

Edgar Filing: CHUBB CORP - Form 10-Q

CHUBB CORP
Form 10-Q
November 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C.

20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from _____ to _____

Commission file number 1-8661

THE CHUBB CORPORATION

(Exact name of registrant as specified in its charter)

NEW JERSEY

13-2595722

(State or other jurisdiction of incorporation or organization)

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

15 MOUNTAIN VIEW ROAD, WARREN, NEW JERSEY

07061-1615

(Address of principal executive offices)

(Zip Code)

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

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

YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The number of shares of common stock outstanding as of October 31, 2003 was 187,778,139.

Edgar Filing: CHUBB CORP - Form 10-Q

THE CHUBB CORPORATION

INDEX

	Page Number

Part I. Financial Information:	
Item 1 - Financial Statements:	
Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2003 and 2002.....	1
Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002.....	2
Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended September 30, 2003 and 2002.....	3
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2003 and 2002.....	4
Notes to Consolidated Financial Statements.....	5
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 4 - Controls and Procedures.....	34
Part II. Other Information:	
Item 1 - Legal Proceedings.....	35
Item 6 - Exhibits and Reports on Form 8-K.....	36
Signatures.....	36

Page 1

Part I. Financial Information

Item 1 - Financial Statements

THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
PERIODS ENDED SEPTEMBER 30

Third Quarter		Nine Months	
-----		-----	
2003	2002	2003	2002
----	----	----	----
(in millions)			

Edgar Filing: CHUBB CORP - Form 10-Q

Revenues				
Premiums Earned	\$ 2,608.2	\$ 2,085.5	\$ 7,466.6	\$ 5,868.8
Investment Income	287.9	252.9	816.6	745.2
Real Estate and				
Other Revenues	(9.4)	(17.9)	32.7	3.6
Realized Investment Gains	60.5	43.9	85.7	75.5
	-----	-----	-----	-----
Total Revenues ...	2,947.2	2,364.4	8,401.6	6,693.1
	-----	-----	-----	-----
Claims and Expenses				
Insurance Claims and				
Claim Expenses	1,711.3	2,052.0	4,850.0	4,513.0
Amortization of				
Deferred Policy				
Acquisition Costs	653.3	524.8	1,863.7	1,502.6
Other Insurance Operating				
Costs and Expenses	173.9	158.4	533.5	434.8
Real Estate and				
Other Expenses	30.4	25.9	67.3	65.7
Investment Expenses	5.0	8.4	21.4	19.3
Corporate Expenses	35.6	27.5	116.9	83.8
	-----	-----	-----	-----
Total Claims and				
Expenses	2,609.5	2,797.0	7,452.8	6,619.2
	-----	-----	-----	-----
Income (Loss) Before Federal				
and Foreign Income Tax ...	337.7	(432.6)	948.8	73.9
Federal and Foreign				
Income Tax (Credit).....	77.9	(190.5)	212.3	(92.4)
	-----	-----	-----	-----
Net Income (Loss)	\$ 259.8	\$ (242.1)	\$ 736.5	\$ 166.3
	=====	=====	=====	=====
Net Income (Loss) Per Share				
Basic	\$ 1.39	\$ (1.42)	\$ 4.17	\$.97
Diluted	1.37	(1.42)	4.13	.96
Dividends Declared Per Share	.36	.35	1.08	1.05

See Notes to Consolidated Financial Statements.

Page 2

THE CHUBB CORPORATION
CONSOLIDATED BALANCE SHEETS

Sept. 30, Dec. 31,
2003 2002

(in millions)

Assets

Invested Assets

Short Term Investments	\$ 2,689.4	\$ 1,756.7
Fixed Maturities		
Held-to-Maturity - Tax Exempt (market \$570.0		
and \$850.7)	529.3	794.9

Edgar Filing: CHUBB CORP - Form 10-Q

Available-for-Sale		
Tax Exempt (cost \$9,977.8 and \$8,449.2)	10,611.4	9,082.9
Taxable (cost \$10,062.0 and \$8,112.5)	10,393.3	8,385.7
Equity Securities (cost \$1,407.6 and \$998.3)	1,482.7	992.2
	<u>25,706.1</u>	<u>21,012.4</u>
TOTAL INVESTED ASSETS		
Cash	45.1	41.9
Securities Lending Collateral	1,314.1	1,354.8
Accrued Investment Income	280.3	246.9
Premiums Receivable	2,097.0	2,040.6
Reinsurance Recoverable on Unpaid Claims and Claim Expenses	3,443.6	4,071.5
Prepaid Reinsurance Premiums	461.8	479.3
Deferred Policy Acquisition Costs	1,299.3	1,150.0
Real Estate Assets	586.0	602.9
Investment in Partially Owned Company	298.9	266.7
Deferred Income Tax	476.1	612.5
Goodwill	467.4	467.4
Other Assets	1,615.2	1,767.5
	<u>\$38,090.9</u>	<u>\$34,114.4</u>
	=====	=====
Liabilities		
Unpaid Claims and Claim Expenses	\$17,226.3	\$16,713.1
Unearned Premiums	5,760.7	5,049.9
Securities Lending Payable	1,314.1	1,354.8
Long Term Debt	2,814.1	1,959.1
Dividend Payable to Shareholders	67.5	59.9
Accrued Expenses and Other Liabilities	2,430.6	2,118.4
	<u>29,613.3</u>	<u>27,255.2</u>
	-----	-----
Shareholders' Equity		
Common Stock - \$1 Par Value; 196,076,468 and 180,296,834 Shares	196.1	180.3
Paid-In Surplus	1,321.4	445.4
Retained Earnings	6,897.8	6,352.5
Accumulated Other Comprehensive Income		
Unrealized Appreciation of Investments, Net of Tax	676.0	585.5
Foreign Currency Translation Losses, Net of Tax	(18.9)	(56.5)
Receivable from Employee Stock Ownership Plan	(26.2)	(34.1)
Treasury Stock, at Cost - 8,423,744 and 9,095,162 Shares	(568.6)	(613.9)
	<u>8,477.6</u>	<u>6,859.2</u>
	-----	-----
TOTAL SHAREHOLDERS' EQUITY		
	<u>\$38,090.9</u>	<u>\$34,114.4</u>
	=====	=====

See Notes to Consolidated Financial Statements.

Page 3

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

Edgar Filing: CHUBB CORP - Form 10-Q

	Third Quarter		Nine Months	
	2003	2002	2003	2002
	(in millions)			
Net Income (Loss)	\$ 259.8	\$ (242.1)	\$ 736.5	\$ 166.3
Other Comprehensive Income (Loss)				
Change in Unrealized Appreciation				
of Investments, Net of Tax	(150.4)	212.6	90.5	332.3
Foreign Currency Translation Gains				
(Losses), Net of Tax	(8.8)	3.8	37.6	5.1
	(159.2)	216.4	128.1	337.4
Comprehensive Income (Loss)	\$ 100.6	\$ (25.7)	\$ 864.6	\$ 503.7

See Notes to Consolidated Financial Statements.

Page 4

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

	2003	2002
	(in millions)	
Cash Flows from Operating Activities		
Net Income	\$ 736.5	\$ 166.3
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities		
Increase in Unpaid Claims and Claim Expenses, Net	1,141.1	1,234.1
Increase in Unearned Premiums, Net	670.9	751.4
Increase in Premiums Receivable	(56.4)	(275.4)
Increase in Deferred Policy Acquisition Costs	(133.7)	(181.3)
Change in Deferred Income Tax	69.9	(107.0)
Depreciation	77.8	76.7
Realized Investment Gains	(85.7)	(75.5)
Other, Net	68.9	(2.4)
Net Cash Provided by Operating Activities	2,489.3	1,586.9
Cash Flows from Investing Activities		
Proceeds from Sales of Fixed Maturities	4,415.4	3,585.8
Proceeds from Maturities of Fixed Maturities	1,730.5	1,390.4
Proceeds from Sales of Equity Securities	367.6	321.8
Purchases of Fixed Maturities	(9,196.1)	(5,970.2)
Purchases of Equity Securities	(732.2)	(302.9)
Increase in Short Term Investments, Net	(932.7)	(500.5)
Increase in Net Payable from Security		
Transactions Not Settled	81.6	252.5

Edgar Filing: CHUBB CORP - Form 10-Q

Purchases of Property and Equipment, Net	(55.7)	(98.0)
Other, Net6	(2.8)
	-----	-----
Net Cash Used in Investing Activities	(4,321.0)	(1,323.9)
	-----	-----
Cash Flows from Financing Activities		
Decrease in Short Term Debt, Net	-	(199.0)
Proceeds from Issuance of Long Term Debt	960.0	-
Repayment of Long Term Debt	(100.3)	(7.8)
Increase in Funds Held Under Deposit Contracts	261.7	118.2
Proceeds from Common Stock Offering	886.8	-
Proceeds from Issuance of Common Stock Under Incentive and Purchase Plans	25.2	102.3
Repurchase of Shares	-	(99.4)
Dividends Paid to Shareholders	(183.6)	(177.8)
Other, Net	(14.9)	7.2
	-----	-----
Net Cash Provided by (Used in) Financing Activities	1,834.9	(256.3)
	-----	-----
Net Increase in Cash	3.2	6.7
Cash at Beginning of Year	41.9	25.8
	-----	-----
Cash at End of Period	\$ 45.1	\$ 32.5
	=====	=====

See Notes to Consolidated Financial Statements.

Page 5

THE CHUBB CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) General

The amounts included in this report are unaudited but include those adjustments, consisting of normal recurring items, which management considers necessary for a fair presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Notes to Consolidated Financial Statements included in the Corporation's 2002 Annual Report on Form 10-K.

