in 2007 and 2006, largely due to higher catastrophe losses. The impact of catastrophes accounted for 1.7 percentage points of the combined loss and expense ratio for this class in 2007 compared with 2.9 percentage points in 2006 and 9.1 percentage points in 2005. The property component of this business benefited from low non-catastrophe losses in all three years. Results in the liability component were profitable in all three years, particularly in 2006.

Results for our casualty business were similarly profitable in each of the past three years. The automobile component of our casualty business deteriorated somewhat in 2007 but remained highly profitable. Results in the primary liability component were highly profitable in 2007 compared with marginally profitable results in 2006 and profitable results in 2005. Results in the excess liability component were profitable in 2007 compared with unprofitable results in 2006 and 2005. Excess liability results in 2007 benefited from favorable prior year loss development, whereas results in 2006 and 2005 were adversely affected by unfavorable loss development related to older accident years. Casualty results in 2007 were adversely affected by incurred losses related to asbestos and toxic waste claims. Our analysis of these exposures resulted in an increase in our estimate of the ultimate liabilities for a small number of our insureds. Such losses represented 5.3 percentage points of the combined loss and expense ratio for this class in 2007. The impact of such losses was not significant in 2006 or 2005.

Workers compensation results were highly profitable in each of the past three years. Results were more profitable in each succeeding year due to favorable claim cost trends, resulting in part from the positive effect of reforms in California. Results in all three years benefited from our disciplined risk selection during the past several years.

Property and marine results were highly profitable in 2007 and 2006 compared with marginally profitable results in 2005. The less profitable results in 2005 were due to catastrophe losses, primarily from Hurricane Katrina. Catastrophes accounted for 8.2 percentage points of the combined loss and expense ratio in 2007 and 27.2 percentage points in 2005. The impact of catastrophes was negligible in 2006. Excluding the impact of catastrophes, the combined ratio was 76.1%, 73.4% and 71.6% in 2007, 2006 and 2005, respectively. Results in each year benefited from relatively few large non-catastrophe losses.

Table of Contents***Specialty Insurance***

Net premiums written from specialty insurance, which represented 25% of our premiums written in 2007, were flat in 2007 and decreased by 3% in 2006 compared with the respective prior years. Net premiums written for the classes of business within the specialty insurance segment were as follows:

Years Ended December 31					
	2007	% Increase (Decrease) 2007 vs. 2006	2006	% Increase (Decrease) 2006 vs. 2005	2005
(dollars in millions)					
Professional liability	\$2,605	(1)%	\$2,641	(6)%	\$2,798
Surety	339	13	300	23	244
Total specialty	\$2,944		\$2,941	(3)	\$3,042

The decline of premiums in 2007 and 2006 for the professional liability classes of business was due to the increasingly competitive pressure on rates, particularly in the directors and officers liability component, and our commitment to maintain underwriting discipline in this environment. The decline in premiums in 2006 was exacerbated by the sale of renewal rights, effective July 1, 2005, on our hospital medical malpractice and managed care errors and omissions business.

Renewal rates for the directors and officers liability class of business were down in 2006 and again in 2007. Rates for professional liability classes other than directors and officers liability, which were generally stable in 2006, trended downward in 2007. Retention levels remained strong over the last three years. New business volume declined in each of the past two years due to the increased competition in the marketplace. We continued to get what we believe are acceptable rates and appropriate terms and conditions on both new business and renewals. In line with our strategy in recent years of directing our focus to small and middle market publicly traded and privately held companies, the percentage of our book of business represented by large public companies has continued to decrease.

The growth in net premiums written for our surety business was substantial in both 2007 and 2006. About half of the growth in 2006 was due to the non-renewal of a high excess reinsurance treaty during 2005. Growth in 2007 was due primarily to a strong public sector construction economy. However, growth slowed as the year progressed due in part to a more competitive rate environment. We expect the increasingly competitive market to continue in 2008.

