

CHUBB CORP
Form 10-K
February 28, 2013
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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, 2012

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission File No. 1-8661

The Chubb Corporation

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of incorporation or organization)

15 Mountain View Road

Warren, New Jersey

(Address of principal executive offices)

13-2595722

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

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)
Common Stock, par value \$1 per share
Series B Participating Cumulative
Preferred Stock Purchase Rights

(Name of each exchange on which registered)
New York Stock Exchange
New York Stock Exchange

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

None

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(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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of common stock held by non-affiliates of the registrant was 19,297,403,749 as of June 30, 2012, computed on the basis of the closing sale price of the common stock on that date.

260,975,310

Number of shares of common stock outstanding as of February 8, 2013

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2013 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. In this document, Chubb and its subsidiaries are referred to collectively as the Corporation. Chubb is a holding company for several, separately organized, property and casualty insurance companies referred to informally as the Chubb Group of Insurance Companies (the P&C Group). Since 1882, insurance companies or predecessor companies included in the P&C Group have provided property and casualty insurance to businesses and individuals around the world. According to A.M. Best, the U.S. companies of the P&C Group constitute the 12th largest U.S. property and casualty insurance group based on 2011 net written premiums.

At December 31, 2012, the Corporation had total assets of \$52.2 billion and shareholders' equity of \$15.8 billion. Revenues, income before income tax and assets for each operating segment for the three years ended December 31, 2012 are included in Note (14) of the Notes to Consolidated Financial Statements. The Corporation employed approximately 10,200 persons worldwide on December 31, 2012.

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

The Corporation's Internet address is www.chubb.com. Chubb's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, if any, 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 the independent 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 Chubb's Corporate Secretary.

Property and Casualty Insurance

The P&C Group consists of subsidiaries domiciled both in and outside the United States. Federal Insurance Company (Federal) is the largest insurance subsidiary in the P&C Group and is the direct parent company of most of Chubb's other insurance subsidiaries. Chubb & Son, a division of Federal (Chubb & Son), is the manager of several U.S. subsidiaries in the P&C Group. Chubb & Son also provides certain services to other insurance companies included in the P&C Group. Acting subject to the supervision and control of the respective boards of directors of the insurance companies included in the P&C Group, Chubb & Son provides day to day management and operating personnel. This arrangement offers the P&C Group operational efficiencies through economies of scale and flexibility.

The principal insurance companies included in the P&C Group that are based in the United States are:

Federal Insurance Company
Pacific Indemnity Company
Executive Risk Indemnity Inc.
Great Northern Insurance Company
Vigilant Insurance Company
Chubb Indemnity Insurance Company

Chubb Custom Insurance Company
Chubb National Insurance Company
Executive Risk Specialty Insurance Company
Chubb Lloyds Insurance Company of Texas
Chubb Insurance Company of New Jersey

The principal insurance companies included in the P&C Group that are based outside the United States are:

Chubb Insurance Company of Europe SE
Chubb Insurance Company of Canada
Chubb do Brasil Companhia de Seguros

Chubb Insurance Company of Australia Ltd.
Chubb Argentina de Seguros, S.A.

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In addition to the subsidiaries listed above, the P&C Group has insurance subsidiaries based in locations outside the United States, including Mexico, Colombia and Chile. Federal has several branches based in locations outside the United States, including Korea, Singapore and Hong Kong.

Property and casualty insurance policies are separately issued by individual companies included within the P&C Group. The P&C Group operates through three strategic business units: Chubb Personal Insurance, Chubb Commercial Insurance and Chubb Specialty Insurance. For the year ended December 31, 2012, Chubb Personal Insurance, Chubb Commercial Insurance and Chubb Specialty Insurance represented 35%, 43% and 22%, respectively, of Chubb's total net written premiums.

Chubb Personal Insurance offers personal insurance products for homes and valuable articles (such as art and jewelry), primarily for high net worth individuals. The homeowners business represents more than half of the total net written premiums of Chubb Personal Insurance. Chubb Personal Insurance also offers personal insurance products for fine automobiles and yachts as well as personal liability insurance (both primary and excess). In addition, it provides personal accident and supplemental health insurance to a wide range of customers including businesses.

The largest market for Chubb Personal Insurance products is the United States. The largest markets for our homeowners and automobile insurance products outside the United States are Canada, Brazil and Europe. The largest markets for our accident and health insurance products are Latin America (primarily Brazil), the United States and Europe.

Chubb Commercial Insurance offers a broad range of commercial insurance products. Our underwriting strategy focuses on specific industry segments and niches. Much of our commercial customer base is comprised of mid-sized commercial entities. Our insurance offerings include multiple peril, primary liability, excess and umbrella liability, automobile, workers' compensation and property and marine. The largest market for Chubb Commercial Insurance products is the United States. The largest markets for our commercial products outside the United States are Europe, Canada and Australia.

Chubb Specialty Insurance offers a wide variety of specialized professional liability products for privately held and publicly traded companies, financial institutions, professional firms, healthcare and not-for-profit organizations. Chubb Specialty Insurance products primarily include directors and officers liability insurance, errors and omissions liability insurance, employment practices liability insurance, fiduciary liability insurance and commercial and financial fidelity insurance. The largest market for these products is the United States. Outside the United States, the largest markets for these products are Europe, Canada and Australia. Chubb Specialty Insurance also offers surety products, primarily in the United States and Latin America.

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 | Assumed Reinsurance Premiums (a) | Ceded Reinsurance Premiums (a) | Net Premiums Written |
|------|-------------------------------|--|--------------------------------------|----------------------------|
| | | | (in millions) | |
| 2012 | \$ 12,647 | \$ 423 | \$ 1,200 | \$ 11,870 |
| 2011 | 12,452 | 398 | 1,092 | 11,758 |
| 2010 | 12,072 | 271 | 1,107 | 11,236 |

(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).

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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, some of the territories of the United States, Canada, Europe, Australia, and parts of Latin America and Asia. In accordance with applicable licensing laws, members of the P&C Group are permitted to write business in jurisdictions beyond their state or country of domicile. In 2012, approximately 76% of the P&C Group's direct premiums written 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 in the United States accounting for the largest amounts of direct premiums written were New York with 12%, California with 9%, Texas with 5%, Florida with 4% and New Jersey with 4%. Of the approximately 24% of the P&C Group's 2012 direct premiums written that were produced outside of the United States, approximately 5% were produced in Canada, 5% in the United Kingdom, 4% in Brazil and 3% in Australia. The P&C Group also produced business outside the United States in additional locations, including other countries in Europe, Mexico, Colombia, Argentina, Korea, Singapore, Chile, Hong Kong, China and Japan. We generally define the location of where premiums were produced as the location of the risk associated with the underlying policies. The method of determining location of risk varies by class of business. Location of risk for property classes is typically based on the physical location of the covered property, while location of risk for liability classes may be based on the main location of the insured, or in the case of the workers' compensation line, the primary work location of the covered employee. Revenues of the P&C Group by geographic zone for the three years ended December 31, 2012 are included in Note (14) of the Notes to Consolidated Financial Statements.