2) Adoption of New Accounting Pronouncement

Effective January 1, 2003, the Corporation adopted the fair value method of accounting for stock-based employee compensation plans, which is the method of accounting defined in Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Under the fair value method of accounting, compensation cost is measured based on the fair value of the award at the grant date and recognized over the service period. The Corporation has elected to use the modified prospective method of transition, as permitted by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Under this method, stock-based employee compensation cost is recognized from the beginning of 2003 as if the fair value method of accounting had been used to account for all employee awards granted, modified, or settled in years beginning after December 15, 1994. Prior period financial statements were not restated. The adoption of the fair

Edgar Filing: CHUBB CORP - Form 10-Q

value method of accounting for stock-based employee compensation plans increased compensation cost by \$51.1 million for the nine months ended September 30, 2003, which resulted in a reduction in net income of \$35.7 million or \$0.20 per basic and diluted share.

The following information illustrates the effect on net income and earnings per share as if the Corporation had accounted for stock-based employee compensation using the fair value method.

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2003	2002	2003	2002
	----	----	----	----
	(in millions, except per share amounts)			
Net income (loss), as reported	\$ 259.8	\$(242.1)	\$ 736.5	\$ 166.3
Add: stock-based employee compensation expense included in reported net income, net of tax	15.1	3.0	45.7	11.9
Deduct: stock-based employee compensation expense determined using the fair value method, net of tax	(15.1)	(17.4)	(45.7)	(51.9)
	-----	-----	-----	-----
Pro forma net income (loss)	\$ 259.8	\$(256.5)	\$ 736.5	\$ 126.3
	=====	=====	=====	=====
Earnings per share				
Basic, as reported	\$ 1.39	\$ (1.42)	\$ 4.17	\$.97
Basic, pro forma	1.39	(1.50)	4.17	.74
Diluted, as reported	1.37	(1.42)	4.13	.96
Diluted, pro forma	1.37	(1.50)	4.13	.73

Page 6

3) Adoption of New Accounting Pronouncement

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, which requires an enterprise to assess its interests in a variable interest entity to determine whether to consolidate that entity. A variable interest entity is an entity in which the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or the equity investors do not have the characteristics of a controlling financial interest. FIN 46 requires that a variable interest entity be consolidated by its primary beneficiary, which is the party that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both.

Edgar Filing: CHUBB CORP - Form 10-Q

The provisions of FIN 46 were effective immediately for variable interest entities created after January 31, 2003 and for variable interest entities in which the Corporation obtains an interest after that date. The Corporation has not acquired an interest in any variable interest entities subsequent to January 31, 2003.

For any variable interest entities in which the Corporation holds a variable interest that it acquired prior to February 1, 2003, the provisions of FIN 46, as amended by FASB Staff Position No. FIN 46-6, are effective for the quarter ending December 31, 2003. For any such variable interest entity for which the Corporation determines that it is the primary beneficiary, the Corporation should initially measure the assets, liabilities and noncontrolling interests of the entity at their carrying amounts. Any difference between the net amount added to the Corporation's balance sheet and the amount of any previously recognized interest in the newly consolidated entity should be recognized as the cumulative effect of an accounting change.

The Corporation's real estate subsidiary has a collateralized mortgage note receivable from a real estate partnership in which it does not have an equity interest. The carrying value of the receivable was \$74.6 million at September 30, 2003. The partnership is a variable interest entity. The Corporation's real estate subsidiary has certain lease obligations related to the property held by the partnership. As a result of its variable interests, the Corporation's real estate subsidiary is the primary beneficiary of the partnership. Accordingly, consolidation of the real estate partnership will be required under FIN 46.

No other interests in variable interest entities have been identified that would require consolidation or disclosure.

The adoption of FIN 46 is not expected to have a significant effect on the Corporation's financial position or results of operations.

Page 7

4) Investments

Short term investments, which have an original maturity of one year or less, are carried at amortized cost which approximates market value. Fixed maturities classified as held-to-maturity are carried at amortized cost. Fixed maturities classified as available-for-sale and equity securities are carried at market value as of the balance sheet date.

The net change in unrealized appreciation or depreciation of investments carried at market value was as follows:

Periods Ended September 30			
Third Quarter		Nine Months	
2003	2002	2003	2002
----	----	----	----
(in millions)			

Edgar Filing: CHUBB CORP - Form 10-Q

Change in unrealized appreciation or depreciation of equity securities	\$ 8.1	\$ (15.2)	\$ 81.2	\$ 11.1
Change in unrealized appreciation of fixed maturities	(239.5)	342.3	58.0	500.1
	(231.4)	327.1	139.2	511.2
Deferred income tax (credit)	(81.0)	114.5	48.7	178.9
Change in unrealized appreciation of investments, net	\$ (150.4)	\$ 212.6	\$ 90.5	\$ 332.3

5) Debt

In March 2003, the Corporation issued \$225 million of unsecured 3.95% notes due April 1, 2008 and \$275 million of unsecured 5.2% notes due April 1, 2013, the aggregate net proceeds from which were \$495 million.

In June 2003, the Corporation issued \$460 million of unsecured 2 1/4% senior notes due August 16, 2008 and 18.4 million purchase contracts to purchase the Corporation's common stock. The notes and purchase contracts were issued together in the form of 7% equity units. The net proceeds from the issuance of the equity units were \$446 million.

Each equity unit initially represents one purchase contract and \$25 principal amount of senior notes. The notes are pledged by the holders to secure their obligations under the purchase contracts. The Corporation will make quarterly interest payments to the holders of the notes initially at a rate of 2 1/4% per year. In May 2006, the notes will be remarketed. At that time, the remarketing agent will have the ability to reset the interest rate on the notes in order to generate sufficient remarketing proceeds to satisfy the holder's obligation under the purchase contract. If the senior notes are not successfully remarketed, the Corporation will exercise its rights as a secured party to obtain and extinguish the notes and deliver its common stock to the holders pursuant to the purchase contracts. The purchase contracts are further described in Note (8).

Page 8

6) Earnings Per Share

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

Periods Ended September 30			
Third Quarter		Nine Months	
2003	2002	2003	2002

(in millions,
except per share amounts)

Edgar Filing: CHUBB CORP - Form 10-Q

Basic earnings per share:				
Net income (loss)	\$ 259.8	\$ (242.1)	\$ 736.5	\$ 166.3
	=====	=====	=====	=====
Weighted average number of common				
shares outstanding	186.6	170.6	176.5	170.5
	=====	=====	=====	=====
Basic earnings (loss) per share	\$ 1.39	\$ (1.42)	\$ 4.17	\$.97
	=====	=====	=====	=====
Diluted earnings per share:				
Net income (loss)	\$ 259.8	\$ (242.1)	\$ 736.5	\$ 166.3
	=====	=====	=====	=====
Weighted average number of common				
shares outstanding	186.6	170.6	176.5	170.5
Additional shares from assumed				
exercise of stock-based				
compensation awards	2.8	-	1.9	2.8
	-----	-----	-----	-----
Weighted average number of common				
shares and potential common shares				
assumed outstanding for computing				
diluted earnings per share	189.4	170.6	178.4	173.3
	=====	=====	=====	=====
Diluted earnings (loss) per share	\$ 1.37	\$ (1.42)	\$ 4.13	\$.96
	=====	=====	=====	=====

7) Segments Information

The property and casualty operations include three reportable underwriting segments and the investment function. The underwriting segments are personal insurance, commercial insurance and specialty insurance. The personal segment targets the personal insurance market. The personal classes include automobile, homeowners and other personal coverages. The commercial segment includes those classes of business that are generally available in broad markets and are of a more commodity nature. Commercial classes include multiple peril, casualty, workers' compensation and property and marine. The specialty segment includes those classes of business that are available in more limited markets since they require specialized underwriting and claim settlement. Specialty classes include executive protection, financial institutions and other specialty coverages. Performance of the underwriting segments is based on underwriting results before deferred policy acquisition costs and certain charges. Investment income performance is based on investment income net of investment expenses, excluding realized investment gains.

Chubb Financial Solutions' (CFS) non-insurance business was primarily structured credit derivatives, principally as a counterparty in portfolio credit default swap contracts. In the second quarter of 2003, the Corporation implemented a plan to exit the credit derivatives business and is running off the financial products portfolio of CFS.

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

Page 9

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

Edgar Filing: CHUBB CORP - Form 10-Q

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2003	2002	2003	2002
	(in millions)			
Revenues				
Property and casualty insurance				
Premiums earned				
Personal insurance.....	\$ 620.1	\$ 546.1	\$1,804.0	\$1,566.9
Commercial insurance.....	985.4	776.3	2,786.2	2,116.6
Specialty insurance.....	1,002.7	763.1	2,876.4	2,185.3
	-----	-----	-----	-----
	2,608.2	2,085.5	7,466.6	5,868.8
Investment income.....	274.1	241.3	794.2	709.1
	-----	-----	-----	-----
Total property and casualty insurance.....	2,882.3	2,326.8	8,260.8	6,577.9
Chubb Financial Solutions				
non-insurance business.....	(35.2)	(34.5)	(17.3)	(41.3)
Corporate and other.....	39.6	28.2	72.4	81.0
Realized investment gains.....	60.5	43.9	85.7	75.5
	-----	-----	-----	-----
Total revenues.....	\$2,947.2	\$2,364.4	\$8,401.6	\$6,693.1
	=====	=====	=====	=====
Income (loss) before income tax				
Property and casualty insurance				
Underwriting				
Personal insurance.....	\$ (21.2)	\$ (19.6)	\$ (28.6)	\$ (25.6)
Commercial insurance.....	81.6	(610.7)	201.5	(652.3)
Specialty insurance.....	(46.2)	(64.8)	(64.6)	(68.2)
	-----	-----	-----	-----
	14.2	(695.1)	108.3	(746.1)
Increase in deferred policy acquisition costs.....	56.4	48.9	133.7	181.3
	-----	-----	-----	-----
Underwriting income (loss).....	70.6	(646.2)	242.0	(564.8)
Investment income.....	269.6	233.3	776.7	691.3
Other charges.....	(.9)	(3.5)	(22.6)	(16.8)
	-----	-----	-----	-----
Total property and casualty insurance.....	339.3	(416.4)	996.1	109.7
Chubb Financial Solutions				
non-insurance business.....	(38.8)	(40.4)	(30.6)	(55.9)
Corporate and other.....	(23.3)	(19.7)	(102.4)	(55.4)
Realized investment gains.....	60.5	43.9	85.7	75.5
	-----	-----	-----	-----
Total income (loss) before income tax.....	\$ 337.7	\$ (432.6)	\$ 948.8	\$ 73.9
	=====	=====	=====	=====

Edgar Filing: CHUBB CORP - Form 10-Q

Property and casualty commercial insurance underwriting results in the third quarter of 2002 included net losses of \$625.0 million related to asbestos and toxic waste claims.