Our specialty insurance business produced profitable underwriting results in each of the last three years. Results were significantly more profitable in each succeeding year. The combined loss and expense ratios for the classes of business within specialty insurance were as follows:

Years Ended December 31			
	2007	2006	2005
Professional liability	82.4%	91.8%	99.8%
Surety	35.4	44.2	62.9
Total specialty	77.4%	87.5%	97.3%

Results for our professional liability business improved substantially in 2006 and again in 2007, producing highly profitable results in 2007 compared with profitable results in 2006 and near breakeven results in 2005. The fidelity class was highly profitable in each of the past three years due to favorable loss experience. The results of the directors and officers liability, errors and omissions liability and fiduciary liability classes improved in 2006 and again in 2007. Results in 2007 and, to a much lesser extent, 2006 benefited from favorable prior year loss development due to the recognition of the increasingly favorable loss trends we have been experiencing in recent years. These trends were largely the result of a favorable business climate in recent years, lower policy limits and better terms

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and conditions. Conversely, results in 2005 were adversely affected by unfavorable loss development related to accident years prior to 2003. This adverse development was predominantly from claims relating to corporate failures and allegations of management misconduct and accounting irregularities. For more information on prior year loss development, see *Property and Casualty Insurance Loss Reserves, Prior Year Loss Development*.

Our surety business produced highly profitable results in each of the past three years due to favorable loss experience. This business tends to be characterized by infrequent but potentially high severity losses. When losses occur, they are mitigated, at times, by recovery rights to the customer's assets, contract payments, collateral and bankruptcy recoveries.

The majority of our surety obligations are intended to be performance-based guarantees. We manage our exposure on an absolute basis and by specific bond type. We have substantial commercial and construction surety exposure for current and prior customers, including exposures related to surety bonds issued on behalf of companies that have experienced deterioration in creditworthiness since we issued bonds to them. We therefore may experience an increase in filed claims and may incur high severity losses. Such losses would be recognized if and when claims are filed and determined to be valid, and could have a material adverse effect on the Corporation's results of operations.

Reinsurance Assumed

In December 2005, we completed a transaction involving a new Bermuda-based reinsurance company, Harbor Point Limited. As part of the transaction, we transferred our ongoing reinsurance assumed business and certain related assets, including renewal rights, to Harbor Point. Harbor Point generally did not assume our reinsurance liabilities relating to reinsurance contracts incepting prior to December 31, 2005. We retained those liabilities and the related assets.

For a transition period of about two years, Harbor Point underwrote specific reinsurance business on our behalf. We retained a portion of this business and ceded the balance to Harbor Point in return for a fronting commission. We receive additional payments based on the amount of business renewed by Harbor Point. These amounts are being recognized in income as earned.

Net premiums written from our reinsurance assumed business, which represented 1% of our premiums written in 2007, decreased by 65% in 2007 and 57% in 2006. The significant decrease in premiums in both years was expected in light of the sale of our ongoing reinsurance assumed business to Harbor Point. Premiums in 2005 included net reinsurance reinstatement premium revenue of \$43 million related to Hurricane Katrina.

Reinsurance assumed results were profitable in each of the past three years, particularly in 2007 and 2006. While the volume of business declined substantially in each of the past two years, results in both years benefited from significant favorable prior year loss development. Results in 2005 were adversely affected by catastrophe losses related to Hurricane Katrina.

Regulatory Developments

To promote and distribute our insurance products, we rely on independent brokers and agents. Accordingly, our business is dependent on the willingness of these brokers and agents to recommend our products to their customers. Prior to 2007, we had agreements in place with certain insurance agents and brokers under which, in addition to the standard commissions that we pay, we agreed to pay commissions that were contingent on the volume and/or the profitability of business placed with us.

We have been involved in the investigations of certain business practices in the property and casualty insurance industry by various Attorneys General and other regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities with respect to, among other things, (1) potential conflicts of interest and anti-competitive behavior arising from the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. In

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connection with these investigations, we received subpoenas and other requests for information from various regulators. We have been cooperating fully with these investigations.

In December 2006, we settled with the Attorneys General of New York, Connecticut and Illinois all issues arising out of their investigations. As part of this settlement, we agreed to implement certain business reforms, including discontinuing the payment of contingent commissions in the United States on all insurance lines beginning in 2007.