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.

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, 2012 and 2011, the ratio for the P&C Group was 0.84.

Producing and Servicing of Business

In the United States, the P&C Group primarily offers products through independent insurance agencies and accepts business on a regular basis from insurance brokers. These include major international, national, regional and local agencies and brokers. In most instances, our agents and brokers also offer insurance products of other companies that compete with the P&C Group's insurance products. Certain of our products are also distributed through managing general agents and other wholesale agencies and brokers. Chubb & Son maintains administrative offices in Warren and Whitehouse Station, New Jersey, as well as local offices throughout the United States. These local offices assist in producing and servicing the P&C Group's business.

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Certain business of the P&C Group in the United States is 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.

Outside the United States, the P&C Group primarily offers products through international, national, regional and local insurance brokers. Local offices of the P&C Group assist the brokers in producing and servicing the business. Certain products (in particular, personal automobile and accident and health products) also are distributed through managing general agents, business centers, alliances with financial institutions and other businesses, automobile dealers, affinity groups and direct marketing operations. In addition, the Corporation has a Lloyds syndicate, Chubb Syndicate 1882, to enhance the P&C Group's product distribution and ability to offer certain products.

In addition to insurance products issued directly to insureds, the P&C Group, to a far lesser extent, assumes reinsurance from other insurance carriers for some lines of business both inside and outside the United States. The P&C Group assumes reinsurance on a risk-by-risk, or facultative, basis and on a treaty basis where an agreed-upon portion of business is automatically reinsured.

Reinsurance Ceded

In accordance with the standard practice of the insurance industry, the P&C Group purchases reinsurance from reinsurers. The P&C Group cedes reinsurance 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, referred to as facultative reinsurance. 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. Consequently, 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 and its concentration of risk with reinsurers on an ongoing basis.

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.

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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 lawsuits, and control of the dollar value of settlements. The number of outstanding claims at year-end 2012 was approximately 7% higher than the number at year-end 2011 primarily due to an increase in outstanding catastrophe claims. The number of new arising claims during 2012 was approximately 7% 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 8 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 2012.

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 net deficiency (redundancy) as shown in the table represents the aggregate change in the reserve estimates from the original balance sheet dates through December 31, 2012. 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 2012 relating to losses incurred prior to December 31, 2002 would be included in the cumulative deficiency amount for each year in the period 2002 through 2011. Yet, the deficiency would be reflected in operating results only in 2012. 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.

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| Year Ended | December 31 | | | | | | | | | | |
|--|-------------|-----------|-----------|------------|------------|------------|------------|------------|------------|-----------|-----------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| (in millions) | | | | | | | | | | | |
| Net Liability for Unpaid Losses and Loss Adjustment Expenses | \$ 12,642 | \$ 14,521 | \$ 16,809 | \$ 18,713 | \$ 19,699 | \$ 20,316 | \$ 20,155 | \$ 20,786 | \$ 20,901 | \$ 21,329 | \$ 22,022 |
| Net Liability Reestimated as of: | | | | | | | | | | | |
| One year later | 13,039 | 14,848 | 16,972 | 18,417 | 19,002 | 19,443 | 19,393 | 20,040 | 20,134 | 20,715 | |
| Two years later | 13,634 | 15,315 | 17,048 | 17,861 | 18,215 | 18,619 | 18,685 | 19,229 | 19,494 | | |
| Three years later | 14,407 | 15,667 | 16,725 | 17,298 | 17,571 | 18,049 | 17,965 | 18,638 | | | |
| Four years later | 14,842 | 15,584 | 16,526 | 16,884 | 17,184 | 17,510 | 17,463 | | | | |
| Five years later | 14,907 | 15,657 | 16,411 | 16,636 | 16,829 | 17,139 | | | | | |
| Six years later | 15,064 | 15,798 | 16,310 | 16,459 | 16,605 | | | | | | |
| Seven years later | 15,255 | 15,802 | 16,231 | 16,350 | | | | | | | |
| Eight years later | 15,305 | 15,801 | 16,178 | | | | | | | | |
| Nine years later | 15,323 | 15,816 | | | | | | | | | |
| Ten years later | 15,362 | | | | | | | | | | |
| Total Cumulative Net Deficiency (Redundancy) | 2,720 | 1,295 | (631) | (2,363) | (3,094) | (3,177) | (2,692) | (2,148) | (1,407) | (614) | |
| Cumulative Net Deficiency Related to Asbestos and Toxic Waste Claims (Included in Above Total) | 863 | 613 | 538 | 503 | 479 | 391 | 306 | 216 | 155 | 83 | |
| Cumulative Amount of Net Liability Paid as of: | | | | | | | | | | | |
| One year later | 3,550 | 3,478 | 3,932 | 4,118 | 4,066 | 4,108 | 4,063 | 4,074 | 4,300 | 4,493 | |
| Two years later | 5,911 | 6,161 | 6,616 | 6,896 | 6,789 | 6,565 | 6,711 | 6,831 | 7,011 | | |
| Three years later | 7,945 | 8,192 | 8,612 | 8,850 | 8,554 | 8,436 | 8,605 | 8,696 | | | |
| Four years later | 9,396 | 9,689 | 10,048 | 10,089 | 9,884 | 9,734 | 9,840 | | | | |
| Five years later | 10,543 | 10,794 | 10,977 | 10,994 | 10,821 | 10,588 | | | | | |
| Six years later | 11,353 | 11,530 | 11,606 | 11,697 | 11,426 | | | | | | |
| Seven years later | 11,915 | 12,037 | 12,149 | 12,163 | | | | | | | |
| Eight years later | 12,292 | 12,497 | 12,519 | | | | | | | | |
| Nine years later | 12,652 | 12,807 | | | | | | | | | |
| Ten years later | 12,898 | | | | | | | | | | |
| Gross Liability, End of Year | \$ 16,713 | \$ 17,948 | \$ 20,292 | \$ 22,482 | \$ 22,293 | \$ 22,623 | \$ 22,367 | \$ 22,839 | \$ 22,718 | \$ 23,068 | \$ 23,963 |
| Reinsurance Recoverable, End of Year | 4,071 | 3,427 | 3,483 | 3,769 | 2,594 | 2,307 | 2,212 | 2,053 | 1,817 | 1,739 | 1,941 |
| Net Liability, End of Year | \$ 12,642 | \$ 14,521 | \$ 16,809 | \$ 18,713 | \$ 19,699 | \$ 20,316 | \$ 20,155 | \$ 20,786 | \$ 20,901 | \$ 21,329 | \$ 22,022 |
| Reestimated Gross Liability | \$ 20,240 | \$ 19,674 | \$ 19,621 | \$ 19,854 | \$ 19,052 | \$ 19,271 | \$ 19,539 | \$ 20,584 | \$ 21,220 | \$ 22,380 | |
| Reestimated Reinsurance Recoverable | 4,878 | 3,858 | 3,443 | 3,504 | 2,447 | 2,132 | 2,076 | 1,946 | 1,726 | 1,665 | |
| Reestimated Net Liability | \$ 15,362 | \$ 15,816 | \$ 16,178 | \$ 16,350 | \$ 16,605 | \$ 17,139 | \$ 17,463 | \$ 18,638 | \$ 19,494 | \$ 20,715 | |
| Cumulative Gross Deficiency (Redundancy) | \$ 3,527 | \$ 1,726 | \$ (671) | \$ (2,628) | \$ (3,241) | \$ (3,352) | \$ (2,828) | \$ (2,255) | \$ (1,498) | \$ (688) | |