Page 10

8) Shareholders' Equity

In June 2003, the Corporation sold 15,525,000 shares of common stock. Net proceeds from the sale were \$887 million.

In June 2003, the Corporation issued 18.4 million purchase contracts to purchase the Corporation's common stock and \$460 million of 2 1/4% senior notes. The purchase contracts and notes were issued together in the form of 7% equity units. For further discussion of the notes and purchase contracts, see Note (5).

Each purchase contract obligates the holder to purchase, and obligates the Corporation to sell, on or before August 16, 2006, for a settlement price of \$25, a variable number of newly issued shares of the Corporation's common stock. The number of shares of the Corporation's common stock to be purchased will be determined based on a formula that considers the market price of the Corporation's common stock immediately prior to the time of settlement in relation to the \$59.50 per share sale price of the common stock at the time the equity units were offered. Upon settlement of the purchase contracts, the Corporation will receive proceeds of approximately \$460 million and will issue between approximately 6.5 million and 7.7 million shares of common stock.

The Corporation will make quarterly contract adjustment payments to the equity unit holders at a rate of 4 3/4% per year on the stated amount of \$25 per purchase contract until the purchase contract is settled. The \$66.2 million present value of the contract adjustment payments was accrued as a liability at the date of issuance of the equity units with an offsetting charge to paid-in surplus. The liability is included in other liabilities. Subsequent contract adjustment payments will be allocated between this liability account and interest expense based on a constant rate calculation over the term of the purchase contracts. Paid-in surplus also reflected a charge of \$11.9 million, representing the portion of the equity unit issuance costs that was allocated to the purchase contracts.

Page 11

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations for the Nine Months Ended September 30, 2003 and 2002 and for the Quarters Ended September 30, 2003 and 2002

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 estimates and assumptions related to economic, competitive, regulatory, judicial, legislative and other developments. These include statements relating to trends in, or representing management's beliefs about, our future strategies, operations and financial results, as well as other statements that include words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "should," "will," or other

Edgar Filing: CHUBB CORP - Form 10-Q

similar expressions. 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:

- the availability of primary and reinsurance coverage, including the implications relating to terrorism legislation and regulation;
 - global political conditions and the occurrence of terrorist attacks, including any nuclear, biological or chemical events;
 - the effects of the outbreak or escalation of war or hostilities;
 - premium price increases 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;
 - material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;
 - our expectations with respect to cash flow projections and investment income and with respect to other income;
 - the adequacy of loss reserves, including:
 - our expectations relating to reinsurance recoverables;
 - the effects of proposed asbestos liability legislation, including the impact of claims patterns arising from the possibility of legislation and those that may arise if legislation is not passed;
 - our estimates relating to ultimate asbestos liabilities and related reinsurance recoverables;
 - the impact from the bankruptcy protection sought by various asbestos producers and other related businesses;
 - the willingness of parties, including us, to settle disputes;
 - developments in judicial decisions or regulatory or legislative actions relating to coverage and liability for asbestos, toxic waste and mold claims;
- Page 12
- the impact of the current economic climate on companies on whose behalf we have issued surety bonds, and in particular, on those companies that have filed for bankruptcy or otherwise experienced deterioration in creditworthiness;

Edgar Filing: CHUBB CORP - Form 10-Q

- the effects of disclosures by, and investigations of, public companies relating to possible accounting irregularities, practices in the energy and securities industries and other corporate governance issues, including:
 - the effects on the energy markets and the companies that participate in them, and in particular as they may relate to concentrations of risk in our surety business;
 - the effects on the capital markets and the markets for directors and officers and errors and omissions insurance;
 - claims and litigation arising out of actual or alleged accounting or other corporate malfeasance by other companies;
 - claims and litigation arising out of investment banking practices;
 - legislative or regulatory proposals or changes, including the changes in law and regulation implemented under the Sarbanes-Oxley Act of 2002;
- the occurrence of significant weather-related or other natural or human-made disasters;
- any downgrade in our claims-paying, financial strength or other credit ratings;
- the ability of our subsidiaries to pay us dividends;
- general economic conditions including:
 - changes in interest rates, market credit spreads and the performance of the financial markets, generally and as they relate to credit risks assumed by our Chubb Financial Solutions unit in particular;
 - 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;
 - changes in the litigation environment;
 - general market conditions; and
- our ability to implement management's strategic plans and initiatives.

Our forward-looking statements speak only as of the date made, and we undertake no obligation to update these forward-looking statements.

Edgar Filing: CHUBB CORP - Form 10-Q

The consolidated financial statements include amounts based on informed estimates and judgments of management for those transactions that are not yet complete or for which the ultimate effects are uncertain. 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 adequacy of loss reserves and the recoverability of related reinsurance recoverables, the fair value of credit derivative obligations, the recoverability of the carrying value of real estate properties and the realization of deferred income tax benefits. These estimates and judgments are discussed within the following analysis of our results of operations. If different estimates and judgments had been applied, materially different amounts might have been reported in the financial statements.

SUMMARY OF FINANCIAL RESULTS

Net income was \$736.5 million in the first nine months of 2003 and \$259.8 million in the third quarter compared with net income of \$166.3 million in the first nine months of 2002 and a net loss of \$242.1 million in the third quarter of 2002.

Results in the first nine months of 2003 included realized investment gains of \$85.7 million, or \$55.7 million after tax, compared with realized investment gains of \$75.5 million, or \$49.1 million after tax, in the first nine months of 2002. Results in the third quarter of 2003 included realized investment gains of \$60.5 million, or \$39.3 million after tax, compared with realized investment gains of \$43.9 million, or \$28.6 million after tax, in the third quarter of 2002. Decisions to sell securities are governed principally by considerations of investment opportunities and tax consequences. As a result, realized gains and losses on the sale of investments may vary significantly from period to period.

Results in 2002 were adversely affected by the recognition of net losses of \$625 million, or \$406 million after tax, in the third quarter related to asbestos and toxic waste claims.

Effective January 1, 2003, the Corporation adopted the fair value method of accounting for stock-based employee compensation plans, which is the method of accounting defined in Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. Prior period financial statements were not restated. Under the fair value method of accounting, compensation cost is measured based on the fair value of an award at the grant date and recognized over the service period. The adoption of the fair value method of accounting for stock-based employee compensation plans increased compensation cost by \$51.1 million in the first nine months of 2003 and \$15.4 million in the third quarter, which resulted in a reduction in net income of \$35.7 million and \$10.4 million, respectively. The adoption of the fair value method of accounting for stock-based employee compensation plans is discussed further in Note (2) of the Notes to Consolidated Financial Statements.

Page 14

The following is a summary of the Corporation's results for the third quarter and nine months ended September 30, 2003 and 2002:

Periods Ended September 30	
Third Quarter	Nine Months
-----	-----
-----	-----

Edgar Filing: CHUBB CORP - Form 10-Q

	2003	2002	2003	2002
	-----	-----	-----	-----
	(in millions)			
PROPERTY AND CASUALTY INSURANCE				
Underwriting				
Net Premiums Written	\$ 2,845.5	\$ 2,315.2	\$ 8,137.5	\$ 6,620.2
Increase in Unearned Premiums	(237.3)	(229.7)	(670.9)	(751.4)
	-----	-----	-----	-----
Premiums Earned	2,608.2	2,085.5	7,466.6	5,868.8
	-----	-----	-----	-----
Claims and Claim Expenses	1,711.3	2,052.0	4,850.0	4,513.0
Operating Costs and Expenses	876.7	719.6	2,490.3	2,075.3
Increase in Deferred Policy				
Acquisition Costs	(56.4)	(48.9)	(133.7)	(181.3)
Dividends to Policyholders	6.0	9.0	18.0	26.6
	-----	-----	-----	-----
Underwriting Income (Loss)	70.6	(646.2)	242.0	(564.8)
	-----	-----	-----	-----
Investments				
Investment Income Before				
Expenses	274.1	241.3	794.2	709.1
Investment Expenses	4.5	8.0	17.5	17.8
	-----	-----	-----	-----
Investment Income	269.6	233.3	776.7	691.3
	-----	-----	-----	-----
Other Charges	(.9)	(3.5)	(22.6)	(16.8)
	-----	-----	-----	-----
Property and Casualty				
Income (Loss)	339.3	(416.4)	996.1	109.7
	-----	-----	-----	-----
CHUBB FINANCIAL SOLUTIONS				
NON-INSURANCE BUSINESS	(38.8)	(40.4)	(30.6)	(55.9)
CORPORATE AND OTHER	(23.3)	(19.7)	(102.4)	(55.4)
REALIZED INVESTMENT GAINS	60.5	43.9	85.7	75.5
	-----	-----	-----	-----
CONSOLIDATED INCOME (LOSS)				
BEFORE INCOME TAX	337.7	(432.6)	948.8	73.9
	-----	-----	-----	-----
Federal and Foreign Income				
Tax (Credit)	77.9	(190.5)	212.3	(92.4)
	-----	-----	-----	-----
CONSOLIDATED NET INCOME (LOSS)	\$ 259.8	\$ (242.1)	\$ 736.5	\$ 166.3
	=====	=====	=====	=====
PROPERTY AND CASUALTY INVESTMENT				
INCOME AFTER INCOME TAX	\$ 213.9	\$ 190.1	\$ 619.1	\$ 566.5
	=====	=====	=====	=====

PROPERTY AND CASUALTY INSURANCE

Our property and casualty business produced income before taxes of \$996.1 million in the first nine months of 2003 and \$339.3 million in the third quarter compared with income of \$109.7 million in the first nine months of 2002 and a loss of \$416.4 million in the third quarter of 2002. Results in both periods of 2002 were adversely affected by the recognition of net losses of \$625

Edgar Filing: CHUBB CORP - Form 10-Q

million in the third quarter related to asbestos and toxic waste claims (the \$625 million asbestos charge). Our asbestos and toxic waste related exposures are further discussed under "Loss Reserves." Excluding the \$625 million asbestos charge, property and casualty income before taxes amounted to \$734.7 million in the first nine months of 2002 and \$208.6 million in the third quarter. Earnings were significantly higher in the first nine months and third quarter of 2003 compared with the same periods of 2002, as adjusted to exclude the \$625 million asbestos charge. Underwriting income was significantly higher in 2003 due primarily to the exceptionally strong results in our commercial classes, which include multiple peril, casualty, workers' compensation and property and marine. Investment income also increased in 2003 compared with 2002.

Net premiums written were \$8.1 billion in the first nine months of 2003 and \$2.8 billion in the third quarter, representing increases of 23% over the comparable periods of 2002. Premium growth from Chubb Re, our reinsurance business that began operations in 1999, was particularly strong. Excluding premiums produced by Chubb Re, premium growth was 18% in the first nine months of 2003 and 15% in the third quarter.

U.S. premiums grew 22% in the first nine months of 2003 and 23% in the third quarter. Substantial premium growth was also achieved outside the United States in 2003. On a reported basis, non-U.S. premiums grew 26% in the first nine months of 2003 and 22% in the third quarter. In local currencies, non-U.S. premium growth was 17% in the first nine months and 15% in the third quarter.

Premium growth in the first nine months of 2003 was strong in all segments of our business due in large part to higher rates. We continue to write new business and we are retaining more of our accounts upon renewal. We continue to get rate increases on much of the business we write, with favorable policy terms and conditions. We expect that rate increases will continue throughout 2003 and into 2004, although the size of rate increases will decelerate.

As a result of the substantial losses incurred by reinsurers in recent years, the cost of reinsurance in the marketplace has increased significantly and reinsurance capacity for certain coverages, such as terrorism, is limited and expensive.

Our reinsurance program in 2003 is similar to that in 2002. We have discontinued some lower limit treaties that we believed were no longer economical and have increased our participation in certain layers of the treaties that we renewed. In addition, for our property catastrophe treaty for events in the United States, we have increased our coverage at the top due to our increased exposure in certain catastrophe prone areas. Our reinsurance costs have increased in 2003 in line with the higher premiums on the policies reinsured.

We are making a concerted effort to reduce terrorism risk aggregations. However, our future operating results could be more volatile due to the limited terrorism coverage in our reinsurance program.

Page 16

The Terrorism Risk Insurance Act of 2002 (the Terrorism Act) established a program under which the federal government will share the risk of loss from certain acts of international terrorism with the insurance industry. The program terminates on December 31, 2005. The Terrorism Act is applicable to almost all commercial lines of insurance. Insurance companies with direct commercial insurance exposure in the United States are required to participate in the program. Each insurer has a separate deductible in the event of an act of terrorism before federal assistance becomes available. The deductible is based

Edgar Filing: CHUBB CORP - Form 10-Q

on a percentage of direct commercial earned premiums from the previous calendar year. For 2003, that deductible is 7% of direct commercial premiums earned in 2002. For losses above the deductible, the federal government will pay for 90% of insured losses, while the insurer contributes 10%. For certain classes of business, such as workers' compensation, terrorism coverage is mandatory. For those classes of business where it is not mandatory, insureds may choose not to accept the terrorism coverage, which would reduce our exposure. As expected, in 2003, most of our middle market commercial insureds have opted for terrorism coverage. While the provisions of the Terrorism Act will serve to mitigate our exposure in the event of a large-scale terrorist attack, our deductible is substantial, approximately \$350 million in 2003. Therefore, we continue to monitor concentrations of risk.

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

Statutory accounting principles differ in certain respects from generally accepted accounting principles (GAAP). Under statutory accounting principles, policy acquisition and other underwriting expenses are recognized immediately, not at the time premiums are earned. To convert underwriting expenses to a GAAP basis, policy acquisition expenses are deferred and recognized over the period in which the related premiums are earned.

Underwriting results were profitable in the first nine months and third quarter of 2003. Underwriting results were highly unprofitable in the first nine months and third quarter of 2002 due to the \$625 million asbestos charge. Excluding the effect of this charge, underwriting results were profitable in the first nine months of 2002 and near breakeven in the third quarter. Our combined loss and expense ratio was 95.8% in the first nine months of 2003 and 96.6% in the third quarter compared with 108.7% and 130.0%, respectively, in 2002. Excluding the effect of the \$625 million asbestos charge, our combined loss and expense ratio was 98.0% in the first nine months of 2002 and 99.9% in the third quarter.

Page 17

The loss ratio was 65.1% for the first nine months of 2003 and 65.7% for the third quarter compared with 77.2% and 98.8%, respectively, in the prior year. Adjusted to exclude the \$625 million asbestos charge, the loss ratio was 66.5% and 68.7% in the first nine months and third quarter of 2002, respectively. The loss ratio was lower in the 2003 periods than in the comparable 2002 periods, as adjusted, despite higher catastrophe losses. Catastrophe losses during the first nine months of 2003 amounted to \$261.5 million which represented 3.5 percentage points of the loss ratio compared with \$75.2 million or 1.3 percentage points in 2002. Catastrophe losses for the third quarter of 2003 amounted to \$96.0 million or 3.7 percentage points of the loss ratio compared with \$51.6 million or 2.5 percentage points in 2002. The catastrophe losses in 2003 resulted primarily from storms in the United States. The 2002 catastrophe losses resulted primarily from tornadoes in the midwest United States and floods in eastern Europe in the third quarter.

Edgar Filing: CHUBB CORP - Form 10-Q

Our expense ratio was 30.7% for the first nine months of 2003 and 30.9% for the third quarter compared with 31.5% and 31.2%, respectively, in 2002. The decrease in the expense ratio was due primarily to premiums written growing at a substantially higher rate than overhead expenses, and was achieved despite an approximate 0.5 of a percentage point adverse impact of expensing stock options in the 2003 periods.

Page 18

Underwriting results during 2003 and 2002 by class of business were as follows:

	Net Premiums Written		Combined Loss and Expense Ratios	
	2003	2002	2003	2002
	-----	-----	-----	-----
	(in millions)			
Nine Months Ended September 30				
PERSONAL INSURANCE				
Automobile	\$ 443.6	\$ 402.1	98.9%	98.5%
Homeowners	1,114.2	971.1	106.6	105.7
Other	391.4	364.1	77.8	77.5
	-----	-----	-----	-----
Total Personal	1,949.2	1,737.3	98.9	98.0
	-----	-----	-----	-----
COMMERCIAL INSURANCE				
Multiple Peril	809.4	687.5	90.3	101.5
Casualty	1,010.0	834.7	88.7	185.8 *
Workers' Compensation	475.9	350.3	92.2	92.6
Property and Marine	766.1	652.7	89.3	86.2
	-----	-----	-----	-----
Total Commercial	3,061.4	2,525.2	89.6	124.7 *
	-----	-----	-----	-----
SPECIALTY INSURANCE				
Executive Protection	1,526.0	1,214.3	104.0	105.8
Financial Institutions	603.4	508.3	111.5	103.3
Other	997.5	635.1	84.4	88.2
	-----	-----	-----	-----
Total Specialty	3,126.9	2,357.7	99.8	100.9
	-----	-----	-----	-----
TOTAL	\$ 8,137.5	\$ 6,620.2	95.8%	108.7%*
	=====	=====	=====	=====

Quarter Ended September 30

PERSONAL INSURANCE				
Automobile	\$ 154.3	\$ 144.0	96.4%	94.5%
Homeowners	402.9	353.4	108.7	108.8
Other	132.1	123.3	78.7	78.3
	-----	-----	-----	-----
Total Personal	689.3	620.7	99.9	99.0
	-----	-----	-----	-----

Edgar Filing: CHUBB CORP - Form 10-Q

COMMERCIAL INSURANCE				
Multiple Peril	276.6	235.1	92.7	103.0
Casualty	331.4	275.9	90.8	333.1 *
Workers' Compensation	158.4	116.4	94.1	91.8
Property and Marine	253.6	238.4	86.4	93.6
	-----	-----	-----	-----
Total Commercial	1,020.0	865.8	90.6	175.6 *
	-----	-----	-----	-----
SPECIALTY INSURANCE				
Executive Protection	525.0	442.8	104.2	112.3
Financial Institutions	182.8	168.2	111.4	115.7
Other	428.4	217.7	87.8	84.2
	-----	-----	-----	-----
Total Specialty	1,136.2	828.7	100.6	106.1
	-----	-----	-----	-----
TOTAL	\$ 2,845.5	\$ 2,315.2	96.6%	130.0%*
	=====	=====	=====	=====

* The combined loss and expense ratios for 2002 include the effect of losses of \$625.0 million related to asbestos and toxic waste claims recognized in the third quarter. For the nine months ended September 30, 2002, excluding the effect of such losses, the combined loss and expense ratio was 96.5% for Casualty, 94.9% for Total Commercial and 98.0% in total. For the third quarter of 2002, excluding the effect of such losses, the combined loss and expense ratio was 88.5% for Casualty, 94.4% for Total Commercial and 99.9% in total.

Page 19

PERSONAL INSURANCE

Premiums from personal insurance coverages, which represent 24% of total premiums written in the first nine months of 2003, increased by 12% in the first nine months of 2003 and 11% in the third quarter compared with the comparable periods in 2002. Premium growth occurred in all classes. The significant premium growth in our homeowners business was due to higher rates and increased insurance-to-value; the in-force policy count for this class has remained flat.

Our personal insurance business produced modestly profitable underwriting results in the first nine months of 2003 and 2002. Third quarter results were near breakeven in 2003 compared with modestly profitable results in 2002. Results in the first nine months and third quarter of 2003 were adversely affected by higher catastrophe losses. The combined loss and expense ratio was 98.9% in the first nine months of 2003 and 99.9% in the third quarter compared with 98.0% and 99.0%, respectively, in 2002. Excluding catastrophe losses, the combined ratio was 89.6% in the first nine months of 2003 and 89.2% in the third quarter compared with 96.0% and 96.8%, respectively, in 2002.

Homeowners results were unprofitable in 2003 and 2002. Higher catastrophe losses in 2003 were substantially offset by a decrease in non-catastrophe losses and the impact of improved pricing. Results in 2003 benefited from a decline in fire and water damage losses. Catastrophe losses represented 16.1 percentage points of the loss ratio for this class in the first nine months of 2003 and 18.6 percentage points in the third quarter compared with 3.9 and 4.1 percentage points, respectively, in 2002. Homeowners results outside the United States were profitable in 2003, particularly in the third

Edgar Filing: CHUBB CORP - Form 10-Q

quarter, compared with unprofitable results in 2002. We are in the process of exiting our personal lines business in Continental Europe, with the exception of the ultra high net worth market segment.

Our remediation plan relating to our homeowners business in the United States, which began in the latter part of 2001, is on track. We have made substantial progress in implementing rate increases in states where rates have been deficient. While the impact of losses related to water damage, including mold, has decreased in the first nine months of 2003 compared with the first nine months of 2002, we remain concerned about the potential for such claims. We have made regulatory filings in most states to introduce contract changes that would enable us to treat mold as a separate peril available at an appropriate price. These changes have been implemented in 36 states, including Texas, California and Florida, and approved in four other states.

Our automobile business produced similarly profitable results in 2003 and 2002. Other personal coverages, which include insurance for valuable articles and excess liability, produced highly profitable results in 2003 and 2002 due to continued favorable loss experience.

Page 20

COMMERCIAL INSURANCE

Premiums from commercial insurance, which represent 38% of our total writings, increased by 21% in the first nine months of 2003 and 18% in the third quarter compared with the similar periods in 2002. The substantial premium growth in this business was due to continued price increases and an increase in our in-force policy count. Growth occurred in all segments of this business but was particularly strong in the workers' compensation class. We are seeing more competition in the U.S. marketplace across most lines of business. Despite this, retention levels in the first nine months of 2003 were slightly higher than those in the same period of 2002. On the business that was renewed, rate increases were substantial although the level of rate increases has continued to decline from 2002 levels. During the first nine months of 2003, we wrote 1.8 dollars of new business for every dollar of business we lost. The substantial growth in new business was produced with the same tightened underwriting discipline that has existed over the past several years. We expect that rates will continue to rise but that the level of rate increases will continue to decline.

Our commercial insurance business produced highly profitable underwriting results in the first nine months and third quarter of 2003 compared with highly unprofitable results in the similar periods of 2002. The 2002 results were adversely affected by the \$625 million asbestos charge. Excluding the effect of this charge, our commercial insurance business produced profitable results in 2002. The combined loss and expense ratio was 89.6% for the first nine months of 2003 and 90.6% for the third quarter compared with 124.7% and 175.6%, respectively, in 2002. Adjusted to exclude the effect of the \$625 million asbestos charge, the combined loss and expense ratio for the first nine months and third quarter of 2002 was 94.9% and 94.4%, respectively. Our commercial insurance results in 2003 were more profitable than the as-adjusted results in 2002. The improvement in 2003 was due in large part to the cumulative effect of price increases, better terms and conditions and more stringent risk selection in recent years. The improvement was most substantial in our commercial multiple peril and casualty classes of business.

Multiple peril produced highly profitable results in 2003 compared with modestly unprofitable results in 2002. The improvement was most significant in the property component of this business as improved non-catastrophe loss

Edgar Filing: CHUBB CORP - Form 10-Q

experience more than offset an increase in catastrophe losses. In the liability component, we experienced significantly fewer large losses compared with 2002. Catastrophe losses represented 4.7 percentage points of the loss ratio for this class in the first nine months of 2003 and 5.2 points for the third quarter compared with 1.2 and 4.7 percentage points, respectively, in 2002.

Our casualty business produced highly profitable results in 2003. Results in 2002 were highly unprofitable due to the \$625 million asbestos charge. Excluding the effect of this charge, our casualty business produced profitable results in 2002. The automobile, primary liability and excess liability components each produced profitable results in 2003 and 2002. Casualty results in 2003 benefited from an absence of incurred losses related to asbestos and toxic waste claims. In addition to the \$625 million asbestos charge in the third quarter of 2002 noted above, asbestos and toxic waste losses of \$41 million were recognized in the first half of 2002.

Workers' compensation results were highly profitable in the first nine months of 2003 and 2002 due in large part to our disciplined risk selection during the past several years.

Page 21

Property and marine results were highly profitable in both 2003 and 2002. Both years benefited from a low number of severe losses. Results in 2003 were adversely affected by one \$25 million loss in the second quarter that resulted from an adverse arbitration decision rendered against an insurance pool in which we were formerly a 5.5% participant. The decision related to a fire that occurred in 1995. Results in the third quarter of 2002 were adversely affected by significantly higher catastrophe losses. Catastrophe losses represented 6.9 percentage points of the loss ratio for this class in the first nine months of 2003 and 5.9 percentage points in the third quarter compared with 6.6 percentage points and 14.8 percentage points, respectively, in 2002.

SPECIALTY INSURANCE

Premiums from specialty insurance, which represent 38% of our total writings, increased by 33% in the first nine months of 2003 and 37% in the third quarter compared with the similar periods a year ago. The growth in executive protection and the professional liability component of our financial institutions business was primarily attributable to higher rates. In response to claim severity trends, we initiated a program in the latter half of 2001 to increase pricing and improve policy terms and to not renew business that no longer met our underwriting criteria. We have implemented tighter terms and conditions, including lower policy limits and higher deductibles. We continue to reprofile our book of business, generating most of our new business from small and middle market customers. In the fidelity and standard commercial components of our financial institutions business, rates continued to increase as well. In our executive protection and financial institutions business, rate increases have begun to level off as we are seeing more competition in the marketplace.

Growth in our other specialty business was primarily from Chubb Re. Premiums produced by Chubb Re grew 124% in the first nine months of 2003 and 190% in the third quarter to \$668 million and \$318 million, respectively.

Our specialty business produced near breakeven underwriting results in the first nine months of 2003 and 2002. Results were near breakeven in the third quarter of 2003 compared with unprofitable results in the similar period in 2002. The combined loss and expense ratio was 99.8% for the first nine months of 2003 and 100.6% for the third quarter compared with 100.9% and 106.1%, respectively, in 2002.

Edgar Filing: CHUBB CORP - Form 10-Q

Our executive protection business produced similarly unprofitable results in the first nine months of 2003 and 2002. Results in both years were adversely affected by directors and officers liability and errors and omissions liability claim experience, particularly from claims that have arisen due to the corporate abuses and accounting irregularities in recent years. Results were unprofitable in the third quarter of both years, but more so in 2002 due to adverse trends in loss severity in Europe caused by an increase in litigation, often involving European companies being sued in U.S. courts for securities fraud.

Page 22

Financial institutions results were unprofitable in the first nine months of 2003 and 2002, but more so in 2003. Results for the professional liability component of this business were highly unprofitable in both years due to continued adverse directors and officers liability and errors and omissions liability claim experience. Financial institutions continue to be the focus of scrutiny by regulators and the plaintiffs' bar. The fidelity component was highly profitable in both years due to favorable loss experience. The standard commercial business written on financial institutions also produced profitable results in the first nine months of both years due in large part to the rate increases and more stringent risk selection in recent years. Results in the third quarter of 2003, however, were unprofitable.

Our other specialty results were highly profitable in 2003 and 2002. Our reinsurance assumed business generated by Chubb Re produced profitable results in both years, but more so in 2003. Our surety business produced highly profitable results in both years, but more so in 2003 due primarily to a \$17 million recovery in the second quarter from the sale of a bankruptcy claim against various Enron entities.

As a result of disarray in the surety reinsurance market caused by several years of declining prices and high losses, the availability of surety reinsurance in the near term has been significantly reduced. As a result, our future surety results could be volatile.

The surety business tends to be characterized by infrequent but potentially high severity losses. Since the end of 2001, we have been reducing our exposure on an absolute basis and by specific bond type. The majority of our obligations are intended to be performance-based guarantees. When losses occur, they are mitigated by the customer's balance sheet, contract proceeds and bankruptcy recovery.

Notwithstanding our efforts to manage and reduce our surety exposure, we continue to have substantial commercial surety exposure for outstanding bonds. In that regard, we have exposures related to commercial surety bonds issued on behalf of companies that have experienced deterioration in creditworthiness, including several gas forward purchase surety bonds. Given the current economic climate and its impact on these and other companies, there is an increased likelihood that we may experience an increase in filed claims and may incur high severity losses. Such losses would be recorded if and when claims are filed and determined to be valid, and could have a material adverse effect on the Corporation's results of operations and liquidity.

In particular, we have in force \$525 million of gas forward purchase surety bonds with one principal, Aquila, Inc. Our exposure under these bonds will decline over the terms of the bonds, which extend until 2012. These surety bonds, which are uncollateralized, secure Aquila's obligation to supply gas under long-term forward purchase agreements. Under the terms of these bonds, our

Edgar Filing: CHUBB CORP - Form 10-Q

entire obligation to pay could be triggered if Aquila failed to provide gas under its forward purchase contracts or was the subject of a bankruptcy filing. There is currently no reinsurance in place covering our exposure under any of these bonds. Aquila continues to perform its obligations under the related gas forward purchase agreements.

Page 23

SEPTEMBER 11 ATTACK

In the third quarter of 2001, we incurred net costs of \$645 million related to the September 11 attack. We estimate that our gross claims and claim expenses from the September 11 attack were about \$3.2 billion. Most of the claims were from property exposure and business interruption losses. We also had significant workers' compensation losses. Our property exposures were protected by facultative reinsurance, property per risk treaties that limited our net loss per risk, and our property catastrophe treaties. Our workers' compensation losses were protected by a casualty catastrophe treaty and a casualty clash treaty.

Business interruption claims from the September 11 attack will take some time to resolve, while potential liability claims could take years to resolve. Therefore, it is possible that our estimate of ultimate gross losses related to the September 11 attack may change in the future, and that the change in estimate could have a material effect on the Corporation's results of operations. However, we do not expect that any such change would have a material effect on the Corporation's financial condition or liquidity.

LOSS RESERVES

Loss reserves at September 30, 2003 and December 31, 2002 included significant amounts related to the September 11 attack and to asbestos and toxic waste claims. Loss reserves at December 31, 2002 also included a significant amount related to our surety exposure arising from the bankruptcy of Enron Corp., which was substantially paid in the first quarter of 2003. The components of loss reserves were as follows:

	September 30, 2003	December 31, 2002	
	-----	-----	
	(in millions)		
Gross loss reserves			
Total, per balance sheet	\$ 17,226	\$ 16,713	
Less:			
Related to September 11 attack	1,155	2,063	
Related to asbestos and toxic waste claims	1,079	1,136	
Related to Enron surety exposure	14	113	
	-----	-----	
Total, as adjusted	\$ 14,978	\$ 13,401	
	=====	=====	
Reinsurance recoverable			
Total, per balance sheet	\$ 3,443	\$ 4,071	
Less:			
Related to September 11 attack	835	1,558	
Related to asbestos and toxic			

Edgar Filing: CHUBB CORP - Form 10-Q

waste claims	47	53
Related to Enron surety exposure	-	7
	-----	-----
Total, as adjusted	\$ 2,561	\$ 2,453
	=====	=====
Net loss reserves		
Total	\$ 13,783	\$ 12,642
Total, as adjusted	12,417	10,948

Page 24

The loss reserves related to the September 11 attack, asbestos and toxic waste claims and our Enron surety exposure are significant components of our total loss reserves, but they distort the growth trend in our loss reserves. Adjusted to exclude such loss reserves, our loss reserves, net of reinsurance recoverable, increased by \$1,469 million during the first nine months of 2003, of which approximately \$125 million was due to the weakness of the U.S. dollar.

Net loss reserves, as adjusted, by segment were as follows:

	September 30, 2003	December 31, 2002
	-----	-----
	(in millions)	
Personal insurance	\$ 1,197	\$ 1,064
Commercial insurance	5,069	4,714
Specialty insurance	6,151	5,170
	-----	-----
Net loss reserves, as adjusted	\$ 12,417	\$ 10,948
	=====	=====

Loss reserves for each segment of our business increased in the first nine months of 2003, but most significantly for specialty insurance. The increase in loss reserves for specialty insurance was due in large part to directors and officers and errors and omissions claim activity combined with relatively low paid losses for these coverages during the period. Unpaid claims related to catastrophes contributed approximately \$57 million to the increase in personal insurance loss reserves.

Reserves for asbestos and toxic waste claims cannot be estimated with traditional actuarial techniques that rely on historical accident year loss development factors. We establish case reserves and expense reserves for costs of related litigation where sufficient information has been developed to indicate the involvement of a specific insurance policy. In addition, IBNR reserves are established to cover additional exposures on both known and unasserted claims.

In establishing our asbestos reserves, we evaluate the exposure presented by each insured. As part of this evaluation, we consider the available insurance coverage; limits and deductibles; the potential role of other insurance, particularly underlying coverage below our excess liability policies; and applicable coverage defenses, including asbestos exclusions.

Edgar Filing: CHUBB CORP - Form 10-Q

In the third quarter of 2002, our actuaries and outside actuarial consultants commenced their periodic ground-up exposure based analysis of our asbestos related liabilities. As part of this analysis, they considered the following recent adverse trends:

- Estimates of the ultimate liabilities for traditional asbestos defendants have increased as the number of plaintiff claims has surged over the past few years. The notable increase in claimants as well as potential future claimants has resulted in large settlements of asbestos related litigation. As a result, it now appears more likely that many of these traditional defendants will access higher excess layers of insurance coverage as well as more years of coverage than previously anticipated.

Page 25

- Claims have been more aggressively pursued against peripheral asbestos defendants in recent years, partly in response to the bankruptcy or exhaustion of insurance coverage for many of the major traditional defendants.
- The number of claims filed under the non-aggregate premises or operations section of general liability policies has increased, creating potentially greater exposure.
- The litigation environment has become increasingly adverse. More than half of the lawsuits filed in recent years have been filed in five plaintiff oriented states, where significant verdicts historically have been rendered against commercial defendants.
- The number of asbestos defendants in bankruptcy has increased, resulting in an increase in the number and cost of declaratory judgment lawsuits to resolve coverage disputes and to effect settlement in the bankruptcy courts.

Upon completion of the analysis and assessment of the results, we increased our net asbestos loss reserves by \$545 million in the third quarter of 2002. Following a thorough review in the fourth quarter of 2002 by our internal actuarial, claims and reinsurance personnel, we reduced our previous estimate of reinsurance recoverable on potential asbestos claims. As a result, our net asbestos loss reserves increased by an additional \$75 million.

Significant uncertainty remains as to our ultimate liability relating to asbestos related claims due to such factors as the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims as well as the increase in the volume of claims by plaintiffs who claim exposure but who have no symptoms of asbestos-related disease and an increase in claims filed under the non-aggregate premises or operations section of general liability policies.

There is also the possibility of federal legislation that would address the asbestos problem. In this regard, a recent Senate proposal for the creation of an asbestos trust fund received conditional support from the property and casualty insurance industry. We believe it is unlikely that a bill can be passed this year. Our asbestos reserve assumptions have not anticipated any legislative relief so the demise of the bill would have no impact on our estimates. However, we have noticed that the number of claims reported by policyholders has increased this year. On the other hand, bankruptcy filings have been fewer than

Edgar Filing: CHUBB CORP - Form 10-Q

we expected and fewer than last year. These factors may have been influenced by the possibility the bill might pass. We will review our asbestos reserves in the course of our year end review of overall loss reserves.

Hazardous waste sites are another potential exposure. There is significant uncertainty involved in estimating our liabilities related to these claims. These uncertainties are not likely to be resolved definitively in the near future.

Toxic waste losses appear to be developing as expected due to relatively stable claim trends. In many cases, claims are being settled for less than initially anticipated due to various factors, including more efficient site remediation efforts and increasing success with policy buy backs.

Page 26

Despite the stable claim trends, we increased our toxic waste loss reserves by \$80 million in the third quarter of 2002 based on the most recent estimate of our actuaries and actuarial consultants as to our ultimate exposure.

We continually review and update our loss reserves. Based on all information currently available, we believe that the aggregate loss reserves of the property and casualty subsidiaries at September 30, 2003 were adequate to cover claims for losses that had occurred, including both those known to us and those yet to be reported. In establishing such reserves, we consider facts currently known and the present state of the law and coverage litigation. However, given the judicial decisions and legislative actions that have broadened the scope of coverage and expanded theories of liability in the past and the possibilities of similar interpretations in the future, particularly as they relate to asbestos claims and, to a lesser extent, toxic waste claims, additional increases in loss reserves may emerge in future periods. Such increases could have a material adverse effect on the Corporation's future operating results. However, management does not expect that any such increases would have a material effect on the Corporation's consolidated financial condition or liquidity.

INVESTMENT INCOME

Property and casualty investment income before taxes increased by 12.4% in the first nine months of 2003 and 15.6% in the third quarter compared with the same periods in 2002. The growth in investment income was due to an increase in invested assets since the third quarter of 2002 resulting from substantial cash flow from operations over the period as well as capital contributions of \$1 billion and \$800 million to the property and casualty subsidiaries by the Corporation in the fourth quarter of 2002 and the second quarter of 2003, respectively. However, lower available reinvestment rates on fixed maturities that matured over the past year dampened the growth in investment income.

The effective tax rate on investment income increased to 20.3% in the first nine months of 2003 from 18.1% in the comparable period in 2002 due to our holding a smaller proportion of our investment portfolio in tax-exempt securities.

On an after-tax basis, property and casualty investment income increased by 9.3% in the first nine months of 2003 and 12.5% in the third quarter. Management uses property and casualty investment income after-tax, a non-GAAP financial measure, to evaluate its investment performance because it reflects the impact of any change in the proportion of the investment portfolio invested in tax-exempt securities and is therefore more meaningful for analysis purposes than investment income before taxes.

Edgar Filing: CHUBB CORP - Form 10-Q

OTHER CHARGES

Other charges include miscellaneous income and expenses of the property and casualty subsidiaries. Other charges in the first nine months of 2003 included expenses of \$15 million, mostly in the second quarter, related to the restructuring of our operations in Continental Europe. The restructuring costs consist primarily of severance costs. We have received the necessary regulatory and works council approvals and are moving ahead with our planned branch closings and work force reductions, which should be completed by the end of 2003.

Page 27

CHUBB FINANCIAL SOLUTIONS

Chubb Financial Solutions (CFS) was organized by the Corporation in 2000 to develop and provide customized products to address specific financial needs of corporate clients. CFS operated through both the capital and insurance markets. CFS's non-insurance business was primarily structured credit derivatives, principally as a counterparty in portfolio credit default swap contracts. The Corporation guaranteed all of these obligations.

In April 2003, the Corporation announced its intention to run-off the financial products portfolio of CFS. We have implemented the plan to exit the credit derivatives business and we are running off our portfolio. The Corporation does not intend to write any new credit derivative transactions but might enter into transactions for hedging and other risk management reasons in the future.

In a typical portfolio credit default swap, CFS participated in the senior layer of a structure designed to replicate the performance of a portfolio of corporate securities, a portfolio of asset-backed securities or a specified pool of loans. The structure of these portfolio credit default swaps generally requires CFS to make payment to counterparties to the extent cumulative losses, related to numerous credit events, exceed a specified threshold. The risk below that threshold, referred to as subordination, is assumed by other parties with the primary risk layer sometimes retained by the buyer. The amount of subordination for each contract varies based on the credit quality of the underlying portfolio and the term to maturity of the contract. Credit events generally arise when one of the referenced entities within a portfolio becomes bankrupt, undergoes a debt restructuring or fails to make timely interest or principal payments.

Portfolio credit default swaps are derivatives and are carried in the financial statements at estimated fair value, which represents management's best estimate of the cost to exit the positions. Most of these credit default swaps tend to be unique transactions and there is no traded market for such exposures. To estimate the fair value of the obligation in each credit default swap, we use internal valuation models that are similar to external valuation models. Such valuations require considerable judgment and are subject to significant uncertainty.

The fair value of credit default swaps is subject to fluctuations arising from, among other factors, changes in credit spreads, the financial ratings of referenced asset-backed securities, actual credit events reducing subordination, credit correlation within a portfolio, anticipated recovery rates related to potential defaults and changes in interest rates. Changes in fair value are included in income in the period of the change. Thus, CFS's results are subject to volatility, which could have a significant effect on the

Edgar Filing: CHUBB CORP - Form 10-Q

Corporation's results of operations from period to period.

Revenues from the non-insurance business of CFS, principally consisting of the change in fair value of derivative contracts, were negative \$18.1 million in the first nine months of 2003 compared with negative \$42.7 million in the same period in 2002. Revenues were negative due to the adverse impact of changes in fair value during each of the periods.

Page 28

The non-insurance business of CFS produced a loss before taxes of \$30.6 million in the first nine months of 2003 compared with a loss of \$55.9 million in the first nine months of 2002. The losses were due to adverse movements in the mark-to-market adjustment. In 2003, the primary factor contributing to the increase in the fair value of our obligations related to credit default swaps was deterioration in the credit quality of certain referenced securities underlying two of our asset-backed portfolio credit default swaps. The primary factor contributing to the increase in the fair value of our obligations in 2002 was a substantial widening of market credit spreads, particularly in the third quarter.

At September 30, 2003, CFS's aggregate exposure, or retained risk, referred to as notional amounts, from its in-force portfolio credit default swaps was approximately \$39.2 billion, of which \$3.9 billion related to the two asset-backed portfolio credit default swaps that have experienced deterioration in credit quality. Notional amounts are used to express the extent of involvement in swap transactions. These amounts are used to calculate the exchange of contractual cash flows and are not necessarily representative of the potential for gain or loss. The notional amounts are not recorded on the balance sheet.

The realistic loss exposure of CFS is a small portion of the \$39.2 billion notional amount due to several factors. The position of CFS is senior to subordinated interests of \$6.6 billion in the aggregate. Of the \$6.6 billion of subordination, there were only \$99 million of defaults through September 30, 2003, none of which has pierced the subordination limits of any of the contracts. In addition, using our internal ratings model, we estimate that the credit ratings of CFS's exposures, other than those that relate to the portfolio credit default swaps that have experienced deterioration in credit quality, are either AAA or AA.

The two asset-backed portfolio credit default swaps that have experienced deterioration in the credit quality of the underlying referenced securities have \$80 million of subordination. Using our internal ratings model, we estimate that the average credit ratings of these exposures is BB+.

In connection with our plan to exit the credit derivatives business, we are accelerating the reduction of our notional exposure. During the third quarter of 2003, CFS terminated its obligations under certain portfolio credit default swaps, which reduced its notional exposure by \$3.8 billion. An additional \$6.6 billion of notional exposure has been eliminated since the end of the third quarter. These transactions did not have a significant impact on CFS's results of operations. If we were to enter into transactions to reduce or eliminate our exposure relating to the two portfolio credit default swaps that have experienced deterioration in credit quality, it is possible that losses may be recognized that would have a material adverse effect on the Corporation's results of operations.

In addition to portfolio credit default swaps, CFS entered into a derivative contract linked to an equity market index and a few other

Edgar Filing: CHUBB CORP - Form 10-Q

insignificant non-insurance transactions.

Page 29

The notional amount and fair value of our future obligations by type of risk were as follows:

	Notional Amount		Fair Value	
	September 30, 2003	December 31, 2002	September 30, 2003	December 31, 2002
	(in billions)		(in millions)	
Credit default swaps				
Corporate securities	\$ 21.3	\$ 21.2	\$ 44	\$ 88
Asset-backed securities	15.2	15.5	171	103
Loan portfolios	2.7	2.0	2	4
	39.2	38.7	217	195
Other	.4	.4	9	9
	\$ 39.6	\$ 39.1	\$ 226	\$ 204

CORPORATE AND OTHER

Corporate and other includes investment income earned on corporate invested assets, interest expense and other expenses not allocated to the operating subsidiaries, and the results of our real estate and other non-insurance subsidiaries. Corporate and other produced a loss before taxes of \$102.4 million in the first nine months of 2003 compared with a loss of \$55.4 million in the first nine months of 2002. The substantially higher loss in 2003 was due primarily to higher interest expense and lower investment income. Interest expense was higher in 2003 due to the issuance of \$600 million of debt in the fourth quarter of 2002, \$500 million of debt in the first quarter of 2003 and \$460 million of debt in the second quarter of 2003. Investment income was lower in 2003 due to lower average corporate invested assets resulting from the capital contributions to the property and casualty subsidiaries. Results in 2003 include income from our investment in Allied World Assurance Company, Ltd., which was partially offset by a loss at Chubb Institute, Inc., our computer training subsidiary.

REAL ESTATE

Real estate operations resulted in a loss before taxes of \$3.2 million in the first nine months of 2003 compared with a loss of \$4.8 million in the same period in 2002, which amounts are included in the corporate and other results.

We own approximately \$290 million of land that we expect will be developed in the future. In addition, we own approximately \$175 million of commercial properties and land parcels under lease. We are continuing to explore the sale of certain of our remaining properties.

Edgar Filing: CHUBB CORP - Form 10-Q

Loans receivable, which amounted to \$94 million at September 30, 2003, are primarily purchase money mortgages. Such loans, which were issued in connection with our joint venture activities and other property sales, are generally collateralized by buildings and, in some cases, land. We continually evaluate the ultimate collectibility of such loans and establish appropriate reserves.

Page 30

The recoverability of the carrying value of our real estate assets is assessed based on our ability to fully recover costs through a future revenue stream. The assumptions used reflect future improvement in demand for office space, an increase in rental rates and the ability and intent to obtain financing in order to hold and develop such remaining properties and protect our interests over the long term. We believe that we have made adequate provisions for impairment of real estate assets. However, if the assets are not sold or developed or if leased properties do not perform as presently contemplated, it is possible that additional impairment losses may be recognized that would have a material adverse effect on the Corporation's results of operations.

INVESTMENT GAINS AND LOSSES

Net realized investment gains before taxes were \$85.7 million in the first nine months of 2003 compared with net gains of \$75.5 million for the same period in 2002.

We regularly review the value of our invested assets for other than temporary impairment. In evaluating whether a decline in value is other than temporary, we consider various factors including the length of time and the extent to which the fair value has been less than the cost, the financial condition and near term prospects of the issuer, whether the debtor is current on contractually obligated interest and principal payments, and our intent and ability to hold the investment for a period of time sufficient to allow us to recover our cost. If a decline in the fair value of an individual security is deemed to be other than temporary, the difference between cost and estimated fair value is charged to income as a realized investment loss. In the first nine months of 2003 and 2002, net realized investment gains reflected writedowns of \$48.1 million and \$43.3 million, respectively, due to the recognition of other than temporary impairment on certain securities.

INCOME TAXES

We establish deferred income taxes on the undistributed earnings of foreign subsidiaries. Similarly, we establish deferred tax assets related to the expected future U.S. tax benefit of losses and foreign taxes incurred by our foreign subsidiaries.

At December 31, 2002, the deferred income tax asset related to the expected future U.S. tax benefit of the losses and foreign taxes incurred by Chubb Insurance Company of Europe (Chubb Europe) was \$140 million. Results in Chubb Europe were profitable in the first nine months of 2003. As a result, this deferred tax asset was approximately \$110 million at September 30, 2003.

To evaluate the realization of this deferred tax asset, management must consider whether it is more likely than not that Chubb Europe will generate sufficient taxable income to realize the future tax benefit of the deferred tax asset. Management's judgment is based on its assessment of business plans and related projections of future taxable income that reflect assumptions about increased premium volume, higher rates and improved policy terms as well as

Edgar Filing: CHUBB CORP - Form 10-Q

available tax planning strategies. While the tax loss carryforwards and foreign tax credits have no expiration and we expect to generate sufficient taxable income to realize these benefits in the future, we are required under generally accepted accounting principles to consider a relatively near term horizon when we evaluate the likelihood of realizing future tax benefits.

Page 31

During the fourth quarter of 2002, we established a valuation allowance of \$40 million for the portion of the deferred tax asset that we cannot realize for accounting purposes. We did not adjust the valuation allowance in the first nine months of 2003. If our estimates of future taxable income in Chubb Europe were revised, we would need to adjust the valuation allowance accordingly. Depending on the amount of any such adjustment, the effect on the Corporation's results of operations could be significant.

INVESTED ASSETS

Our investment portfolio is primarily comprised of high quality bonds, principally tax-exempt, U.S. Treasury and government agency, mortgage-backed securities and corporate issues as well as foreign bonds that support our international operations. In addition, the portfolio includes equity securities held primarily with the objective of capital appreciation.

In the first nine months of 2003, we invested new cash in tax-exempt bonds and taxable bonds and, to a lesser extent, equity securities. The taxable bonds were primarily mortgage-backed securities and foreign government bonds. Our objective is to try to achieve the appropriate mix of taxable and tax-exempt securities in our portfolio to balance both investment and tax strategies.

The unrealized appreciation before tax of investments carried at market value, which includes fixed maturities classified as available-for-sale and equity securities, was \$1,040 million and \$901 million at September 30, 2003 and December 31, 2002, respectively. Such unrealized appreciation is reflected in a separate component of other comprehensive income, net of applicable deferred income tax.

The unrealized market appreciation before tax of those fixed maturities carried at amortized cost was \$41 million at September 30, 2003 and \$56 million at December 31, 2002. Such unrealized appreciation was not reflected in the consolidated financial statements.

Changes in unrealized market appreciation or depreciation of fixed maturities were due primarily to fluctuations in interest rates.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources and liquidity represent the overall financial strength of the Corporation and its ability to generate cash flow from its operating subsidiaries, to borrow funds at competitive rates and to raise new capital to meet operating and growth needs.

CAPITAL RESOURCES

In February 2003, \$100 million of 6 7/8% notes were paid when due.

In March 2003, the Corporation issued \$225 million of unsecured 3.95% notes due in 2008 and \$275 million of unsecured 5.2% notes due in 2013. Net proceeds from the issuance of the notes were \$495 million.

In June 2003, the shelf registration statement that the Corporation filed in March 2003 was declared effective by the Securities and Exchange Commission. Under the registration statement, up to \$2.5 billion of various types of securities may be issued. In June 2003, the Corporation completed the following offerings of securities under the shelf registration statement. At September 30, 2003, the Corporation had approximately \$650 million remaining under the shelf.

The Corporation sold 15,525,000 shares of common stock. Net proceeds from the sale of the shares were \$887 million. Concurrently, the Corporation issued \$460 million of unsecured 2.25% senior notes due in 2008 and 18.4 million purchase contracts. The senior notes and purchase contracts were issued together in the form of 7% equity units, each of which initially represents \$25 principal amount of senior notes and one purchase contract. The net proceeds from this offering were \$446 million. Each purchase contract obligates the investor to purchase for \$25 a variable number of shares of the Corporation's common stock on August 16, 2006. The number of shares to be purchased will be determined based on a formula that considers the market price of our common stock immediately prior to the time of settlement in relation to the \$59.50 per share sale price of our common stock at the time the equity units were offered. Upon settlement of the purchase contracts, the Corporation will receive proceeds of approximately \$460 million and will issue between approximately 6,500,000 and 7,700,000 shares of common stock.

The aggregate net proceeds from the issuance of the notes, the common stock and the equity units are being used for general corporate purposes, including capital contributions to our property and casualty subsidiaries to support growth.

Management continuously monitors the amount of capital resources that the Corporation maintains both for itself and its operating subsidiaries. In connection with our long-term capital strategy, the Corporation from time to time contributes capital to its property and casualty subsidiaries. In addition, in order to satisfy its capital needs as a result of any rating agency capital adequacy or other future rating issues, or in the event the Corporation were to need additional capital to make strategic investments in light of market opportunities, the Corporation may take a variety of actions, which could include the issuance of additional debt and/or equity securities.

In July 1998, the Board of Directors authorized the repurchase of up to 12,500,000 shares of the Corporation's common stock. In June 2001, the Board of Directors authorized the repurchase of up to an additional 16,000,000 shares. The 1998 authorization has no expiration; the 2001 authorization expired on June 30, 2003. The Corporation made no share repurchases during the first nine months of 2003. As of September 30, 2003, 3,287,100 shares remained under the 1998 share repurchase authorization. We do not anticipate that we will repurchase any shares of our common stock in 2003.

RATINGS

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

Edgar Filing: CHUBB CORP - Form 10-Q

Ratings are an important factor in establishing our competitive position in our operating businesses. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. Reductions in our ratings could adversely affect the competitive position of our operating businesses.

LIQUIDITY

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

In our property and casualty subsidiaries, premiums are generally received months or even years before losses are paid under the policies purchased by such premiums. These funds are used first to make current claim and expense payments. The balance is invested to augment the investment income generated by the existing portfolio. Historically, cash receipts from operations, consisting of insurance premiums and investment income, have provided more than sufficient funds to pay losses, operating expenses and dividends to the Corporation.

New cash from operations available for investment by the property and casualty subsidiaries was approximately \$2,200 million in the first nine months of 2003 compared with \$1,275 million in the same period in 2002. The increase in new cash in 2003 was due to the significant growth in premium receipts without a commensurate increase in paid losses or operating expenses.

In addition to the cash from operations, the property and casualty subsidiaries received a capital contribution from the Corporation of \$800 million in June 2003.

Our property and casualty subsidiaries maintain investments in highly liquid, short-term and other marketable securities to provide for immediate cash needs.

The Corporation's liquidity requirements are met by dividends from its property and casualty subsidiaries and the issuance of commercial paper and debt and equity securities.

The Corporation has lines of credit with a group of banks pursuant to two agreements that provide for unsecured borrowings of up to \$500 million in the aggregate. The \$250 million short term revolving credit facility, which was to have terminated on June 27, 2003, was extended to June 24, 2004. The \$250 million medium term revolving credit facility terminates on June 28, 2007. There have been no borrowings under these agreements.

ACCOUNTING PRONOUNCEMENT NOT YET ADOPTED

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 (FIN 46), which requires an enterprise to assess its interests in a variable interest entity to determine whether to consolidate that entity. The provisions of FIN 46 are generally effective for the Corporation beginning in the quarter ending December 31, 2003. The adoption of FIN 46 is not expected to have a significant effect on the Corporation's financial position or results of operations. FIN 46 is discussed further in Note (3) of the Notes to Consolidated Financial Statements.

Edgar Filing: CHUBB CORP - Form 10-Q

Item 4 - Controls and Procedures

As of September 30, 2003, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was performed under the supervision and with the participation of the Corporation's management, including the chief executive officer and chief financial officer. Based on that evaluation, the chief executive officer and chief financial officer concluded that the Corporation's disclosure controls and procedures were effective as of the evaluation date.

During the three month period ended September 30, 2003, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to affect, the Corporation's internal control over financial reporting.

Page 35

PART II. OTHER INFORMATION

Item 1 - Legal Proceedings

As previously disclosed, a purported class action complaint was filed in the United States District Court for the District of New Jersey on August 31, 2000 by the California Public Employees' Retirement System. The complaint alleges that the Corporation and one current officer, Henry B. Schram, and two former officers, Dean R. O'Hare and David B. Kelso, and Executive Risk Inc. and three of its former officers, Stephen J. Sills, Robert H. Kullas and Robert V. Deutsch, are liable for certain misrepresentations and omissions regarding, among other matters, disclosures made between April 27, 1999 and October 15, 1999 relating to the improved pricing in the Corporation's standard commercial insurance business and relating to the offer of the Corporation's securities to, and solicitation of votes from, the former shareholders of Executive Risk Inc. in connection with the Corporation's acquisition of Executive Risk Inc. On August 11, 2003, the trial court dismissed the entire action with prejudice. On September 10, 2003, the plaintiffs filed a Notice of Appeal to the United States Court of Appeals for The Third Circuit. The Corporation is defending the action vigorously.

Also, the Corporation and its Directors, as previously reported, were named as defendants in a purported shareholder derivative action, which was filed on October 18, 2001 in the United States District Court for the District of New Jersey. The derivative action alleged that the Directors breached their fiduciary duties, engaged in gross mismanagement, and failed properly to exercise control over the dissemination of information regarding the Corporation's operations and performance, which allegations are based on substantially the same allegations made in the complaint by the California Public Employees' Retirement System, described above. The complaint sought unspecified damages on behalf of the Corporation. On September 11, 2003, the plaintiffs voluntarily dismissed the entire action with prejudice by Stipulation and Order.

As previously disclosed, beginning in December 2002, Chubb Indemnity Insurance Company was served with a number of complaints related to a series of actions commenced by various plaintiffs against Chubb Indemnity and other non-affiliated insurers in the District Courts of Nueces and Bexar Counties in Texas. To date, Chubb Indemnity has been served with a total of thirty-nine complaints in Texas. Since July 2003, the trial court has ordered dismissal of seven of the Nueces County cases and three Nueces County cases have been voluntarily dismissed by plaintiffs. Also, beginning in June 2003, Chubb Indemnity was served with similar cases in Cuyahoga County, Ohio. To date, Chubb

Edgar Filing: CHUBB CORP - Form 10-Q

Indemnity has been served in eight cases in Ohio. The allegations and the damages sought in the Ohio actions are substantially similar to those in the Texas actions. Chubb Indemnity is vigorously defending all of these actions.

Page 36

Item 6 - Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit (31) Rule 13a-14(a)/15d-14(a) Certifications

- (1) Certification by John D. Finnegan
- (2) Certification by Michael O'Reilly

Exhibit (32) Section 1350 Certifications

- (1) Certification by John D. Finnegan
- (2) Certification by Michael O'Reilly

B. Reports on Form 8-K

The Registrant filed a current report on Form 8-K on July 30, 2003 furnishing under Item 12 information with respect to the issuance of a press release announcing its results for the quarter ended June 30, 2003.

The Registrant filed a current report on Form 8-K on October 27, 2003 furnishing under Item 12 information with respect to the issuance of a press release announcing its results for the quarter ended September 30, 2003.

The Registrant filed a current report on Form 8-K on October 30, 2003 furnishing under Item 12 information with respect to the issuance of its Supplementary Investor Information Report for the quarter ended September 30, 2003.

SIGNATURES

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

THE CHUBB CORPORATION

(Registrant)

By: /s/ Henry B. Schram

Henry B. Schram
Senior Vice-President and
Chief Accounting Officer

Date: November 14, 2003