In August 2007, the Attorney General of Ohio filed an action against us, as well as several other insurers and one broker, as a result of the Ohio Attorney General's business practices investigation.

Although no other Attorney General or regulator has initiated an action against us, it is possible that such an action may be brought against us with respect to some or all of the issues that are the focus of the ongoing investigations described above.

Chubb and certain of its subsidiaries have been named in various legal proceedings brought by private plaintiffs arising out of these investigations. These legal proceedings and the litigation brought by the Ohio Attorney General referred to above are further described in Note (15) of the Notes to Consolidated Financial Statements.

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

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 and from man-made catastrophic events such as terrorism. The frequency and severity of catastrophes are inherently unpredictable.

Natural Catastrophes

The extent of losses from a natural 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 concentration of risk exposures in catastrophe exposed areas globally and have strategies and underwriting standards to manage this exposure through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance. We have invested in modeling technologies and a risk concentration management tool that allow us 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 such areas in other countries. Actual results may differ materially from those suggested by the model. We also continue to actively explore and analyze credible scientific evidence, including the impact of global climate change, that may affect our ability to manage exposure under the insurance policies we issue.

Despite these efforts, the occurrence of one or more severe natural catastrophic events in heavily populated areas could have a material adverse effect on the Corporation's results of operations, financial condition or liquidity.

Terrorism Risk and Legislation

The September 11, 2001 attack changed the way the property and casualty insurance industry views catastrophic risk. That tragic event demonstrated that numerous classes of business we write are subject to terrorism related catastrophic risks in addition to the catastrophic risks related to natural occurrences. This, together with the limited availability of terrorism reinsurance, has required us to change how we identify and evaluate risk accumulations. We have licensed a terrorism model that

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provides loss estimates under numerous event scenarios. Also, the above noted risk concentration management tool enables us to identify locations and geographic areas that are exposed to risk accumulations. The information provided by the model and the tracking tool has resulted in our non-renewing some accounts and has restricted us from writing others. Actual results may differ materially from those suggested by the model.

The Terrorism Risk Insurance Act of 2002 (TRIA) established a temporary program under which the federal government will share the risk of loss arising from certain acts of foreign terrorism with the insurance industry. The program, which was applicable to most lines of commercial business, was scheduled to terminate on December 31, 2005. In December 2005, TRIA was extended through December 31, 2007. Certain lines of business previously subject to the provisions of TRIA, including commercial automobile, surety and professional liability insurance, other than directors and officers liability, were excluded from the program. In December 2007, TRIA was extended through December 31, 2014. The amended law eliminated the distinction between foreign and domestic acts of terrorism, now providing protection from all acts of terrorism. Otherwise, there were no significant changes to the key features of the program.

As a precondition to recovery under TRIA, insurance companies with direct commercial insurance exposure in the United States for TRIA lines of business are required to make insurance for covered acts of terrorism available under their policies. Each insurer has a separate deductible that it must meet in the event of an act of terrorism before federal assistance becomes available. The deductible is based on a percentage of direct U.S. earned premiums for the covered lines of business in the previous calendar year. For 2008, that deductible is 20% of direct premiums earned in 2007 for these lines of business. For losses above the deductible, the federal government will pay for 85% of covered losses, while the insurer retains 15%. There is a combined annual aggregate limit for the federal government and all insurers of \$100 billion. If acts of terrorism result in covered losses exceeding the \$100 billion annual limit, insurers are not liable for additional losses. While the provisions of TRIA will serve to mitigate our exposure in the event of a large-scale terrorist attack, our deductible is substantial, approximating \$1 billion in 2008.

For certain classes of business, such as workers' compensation, terrorism insurance is mandatory. For those classes of business where it is not mandatory, policyholders may choose not to accept terrorism insurance, which would, subject to other statutory or regulatory restrictions, reduce our exposure.

We will continue to manage this type of catastrophic risk by monitoring terrorism risk aggregations. Nevertheless, given the unpredictability of the targets, frequency and severity of potential terrorist events as well as the very limited terrorism reinsurance coverage available in the market, the occurrence of any such events could have a material adverse effect on the Corporation's results of operations, financial condition or liquidity.