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The subsequent development of the net liability for unpaid losses and loss adjustment expenses as of year-ends 2002 and 2003 was adversely affected by significant 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 adverse litigation environment; and (5) an increase in litigation costs associated with such claims. For the years 2002 and 2003, in addition to the unfavorable development related to asbestos and toxic waste claims, there was substantial 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, to a lesser extent, workers' compensation and commercial casualty classes. For the years 2004 through 2011, unfavorable development related to asbestos and toxic waste claims was more than offset by substantial favorable development, primarily in the professional liability and commercial casualty classes due to favorable loss trends and in the commercial property and homeowners 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 8 shows the cumulative amount paid with respect to the reestimated net liability as of the end of each succeeding year. For example, in the 2002 column, as of December 31, 2012 the P&C Group had paid \$12,898 million of the currently estimated \$15,362 million of net losses and loss adjustment expenses that were unpaid at the end of 2002; thus, an estimated \$2,464 million of net losses incurred on or before December 31, 2002 remain unpaid as of December 31, 2012, approximately 35% of which relates to asbestos and toxic waste claims.

The lower section of the table on page 8 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, 2012.

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 the member companies, both inside and outside the United States, of the P&C Group as follows:

| | December 31 | |
|---------------------------|----------------------|------------------|
| | 2012 | 2011 |
| | (in millions) | |
| U.S. subsidiaries | \$ 18,000 | \$ 17,500 |
| Outside U.S. subsidiaries | 4,022 | 3,829 |
| | \$ 22,022 | \$ 21,329 |

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, net of reinsurance recoverable, 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.

Investments

Investment decisions are centrally managed by the Corporation's investment professionals based on guidelines established by management and approved by the respective boards of directors for each company in the P&C Group. The P&C Group's investment portfolio primarily comprises high quality bonds, principally tax exempt securities, corporate bonds, mortgage-backed securities and U.S. Treasury securities, as well as foreign government and corporate bonds that support operations outside the United States. The portfolio also includes equity securities, primarily publicly traded common stocks, and other invested assets, primarily private equity limited partnerships, all of which are held with the primary objective of capital appreciation.

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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 (3) 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 | |
|------|----------------------------------|-------------------------|----------------|-----------|
| | (in millions) | | Before Tax | After Tax |
| 2012 | \$ 38,598 | \$ 1,482 | 3.84% | 3.12% |
| 2011 | 38,901 | 1,562 | 4.02 | 3.25 |
| 2010 | 38,288 | 1,558 | 4.07 | 3.29 |

- (a) Average of amounts with fixed maturity securities at amortized cost, equity securities at fair value and other invested assets, which include private equity limited partnerships carried 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 with numerous property and casualty insurance companies operating in the United States and in most of the jurisdictions outside the United States in which the P&C Group writes business. These other insurers may operate independently or in groups. We do not believe that any single company or group is dominant across all lines of business or jurisdictions.

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 works closely with its distribution network of agents and brokers, as well as customers, to reinforce with them the stability, expertise and added value the P&C Group provides. The relatively large size and underwriting capacity of the P&C Group provide it opportunities not available to smaller companies.

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's presence in many countries around the globe enables it to deliver products that satisfy the property and casualty insurance needs of both local and multinational customers.

Regulation and Premium Rates*Regulation in the United States*

In the United States, Chubb and the companies within the P&C Group are subject to regulation by certain states as members of an insurance holding company system. 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. 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 holding company system and, in addition,

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certain of such transactions cannot be consummated without the commissioners' prior approval. Recent amendments to the model holding company law and regulation adopted by the National Association of Insurance Commissioners (NAIC) and passed by some state legislatures will require insurance holding company systems to provide regulators with more information about the risks posed by any non-insurance company subsidiaries in the holding company system.

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 stakeholders. 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. Federal is incorporated as an Indiana stock insurance company. As such, the State of Indiana's Department of Insurance is the P&C Group's primary regulator.

State insurance departments impose regulations that, among other things, establish the standards of solvency that must be met and maintained. The NAIC has a risk-based capital requirement for property and casualty insurance companies. The risk-based capital formula is used by all 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, 2012, the policyholders' surplus of each of the U.S. companies in the P&C Group exceeded the applicable risk-based capital requirement. The NAIC periodically reviews the risk-based capital formula and changes to the formula could be considered in the future. The NAIC recently has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. Among the changes under consideration by the NAIC is implementation of an Own Risk and Solvency Assessment (ORSA) rule that would require insurers to measure and share with solvency regulators their internal assessment of capital needs for the entire holding company group, including non-insurance subsidiaries. A significant focus of the ORSA rules and other Solvency Modernization Initiative efforts has been on the adequacy and quality of insurance company enterprise risk management.

State insurance departments also administer other aspects of insurance regulation and supervision that affect the P&C Group's operations including: 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.

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 in ratemaking and, at times, some states have adopted premium rate freezes or rate rollbacks. State limitations on the ability to cancel or non-renew certain policies also can affect the P&C Group's ability to charge adequate rates.

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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 or policyholder surcharges. In 2012, assessments of the members of the P&C Group were insignificant. The amount of future assessments cannot be reasonably estimated and can vary significantly from year to year.

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 when 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. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law in July 2010, two federal government bodies, the Federal Insurance Office (FIO) and the Financial Stability Oversight Council (FSOC), were created which may impact the regulation of insurance. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited powers to preempt certain types of state insurance laws. The FIO also can recommend to the FSOC that it designate an insurer as an entity posing risks to U.S. financial stability in the event of the insurer's material financial distress or failure. An insurer so designated by FSOC could be subject to Federal Reserve supervision and heightened prudential standards. Other current and proposed federal measures that may significantly affect the P&C Group's business and the market as a whole include those concerning federal terrorism insurance, tort law, natural catastrophes, corporate governance, ergonomics, health care reform including the containment of medical costs, 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

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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.

Regulation outside the United States

Outside the United States, the extent of insurance regulation varies significantly among the countries in which the P&C Group operates, and regulatory and political developments in international markets could impact the P&C Group's business. Some countries have minimal regulatory requirements, while others, such as Australia, Canada and the United Kingdom, regulate insurers extensively; however, virtually all countries impose some form of licensing, solvency, auditing and financial reporting requirements. Some countries also regulate insurance rates and/or policy forms. Overall, there appears to be a general movement towards greater regulatory oversight of insurance carriers, particularly with respect to capital adequacy and solvency requirements. In some jurisdictions, foreign insurers are subject to greater restrictions than domestic companies, including requirements related to records, limitations on reinsurance ceded to affiliated insurers/reinsurers and local retention of funds.

Regulators in many countries are working with the International Association of Insurance Supervisors (IAIS) to consider changes to insurance company solvency standards and group supervision of companies in a holding company system, including non-insurance companies. These IAIS initiatives include a set of Insurance Core Principles (ICPs) for a globally-accepted framework for insurance sector regulation and supervision, as well as the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). The IAIS also is working on a process to recommend insurers for designation by the Financial Stability Board (FSB) as Global Systemically Important Insurers (G-SIIs), as well as policy measures that could be applied to any insurer designated as a G-SII. These policy measures may include heightened supervision and prudential standards. The European Union Solvency II directive, being implemented to harmonize insurance regulation across the European Union member states, will require regulated companies such as the P&C Group's European operations to meet new requirements in relation to risk and capital management. The Solvency II directive is currently scheduled to take effect January 1, 2016, but it is possible that full effectiveness may be later.

Regulatory Coordination

State regulators in the United States and regulatory agencies outside the United States are increasingly coordinating the regulation of multinational insurers by conducting a supervisory college. A supervisory college, as defined by the IAIS, is a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitate both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group.

Real Estate

The Corporation's wholly owned subsidiary, Bellemead Development Corporation, and its subsidiaries were involved in commercial development activities primarily in New Jersey and residential development activities primarily in central Florida. The real estate operations are in runoff.

Chubb Financial Solutions

Chubb Financial Solutions (CFS) provided customized financial products, primarily derivative financial instruments, to corporate clients. CFS has been in runoff since 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.

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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 as referring 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 because 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 or 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.

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.

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 or financial condition.

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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, tsunamis, tidal waves, 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.

We are exposed to natural and man-made catastrophe risks in both our U.S. and international operations. Catastrophe risks include hurricanes and cyclones along the coastlines of North America, the Caribbean region, Latin America, Asia and Australia. Catastrophe risks also include winter storms, northeasters, thunderstorms, hail storms, tornadoes, flooding and other water damage, earthquakes, other seismic or volcanic eruption, wildfires, and terrorism that may occur in locations in and outside the United States where we insure properties.

We utilize proprietary and third party catastrophe modeling tools to assist us in managing our catastrophe exposures. These models rely on various methodologies and assumptions which are subjective and subject to uncertainty. The methodologies and assumptions also may be changed from time to time by the third party modeling company. The use of different methodologies or assumptions would result in the model generating substantially different estimations of our catastrophe exposures. Moreover, modeled loss estimates may be materially different from actual results.

Natural or man-made catastrophic events could cause claims under our insurance policies to be higher than we 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. 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 limiting insurers ability to increase rates and 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.

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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We rely on pricing and capital models, but actual results could differ materially from the model outputs.

We employ various predictive modeling, stochastic modeling and/or forecasting techniques to analyze and estimate loss trends and the risks associated with our assets and liabilities. We utilize the modeled outputs and related analyses to assist us in making underwriting, pricing, reinsurance and capital decisions. The modeled outputs and related analyses are subject to numerous assumptions, uncertainties and the inherent limitations of any statistical analysis. Consequently, modeled results may differ materially from our actual experience. If, based upon these models or otherwise, we under price our products or underestimate the frequency and/or severity of loss events, our results of operations or financial condition may be adversely affected. If, based upon these models or otherwise, we over price our products or overestimate the risks we are exposed to, new business growth and retention of our existing business may be adversely affected, which could have a material adverse effect on our results of operations.

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 rigorous 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 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. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Such a manifestation of losses could have a material adverse effect on our financial condition or results of operations. These risks may be heightened during difficult economic conditions such as those currently being experienced in the United States and elsewhere.

Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all.

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 rates 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.

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.

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We may be unsuccessful in our efforts to sell new products and/or to expand our existing product offerings to new markets.

Our strategy for enhancing profitable growth includes new product initiatives as well as expanding existing product offerings to new markets. We may not be successful in these efforts, which could have a material adverse effect on our results of operations. If we are successful, results attributable to these product offerings could be different than we anticipate and could have an adverse effect on our results of operations or financial condition.

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 or financial condition.

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 subject to an extensive legal and regulatory framework in the United States. Compliance with current and future regulation may reduce our profitability and limit our growth. Moreover, our failure to comply with applicable laws and regulations could result in restrictions on our ability to do business, subject us to fines and penalties and have other adverse effects on our business.

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, limitations on 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. Complying with applicable laws and regulations may increase our cost of doing business and limit our opportunities for business growth, as could actions we take to comply with applicable laws and regulations and changes thereto. Failure to comply with, or to obtain, appropriate authorizations and/or exemptions under any applicable laws and regulations could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we conduct business and could subject us to fines and other sanctions.

Virtually all states in which the P&C Group operates require that we, together with other insurers licensed to do business in such states, 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 entities that otherwise are unable to purchase that coverage from private insurers. A few states also require us to purchase reinsurance from mandatory reinsurance funds, which can create a credit risk for insurers if such funds are not adequately funded by the state. In addition, in some cases,

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the existence of a reinsurance fund could affect the prices we can charge for our policies. The effect of these and similar arrangements could reduce our profitability in any given period and/or limit our ability to grow our business.

In recent years, the regulatory framework in the United States 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 as well as 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. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. Any proposed or future legislation or regulations, including NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current legal and regulatory requirements or may result in higher costs or increased capital requirements.

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 insurance business in a variety of ways. Current and proposed federal measures that may significantly affect the P&C Group's business and the insurance market as a whole include measures concerning federal terrorism insurance, systemic risk regulation, tort law, natural catastrophes, corporate governance, ergonomics, health care reform, including containment of medical costs, privacy, e-commerce, international trade, federal regulation of insurance companies and taxation of insurance companies.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law in July 2010, two federal government bodies, the Federal Insurance Office (FIO) and the Financial Stability Oversight Council (FSOC), were created which may impact the regulation of insurance. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited powers to preempt certain types of state insurance laws. The FIO also can recommend to the FSOC that it designate an insurer as an entity posing risks to U.S. financial stability in the event of the insurer's material financial distress or failure. An insurer so designated by FSOC could be subject to Federal Reserve supervision and heightened prudential standards. While we do not believe the P&C Group or any of its affiliated companies are systemically important financial institutions, it is possible the FSOC could conclude otherwise. If the FSOC were to designate the P&C Group or any of its affiliated companies for supervision by the Federal Reserve, it could place more restrictions on our ability to conduct business and may result in higher costs, increased capital requirements and/or lower profitability. Even if an insurance company is not designated as a systemically important financial institution, it still could be adversely impacted by new rules governing such institutions, as non-bank financial institutions may, under certain circumstances, be subject to possible assessment to fund the orderly resolution of a financially distressed systemically important financial institution.

The P&C Group is subject to regulation and supervision in jurisdictions outside the United States where we do business. Compliance with current and future regulation in these jurisdictions may reduce our profitability and limit our growth. Moreover, our failure to comply with applicable laws and regulations could result in restrictions on our ability to do business, subject us to fines or penalties or have other adverse effects on our business.

Insurers in the P&C Group doing business outside the United States also are subject to regulation and supervision in the jurisdictions within which they operate. The extent of insurance regulation varies from country to country. Complying with applicable laws and regulations may increase our costs of doing business and limit our opportunities to grow our business, as could our taking actions necessary to comply with applicable laws and regulations as well as changes thereto. Moreover, we may be unable to comply fully with all of the laws and regulations to which we are subject. Any such noncompliance could result in restrictions on our ability to do business, subject us to fines or penalties or have other adverse effects on our business.

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Regulators in many countries are working with the IAIS to consider changes to insurance company solvency standards and group supervision of companies in a holding company system, including noninsurance companies. Some IAIS initiatives are particularly focused on the supervision of internationally active insurance groups, such as the P&C Group. The European Union Solvency II directive will require regulated companies, such as the P&C Group's European operations, to meet new requirements in relation to risk and capital management. A U.S. parent company of a European Union subsidiary could be subject to certain requirements of the Solvency II directive if the U.S. state-based regulatory system is not deemed equivalent to Solvency II. The Solvency II directive is scheduled to be effective January 1, 2016. Regulators outside the European Union are considering similar risk and capital management requirements that could impact the P&C Group's operations. Such proposed or future legislation and regulatory initiatives in countries where we operate, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs, increased capital requirements and/or lower profitability.

The IAIS also is working with the FSB to decide if any insurers should be designated globally systemically important insurers. While we do not believe the P&C Group or any of its companies are globally systemically significant insurers, it is possible the FSB could conclude otherwise. The ramifications of a FSB globally systemically important insurer designation for the P&C Group or any of its affiliated companies is unknown at this time; however, it is likely to result in greater regulatory scrutiny and could place more restrictions on our ability to conduct business, result in higher costs, increased capital requirements or lower profitability.

State regulators in the United States and regulatory agencies outside the United States are increasingly coordinating the regulation of multinational insurers. We cannot predict the impact that decisions of these coordinated regulatory efforts will have on our business.

State regulators in the United States and regulatory agencies outside the United States are increasingly coordinating the regulation of multinational insurers, such as the P&C Group. The coordinated regulatory effort is referred to as a supervisory college, which the IAIS has defined as a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitate both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group by conducting a supervisory college. The P&C Group expects to be the focus of a supervisory college commencing in 2013. We cannot predict the impact that decisions of the supervisory college will have on our business.

We are subject to a number of risks associated with our business outside the United States.

A significant portion of our business is conducted outside the United States, including in Asia, Australia, Canada, Europe and Latin America. By doing business outside the United States, we are subject to a number of risks, including without limitation, dealing with jurisdictions, especially in emerging markets, that may lack political, financial or social stability and/or a strong legal and regulatory framework, which may make it difficult to do business and comply with local laws and regulations in such jurisdictions. Failure to comply with local laws in a particular jurisdiction or doing business in a country that becomes increasingly unstable could have a significant adverse effect on our business and operations in that market as well as on our reputation generally.

As part of our international operations, we engage in transactions denominated in currencies other than the U.S. dollar. To reduce our exposure to currency fluctuation, we attempt to match the currency of the liabilities we incur under insurance policies with assets denominated in the same local currency. However, in the event that we underestimate our exposure, negative movements in the U.S. dollar versus the local currency will exacerbate the impact of the exposure on our results of operations and financial condition. In addition, holding foreign currencies subjects us to the monetary policies and currency controls of the issuing government. The devaluation of a currency we hold or the imposition of controls that prevent the export of such currency could negatively impact our business.

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We report the results of our international operations on a consolidated basis with our domestic business. These results are reported in U.S. dollars. A significant portion of the business we write outside the United States, however, is transacted in local currencies. Consequently, fluctuations in the relative value of local currencies in which the policies are written versus the U.S. dollar can mask the underlying trends in our international business.

The United States and other jurisdictions in which we operate have adopted various laws and regulations that may apply to the business we conduct outside of the United States, including those relating to antibribery and economic sanctions compliance. These laws and regulations often apply not only to our direct activities, but also to those activities we conduct through intermediaries, such as agents, brokers and other business partners. Although we have policies and controls in place that are designed to ensure compliance with these laws and regulations, it is possible that one or more of our employees or intermediaries could fail to comply with applicable laws and regulations. In such event, we could be exposed to civil penalties, criminal penalties and other sanctions. In addition, such violations could damage our business and/or our reputation. Such civil penalties, criminal penalties, other sanctions and damage to our business and/or reputation could have a material adverse effect on our results of operations or financial condition.

We cannot predict the impact that changing climate conditions, including legal, regulatory and social responses thereto, may have on our business.

Various scientists, environmentalists, international organizations, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including, but not limited to, hurricanes, tornadoes, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions which may be chief contributors to global climate change.

We cannot predict the impact that changing climate conditions, if any, will have on our results of operations or our financial condition. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business.

The inability of our property and casualty insurance subsidiaries to pay dividends in sufficient amounts would limit our ability to meet our obligations, to pay future dividends and to repurchase shares of our common stock.

As a holding company, Chubb relies primarily on dividends from its property and casualty insurance subsidiaries to meet its obligations for payment of interest and principal on outstanding debt obligations, to pay dividends to shareholders and to repurchase shares of our common stock. The ability of our property and casualty 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 property and casualty 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 property and casualty 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.

We may experience reduced returns or losses on our investments especially during periods of heightened volatility, which could have a material adverse effect on our results of operations or financial condition.

The returns on our investment portfolio may be reduced or we may incur losses as a result of changes in general economic conditions, interest rates, real estate markets, fixed income markets, equity

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markets, alternative investment markets, credit markets, exchange rates, global capital market conditions and numerous other factors that are beyond our control.

During prolonged periods of low interest rates and investment returns, we may not be able to invest new money generated by our operations or reinvest funds at rates that generate the same level of investment income generated by our existing invested assets, which could have a material adverse effect on our results of operations and financial condition.

The worldwide financial markets experience high levels of volatility during certain periods, which could have an increasingly adverse impact on the U.S. and foreign economies. The financial market volatility and the resulting negative economic impact could continue and it is possible that it may be prolonged, which could adversely affect our current investment portfolio, make it difficult to determine the value of certain assets in our portfolio and/or make it difficult for us to purchase suitable investments that meet our risk and return criteria. These factors could 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.

A significant portion of our investment portfolio is invested in obligations of states, municipalities and political subdivisions (often referred to as municipal bonds). The recent financial market volatility and the resulting negative economic impact have resulted in actual or projected budget deficits for many municipal bond issuers. These deficits, combined with declining municipal tax bases and revenues, have raised concerns over the potential for an increased risk of default or impairment of municipal bonds. Such concerns, as well as actual defaults or impairments, could adversely impact these investments in terms of volatility, liquidity and value.

Our investment portfolio includes commercial mortgage-backed securities, residential mortgage-backed securities, collateralized mortgage obligations and pass-through securities. Continuation of the prolonged stress in the U.S. housing market and/or financial market disruption could adversely impact these investments.

Our investment portfolio includes securities that may be more volatile than fixed maturity instruments and certain of these instruments may be illiquid.

Our investment portfolio includes equity securities and private equity limited partnership interests which may experience significant volatility in their investment returns and valuation. Moreover, our private equity limited partnership interests are subject to transfer restrictions and may be illiquid. If the investment returns or value of these investments decline, or if we are unable to dispose of these investments at their carrying value, it could have a material adverse effect on our results of operations or financial condition.

Changes to federal and/or state tax laws could adversely affect the value of our investment portfolio.

A significant portion of our investment portfolio consists of tax exempt securities and we receive certain tax benefits relating to such securities based on current laws and regulations. Our portfolio has also benefited from certain other laws and regulations, including without limitation, tax credits. Federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages currently benefiting us and could negatively impact the value of our investment portfolio.

We are exposed to credit risk and foreign currency risk in our business operations and in our investment portfolio.

We are exposed to credit risk in several areas of our business operations, including, without limitation, credit risk relating to reinsurance, co-sureties on surety bonds, policyholders of certain of our insurance products, independent agents and brokers, issuers of securities, insurers of certain securities and certain other counterparties relating to our investment portfolio.

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With respect to reinsurance coverages that we have purchased, our ability to recover amounts due from reinsurers may be affected by the creditworthiness and willingness to pay of the reinsurers. Although certain reinsurance we have purchased is collateralized, the collateral is exposed to credit risk of the counterparty that has guaranteed an investment return on such collateral.

It is customary practice in the surety business for multiple insurers to participate as co-sureties on large surety bonds, meaning that each insurer (each referred to as a co-surety) assumes its proportionate share of the risk and receives a corresponding percentage of the bond premium. Under these arrangements, the co-sureties' obligations are joint and several. Consequently, if a co-surety defaults on its obligations, the remaining co-surety or co-sureties are obligated to make up the shortfall to the beneficiary of the surety bond even though the non-defaulting co-sureties did not receive the premium for that portion of the risk. Therefore, we are subject to credit risk with respect to the insurers with whom we are co-sureties on surety bonds.

In accordance with industry practice, when insureds purchase our insurance products through independent agents and brokers, they generally pay the premiums to the agent or broker, which in turn is required to remit the collected premium to us. In many jurisdictions, we are deemed to have received payment upon the receipt of the payment by the agent or broker, regardless of whether the agent or broker actually remits payment to us. As a result, we assume credit risk associated with amounts due from independent agents and brokers.

The value of our investment portfolio is subject to credit risk from the issuers and/or guarantors of the securities in the portfolio, other counterparties in certain transactions and, for certain securities, insurers that guarantee specific issuer's obligations. Defaults by the issuer and, where applicable, an issuer's guarantor, insurer or other counterparties with regard to any of such investments could reduce our net investment income and net realized investment gains or result in investment losses.

We report our financial results in U.S. dollars, but a significant amount of the business we write and expenses we incur outside the United States are denominated in currencies other than the U.S. dollar. In addition, a substantial portion of our investment portfolio is denominated in non-U.S. dollar currencies. As a result, changes in the strength of the U.S. dollar relative to these foreign currencies could adversely affect our results of operations and financial condition.

Our exposure to any of the above credit risks and foreign currency risk could have a material adverse effect on our results of operations or financial condition.

Changes in accounting principles and financial reporting requirements may impact the manner in which we present our results of operations and financial condition.

The Financial Accounting Standards Board and the Securities and Exchange Commission may issue from time to time new accounting and reporting standards or changes in the interpretation of existing standards. These new standards or changes in interpretation could have an effect on how we report our results of operations and financial condition in the future.

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

We outsource certain business and administrative functions and rely on third parties to perform certain services on our behalf. We may do so increasingly in the future. 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, reputational damage and a loss of business that may have a material adverse effect on our results of operations or financial condition. By utilizing third parties to perform certain business and administrative functions, we may be exposed to greater risk of data security breaches. Any breach of data security could damage our reputation and/or result in monetary damages, which, in turn, could have a material adverse effect on our results of operations or financial condition.

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The occurrence of certain 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 might be unable to perform their duties for an extended period of time if our computer, information technology or telecommunication systems were disabled or destroyed.

Our systems could be subject to physical break-ins, electronic hacking, and subject to similar disruptions from unauthorized access or tampering. This may impede or interrupt our business operations, which could have a material adverse effect on our results of operations or financial condition.

Loss of sensitive data and other security breaches could damage our reputation and harm our business.

We routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to protect this confidential and proprietary information, we may be unable to do so in all events, especially with customers, business partners and other third parties who may not have or use appropriate controls to protect confidential information.

In addition, we are subject to numerous data privacy laws, such as those enacted by the U.S. federal government, various state governments, the European Union and other jurisdictions in which we do business relating to the privacy of the information of clients, employees or others. A misuse or mishandling of confidential or proprietary information being sent to or received from a client, employee or third party could result in legal liability, regulatory action and reputational harm. Third parties to whom we outsource certain of our functions are also subject to these risks, and their failure to adhere to these laws and regulations could negatively impact us.

Any breach of data security could result in damage to our reputation, our incurring substantial costs and other negative consequences, which, in turn, 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 territory, 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*

The information required with respect to Item 3 is included in Note (13)(a) of the Notes to Consolidated Financial Statements, which information is incorporated by reference into this Item 3.

Table of Contents***Executive Officers of the Registrant***

| | Age(a) | Year of Election(b) |
|--|--------|---------------------|
| John D. Finnegan, Chairman, President and Chief Executive Officer | 64 | 2002 |
| W. Brian Barnes, Senior Vice President and Chief Actuary of Chubb & Son, a division of Federal | 50 | 2008 |
| Maureen A. Brundage, Executive Vice President and General Counsel | 56 | 2005 |
| Robert C. Cox, Executive Vice President of Chubb & Son, a division of Federal | 55 | 2003 |
| John J. Kennedy, Senior Vice President and Chief Accounting Officer | 57 | 2008 |
| Mark P. Korsgaard, Executive Vice President of Chubb & Son, a division of Federal | 57 | 2010 |
| Paul J. Krump, President of Commercial and Specialty Lines of Chubb & Son, a division of Federal | 53 | 2001 |
| Harold L. Morrison, Jr., Executive Vice President, Chief Global Field Officer and Chief Administrative Officer of Chubb & Son, a division of Federal | 55 | 2008 |
| Steven R. Pozzi, Executive Vice President of Chubb & Son, a division of Federal | 56 | 2009 |
| Dino E. Robusto, President of Personal Lines and Claims of Chubb & Son, a division of Federal | 54 | 2006 |
| Richard G. Spiro, Executive Vice President and Chief Financial Officer | 48 | 2008 |
| Kathleen M. Tierney, Executive Vice President of Chubb & Son, a division of Federal | 44 | 2010 |

(a) Ages listed above are as of April 30, 2013.

(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 Mr. Spiro.

Before joining the Corporation in 2008, Mr. Spiro was an investment banker at Citigroup Global Markets Inc., where he served as a Managing Director in Citigroup's financial institutions investment banking group.

Table of Contents**PART II.****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

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 2012 and 2011.

| | 2012 | | | |
|---------------------|---------------|----------------|---------------|----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Common stock prices | | | | |
| High | \$ 71.01 | \$ 74.28 | \$ 76.76 | \$ 81.19 |
| Low | 66.90 | 68.82 | 68.83 | 73.83 |
| Dividends declared | .41 | .41 | .41 | .41 |

| | 2011 | | | |
|---------------------|---------------|----------------|---------------|----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Common stock prices | | | | |
| High | \$ 61.31 | \$ 65.87 | \$ 64.45 | \$ 70.31 |
| Low | 57.32 | 60.50 | 55.43 | 58.12 |
| Dividends declared | .39 | .39 | .39 | .39 |

At February 8, 2013, there were approximately 7,600 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 (17)(e) of the Notes to Consolidated Financial Statements.

The following table summarizes Chubb's repurchases of its common stock during each month in the quarter ended December 31, 2012.

| 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 Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(b) (in millions) |
|---------------|-------------------------------------|------------------------------|--|---|
| October 2012 | 41,900 | 76.99 | 41,900 | \$ 354 |
| November 2012 | | | | 354 |
| December 2012 | 328,000 | 76.48 | 328,000 | 329 |
| Total | 369,900 | 76.54 | 369,900 | |

(a) The stated amounts exclude 4,180 shares delivered to Chubb during the month of December 2012 by employees of the Corporation to cover option exercise prices in connection with the Corporation's stock-based compensation plans.

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- (b) On January 26, 2012, the Board of Directors authorized the repurchase of up to \$1.2 billion of Chubb's common stock. On January 31, 2013, the Board of Directors authorized the repurchase of up to \$1.3 billion of Chubb's common stock replacing the January 26, 2012 authorization. This 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, 2007 through December 31, 2012 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, 2007
with dividends reinvested

| | December 31 | | | | | |
|--|-------------|-------|-------|--------|--------|--------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Chubb | \$ 100 | \$ 96 | \$ 95 | \$ 119 | \$ 142 | \$ 157 |
| S&P 500 | 100 | 63 | 80 | 92 | 94 | 109 |
| S&P 500 Property & Casualty Insurance | 100 | 71 | 79 | 86 | 86 | 104 |

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**

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|-----------|-----------|-----------|-----------|-----------|
| (in millions except for per share amounts) | | | | | |
| FOR THE YEAR | | | | | |
| Revenues | | | | | |
| Property and Casualty Insurance | | | | | |
| Premiums Earned | \$ 11,838 | \$ 11,644 | \$ 11,215 | \$ 11,331 | \$ 11,828 |
| Investment Income | 1,518 | 1,598 | 1,590 | 1,585 | 1,652 |
| Other Revenues | | | | 2 | 4 |
| Corporate and Other | 46 | 55 | 88 | 75 | 108 |
| Realized Investment Gains (Losses), Net | 193 | 288 | 426 | 23 | (371) |
| Total Revenues | \$ 13,595 | \$ 13,585 | \$ 13,319 | \$ 13,016 | \$ 13,221 |
| Income | | | | | |
| Property and Casualty Insurance | | | | | |
| Underwriting Income | \$ 548 | \$ 574 | \$ 1,222 | \$ 1,631 | \$ 1,361 |
| Investment Income | 1,482 | 1,562 | 1,558 | 1,549 | 1,622 |
| Other Income (Charges) | 10 | 21 | 2 | (3) | 9 |
| Property and Casualty Insurance Income | | | | | |
| Insurance Income | 2,040 | 2,157 | 2,782 | 3,177 | 2,992 |
| Corporate and Other | (237) | (246) | (220) | (238) | (214) |
| Realized Investment Gains (Losses), Net | 193 | 288 | 426 | 23 | (371) |
| Income Before Income Tax | | | | | |
| Income Before Income Tax | 1,996 | 2,199 | 2,988 | 2,962 | 2,407 |
| Federal and Foreign Income Tax | 451 | 521 | 814 | 779 | 603 |
| Net Income | \$ 1,545 | \$ 1,678 | \$ 2,174 | \$ 2,183 | \$ 1,804 |
| Per Share | | | | | |
| Net Income | \$ 5.69 | \$ 5.76 | \$ 6.76 | \$ 6.18 | \$ 4.92 |
| Dividends Declared on Common Stock | | | | | |
| Common Stock | 1.64 | 1.56 | 1.48 | 1.40 | 1.32 |
| AT DECEMBER 31 | | | | | |
| Total Assets(a) | \$ 52,184 | \$ 50,445 | \$ 49,976 | \$ 50,176 | \$ 48,156 |
| Long Term Debt | 3,575 | 3,575 | 3,975 | 3,975 | 3,975 |
| Total Shareholders' Equity(a) | 15,827 | 15,301 | 15,257 | 15,361 | 13,159 |
| Book Value Per Share(a) | 60.45 | 56.15 | 51.32 | 46.27 | 37.35 |

- (a) Amounts in years prior to 2012 have been adjusted to reflect the adoption of new guidance issued by the Financial Accounting Standards Board related to the accounting for costs associated with acquiring or renewing insurance contracts. The adoption of this guidance decreased deferred policy acquisition costs by \$420 million, decreased deferred income tax liabilities by \$147 million and decreased shareholders' equity by \$273 million as of January 1, 2008. The effect of the adoption of the new guidance on net income was not material. The amounts of the retrospective reductions to previously reported deferred acquisition costs, related deferred income tax liabilities and shareholders' equity as of December 31, 2011, 2010, 2009 and 2008 were the same as the amounts of the reductions as of January 1, 2008.

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, 2012 compared with December 31, 2011 and the results of operations for each of the three years in the period ended December 31, 2012. 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; asbestos and toxic waste liabilities and related developments; the impact of the economy on our business; the impact of changes to our reinsurance program in 2012 and the cost of reinsurance in 2013; the adequacy of the rates at which we renewed and wrote new business; premium volume, pricing and competition in 2013; property and casualty investment income during 2013; cash flows generated by our fixed income investments; currency rate fluctuations; the repurchase of common stock under our share repurchase program; our capital adequacy and funding of liquidity needs; the funding and timing of loss payments; and the redemption of our capital securities. 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, economic and market conditions, particularly in the jurisdictions in which we operate and/or invest, including:

changes in credit ratings, interest rates, market credit spreads and the performance of the financial markets;

currency fluctuations;

the effects of inflation;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and pricing environments;

regional or general changes in asset valuations;

the inability to reinsure certain risks economically; and

changes in the litigation environment;

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

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

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

adverse changes in loss cost trends;

our ability to retain existing business and attract new business at acceptable rates;

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

the adequacy of our loss reserves, including:

our expectations relating to reinsurance recoverables;

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

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

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development of new theories of liability;

our estimates relating to ultimate asbestos liabilities; and

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

the availability and cost of reinsurance coverage;

the occurrence of significant weather-related or other natural or human-made disasters, particularly in locations where we have concentrations of risk or changes to our estimates (or the assessments of rating agencies and other third parties) of our potential exposure to such events;

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

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

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

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

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

the ability of our subsidiaries to pay us dividends;

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

our financial position and financial results;

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

our share price;

investment opportunities;

opportunities to profitably grow our property and casualty insurance business;

corporate and regulatory requirements; and

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The consolidated financial statements include amounts based on informed estimates and judgments of management for transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the financial statements. Those estimates and judgments that were most critical to the preparation of the financial statements involved the determination of loss reserves and the recoverability of related reinsurance recoverables and the evaluation of whether a decline in value of any investment is temporary or other than temporary. These estimates and judgments, which are discussed 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.

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OVERVIEW

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

Net income was \$1.5 billion in 2012, \$1.7 billion in 2011 and \$2.2 billion in 2010. The decrease in net income in 2012 compared with 2011 was due to both lower operating income and lower net realized investment gains. The decrease in net income in 2011 compared with 2010 was due primarily to lower operating income and, to a lesser extent, lower net realized investment gains. We define operating income as net income excluding realized investment gains and losses after tax.

Operating income was \$1.4 billion in 2012, \$1.5 billion in 2011 and \$1.9 billion in 2010. The modestly lower operating income in 2012 compared with that in 2011 was due primarily to lower property and casualty investment income. The underwriting income of our property and casualty insurance business was similar in both years. The lower operating income in 2011 compared with that in 2010 was due to substantially lower underwriting income, attributable in large part to a higher impact of catastrophes. Property and casualty investment income was flat in 2011 compared with that in 2010. Management uses operating income, a non-GAAP financial measure, among other measures, to evaluate its performance because the realization of investment gains and losses in any period could be discretionary as to timing and can fluctuate significantly, which could distort the analysis of operating trends.

Underwriting results in 2012 were adversely affected by costs of \$882 million before tax related to Storm Sandy, including estimated net losses of \$829 million and reinsurance reinstatement premium costs of \$53 million. The total costs of catastrophes before tax were \$1,140 million in 2012, \$1,030 million in 2011 and \$634 million in 2010.

Underwriting results were profitable in 2012 and 2011, compared with highly profitable results in 2010. Our combined loss and expense ratio was 95.3% in 2012 and 2011 and 89.3% in 2010. The less profitable underwriting results in 2012 and 2011 compared to 2010 were primarily due to a substantially higher impact of catastrophes. The impact of catastrophes accounted for 9.6 percentage points of the combined ratio in 2012 compared with 8.9 percentage points in 2011 and 5.7 percentage points in 2010.

During 2012, 2011 and 2010, we experienced overall favorable development of \$614 million, \$767 million and \$746 million, respectively, on loss reserves established as of the previous year end. The favorable development in each year was due primarily to favorable loss experience in certain commercial liability, professional liability and personal insurance classes.

Total net premiums written increased by 1% in 2012 and 5% in 2011. The effect of foreign currency translation on total net premium growth was slightly negative in 2012 compared to a slightly positive impact in 2011. Net premiums written in the United States increased by 2% in both 2012 and 2011. Net premiums written outside the United States decreased by 3% in 2012 and increased by 11% in 2011. When measured in local currencies, such premiums grew slightly in 2012 and grew significantly in 2011. In both years, premium growth both inside and outside the United States was limited by our emphasis on underwriting discipline in a highly competitive market and our focus on rate adequacy and profitability for both renewal and new business.

Property and casualty investment income after tax decreased by 5% in 2012 and was flat in 2011 in what continued to be a low yield investment environment. Management uses property and casualty investment income after tax, a non-GAAP financial measure, to evaluate its investment results because it reflects the impact of any change in the proportion of tax exempt investment income to total investment income and is therefore more meaningful for analysis purposes than investment income before income tax.

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Net realized investment gains before tax were \$193 million (\$125 million after tax) in 2012 compared with \$288 million (\$187 million after tax) in 2011 and \$426 million (\$277 million after tax) in 2010. The net realized gains in 2012 were primarily related to fixed maturities and investments in limited partnerships. The net realized gains in 2011 and 2010 were primarily related to investments in limited partnerships.

A summary of our consolidated net income is as follows:

| | Years Ended December 31 | | |
|---|-------------------------|-----------------------|----------|
| | 2012 | 2011 (in millions) | 2010 |
| Property and casualty insurance | \$ 2,040 | \$ 2,157 | \$ 2,782 |
| Corporate and other | (237) | (246) | (220) |
| Consolidated operating income before income tax | 1,803 | 1,911 | 2,562 |
| Federal and foreign income tax | 383 | 420 | 665 |
| Consolidated operating income | 1,420 | 1,491 | 1,897 |
| Realized investment gains after income tax | 125 | 187 | 277 |
| Consolidated net income | \$ 1,545 | \$ 1,678 | \$ 2,174 |

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 | | |
|---|-------------------------|-----------------------|-----------|
| | 2012 | 2011 (in millions) | 2010 |
| Underwriting | | | |
| Net premiums written | \$ 11,870 | \$ 11,758 | \$ 11,236 |
| Increase in unearned premiums | (32) | (114) | (21) |
| Premiums earned | 11,838 | 11,644 | 11,215 |
| Losses and loss expenses | 7,507 | 7,407 | 6,499 |
| Operating costs and expenses | 3,756 | 3,695 | 3,496 |
| Increase in deferred policy acquisition costs | (3) | (63) | (30) |
| Dividends to policyholders | 30 | 31 | 28 |
| Underwriting income | 548 | 574 | 1,222 |
| Investments | | | |
| Investment income before expenses | 1,518 | 1,598 | 1,590 |
| Investment expenses | 36 | 36 | 32 |
| Investment income | 1,482 | 1,562 | 1,558 |
| Other income | 10 | 21 | 2 |
| Property and casualty income before tax | \$ 2,040 | \$ 2,157 | \$ 2,782 |
| Property and casualty investment income after tax | \$ 1,204 | \$ 1,265 | \$ 1,261 |

Property and casualty income before tax was modestly lower in 2012 than in 2011, which in turn was significantly lower than in 2010. The modestly lower income in 2012 compared with 2011 was due primarily to a decrease in investment income. Underwriting income was similar in both years. The lower level of property and casualty income before tax in 2011 compared with 2010 was due to a substantial decrease in underwriting income that was primarily the result of a higher impact of catastrophes during 2011 and a decrease in current accident year underwriting profitability excluding the impact of catastrophes. Investment income was flat in 2011 compared with that in 2010.

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.

Table of Contents**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 were \$11.9 billion in 2012, \$11.8 billion in 2011 and \$11.2 billion in 2010. Net premiums written by business unit were as follows:

| | Years Ended December 31 | | | | |
|----------------------|-------------------------|---|-------------------------------|--------------------------------|----------|
| | 2012 | Increase (Decrease) 2012 vs. 2011 | 2011 (dollars in millions) | % Increase 2011 vs. 2010 | 2010 |
| | | | | | |
| Personal insurance | \$ 4,125 | 4% | \$ 3,977 | 4% | \$ 3,825 |
| Commercial insurance | 5,174 | 2 | 5,051 | 8 | 4,676 |
| Specialty insurance | 2,568 | (6) | 2,720 | | 2,727 |