We also have exposure outside the United States to risk of loss from acts of terrorism. In some jurisdictions, we have access to government mechanisms that would mitigate our exposure.

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) reserves represent the difference between the estimated ultimate cost of all claims that have occurred and the 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, more than 65% of our aggregate net loss reserves at December 31, 2007 were for IBNR losses.

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

	Gross Loss Reserves				Net Loss Reserves
December 31, 2007	Case	IBNR	Total	Reinsurance Recoverable	
(in millions)					
Personal insurance					
Automobile	\$ 226	\$ 200	\$ 426	\$ 15	\$ 411
Homeowners	432	305	737	32	705
Other	452	526	978	230	748
Total personal	1,110	1,031	2,141	277	1,864
Commercial insurance					
Multiple peril	646	1,010	1,656	37	1,619
Casualty	1,640	4,302	5,942	402	5,540
Workers compensation	842	1,323	2,165	255	1,910
Property and marine	814	395	1,209	532	677
Total commercial	3,942	7,030	10,972	1,226	9,746
Specialty insurance					
Professional liability	2,079	5,999	8,078	552	7,526
Surety	33	52	85	14	71
Total specialty	2,112	6,051	8,163	566	7,597
Total insurance	7,164	14,112	21,276	2,069	19,207
Reinsurance assumed	400	947	1,347	238	1,109

Total	\$7,564	\$15,059	\$22,623	\$2,307	\$20,316
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December 31, 2006	Gross Loss Reserves			Reinsurance Recoverable	Net Loss Reserves
	Case	IBNR	Total		
	(in millions)				
Personal insurance					
Automobile	\$ 261	\$ 178	\$ 439	\$ 14	\$ 425
Homeowners	421	298	719	54	665
Other	443	459	902	245	657
Total personal	1,125	935	2,060	313	1,747
Commercial insurance					
Multiple peril	702	965	1,667	74	1,593
Casualty	1,668	3,922	5,590	377	5,213
Workers compensation	827	1,223	2,050	310	1,740
Property and marine	821	393	1,214	536	678
Total commercial	4,018	6,503	10,521	1,297	9,224
Specialty insurance					
Professional liability	2,542	5,598	8,140	852	7,288
Surety	22	56	78	19	59
Total specialty	2,564	5,654	8,218	871	7,347
Total insurance	7,707	13,092	20,799	2,481	18,318
Reinsurance assumed	464	1,030	1,494	113	1,381
Total	\$8,171	\$14,122	\$22,293	\$2,594	\$19,699

Loss reserves, net of reinsurance recoverable, increased by \$617 million or 3% in 2007. Loss reserves related to our insurance business increased by \$889 million, including approximately \$290 million related to currency fluctuation due to the weakness of the U.S. dollar. Loss reserves related to our reinsurance assumed business, which is in runoff, decreased by \$272 million.

Gross case reserves related to the professional liability classes decreased by \$463 million in 2007 due to generally low reported loss activity as well as settlements related to previously existing case reserves. The \$300 million decrease in reinsurance recoverable in the professional liability classes was due primarily to the discontinuation of the professional liability per risk treaty in 2005 and the settlement of claims related to years prior to 2005.

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 December 31, 2007 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 described below, 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 December 31, 2007 may change, which could have a material effect on the Corporation's results of operations and financial condition.

Estimates and Uncertainties

The process of establishing loss reserves is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process.

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Due to the inherent complexity of the loss reserving process and the potential variability of the assumptions used, the actual emergence of losses could vary, perhaps substantially, from the estimate of losses included in our financial statements, particularly when settlements may not occur until well into the future. Our net loss reserves at December 31, 2007 were \$20.3 billion. Therefore, a relatively small percentage change in the estimate of net loss reserves would have a material effect on the Corporation's results of operations.

Reserves Other than Those Relating to Asbestos and Toxic Waste Claims. Our loss reserves include amounts related to short tail and long tail classes of business. Tail refers to the time period between the occurrence of a loss and the settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary.