CHUBB CORP
Form 10-K
February 26, 2010

Table of Contents

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO_____

Commission File No. 1-8661

The Chubb Corporation
(Exact name of registrant as specified in its charter)

New Jersey	**13-2595722**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
15 Mountain View Road **Warren, New Jersey**	**07059**
(Address of principal executive offices)	*(Zip Code)*

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

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

(Title of each class)	*(Name of each exchange on which registered)*
Common Stock, par value $1 per share	New York Stock Exchange
Series B Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

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

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

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 [ü] No [ ]

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

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

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

Large accelerated filer [ü]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The aggregate market value of common stock held by non-affiliates of the registrant was $13,920,104,349 as of June 30, 2009, computed on the basis of the closing sale price of the common stock on that date.

328,574,448

Number of shares of common stock outstanding as of February 12, 2010

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

CONTENTS

Table of Contents

PART I.

Item 1. *Business*

General

The Chubb Corporation (Chubb) was incorporated as a business corporation under the laws of the State of New Jersey in June 1967. Chubb and its subsidiaries are referred to collectively as the Corporation. Chubb is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the P&C Group). Since 1882, the P&C Group has provided property and casualty insurance to businesses and individuals around the world. According to A.M. Best, the P&C Group is the 11th largest U.S. property and casualty insurance group based on 2008 net written premiums.

At December 31, 2009, the Corporation had total assets of $50 billion and shareholders equity of $16 billion. Revenues, income before income tax and assets for each operating segment for the three years ended December 31, 2009 are included in Note (11) of the Notes to Consolidated Financial Statements. The Corporation employed approximately 10,200 persons worldwide on December 31, 2009.

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

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

Property and Casualty Insurance

The P&C Group is divided into three strategic business units. Chubb Commercial Insurance offers a full range of commercial insurance products, including coverage for multiple peril, casualty, workers compensation and property and marine. Chubb Commercial Insurance is known for writing niche business, where our expertise can add value for our agents, brokers and policyholders. Chubb Specialty Insurance offers a wide variety of specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms and healthcare organizations. Chubb Specialty Insurance also includes our surety business. Chubb Personal Insurance offers coverage of fine homes, automobiles and other personal possessions along with options for high limits of personal liability coverage. Chubb Personal Insurance also provides supplemental accident and health insurance in niche markets.

The P&C Group provides insurance coverages principally in the United States, Canada, Europe, Australia, and parts of Latin America and Asia. Revenues of the P&C Group by geographic area for the three years ended December 31, 2009 are included in Note (11) of the Notes to Consolidated Financial Statements.

The principal members of the P&C Group are Federal Insurance Company (Federal), Pacific Indemnity Company (Pacific Indemnity), Vigilant Insurance Company (Vigilant), Great Northern Insurance Company (Great Northern), Chubb Custom Insurance Company (Chubb Custom), Chubb National Insurance Company (Chubb National), Chubb Indemnity Insurance Company (Chubb Indemnity), Chubb Insurance Company of New Jersey (Chubb New Jersey), Texas Pacific Indemnity Company, Northwestern Pacific Indemnity Company, Executive Risk Indemnity Inc. (Executive Risk Indemnity) and Executive Risk Specialty Insurance Company (Executive Risk Specialty) in the United States, as well as Chubb Atlantic Indemnity Ltd. (a Bermuda company), Chubb Insurance Company of Canada, Chubb Insurance Company of Europe SE, Chubb Insurance Company of Australia Limited,

Table of Contents

Chubb Argentina de Seguros, S.A., Chubb Insurance (China) Company Ltd. and Chubb do Brasil Companhia de Seguros.

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

Premiums Written

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

Year	Direct Premiums Written	Reinsurance Premiums Assumed(a)	Reinsurance Premiums Ceded(a)	Net Premiums Written
		(in millions)		
2007	$ 12,432	$ 775	$ 1,335	$ 11,872
2008	12,443	549	1,210	11,782
2009	11,813	370	1,106	11,077

(a) Intercompany items eliminated.

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

One or more members of the P&C Group are licensed and transact business in each of the 50 states of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, Canada, Europe, Australia, and parts of Latin America and Asia. In 2009, approximately 77% of the P&C Group s direct business was produced in the United States, where the P&C Group s businesses enjoy broad geographic distribution with a particularly strong market presence in the Northeast. The five states accounting for the largest amounts of direct premiums written were New York with 12%, California with 9%, Texas with 5%, Florida with 4% and New Jersey with 4%. Approximately 11% of the P&C Group s direct premiums written was produced in Europe and 5% was produced in Canada.

Underwriting Results

A frequently used industry measurement of property and casualty insurance underwriting results is the combined loss and expense ratio. The P&C Group uses the combined loss and expense ratio calculated in accordance with statutory accounting principles applicable to property and casualty insurance companies. This ratio is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of statutory underwriting expenses to premiums written (expense ratio) after reducing both premium amounts by dividends to policyholders. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the combined ratio is over 100%, underwriting results are generally considered unprofitable. Investment income is not reflected in the combined ratio. The profitability of property and casualty insurance companies depends on the results of both underwriting and investments operations.

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

Another frequently used measurement in the property and casualty insurance industry is the ratio of statutory net premiums written to policyholders surplus. At December 31, 2009 and 2008, the ratio for the P&C Group was 0.76 and 0.96, respectively.

Table of Contents

Producing and Servicing of Business

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

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

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

Reinsurance Ceded

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

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

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

Unpaid Losses and Loss Adjustment Expenses and Related Amounts Recoverable from Reinsurers

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

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

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

The P&C Group continues to emphasize early and accurate reserving, inventory management of claims and suits, and control of the dollar value of settlements. The number of outstanding claims at year-end 2009 was approximately 3% lower than the number at year-end 2008. The number of new arising claims during 2009 was approximately 8% lower than in the prior year.

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

The table on page 7 presents the subsequent development of the estimated year-end liability for unpaid losses and loss adjustment expenses, net of reinsurance recoverable, for the ten years prior to 2009.

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

The upper section of the table shows the reestimated amount of the previously recorded net liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of losses for each individual year. The increase or decrease is reflected in operating results of the period in which the estimate is changed. The cumulative deficiency (redundancy) as shown in the table represents the aggregate change in the reserve estimates from the original balance sheet dates through December 31, 2009. The amounts noted are cumulative in nature; that is, an increase in a loss estimate that is related to a prior period occurrence generates a deficiency in each intermediate year. For example, a deficiency recognized in 2009 relating to losses incurred prior to December 31, 1999 would be included in the cumulative deficiency amount for each year in the period 1999 through 2008. Yet, the deficiency would be reflected in operating results only in 2009. The effect of changes in estimates of the liabilities for losses occurring in prior years on income before income taxes in each of the past three years is shown in the reconciliation of the beginning and ending liability for unpaid losses and loss adjustment expenses in the Property and Casualty Insurance Loss Reserves section of MD&A.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

						December 31				
ed	1999	2000	2001	2002	2003	2004 (in millions)	2005	2006	2007	2008
ty . l it	$ 9,749	$ 10,051	$ 11,010	$ 12,642	$ 14,521	$ 16,809	$ 18,713	$ 19,699	$ 20,316	$ 20,155
ty ed										
ater	9,519	9,856	11,799	13,039	14,848	16,972	18,417	19,002	19,443	19,393
	9,095	10,551	12,143	13,634	15,315	17,048	17,861	18,215	18,619	
s	9,653	10,762	12,642	14,407	15,667	16,725	17,298	17,571		
	9,740	11,150	13,246	14,842	15,584	16,526	16,884			
	9,999	11,605	13,676	14,907	15,657	16,411				
ater	10,373	11,936	13,812	15,064	15,798					
rs	10,602	12,019	13,994	15,255						
s	10,702	12,170	14,218							
	10,828	12,364								
later	11,011									
e , ncy)	1,262	2,313	3,208	2,613	1,277	(398)	(1,829)	(2,128)	(1,697)	(762)
e	1,480	1,449	1,388	647	397	322	287	263	175	90
, nd te										

n al)										
e f ty										
ater	2,483	2,794	3,135	3,550	3,478	3,932	4,118	4,066	4,108	4,063
	4,079	4,699	5,499	5,911	6,161	6,616	6,896	6,789	6,565	
s	5,306	6,070	7,133	7,945	8,192	8,612	8,850	8,554		
	6,196	7,137	8,564	9,396	9,689	10,048	10,089			
	6,909	8,002	9,588	10,543	10,794	10,977				
ater	7,453	8,765	10,366	11,353	11,530					
rs	8,009	9,305	10,950	11,915						
s	8,402	9,714	11,390							
	8,697	10,046								
later	8,944									
End	$ 11,435	$ 11,904	$ 15,515	$ 16,713	$ 17,948	$ 20,292	$ 22,482	$ 22,293	$ 22,623	$ 22,367
ce le, ar	1,686	1,853	4,505	4,071	3,427	3,483	3,769	2,594	2,307	2,212
ty, ar	$ 9,749	$ 10,051	$ 11,010	$ 12,642	$ 14,521	$ 16,809	$ 18,713	$ 19,699	$ 20,316	$ 20,155
ed	$ 13,455	$ 15,221	$ 19,697	$ 20,074	$ 19,580	$ 19,769	$ 20,335	$ 19,969	$ 20,735	$ 21,489
ed ce le	2,444	2,857	5,479	4,819	3,782	3,358	3,451	2,398	2,116	2,096
ed ty	$ 11,011	$ 12,364	$ 14,218	$ 15,255	$ 15,798	$ 16,411	$ 16,884	$ 17,571	$ 18,619	$ 19,393
e , acy)	$ 2,020	$ 3,317	$ 4,182	$ 3,361	$ 1,632	$ (523)	$ (2,147)	$ (2,324)	$ (1,888)	$ (878)

7

The subsequent development of the net liability for unpaid losses and loss adjustment expenses as of year-ends 1999 through 2003 was adversely affected by substantial unfavorable development related to asbestos and toxic waste claims. The cumulative net deficiencies experienced related to asbestos and toxic waste claims were the result of: (1) an increase in the actual number of claims filed; (2) an increase in the estimated number of potential claims; (3) an increase in the severity of actual and potential claims; (4) an increasingly adverse litigation environment; and (5) an increase in litigation costs associated with such claims. For the year 1999, the unfavorable development related to asbestos and toxic waste claims was offset in varying degrees by favorable loss experience in the professional liability classes, particularly directors and officers liability and fiduciary liability. For 2000, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the commercial casualty and workers compensation classes. For the years 2001 through 2003, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the professional liability classes principally directors and officers liability and errors and omissions liability, due in large part to adverse loss trends related to corporate failures and allegations of management misconduct and accounting irregularities and, to a lesser extent, commercial casualty and workers compensation classes. For the years 2004 through 2008, there was significant favorable development, primarily in the professional liability classes and more recently in the commercial casualty classes due to favorable loss trends in recent years and in the homeowners and commercial property classes due to lower than expected emergence of losses.

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

The middle section of the table on page 7 shows the cumulative amount paid with respect to the reestimated net liability as of the end of each succeeding year. For example, in the 1999 column, as of December 31, 2009 the P&C Group had paid $8,944 million of the currently estimated $11,011 million of net losses and loss adjustment expenses that were unpaid at the end of 1999; thus, an estimated $2,067 million of net losses incurred on or before December 31, 1999 remain unpaid as of December 31, 2009, approximately 44% of which relates to asbestos and toxic waste claims.

The lower section of the table on page 7 shows the gross liability, reinsurance recoverable and net liability recorded at the balance sheet date for each of the indicated years and the reestimation of these amounts as of December 31, 2009.

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

	December 31	
	2009	**2008**
	(in millions)	
U.S. subsidiaries	$ 16,986	$ 16,871
Foreign subsidiaries	3,800	3,284
	$ 20,786	$ 20,155

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

Table of Contents

Investments

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

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

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

Year	Average Invested Assets(a)	Investment Income(b)	Percent Earned Before Tax	Percent Earned After Tax
	(in millions)			
2007	$ 36,406	$ 1,590	4.37%	3.50%
2008	37,190	1,622	4.36	3.49
2009	36,969	1,549	4.19	3.39

(a) Average of amounts with fixed maturity securities at amortized cost, equity securities at fair value and other invested assets, which include private equity limited partnerships carried at the P&C Group s equity in the net assets of the partnerships.

(b) Investment income after deduction of investment expenses, but before applicable income tax.

Competition

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

There are approximately 2,400 property and casualty insurance companies in the United States operating independently or in groups and no single company or group is dominant across all lines of business or jurisdictions. However, the relatively large size and underwriting capacity of the P&C Group provide it opportunities not available to smaller companies.

Regulation and Premium Rates

Chubb is a holding company with subsidiaries primarily engaged in the property and casualty insurance business and is therefore subject to regulation by certain states as an insurance holding company. All states have enacted legislation that regulates insurance holding company systems such as the Corporation. This legislation generally provides that each insurance company in the system is required to register with the department of insurance of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance commissioners is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any person in its holding company system and, in addition, certain of such transactions cannot be consummated without the commissioners prior approval.

Table of Contents

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

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

The National Association of Insurance Commissioners (NAIC) has a risk-based capital requirement for property and casualty insurance companies. The risk-based capital formula is used by state regulatory authorities to identify insurance companies that may be undercapitalized and that merit further regulatory attention. The formula prescribes a series of risk measurements to determine a minimum capital amount for an insurance company, based on the profile of the individual company. The ratio of a company s actual policyholders surplus to its minimum capital requirement will determine whether any state regulatory action is required. At December 31, 2009, each member of the P&C Group had more than sufficient capital to meet the risk-based capital requirement. The NAIC periodically reviews the risk-based capital formula and changes to the formula could be considered in the future.

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

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

In all states, insurers authorized to transact certain classes of property and casualty insurance are required to become members of an insolvency fund. In the event of the insolvency of a licensed insurer writing a class of insurance covered by the fund in the state, companies in the P&C Group, together with the other fund members, are assessed in order to provide the funds necessary to pay certain claims against the insolvent insurer. Generally, fund assessments are proportionately based on the members written premiums for the classes of insurance written by the insolvent insurer. In certain states, the P&C Group can recover a portion of these assessments through premium tax offsets and policyholder surcharges. In 2009, assessments of the members of the P&C Group were insignificant. The amount of future assessments cannot be reasonably estimated.

Table of Contents

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

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

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

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

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

Real Estate

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

Chubb Financial Solutions

Chubb Financial Solutions (CFS) provided customized financial products, primarily derivative financial instruments, to corporate clients. CFS has been in run-off since 2003. Since that date, CFS has terminated early or run-off nearly all of its contractual obligations within its financial products portfolio. Additional information related to CFS s operations is included in the Corporate and Other Chubb Financial Solutions section of MD&A.

Table of Contents

Item 1A. *Risk Factors*

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

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

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

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

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

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

Catastrophe losses could materially and adversely affect our business.

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

The extent of losses from a catastrophe is a function of both the total amount of exposure under our insurance policies in the area affected by the event and the severity of the event. Most catastrophes are restricted to relatively small geographic areas; however, hurricanes and earthquakes may produce significant damage over larger areas, especially those that are heavily populated. Natural or man-made catastrophic events could cause claims under our insurance policies to be higher than we anticipated and could cause substantial volatility in our financial results for any fiscal quarter or year. Our ability to write new business could also be affected. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophic events in the future. In addition, states have from time to time passed legislation that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation limiting insurers ability to increase rates and prohibiting insurers from withdrawing from catastrophe-exposed areas.

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

12

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

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

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

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

The returns on our investment portfolio may be reduced or we may incur losses as a result of changes in general economic conditions, interest rates, real estate markets, fixed income markets, equity markets, alternative investment markets, credit markets, exchange rates, global capital market conditions and numerous other factors that are beyond our control.

The worldwide financial markets experience high levels of volatility during certain periods, which could have an increasingly adverse impact on the U.S. and foreign economies. The financial market volatility and the resulting negative economic impact could continue and it is possible that it may be prolonged, which could adversely affect our current investment portfolio, make it difficult to determine the value of certain assets in our portfolio and/or make it difficult for us to purchase suitable investments that meet our risk and return criteria. These factors could cause us to realize less than expected returns on invested assets, sell investments for a loss or write off or write down investments, any of which could have a material adverse effect on our results of operations or financial condition.

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

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

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

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

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

Table of Contents

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

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

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

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

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

- engaging in rigorous underwriting;
- carefully evaluating terms and conditions of our policies;
- focusing on our risk aggregations by geographic zones, industry type, credit exposure and other bases; and
- ceding reinsurance.

However, there are inherent limitations in all of these tactics and no assurance can be given that an event or series of events will not result in loss levels in excess of our probable maximum loss models, which could have a material adverse effect on our financial condition or results of operations. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Such a manifestation of losses could have a material adverse effect on our financial condition or results of operations.

These risks may be heightened during difficult economic conditions such as those currently being experienced in the United States and elsewhere.

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

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

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

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

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

- an apparent trend of courts to grant increasingly larger awards for certain damages;
- catastrophic hurricanes, windstorms, earthquakes and other natural disasters, as well as the occurrence of man-made disasters (e.g., a terrorist attack);
- availability, price and terms of reinsurance;
- fluctuations in interest rates;
- changes in the investment environment that affect market prices of and income and returns on investments; and
- inflationary pressures that may tend to affect the size of losses experienced by insurance companies.

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

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

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

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

Credit ratings and financial strength ratings can be important factors in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. If our credit ratings were downgraded in the future, we could incur higher borrowing costs and may have more limited means to access capital. In addition, a downgrade in our financial strength ratings could adversely affect the competitive position of our insurance operations, including a possible reduction in demand for our products in certain markets.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

As part of our international operations, we engage in transactions denominated in a currency other than the United States dollar. To reduce our exposure to currency fluctuation, we attempt to match the currency of the liabilities we incur under insurance policies with assets denominated in the same local currency. However, in the event that we underestimate our exposure, negative movements in the United States dollar versus the local currency will exacerbate the impact of the exposure on our results of operations and financial condition.

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

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

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

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

We outsource certain business and administrative functions to third parties and may do so increasingly in the future. If we fail to develop and implement our outsourcing strategies or our third party providers fail to perform as anticipated, we may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on our results of operations or financial condition. By outsourcing certain business and administrative functions to third parties, we may be exposed to enhanced risk of data security breaches. Any breach of data security could damage our reputation and/or result in monetary damages, which, in turn, could have a material adverse effect on our results of operations or financial condition.

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

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

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

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

Item 3. ***Legal Proceedings***

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

The Attorney General of Ohio on August 24, 2007 filed an action in the Court of Common Pleas in Cuyahoga County, Ohio, against Chubb and certain of its subsidiaries, as well as several other insurers and one broker, as a result of the Ohio Attorney General s business practices investigation. This action alleges violations of Ohio s antitrust laws. In July 2008, the court denied the Corporation s and the other defendants motions to dismiss the Attorney General s complaint. In August 2008, the Corporation and the other defendants filed answers to the complaint and discovery is proceeding.

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

Table of Contents

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

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

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

Chubb and its subsidiaries are also defendants in various lawsuits arising out of their businesses. It is the opinion of management that the final outcome of these matters will not have a material adverse effect on the Corporation s results of operations or financial condition.

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

No matters were submitted to a vote of the shareholders during the quarter ended December 31, 2009.

Executive Officers of the Registrant

	Age(a)	Year of Election(b)
John D. Finnegan, Chairman, President and Chief Executive Officer	61	2002
W. Brian Barnes, Senior Vice President and Chief Actuary of Chubb & Son, a division of Federal	47	2008
Maureen A. Brundage, Executive Vice President and General Counsel	53	2005
Robert C. Cox, Executive Vice President of Chubb & Son, a division of Federal	52	2003
John J. Degnan, Vice Chairman and Chief Operating Officer	65	1994
John J. Kennedy, Senior Vice President and Chief Accounting Officer	54	2008
Paul J. Krump, Executive Vice President and Chief Underwriting Officer of Chubb & Son, a division of Federal	50	2001
Andrew A. McElwee, Jr., Executive Vice President of Chubb & Son, a division of Federal	55	1997
Harold L. Morrison, Jr., Executive Vice President and Chief Global Field Officer of Chubb & Son, a division of Federal	52	2008
Steven R. Pozzi, Executive Vice President of Chubb & Son, a division of Federal	53	2009
Dino E. Robusto, Executive Vice President and Chief Administrative Officer of Chubb & Son, a division of Federal	51	2006
Richard G. Spiro, Executive Vice President and Chief Financial Officer	45	2008

(a) Ages listed above are as of April 28, 2010.

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

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

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

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

Table of Contents

PART II.

Item 5. ***Market for the Registrant s Common Stock and Related Stockholder Matters***

The common stock of Chubb is listed and principally traded on the New York Stock Exchange (NYSE) under the trading symbol CB . The following are the high and low closing sale prices as reported on the NYSE Composite Tape and the quarterly dividends declared per share for each quarter of 2009 and 2008.

	2009			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Common stock prices				
High	$ 50.32	$ 44.04	$ 51.00	$ 53.79
Low	35.00	38.11	38.82	48.06
Dividends declared	.35	.35	.35	.35

	2008			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Common stock prices				
High	$ 54.38	$ 54.65	$ 64.50	$ 53.06
Low	48.02	49.01	45.61	38.75
Dividends declared	.33	.33	.33	.33

At February 12, 2010, there were approximately 8,700 common shareholders of record.

The declaration and payment of future dividends to Chubb s shareholders will be at the discretion of Chubb s Board of Directors and will depend upon many factors, including the Corporation s operating results, financial condition and capital requirements, and the impact of regulatory constraints discussed in Note (18)(e) of the Notes to Consolidated Financial Statements.

The following table summarizes the stock repurchased by Chubb during each month in the quarter ended December 31, 2009.

Period	**Total Number of Shares Purchased(a)**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(b)**
October 2009	3,678,000	$ 50.21	3,678,000	3,324,869
November 2009	3,211,100	49.92	3,211,100	113,769

December 2009	2,953,644	48.66	2,953,644	22,160,125
Total	9,842,744	49.65	9,842,744	

(a) The stated amounts exclude 320 shares, 332 shares and 5,814 shares delivered to Chubb during the months of October 2009, November 2009 and December 2009, respectively, by employees of the Corporation to cover option exercise prices and withholding taxes in connection with the Corporation s stock-based compensation plans.

(b) On December 4, 2008, the Board of Directors authorized the repurchase of up to 20,000,000 shares of common stock. No shares remain under this share repurchase authorization. On December 3, 2009, the Board of Directors authorized the repurchase of up to 25,000,000 additional shares of common stock. The authorization has no expiration date.

Table of Contents

Stock Performance Graph

The following performance graph compares the performance of Chubb s common stock during the five-year period from December 31, 2004 through December 31, 2009 with the performance of the Standard & Poor s 500 Index and the Standard & Poor s Property & Casualty Insurance Index. The graph plots the changes in value of an initial $100 investment over the indicated time periods, assuming all dividends are reinvested.

Cumulative Total Return
Based upon an initial investment of $100 on December 31, 2004
with dividends reinvested

	December 31					
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Chubb	$ 100	$ 130	$ 143	$ 151	$ 145	$ 144
S&P 500	100	105	121	128	81	102
S&P 500 Property & Casualty Insurance	100	115	130	112	79	89

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

Item 6. ***Selected Financial Data***

	2009	2008	2007	2006	2005
		(in millions except for per share amounts)			
FOR THE YEAR					
Revenues					
Property and Casualty Insurance Premiums Earned	$ 11,331	$ 11,828	$ 11,946	$ 11,958	$ 12,176
Investment Income	1,585	1,652	1,622	1,485	1,342
Other Revenues	2	4	11		
Corporate and Other	75	108	154	315	181
Realized Investment Gains (Losses), Net	23	(371)	374	245	384
Total Revenues	$ 13,016	$ 13,221	$ 14,107	$ 14,003	$ 14,083
Income					
Property and Casualty Insurance Underwriting Income	$ 1,631	$ 1,361	$ 2,116	$ 1,905	$ 921(a)
Investment Income	1,549	1,622	1,590	1,454	1,315
Other Income (Charges)	(3)	9	6	10	(1)
Property and Casualty Insurance Income	3,177	2,992	3,712	3,369	2,235
Corporate and Other	(238)	(214)	(149)	(89)	(172)
Realized Investment Gains (Losses), Net	23	(371)	374	245	384
Income Before Income Tax	2,962	2,407	3,937	3,525	2,447
Federal and Foreign Income Tax	779	603	1,130	997	621
Net Income	$ 2,183	$ 1,804	$ 2,807	$ 2,528	$ 1,826
Per Share					
Net Income	$ 6.18	$ 4.92	$ 7.01	$ 5.98	$ 4.47
Dividends Declared on Common Stock	1.40	1.32	1.16	1.00	.86
AT DECEMBER 31					
Total Assets	$ 50,449	$ 48,429	$ 50,574	$ 50,277	$ 48,061
Long Term Debt	3,975	3,975	3,460	2,466	2,467
Total Shareholders Equity	15,634	13,432	14,445	13,863	12,407
Book Value Per Share	47.09	38.13	38.56	33.71	29.68

(a)

Underwriting income in 2005 reflected net costs of $462 million ($300 million after-tax or $0.74 per share) related to Hurricane Katrina.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Management s Discussion and Analysis of Financial Condition and Results of Operations addresses the financial condition of the Corporation as of December 31, 2009 compared with December 31, 2008 and the results of operations for each of the three years in the period ended December 31, 2009. This discussion should be read in conjunction with the consolidated financial statements and related notes and the other information contained in this report.

INDEX

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements are made pursuant to the safe harbor provisions of the PSLRA and include statements regarding our loss reserve and reinsurance recoverable estimates; the impact of future catastrophes (including acts of terrorism); asbestos and toxic waste liability developments; the number and severity of surety-related claims; the impact of changes to our reinsurance program in 2009 and the cost of reinsurance in 2010; the adequacy of the rates at which we renewed and wrote new business; premium volume and competition in 2010; property and casualty investment income during 2010; cash flows generated by our fixed income investments; currency rate fluctuations; estimates with respect to our credit derivatives exposure; the repurchase of common stock under our share repurchase program; our capital adequacy and funding of liquidity needs; the funding and timing of loss payments; and the redemption of our capital securities. Forward-looking statements are made based upon management s current expectations and beliefs concerning trends and future developments and their potential effects on us. These statements are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties, which include, among others, those discussed or identified from time to time in our public filings with the Securities and Exchange Commission and those associated with:

- global political conditions and the occurrence of terrorist attacks, including any nuclear, biological, chemical or radiological events;
- the effects of the outbreak or escalation of war or hostilities;
- premium pricing and profitability or growth estimates overall or by lines of business or geographic area, and related expectations with respect to the timing and terms of any required regulatory approvals;
- adverse changes in loss cost trends;
- our ability to retain existing business and attract new business;
- our expectations with respect to cash flow and investment income and with respect to other income;
- the adequacy of loss reserves, including:
  - our expectations relating to reinsurance recoverables;
  - the willingness of parties, including us, to settle disputes;
  - developments in judicial decisions or regulatory or legislative actions relating to coverage and liability, in particular, for asbestos, toxic waste and other mass tort claims;
  - development of new theories of liability;
  - our estimates relating to ultimate asbestos liabilities;
  - the impact from the bankruptcy protection sought by various asbestos producers and other related businesses; and

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

the availability and cost of reinsurance coverage;

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

- the impact of economic factors on companies on whose behalf we have issued surety bonds, and in particular, on those companies that file for bankruptcy or otherwise experience deterioration in creditworthiness;
- the effects of disclosures by, and investigations of, companies relating to possible accounting irregularities, practices in the financial services industry, investment losses or other corporate governance issues, including:
  - claims and litigation arising out of stock option backdating, spring loading and other equity grant practices by public companies;
  - the effects on the capital markets and the markets for directors and officers and errors and omissions insurance;
  - claims and litigation arising out of actual or alleged accounting or other corporate malfeasance by other companies;
  - claims and litigation arising out of practices in the financial services industry;
  - claims and litigation relating to uncertainty in the credit and broader financial markets; and
  - legislative or regulatory proposals or changes;
- the effects of changes in market practices in the U.S. property and casualty insurance industry arising from any legal or regulatory proceedings, related settlements and industry reform, including changes that have been announced and changes that may occur in the future;
- the impact of legislative and regulatory developments on our business, including those relating to terrorism, catastrophes and the financial markets;
- any downgrade in our claims-paying, financial strength or other credit ratings;
- the ability of our subsidiaries to pay us dividends;
- general political, economic and market conditions, whether globally or in the markets in which we operate, including:
  - changes in interest rates, market credit spreads and the performance of the financial markets;
  - currency fluctuations;
  - the effects of inflation;
  - changes in domestic and foreign laws, regulations and taxes;
  - changes in competition and pricing environments;
  - regional or general changes in asset valuations;
  - the inability to reinsure certain risks economically; and

changes in the litigation environment; and

our ability to implement management s strategic plans and initiatives.

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

Table of Contents

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

OVERVIEW

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

Net income was $2.2 billion in 2009 compared with $1.8 billion in 2008 and $2.8 billion in 2007. The increase in net income in 2009 compared with 2008 was due to higher operating income in 2009 and modest net realized investment gains in 2009 compared with substantial net realized investment losses in 2008. We define operating income as net income excluding realized investment gains and losses after tax. The decrease in net income in 2008 compared with 2007 was due to both a significant decline in operating income and substantial realized investment losses in 2008 compared with substantial realized investments gains in 2007.

Operating income was $2.2 billion in 2009, $2.0 billion in 2008 and $2.6 billion in 2007. Higher operating income in 2009 compared with that in 2008 was due to higher underwriting income in our property and casualty insurance business offset in part by lower investment income. The lower operating income in 2008 compared with that in 2007 was due primarily to substantially lower underwriting income in our property and casualty insurance business in 2008 than in 2007. Management uses operating income, a non-GAAP financial measure, among other measures, to evaluate its performance because the realization of investment gains and losses in any period could be discretionary as to timing and can fluctuate significantly, which could distort the analysis of operating trends.

Underwriting results were highly profitable in 2009, 2008 and 2007. Our combined loss and expense ratio was 86.0% in 2009 compared with 88.7% in 2008 and 82.9% in 2007. The more profitable results in 2009 compared to 2008 were due to substantially lower catastrophe losses offset in part by a lower amount of favorable prior year loss development. The less profitable results in 2008 compared to 2007 were due in large part to higher catastrophe losses as well as the cumulative impact of the rate reductions experienced in the commercial and professional liability classes over the past several years. The impact of catastrophes accounted for 0.8 of a percentage point of the combined ratio in 2009 compared with 5.1 percentage points in 2008 and 3.0 percentage points in 2007.

During 2009, we experienced overall favorable development of $762 million on loss reserves established as of the previous year end, due primarily to favorable loss experience in certain professional liability and commercial liability classes as well as lower than expected emergence of losses in the homeowners and commercial property classes. During 2008, we experienced overall favorable development of $873 million due primarily to favorable loss trends in certain professional liability and commercial liability classes, as well as lower than expected emergence of losses in the homeowners and commercial property classes. During 2007, we experienced overall favorable development of $697 million due primarily to favorable loss trends in the professional liability classes, lower than expected emergence of losses in the homeowners and commercial property classes and better than expected reported loss activity in the run-off of our reinsurance assumed business.

Total net premiums written decreased by 6% in 2009 and 1% in 2008. The decrease in 2009 was largely attributable to the general downturn in the economy and, to a lesser extent, the impact of currency fluctuation on business written outside the United States due to the strengthening of the U.S. dollar in 2009 compared to 2008. The lack of premium growth in both years also reflects our continued emphasis on underwriting discipline in a highly competitive market environment. Net premiums written in the United States decreased by 6% in 2009 and 2% in 2008. Net premiums written outside the United States decreased by 6% in 2009 and increased by 6% in 2008. Measured in local currencies, premiums outside the United States grew modestly in both years.

Property and casualty investment income after tax decreased by 3% in 2009 and increased by 2% in 2008. The decline in 2009 was due to lower yields, particularly on short term investments, as well as the effects of currency fluctuation on income from our non-U.S. investments. The growth in 2008 was limited as average invested assets increased only modestly during the year. Management uses property and casualty investment income after-tax, a non-GAAP financial measure, to evaluate its investment performance because it reflects the impact of any change in the proportion of the investment portfolio invested in tax exempt securities and is therefore more meaningful for analysis purposes than investment income before income tax.

Net realized investment gains before taxes were $23 million ($15 million after tax) in 2009 compared with net realized losses before taxes of $371 million ($241 million after tax) in 2008 and net realized gains before taxes of $374 million ($243 million after tax) in 2007. The net realized losses in 2008 were primarily attributable to other-than-temporary impairment losses on equity securities. The net realized gains in 2007 were primarily attributable to gains from investments in limited partnerships.

A summary of our consolidated net income is as follows:

	Years Ended December 31		
	2009	2008	2007
		(in millions)	
Property and casualty insurance	$ 3,177	$ 2,992	$ 3,712
Corporate and other	(238)	(214)	(149)
Consolidated operating income before income tax	2,939	2,778	3,563
Federal and foreign income tax	771	733	999
Consolidated operating income	2,168	2,045	2,564

Realized investment gains (losses) after income tax	15	(241)	243
Consolidated net income	$ 2,183	$ 1,804	$ 2,807

27

PROPERTY AND CASUALTY INSURANCE

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

	Years Ended December 31		
	2009	2008	2007
		(in millions)	
Underwriting			
Net premiums written	$ 11,077	$ 11,782	$ 11,872
Decrease in unearned premiums	254	46	74
Premiums earned	11,331	11,828	11,946
Losses and loss expenses	6,268	6,898	6,299
Operating costs and expenses	3,377	3,546	3,564
Decrease (increase) in deferred policy acquisition costs	27	(17)	(52)
Dividends to policyholders	28	40	19
Underwriting income	1,631	1,361	2,116
Investments			
Investment income before expenses	1,585	1,652	1,622
Investment expenses	36	30	32
Investment income	1,549	1,622	1,590
Other income (charges)	(3)	9	6
Property and casualty income before tax	$ 3,177	$ 2,992	$ 3,712
Property and casualty investment income after tax	$ 1,252	$ 1,297	$ 1,273

Property and casualty income before tax in 2009 was higher than in 2008 due to higher underwriting income, offset in part by lower investment income. The increase in underwriting income in 2009 was primarily due to substantially lower catastrophe losses, offset in part by a lower amount of favorable prior year loss development and a slight reduction in underwriting profitability excluding catastrophes in the current accident year. The decrease in investment income in 2009 was due to lower yields, particularly on short term investments, as well as the effects of currency fluctuation on income from our non-U.S. investments. Property and casualty income before tax in 2008 was lower than in 2007 due to substantially lower underwriting income. The decrease in underwriting income in 2008 was due in large part to higher catastrophe losses and the cumulative impact of the rate reductions in the commercial and specialty insurance businesses over the past several years.

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

Underwriting Operations

Underwriting Results

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

Net Premiums Written

Net premiums written amounted to $11.1 billion in 2009, a decrease of 6% compared with 2008. Net premiums written in 2008 decreased by 1% compared with 2007.

Table of Contents

Net premiums written by business unit were as follows:

	Years Ended December 31				
	2009	% Decrease 2009 vs. 2008	2008	% Increase (Decrease) 2008 vs. 2007	2007
	(dollars in millions)				
Personal insurance	$ 3,657	(4)%	$ 3,826	3%	$ 3,709
Commercial insurance	4,660	(7)	4,993	(2)	5,083
Specialty insurance	2,739	(6)	2,899	(2)	2,944
Total insurance	11,056	(6)	11,718		11,736
Reinsurance assumed	21	(67)	64	(53)	136
Total	$ 11,077	(6)	$ 11,782	(1)	$ 11,872

Net premiums written decreased by 6% in 2009 compared with 2008 and 1% in 2008 compared with 2007. Premiums in the United States, which represent about 75% of our total net premiums, decreased by 6% in 2009 and 2% in 2008. Premiums outside the U.S., expressed in U.S. dollars, decreased by 6% in 2009 and increased by 6% in 2008. In 2009, the decrease in net premiums written outside the U.S. was attributable to the impact of currency fluctuation due to the strengthening of the U.S. dollar. Conversely, in 2008, approximately half of the premium growth outside the U.S. was due to the impact of currency fluctuation due to the weakness of the U.S. dollar. In 2009 and 2008, net premiums written outside the U.S. grew modestly when measured in local currencies.

Premium growth was adversely impacted in 2009 and 2008, but more so in 2009, by the general downturn in the economy which began in 2008 and continued throughout 2009. The amounts of coverage purchased or the insured exposures, both of which are bases upon which we calculate the premiums we charge, were down in 2009 in many classes of our business. Also, in both years, our ability to grow premiums was constrained by our continued emphasis on underwriting discipline in a highly competitive market environment. During 2008, rates were under competitive pressure and generally decreased, with variation by class of business and geographic area. In 2009, competitive pressures continued but rates in the commercial and professional liability businesses increased slightly overall.

In both years, we retained a high percentage of our existing customers and renewed these accounts at what we believe are acceptable rates relative to the risks. While we found opportunities to write new business at acceptable rates, we continued to be disciplined and the number of such opportunities declined throughout 2008 and 2009. During the second half of 2008, the property and casualty insurance market experienced disruption as a result of broader issues in the financial markets and the economies of the United States and other countries. The crisis in the financial markets had an adverse impact on some of our competitors, resulting in opportunities for us to write new business. During 2009, we were able to write some new business due to this dislocation in the insurance markets. The modestly positive effect of this was offset by the decrease in demand in nearly all classes of our insurance business caused by the general downturn in the economy.

The highly competitive market is likely to continue in 2010. Although there have been some signs that an economic recovery may be underway, it remains uncertain if such recovery will occur and whether it will be sustained. Even if an economic recovery does occur, premium growth will lag any recovery that takes place. We expect net written premiums, excluding the impact of currency fluctuation, will be modestly lower in 2010 compared with 2009. If the average foreign currency to U.S. dollar exchange rates in 2010 are similar to 2009 year-end levels, we expect net premiums written will be flat to modestly lower in 2010 compared to 2009.

Reinsurance assumed net premiums written decreased by 67% in 2009 and 53% in 2008. The significant premium decline reflects the sale of our ongoing reinsurance assumed business in December 2005, which is discussed below.

Reinsurance Ceded

Our premiums written are net of amounts ceded to reinsurers who assume a portion of the risk under the insurance policies we write that are subject to the reinsurance. Most of our ceded reinsurance arrangements consist of excess of loss and catastrophe contracts that protect against a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. Therefore, unless we incur losses that exceed our initial retention under these contracts, we do not receive any loss recoveries. As a result, in certain years, we cede premiums to reinsurance companies and receive few, if any, loss recoveries. However, in a year in which there is a significant catastrophic event or a series of large individual losses, we may receive substantial loss recoveries. The impact of ceded reinsurance on net premiums written and earned and on net losses and loss expenses incurred for the three years ended December 31, 2009 is presented in Note (10) of the Notes to Consolidated Financial Statements.

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

For property risks in the United States and Canada, we purchase catastrophe reinsurance in two forms. We purchase a traditional catastrophe reinsurance treaty which we refer to as our North American catastrophe treaty. In recent years, we have also arranged for the purchase of multi-year, collateralized reinsurance coverage funded through the issuance of collateralized risk linked securities, known as catastrophe bonds.

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

The combination of the 2009 North American catastrophe treaty and a portion of the catastrophe bond coverages in effect during 2009, collectively, provide coverage for United States and Canadian exposures of approximately 72% of losses (net of recoveries from other available reinsurance) between $500 million and $1.15 billion and 60% of losses between $1.15 billion and $1.65 billion.

We currently have three catastrophe bond coverages in effect. The first of the catastrophe bond coverages, which we established in 2007, is a $250 million, four-year reinsurance arrangement that provides coverage for homeowners-related hurricane losses in the northeastern part of the United States, where we have our greatest concentration of catastrophe exposure. The second of the catastrophe bond coverages, which we established in 2008, is a $200 million, three-year reinsurance arrangement that provides coverage for homeowners and commercial exposures. The full $200 million of coverage is available for loss events in the northeastern part of the United States. For losses occurring elsewhere in the continental United States or Canada, the coverage is limited to $55 million. Our third catastrophe bond coverage, which we established in 2009, is a $150 million, three-year reinsurance arrangement that provides coverage for homeowners-related hurricane losses in Florida.

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

For hurricane events in Florida, we have a combination of reinsurance coverages that operate in conjunction with the United States and Canadian coverage discussed above. We have reinsurance from the Florida Hurricane Catastrophe Fund (FHCF), which is a state-mandated fund designed to reimburse insurers for a portion of their residential catastrophic hurricane losses. Coverage under this program,

Table of Contents

which renews annually, expires June 1, 2010. Our participation in this program currently limits our initial retention in Florida for homeowners-related losses to approximately $190 million and provides coverage of 90% of covered losses between approximately $190 million and $700 million. Additionally, the catastrophe bond coverage we established in 2009 provides coverage of 50% of homeowners-related hurricane losses between $850 million and $1.15 billion.

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

Our property catastrophe treaty for events outside the United States was renewed in 2009 with only modest changes in coverage. We increased both our initial retention and the reinsurance coverage in the top layer of the treaty by $25 million and increased our participation in the program. The treaty provides coverage of approximately 75% of losses (net of recoveries from other available reinsurance) between $100 million and $350 million.

In addition to our catastrophe treaties, we also have a commercial property per risk treaty which was renewed in 2009 with only slight changes in coverage. This treaty currently provides up to approximately $800 million (depending upon the currency in which the insurance policy was issued) of coverage per risk in excess of our initial retention, which is generally between $25 million and $35 million.

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

After declining modestly in 2008, reinsurance rates for property risks increased somewhat in 2009 as there were capacity restrictions for certain coverages in the market. Consequently, the overall cost of our catastrophe reinsurance program was modestly higher in 2009 than that in 2008. We do not expect the changes we made to our reinsurance program during 2009 to have a material effect on the Corporation s results of operations, financial condition or liquidity.

Our major property reinsurance treaties expire on April 1, 2010. Due to a lower than average impact from catastrophes on the industry during 2009, we currently expect that reinsurance rates for property risks will decrease in 2010. The final structure of our program and amount of coverage purchased will be determinants of our total reinsurance costs in 2010.

Profitability

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

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

Underwriting results were highly profitable in each of the last three years. The combined loss and expense ratio for our overall property and casualty business was as follows:

	Years Ended December 31		
	2009	2008	2007
Loss ratio	55.4%	58.5%	52.8%
Expense ratio	30.6	30.2	30.1
Combined loss and expense ratio	86.0%	88.7%	82.9%

The relatively low loss ratio in each of the last three years reflected the favorable loss experience which we believe resulted from our disciplined underwriting in recent years. Results in all three years benefited from favorable prior year loss development. For more information on prior year loss development, see Property and Casualty Insurance-Loss Reserves, *Prior Year Loss Development*. The loss ratio was lower in 2009 compared to 2008 due to lower catastrophe losses, offset in part by a lower amount of favorable prior year loss development and a slight increase in the current accident year loss ratio excluding catastrophes. The loss ratio was higher in 2008 compared to 2007 due to higher catastrophe losses as well as the impact of rate reductions and several large non-catastrophe losses.

In 2009, net catastrophe losses incurred were $91 million, which represented 0.8 percentage points of the loss ratio. Net catastrophe losses incurred were $607 million in 2008, which represented 5.1 percentage points of the loss ratio. About $310 million of the catastrophe losses in 2008 related to Hurricane Ike, including our estimated share of an assessment from the Texas Windstorm Insurance Association, a windstorm insurance entity created by the State of Texas. Net catastrophe losses incurred in 2007 were $363 million, which represented 3.0 percentage points of the loss ratio.

We did not have any recoveries from our catastrophe reinsurance treaties during the three year period ended December 31, 2009 because there was no individual catastrophe for which our losses exceeded our retention under the treaties.

Our expense ratio was higher in 2009 compared with 2008. The increase was due primarily to an increase in commission rates in certain classes of business in the United States and, to a lesser extent, a decline in premiums written at a rate that exceeded the rate of reduction in our overhead expenses. Our expense ratio was similar in 2008 and 2007, as an increase in commissions was substantially offset by lower operating costs related to the run-off of our reinsurance business. The increase in commissions in 2008 compared with 2007 was largely the result of premium growth outside the United States in countries where commission rates are higher than in the United States as well as modestly higher commission rates in the United States in certain classes of business. The overhead expense component of our expense ratio related to our ongoing businesses was similar in 2008 and 2007.

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

Review of Underwriting Results by Business Unit

Personal Insurance

Net premiums written from personal insurance, which represented 33% of our premiums written in 2009, decreased by 4% in 2009 and increased by 3% in 2008. Net premiums written for the classes of business within the personal insurance segment were as follows:

	Years Ended December 31				
	2009	% Decrease 2009 vs. 2008	2008	% Increase (Decrease) 2008 vs. 2007	2007
	(dollars in millions)				
Automobile	$ 577	(4)%	$ 602	(3)%	$ 621
Homeowners	2,339	(4)	2,449	1	2,423
Other	741	(4)	775	17	665
Total personal	$ 3,657	(4)	$ 3,826	3	$ 3,709

Personal automobile premiums decreased in 2009 and 2008 due to a highly competitive U.S. marketplace. The decrease in 2009 was also attributable to the impact of currency fluctuation on business written outside the United States. Premium growth in our homeowners business was constrained in both 2009 and 2008 due to the downturn in the U.S. economy that began in 2008, which resulted in a slowdown in new housing construction as well as lower demand for jewelry and fine arts policy endorsements. The in-force policy count for this class of business decreased modestly in 2009 and 2008. Premiums from our other personal business, which includes insurance for accident and health, excess liability and yacht coverages, decreased in 2009 after a substantial increase in 2008. The decrease in 2009 was driven by our accident and health business, due primarily to the effect of currency fluctuation on the non-U.S. component of this business. The adverse impact of currency fluctuation was offset in part by growth in the U.S. component of this business, due primarily to a select initiative. The substantial growth in our other personal business in 2008 was due primarily to a significant increase in accident and health premiums, which had strong growth both in the United States as well as outside the United States. Excess liability premiums were flat in 2009, after growing modestly in 2008.

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

	Years Ended December 31		
	2009	2008	2007
Automobile	90.4%	87.6%	89.8%
Homeowners	80.4	83.7	80.2

Other	90.8	97.5	96.4
Total personal	84.1	87.1	84.8

Our personal automobile results were profitable in each of the past three years. Results in all three years benefited from lower claim frequency and modest favorable prior year loss development.

Homeowners results were highly profitable in each of the last three years. The impact of catastrophes accounted for 1.5 percentage points of the combined loss and expense ratio for this class in 2009 compared with 7.8 percentage points in 2008 and 9.6 percentage points in 2007. Results in 2009 and 2008 were adversely impacted by the higher frequency and severity of large non-catastrophe losses.

Other personal business produced profitable results in each of the past three years. Results for our excess liability business were highly profitable in 2009 compared with near breakeven results in 2008 and unprofitable results in 2007. Results in 2009 benefited from favorable prior year loss development. Prior year loss development for our excess liability business was not significant in 2008 compared with

Table of Contents

unfavorable prior year loss development in 2007. Our yacht business was highly profitable in 2009 compared with unprofitable results in 2008 and profitable results in 2007. Yacht results in 2008 were adversely affected by several large non-catastrophe losses as well as several losses related to Hurricane Ike. Our accident and health business produced breakeven results in 2009 compared with profitable results in 2008 and highly profitable results in 2007.

Commercial Insurance

Net premiums written from commercial insurance, which represented 42% of our premiums written in 2009, decreased by 7% in 2009 and 2% in 2008. Net premiums written for the classes of business within the commercial insurance segment were as follows:

	Years Ended December 31				
	2009	% Decrease 2009 vs. 2008	2008	% Increase (Decrease) 2008 vs. 2007	2007
	(dollars in millions)				
Multiple peril	$ 1,121	(7)%	$ 1,210	(3)%	$ 1,252
Casualty	1,514	(8)	1,654	(4)	1,726
Workers compensation	761	(11)	851	(4)	890
Property and marine	1,264	(1)	1,278	5	1,215
Total commercial	$ 4,660	(7)	$ 4,993	(2)	$ 5,083

The decrease in premiums in our commercial insurance business in 2009 was primarily attributable to the adverse effects of the economic downturn, and to a lesser extent, the impact of currency fluctuation on business written outside the United States. The decline in premiums in most of our commercial classes in 2009 and 2008 also reflected the highly competitive marketplace, particularly for new business. The decrease in workers compensation premiums in 2009 reflected reduced exposures, due to lower amounts of covered payroll of our insureds, largely as a result of the downturn in the U.S. economy. U.S. renewal rates were up slightly in 2009, both in workers compensation and for commercial insurance overall. In 2008, we experienced modest decreases in renewal rates in the U.S., which were more pronounced in certain classes, such as workers compensation and large property risks, and also varied by geographic area. Growth in the property and marine classes in 2008 was primarily from a syndicated large risks program in both the U.S. and outside the U.S. and a marine initiative.

Retention levels of our existing customers have remained strong over the last three years. New business volume was down in 2009 and 2008 compared with the respective prior years. While we did obtain some new business in 2009, including as a result of the dislocation in the insurance markets caused by the impact of the financial market crisis on some of our competitors, the overall volume of new business was down from 2008 levels. This decline was due to continued competitive conditions and the general reduction in insurance demand due to the effects of the economic downturn. New business volume was down in 2008 compared with 2007 as it was difficult to find new opportunities at acceptable rates.

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

Our commercial insurance business produced profitable underwriting results in each of the past three years. Results in all three years benefited from favorable loss experience, disciplined risk selection and appropriate terms and conditions in recent years. The results in 2008 were less profitable largely due to substantially higher catastrophe losses in the multiple peril and property and marine classes, primarily from Hurricane Ike. The impact of catastrophes accounted for 1.2 percentage points of the combined loss and expense ratio for our commercial insurance business in 2009, compared with 8.1 percentage points in 2008 and 2.6 percentage points in 2007. Excluding the effect of catastrophe losses, results for our commercial insurance business were modestly less profitable in each succeeding year, due in large part to the cumulative impact of rate reductions experienced over the past several years.

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

	Years Ended December 31		
	2009	**2008**	**2007**
Multiple peril	85.8%	85.3%	80.8%
Casualty	96.7	95.0	94.6
Workers compensation	92.7	82.1	77.6
Property and marine	83.3	108.8	84.3
Total commercial	89.9	93.9	85.8

Multiple peril results were highly profitable in each of the past three years. Substantial improvement in the property component of this business in 2009 compared with 2008, due to lower catastrophe losses, was offset by less profitable results in the liability component, due in large part to a lower amount of favorable prior year loss development. The less profitable results in 2008 compared with those in 2007 were driven by the property component of this business, largely due to higher catastrophe losses. The impact of catastrophes accounted for 1.6 percentage points of the combined loss and expense ratio for this class in 2009 compared with 8.5 percentage points in 2008 and 1.7 percentage points in 2007. The property component benefited from low non-catastrophe losses in all three years, particularly outside the United States in 2008.

Results for our casualty business were profitable in each of the past three years. The automobile component of our casualty business was modestly profitable in 2009 compared with highly profitable results in 2008 and 2007. Results in the primary liability component were profitable in each of the past three years, but less so in each succeeding year. Results in the excess liability component were profitable in each of the past three years, but more so in 2008. Excess liability results in all three years benefited from favorable prior year loss development. Casualty results in all three years were adversely affected by incurred losses related to asbestos and toxic waste claims. Our analysis of these exposures resulted in increases in the estimate of our ultimate liabilities. Such losses represented 3.2 percentage points of the combined loss and expense ratio for this class in 2009, 5.9 percentage points in 2008 and 5.3 percentage points in 2007.

Workers compensation results were profitable in 2009 compared with highly profitable results in 2008 and 2007. Results in these years benefited from our disciplined risk selection during the past several years as well as relatively favorable claim frequencies. Results in 2009 and 2008 were less profitable than the respective prior years due in part to lower rate levels associated with state reforms and increased competition. Results in 2009 were adversely impacted by increased large loss activity and modest unfavorable prior year loss development compared with favorable prior year loss development in 2008 and 2007.

Property and marine results were highly profitable in 2009 compared with unprofitable results in 2008 and highly profitable results in 2007. The unprofitable results in 2008 were due primarily to higher catastrophe losses and, to a lesser extent, an increase in the frequency and severity of large non-catastrophe losses. Catastrophe losses accounted for 1.5 percentage points of the combined loss and expense ratio in 2009 compared with 22.1 percentage points in 2008 and 8.2 percentage points in 2007. Excluding the impact of catastrophes, the combined ratio was 81.8%, 86.7% and 76.1% in 2009, 2008 and 2007, respectively.

Specialty Insurance

Net premiums written from specialty insurance, which represented 25% of our premiums written in 2009, decreased by 6% in 2009 and 2% in 2008 compared with the respective prior years. Net premiums written for the classes of business within the specialty insurance segment were as follows:

	Years Ended December 31				
	2009	% Decrease 2009 vs. 2008	2008	% Increase (Decrease) 2008 vs. 2007	2007
	(dollars in millions)				
Professional liability	$ 2,413	(5)%	$ 2,546	(2)%	$ 2,605
Surety	326	(8)	353	4	339
Total specialty	$ 2,739	(6)	$ 2,899	(2)	$ 2,944

The decrease in net premiums written in our professional liability classes of business in 2009 was due to several factors. The continuation of the adverse effects of the economic downturn and a highly competitive marketplace resulted in fewer nonrecurring and merger and acquisition related coverage opportunities, a modest decrease in retention levels and fewer new business opportunities. In addition, the impact of currency fluctuation on business written outside the United States contributed to the decline in premiums in 2009. The decline in premiums in 2008 for these classes of business was due to the highly competitive environment, particularly in the directors and officers liability component.

Overall renewal rates in our professional liability business in the U.S. increased slightly in 2009. This reversed a downward trend in renewal rates for the professional liability classes that had begun several years earlier and had continued in 2008 in most classes of business, although it had slowed as the year progressed. Rates for directors and officers liability and errors and omissions liability insurance for financial institutions, however, increased in both 2009 and 2008, particularly for those companies implicated in the crisis in the financial markets.

Retention levels in the professional liability classes remained strong over the last three years. New business volume declined in each of the past two years, but more so in 2009, due in varying degrees to the competition in the marketplace as well as the effects of the economic downturn. While we obtained new business in 2009, including some as a result of the market dislocation in the insurance industry, the overall volume of new business was down from 2008. This decline was due to the decrease in the demand for insurance resulting from the economic downturn. We maintained our focus on small and middle market publicly traded and privately held companies and our commitment to maintaining underwriting discipline in this environment. We continued to obtain what we believe are acceptable rates and appropriate terms and conditions on both new business and renewals.

Premium growth in our surety business began to slow in the latter half of 2008 due to a more competitive environment and the impact of the weaker economy on the construction business. This trend generally continued in 2009.

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

	Years Ended December 31		
	2009	**2008**	**2007**
Professional liability	90.1%	85.0%	82.4%
Surety	37.4	69.9	35.4
Total specialty	84.1	83.3	77.4

Our professional liability business produced highly profitable results in each of the past three years but somewhat less so in each succeeding year. The profitability of our professional liability business was particularly strong outside the United States in all three years. The employment practices liability and fiduciary liability classes each produced highly profitable results in each of the three past years. The directors and officers liability class was profitable in all three years, particularly in 2007. Our errors and omissions liability business produced highly unprofitable results in 2009 compared with near breakeven results in 2008 and 2007. The fidelity class was highly profitable in each of the past three years, but less so in 2009 due to several large losses.

Collectively, the results for the professional liability classes benefited from favorable prior year loss development in each of the past three years, due primarily to the recognition of the positive loss trends we have been experiencing related to accident years 2003 through 2006. These trends were largely the result of a favorable business climate, lower policy limits and better terms and conditions. The combined ratio for the 2009 accident year in our professional liability business is modestly above breakeven, due in part to the uncertainty surrounding the crisis in the financial markets that began in 2008 and continued in 2009.

Our surety business produced highly profitable results in each of the past three years due to favorable loss experience. Results in 2008 were less profitable than those in 2009 and 2007 due to the adverse impact of one large loss. Our surety business tends to be characterized by infrequent but potentially high severity losses. When losses occur, they are mitigated, at times, by recovery rights to the customer s assets, contract payments, collateral and bankruptcy recoveries.

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

Reinsurance Assumed

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

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

Net premiums written from our reinsurance assumed business, which is in run-off, decreased by 67% in 2009 and 53% in 2008. The significant decrease in premiums in both years was expected in light of the sale of our ongoing reinsurance assumed business to Harbor Point.

Reinsurance assumed results were profitable in each of the past three years. While the volume of business declined substantially in each of the past three years, results in all three years, particularly in 2007, benefited from significant favorable prior year loss development.

Catastrophe Risk Management

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

Natural Catastrophes

The extent of losses from a natural catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. We regularly assess our concentration of risk exposures in natural catastrophe exposed areas globally and have strategies and underwriting standards to manage this exposure through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in natural catastrophe exposed areas in the United States, such as California and the gulf and east coasts, as well as in natural catastrophe exposed areas in other countries. The information provided by the catastrophe modeling and the risk concentration management tool has resulted in our non-renewing some accounts and has restricted us from writing others. Actual results may differ materially from those suggested by the model. We also continue to actively explore and analyze credible scientific evidence, including the potential impact of global climate change, that may affect our ability to manage exposure under the insurance policies we issue as well as the impact that laws and regulations intended to combat climate change may have on us.

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

Terrorism Risk and Legislation

The September 11, 2001 attack changed the way the property and casualty insurance industry views catastrophic risk. That tragic event demonstrated that numerous classes of business we write are subject to terrorism related catastrophic risks in addition to the catastrophic risks related to natural occurrences. This, together with the limited availability of terrorism reinsurance, has required us to change how we identify and evaluate risk accumulations. We have licensed a terrorism model that provides loss estimates under numerous event scenarios. Actual results may differ materially from those suggested by the model. Also, the risk concentration management tool referred to above enables us to identify locations and geographic areas that are exposed to risk accumulations. The information provided by the terrorism model and the risk concentration management tool has resulted in our non-renewing some accounts and has restricted us from writing others.

The Terrorism Risk Insurance Act of 2002 and more recently, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (collectively TRIA), are limited duration programs under which the U.S. federal government has agreed to share the risk of loss arising from certain acts of terrorism with the insurance industry. The current program, which will terminate on December 31, 2014, is applicable to many lines of commercial business but excludes, among others, commercial automobile, surety and professional liability insurance, other than directors and officers liability. The current program provides protection from all foreign and domestic acts of terrorism.

As a precondition to recovery under TRIA, insurance companies with direct commercial insurance exposure in the United States for TRIA lines of business are required to make insurance for covered acts of terrorism available under their policies. Each insurer has a separate deductible that it must meet in the event of an act of terrorism before federal assistance becomes available. The deductible is based on a percentage of direct U.S. earned premiums for the covered lines of business in the previous calendar year. For 2010, that deductible is 20% of direct premiums earned in 2009 for these lines of business. For losses above the deductible, the federal government will pay for 85% of covered losses, while the insurer retains 15%. There is a combined annual aggregate limit for the federal government and all insurers of $100 billion. If acts of terrorism result in covered losses exceeding the $100 billion annual limit, insurers are not liable for additional losses. While the provisions of TRIA will serve to mitigate our exposure in the event of a large-scale terrorist attack, our deductible is substantial, approximating $950 million in 2010.

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

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

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

Loss Reserves

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

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

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

Incurred but not reported (IBNR) reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. The IBNR reserve includes a provision for claims that have occurred but have not yet been reported to us, some of which are not yet known to the insured, as well as a provision for future development on reported claims. A relatively large proportion of our net loss reserves, particularly for long tail liability classes, are reserves for IBNR losses. In fact, more than 70% of our aggregate net loss reserves at December 31, 2009 were for IBNR losses.

Table of Contents

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

December 31, 2009	Gross Loss Reserves Case	IBNR	Total	Reinsurance Recoverable	Net Loss Reserves
			(in millions)		
Personal insurance					
Automobile	$ 226	$ 187	$ 413	$ 13	$ 400
Homeowners	395	293	688	23	665
Other	372	660	1,032	160	872
Total personal	993	1,140	2,133	196	1,937
Commercial insurance					
Multiple peril	550	1,091	1,641	26	1,615
Casualty	1,499	4,849	6,348	360	5,988
Workers compensation	887	1,448	2,335	197	2,138
Property and marine	781	426	1,207	449	758
Total commercial	3,717	7,814	11,531	1,032	10,499
Specialty insurance					
Professional liability	1,626	6,379	8,005	453	7,552
Surety	18	48	66	8	58
Total specialty	1,644	6,427	8,071	461	7,610
Total insurance	6,354	15,381	21,735	1,689	20,046
Reinsurance assumed	305	799	1,104	364	740
Total	$ 6,659	$ 16,180	$ 22,839	$ 2,053	$ 20,786

December 31, 2008	Gross Loss Reserves Case	IBNR	Total	Reinsurance Recoverable	Net Loss Reserves
			(in millions)		
Personal insurance					
Automobile	$ 210	$ 195	$ 405	$ 14	$ 391
Homeowners	434	310	744	29	715
Other	382	608	990	175	815
Total personal	1,026	1,113	2,139	218	1,921
Commercial insurance					
Multiple peril	589	1,034	1,623	37	1,586
Casualty	1,431	4,621	6,052	392	5,660

Workers compensation	832	1,377	2,209	227	1,982
Property and marine	889	449	1,338	499	839
Total commercial	3,741	7,481	11,222	1,155	10,067
Specialty insurance					
Professional liability	1,690	5,959	7,649	474	7,175
Surety	28	51	79	11	68
Total specialty	1,718	6,010	7,728	485	7,243
Total insurance	6,485	14,604	21,089	1,858	19,231
Reinsurance assumed	370	908	1,278	354	924
Total	$ 6,855	$ 15,512	$ 22,367	$ 2,212	$ 20,155

Table of Contents

Loss reserves, net of reinsurance recoverable, increased by $631 million or 3% in 2009. Loss reserves related to our insurance business increased by $815 million, including approximately $370 million related to currency fluctuation due to the weaker U.S. dollar at December 31, 2009 compared with December 31, 2008. Loss reserves related to our reinsurance assumed business, which is in run-off, decreased by $184 million.

Total gross case reserves related to our insurance business decreased by $131 million in 2009. The significant decrease in gross loss reserves for the commercial property and marine business was primarily due to the settlement in 2009 of losses related to catastrophes, including Hurricane Ike, as well as several large non-catastrophe losses that were unpaid as of December 31, 2008.

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

Estimates and Uncertainties

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

Given the inherent complexity of the loss reserving process and the potential variability of the assumptions used, the actual emergence of losses could vary, perhaps substantially, from the estimate of losses included in our financial statements, particularly in those instances where settlements do not occur until well into the future. Our net loss reserves at December 31, 2009 were $20.8 billion. Therefore, a relatively small percentage change in the estimate of net loss reserves would have a material effect on the Corporation s results of operations.

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

Short tail classes consist principally of homeowners, commercial property and marine business. For these classes, claims are generally reported and settled shortly after the loss occurs and the claims relate to tangible property. Consequently, the estimation of loss reserves for these classes is less complex.

Most of our loss reserves relate to long tail liability classes of business. Long tail classes include directors and officers liability, errors and omissions liability and other professional liability coverages, commercial primary and excess liability, workers compensation and other liability coverages. For many liability claims significant periods of time, ranging up to several years or more, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim. As a result, loss experience in the more recent accident years for the long tail liability classes has limited statistical credibility because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. An accident year is the calendar year in which a loss is incurred or, in the case of claims-made policies, the calendar year in which a loss is reported. Liability claims are also more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for these classes is more complex and typically subject to a higher degree of variability than for short tail classes. As a result, the role of judgment is much greater for these reserve estimates.

Most of our reinsurance assumed business is long tail casualty reinsurance. Reserve estimates for this business are therefore subject to the variability caused by extended loss emergence periods. The estimation of loss reserves for this business is further complicated by delays between the time the claim is reported to the ceding insurer and when it is reported by the ceding insurer to us and by our dependence on the quality and consistency of the loss reporting by the ceding company.

Our actuaries perform a comprehensive review of loss reserves for each of the numerous classes of business we write at least once a year. The timing of such review varies by class of business and, for some classes, the jurisdiction in which the policy was written. The review process takes into consideration the variety of trends that impact the ultimate settlement of claims in each particular class of business. Additionally, each quarter our actuaries review the emergence of paid and reported losses relative to expectations and, as necessary, conduct reserve reviews for particular classes of business.

The loss reserve estimation process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes. As part of that process, our actuaries use a variety of actuarial methods that analyze experience, trends and other relevant factors. The principal standard actuarial methods used by our actuaries in the loss reserve reviews include loss development factor methods, expected loss ratio methods, Bornheutter-Ferguson methods and frequency/severity methods.

Loss development factor methods generally assume that the losses yet to emerge for an accident year are proportional to the paid or reported loss amount observed so far. Historical patterns of the development of paid and reported losses by accident year can be predictive of the expected future patterns that are applied to current paid and reported losses to generate estimated ultimate losses by accident year.

Expected loss ratio methods use loss ratios for prior accident years, adjusted to reflect our evaluation of recent loss trends, the current risk environment, changes in our book of business and changes in our pricing and underwriting, to determine the appropriate expected loss ratio for a given accident year. The expected loss ratio for each accident year is multiplied by the earned premiums for that year to calculate estimated ultimate losses.

Bornheutter-Ferguson methods are combinations of an expected loss ratio method and a loss development factor method, where the loss development factor method is given more weight as an accident year matures.

Frequency/severity methods first project ultimate claim counts (using one or more of the other methods described above) and then multiply those counts by an estimated average claim cost to calculate estimated ultimate losses. The average claim costs are often estimated through a regression analysis of historical severity data. Generally, these methods work best for high frequency, low severity classes of business.

In completing their loss reserve analysis, our actuaries are required to determine the most appropriate actuarial methods to employ for each class of business. Within each class, the business is further segregated by accident year and where appropriate by jurisdiction. Each estimation method has its own pattern, parameter and/or judgmental dependencies, with no estimation method being better than the others in all situations. The relative strengths and weaknesses of the various estimation methods when applied to a particular class of business can also change over time, depending on the underlying circumstances. In many cases, multiple estimation methods will be valid for the particular facts and circumstances of the relevant class of business. The manner of application and the degree of reliance on a given method will vary by class of business, by accident year and by jurisdiction based on our actuaries evaluation of the above dependencies and the potential volatility of the loss frequency and severity patterns. The estimation methods selected or given weight by our actuaries at a particular valuation date are those that are believed to produce the most reliable indication for the loss reserves being evaluated. These selections incorporate input from claims personnel, pricing actuaries and underwriting management on loss cost trends and other factors that could affect the reserve estimates.

For short tail classes, the emergence of paid and incurred losses generally exhibits a reasonably stable pattern of loss development from one accident year to the next. Thus, for these classes, the loss development factor method is generally relatively straightforward to apply and usually requires only modest extrapolation. For long tail classes, applying the loss development factor method often requires more judgment in selecting development factors as well as more significant extrapolation. For those long tail classes with high frequency and relatively low per-loss severity (e.g., workers compensation), volatility will often be sufficiently modest for the loss development factor method to be given significant weight, except in the most recent accident years.

For certain long tail classes of business, however, anticipated loss experience is less predictable because of the small number of claims and erratic claim severity patterns. These classes include directors and officers liability, errors and omissions liability and commercial excess liability, among others. For these classes, the loss development factor methods may not produce a reliable estimate of ultimate losses in the most recent accident years since many claims either have not yet been reported to us or are only in the early stages of the settlement process. Therefore, the actuarial estimates for these accident years are based on less extrapolatory methods, such as expected loss ratio and Bornheutter-Ferguson methods. Over time, as a greater number of claims are reported and the statistical credibility of loss experience increases, loss development factor methods are given increasingly more weight.

Using all the available data, our actuaries select an indicated loss reserve amount for each class of business based on the various assumptions, projections and methods. The total indicated reserve amount determined by our actuaries is an aggregate of the indicated reserve amounts for the individual classes of business. The ultimate outcome is likely to fall within a range of potential outcomes around this indicated amount, but the indicated amount is not expected to be precisely the ultimate liability.

Senior management meets with our actuaries at the end of each quarter to review the results of the latest loss reserve analysis. Based on this review, management determines the carried reserve for each class of business. In making the determination, management considers numerous factors, such as changes in actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular class of business. In doing so, management must evaluate whether a change in the data represents credible actionable information or an anomaly. Such an assessment requires considerable judgment. Even if a change is determined to be permanent, it is not always possible to determine the extent of the change until sometime later. As a result, there can be a time lag between the emergence of a change and a determination that the change should be reflected in the carried loss reserves. In general, changes are made more quickly to more mature accident years and less volatile classes of business.

Among the numerous factors that contribute to the inherent uncertainty in the process of establishing loss reserves are the following:

- changes in the inflation rate for goods and services related to covered damages such as medical care and home repair costs,
- changes in the judicial interpretation of policy provisions relating to the determination of coverage,
- changes in the general attitude of juries in the determination of liability and damages,
- legislative actions,
- changes in the medical condition of claimants,

changes in our estimates of the number and/or severity of claims that have been incurred but not reported as of the date of the financial statements,

changes in our book of business,

changes in our underwriting standards, and

changes in our claim handling procedures.

In addition, we must consider the uncertain effects of emerging or potential claims and coverage issues that arise as legal, judicial and social conditions change. These issues have had, and may continue to have, a negative effect on our loss reserves by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. Recent examples of such issues include the number of directors and officers liability and errors and omissions liability claims arising out of the ongoing crisis in the financial markets, the number of directors and officers liability claims arising out of stock option backdating practices by certain public companies, the number and size of directors and officers liability and errors and omissions liability claims arising out of investment banking practices and accounting and other corporate malfeasance, and exposure to claims asserted for bodily injury as a result of long term exposure to harmful products or substances. As a result of issues such as these, the uncertainties inherent in estimating ultimate claim costs on the basis of past experience have grown, further complicating the already complex loss reserving process.

As part of our loss reserving analysis, we take into consideration the various factors that contribute to the uncertainty in the loss reserving process. Those factors that could materially affect our loss reserve estimates include loss development patterns and loss cost trends, rate and exposure level changes, the effects of changes in coverage and policy limits, business mix shifts, the effects of regulatory and legislative developments, the effects of changes in judicial interpretations, the effects of emerging claims and coverage issues and the effects of changes in claim handling practices. In making estimates of reserves, however, we do not necessarily make an explicit assumption for each of these factors. Moreover, all estimation methods do not utilize the same assumptions and typically no single method is determinative in the reserve analysis for a class of business. Consequently, changes in our loss reserve estimates generally are not the result of changes in any one assumption. Instead, the variability will be affected by the interplay of changes in numerous assumptions, many of which are implicit to the approaches used.

For each class of business, we regularly adjust the assumptions and actuarial methods used in the estimation of loss reserves in response to our actual loss experience as well as our judgments regarding changes in trends and/or emerging patterns. In those instances where we primarily utilize analyses of historical patterns of the development of paid and reported losses, this may be reflected, for example, in the selection of revised loss development factors. In those long tail classes of business that comprise a majority of our loss reserves and for which loss experience is less predictable due to potential changes in judicial interpretations, potential legislative actions and potential claims issues, this may be reflected in a judgmental change in our estimate of ultimate losses for particular accident years.

The future impact of the various factors that contribute to the uncertainty in the loss reserving process is extremely difficult to predict. There is potential for significant variation in the development of loss reserves, particularly for long tail classes of business. We do not derive statistical loss distributions or outcome confidence levels around our loss reserve estimate. Actuarial ranges of reasonable estimates are not a true reflection of the potential volatility between carried loss reserves and the ultimate settlement amount of losses incurred prior to the balance sheet date. This is due, among other reasons, to the fact that actuarial ranges are developed based on known events as of the valuation date whereas the ultimate disposition of losses is subject to the outcome of events and circumstances that were unknown as of the valuation date.

The following discussion includes disclosure of possible variation from current estimates of loss reserves due to a change in certain key assumptions for particular classes of business. These impacts are estimated individually, without consideration for any correlation among such assumptions or among lines of business. Therefore, it would be inappropriate to take the amounts and add them together in an attempt to estimate volatility for our loss reserves in total. We believe that the estimated variation in reserves detailed below is a reasonable estimate of the possible variation that may occur in the future. However, if such variation did occur, it would likely occur over a period of several years and therefore its impact on the Corporation s results of operations would be spread over the same period. It is important to note, however, that there is the potential for future variation greater than the amounts discussed below.

Two of the larger components of our loss reserves relate to the professional liability classes other than fidelity and to commercial excess liability. The respective reported loss development patterns are key assumptions in estimating loss reserves for these classes of business, both as applied directly to more mature accident years and as applied indirectly (e.g., via Bornheutter-Ferguson methods) to less mature accident years.

Reserves for the professional liability classes other than fidelity were $7.2 billion, net of reinsurance, at December 31, 2009. Based on a review of our loss experience, if the loss development factor for each accident year changed such that the cumulative loss development factor for the most recent accident year changed by 10%, we estimate that the net reserves for professional liability classes other than fidelity would change by approximately $675 million, in either direction. This degree of change in the reported loss development pattern is within the historical variation around the averages in our data.

Reserves for commercial excess liability (excluding asbestos and toxic waste claims) were $3.1 billion, net of reinsurance, at December 31, 2009. These reserves are included within commercial casualty. Based on a review of our loss experience, if the loss development factor for each accident year changed such that the cumulative loss development factor for the most recent accident year changed by 15%, we estimate that the net reserves for commercial excess liability would change by approximately $300 million, in either direction. This degree of change in the reported loss development pattern is within the historical variation around the averages in our data.

Reserves Relating to Asbestos and Toxic Waste Claims. The estimation of loss reserves relating to asbestos and toxic waste claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability. The insurance industry as a whole is engaged in extensive litigation over coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

Reserves for asbestos and toxic waste claims cannot be estimated with traditional actuarial loss reserving techniques that rely on historical accident year loss development factors. Instead, we rely on an exposure-based analysis that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, we generally evaluate our exposure on a policyholder-by-policyholder basis, considering a variety of factors that are unique to each policyholder. Quantitative techniques have to be supplemented by subjective considerations including management s judgment.

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.

We believe that the loss reserves carried at December 31, 2009 for asbestos and toxic waste claims were adequate. 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, it is possible that our estimate of loss reserves relating to these exposures may increase in future periods as new information becomes available and as claims develop.

Asbestos Reserves. Asbestos remains the most significant and difficult mass tort for the insurance industry in terms of claims volume and dollar exposure. Asbestos claims relate primarily to bodily injuries asserted by those who came in contact with asbestos or products containing asbestos. Tort theory affecting asbestos litigation has evolved over the years. Early court cases established the continuous trigger theory with respect to insurance coverage. Under this theory, insurance coverage is deemed to be triggered from the time a claimant is first exposed to asbestos until the manifestation of any disease. This interpretation of a policy trigger can involve insurance policies over many years and increases insurance companies exposure to liability. Until recently, judicial interpretations and legislative actions attempted to maximize insurance availability from both a coverage and liability standpoint.

Table of Contents

New asbestos claims and new exposures on existing claims have continued despite the fact that usage of asbestos has declined since the mid-1970 s. Many claimants were exposed to multiple asbestos products over an extended period of time. As a result, claim filings typically name dozens of defendants. The plaintiffs bar has solicited new claimants through extensive advertising and through asbestos medical screenings. A vast majority of asbestos bodily injury claims have been filed by claimants who do not show any signs of asbestos related disease. New asbestos cases are often filed in those jurisdictions with a reputation for judges and juries that are extremely sympathetic to plaintiffs.

Approximately 80 manufacturers and distributors of asbestos products have filed for bankruptcy protection as a result of asbestos related liabilities. A bankruptcy sometimes involves an agreement to a plan between the debtor and its creditors, including current and future asbestos claimants. Although the debtor is negotiating in part with its insurers money, insurers are generally given only limited opportunity to be heard. In addition to contributing to the overall number of claims, bankruptcy proceedings have also caused increased settlement demands against remaining solvent defendants.

There have been some positive legislative and judicial developments in the asbestos environment over the past several years:

Various challenges to the mass screening of claimants have been mounted which have led to higher medical evidentiary standards. For example, several asbestos injury settlement trusts have suspended their acceptance of claims that were based on the diagnosis of specific physicians or screening companies. Further investigations of the medical screening process for asbestos claims are underway.

A number of states have implemented legislative and judicial reforms that focus the courts resources on the claims of the most seriously injured. Those who allege serious injury and can present credible evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket, which preserves the right to pursue litigation in the future.

A number of key jurisdictions have adopted venue reform that requires plaintiffs to have a connection to the jurisdiction in order to file a complaint.

In recognition that many aspects of bankruptcy plans are unfair to certain classes of claimants and to the insurance industry, these plans are beginning to be closely scrutinized by the courts and rejected when appropriate.

Our most significant individual asbestos exposures involve products liability on the part of traditional defendants who were engaged in the manufacture, distribution or installation of asbestos products. We wrote excess liability and/or general liability coverages for these insureds. While these insureds are relatively few in number, their exposure has become substantial due to the increased volume of claims, the erosion of the underlying limits and the bankruptcies of target defendants.

Our other asbestos exposures involve products and non-products liability on the part of peripheral defendants, including a mix of manufacturers, distributors and installers of certain products that contain asbestos in small quantities and owners or operators of properties where asbestos was present. Generally, these insureds are named defendants on a regional rather than a nationwide basis. As the financial resources of traditional asbestos defendants have been depleted, plaintiffs are targeting these viable peripheral parties with greater frequency and, in many cases, for large awards.

Asbestos claims against the major manufacturers, distributors or installers of asbestos products were typically presented under the products liability section of primary general liability policies as well as under excess liability policies, both of which typically had aggregate limits that capped an insurer s exposure. In recent years, a number of asbestos claims by insureds are being presented as non-products claims, such as those by installers of asbestos products and by property owners or operators who allegedly had asbestos on their property, under the premises or operations section of primary general

46

Table of Contents

liability policies. Unlike products exposures, these non-products exposures typically had no aggregate limits on coverage, creating potentially greater exposure. Further, in an effort to seek additional insurance coverage, some insureds with installation activities who have substantially eroded their products coverage are presenting new asbestos claims as non-products operations claims or attempting to reclassify previously settled products claims as non-products claims to restore a portion of previously exhausted products aggregate limits. It is difficult to predict whether insureds will be successful in asserting claims under non-products coverage or whether insurers will be successful in asserting additional defenses. Accordingly, the ultimate cost to insurers of the claims for coverage not subject to aggregate limits is uncertain.

In establishing our asbestos reserves, we evaluate the exposure presented by each insured. As part of this evaluation, we consider a variety of factors including: the available insurance coverage; limits and deductibles; the jurisdictions involved; past settlement values of similar claims; the potential role of other insurance, particularly underlying coverage below our excess liability policies; potential bankruptcy impact; relevant judicial interpretations; and applicable coverage defenses, including asbestos exclusions.

Various U.S. federal proposals to solve the ongoing asbestos litigation crisis have been considered by the U.S. Congress over the past few years, but none have yet been enacted. The prospect of federal asbestos reform legislation remains uncertain. As a result, we have assumed a continuation of the current legal environment with no benefit from any federal asbestos reform legislation.

Our actuaries and claim personnel perform periodic analyses of our asbestos related exposures. The analyses during 2007 noted an increase in our estimate of the ultimate liabilities related to certain of our traditional asbestos defendants. Based on these analyses, we increased our net asbestos loss reserves by $75 million in 2007. The analyses during 2008 and 2009 noted no developments that would indicate the need to change our estimate of ultimate liabilities related to asbestos claims.

The following table presents a reconciliation of the beginning and ending loss reserves related to asbestos claims.

	Years Ended December 31		
	2009	**2008**	**2007**
		(in millions)	
Gross loss reserves, beginning of year	$ 794	$ 838	$ 841
Reinsurance recoverable, beginning of year	47	45	52
Net loss reserves, beginning of year	747	793	789
Net incurred losses			75
Net losses paid	58	46	71
Net loss reserves, end of year	689	747	793
Reinsurance recoverable, end of year	39	47	45
Gross loss reserves, end of year	$ 728	$ 794	$ 838

Table of Contents

The following table presents the number of policyholders for whom we have open asbestos case reserves and the related net loss reserves at December 31, 2009 as well as the net losses paid during 2009 by component.

	Number of Policyholders	Net Loss Reserves	Net Losses Paid
		(in millions)	
Traditional defendants	22	$ 175	$ 10
Peripheral defendants	374	382	48
Future claims from unknown policyholders		132	
		$ 689	$ 58

Significant uncertainty remains as to our ultimate liability related to asbestos related claims. This uncertainty is due to several factors including:

- the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;
- plaintiffs expanding theories of liability and increased focus on peripheral defendants;
- the volume of claims by unimpaired plaintiffs and the extent to which they can be precluded from making claims;
- the efforts by insureds to claim the right to non-products coverage not subject to aggregate limits;
- the number of insureds seeking bankruptcy protection as a result of asbestos related liabilities;
- the ability of claimants to bring a claim in a state in which they have no residency or exposure;
- the impact of the exhaustion of primary limits and the resulting increase in claims on excess liability policies we have issued;
- inconsistent court decisions and diverging legal interpretations; and
- the possibility, however remote, of federal legislation that would address the asbestos problem.

These significant uncertainties are not likely to be resolved in the near future.

Toxic Waste Reserves. Toxic waste claims relate primarily to pollution and related cleanup costs. Our insureds have two potential areas of exposure hazardous waste dump sites and pollution at the insured site primarily from underground storage tanks and manufacturing processes.

The U.S. federal Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund) has been interpreted to impose strict, retroactive and joint and several liability on potentially responsible parties (PRPs) for the cost of remediating hazardous waste sites. Most sites have multiple PRPs.

Most PRPs named to date are parties who have been generators, transporters, past or present landowners or past or present site operators. These PRPs had proper government authorization in many instances. However, relative fault has not been a factor in establishing liability. Insurance policies issued to PRPs were not intended to cover claims arising from gradual pollution. Since 1986, most policies have specifically excluded such exposures.

Environmental remediation claims tendered by PRPs and others to insurers have frequently resulted in disputes over insurers contractual obligations with respect to pollution claims. The resulting litigation against insurers extends to issues of liability, coverage and other policy provisions.

There is substantial uncertainty involved in estimating our liabilities related to these claims. First, the liabilities of the claimants are extremely difficult to estimate. At any given waste site, the allocation of remediation costs among governmental authorities and the PRPs varies greatly depending on a variety of factors. Second, different courts have addressed liability and coverage issues regarding pollution claims and have reached inconsistent conclusions in their interpretation of several issues. These significant uncertainties are not likely to be resolved definitively in the near future.

Uncertainties also remain as to the Superfund law itself. Superfund s taxing authority expired on December 31, 1995 and has not been re-enacted. Federal legislation appears to be at a standstill. At this time, it is not possible to predict the direction that any reforms may take, when they may occur or the effect that any changes may have on the insurance industry.

Without federal movement on Superfund reform, the enforcement of Superfund liability has occasionally shifted to the states. States are being forced to reconsider state-level cleanup statutes and regulations. As individual states move forward, the potential for conflicting state regulation becomes greater. In a few states, we have seen cases brought against insureds or directly against insurance companies for environmental pollution and natural resources damages. To date, only a few natural resource claims have been filed and they are being vigorously defended. Significant uncertainty remains as to the cost of remediating the state sites. Because of the large number of state sites, such sites could prove even more costly in the aggregate than Superfund sites.

In establishing our toxic waste reserves, we evaluate the exposure presented by each insured. As part of this evaluation, we consider a variety of factors including: the probable liability, available insurance coverage, past settlement values of similar claims, relevant judicial interpretations, applicable coverage defenses as well as facts that are unique to each insured.

During 2008, the analysis of our toxic waste exposures indicated that some of our insureds had become responsible for the remediation of additional polluted sites and that, as clean up standards continue to evolve as a result of technology advances, the estimated cost of remediation of certain sites had increased. In addition, two claims were settled at substantially higher amounts than expected. Based on these developments, we increased our net toxic waste loss reserves by $85 million in 2008.

During 2009, the analysis of our toxic waste exposures indicated higher than expected development driven by a relatively small number of exposures. Based on these developments, as well as the increased cost to remediate certain sites, we increased our net toxic waste loss reserves by $90 million in 2009.

The following table presents a reconciliation of our beginning and ending loss reserves, net of reinsurance recoverable, related to toxic waste claims. The reinsurance recoverable related to these claims is minimal.

	Years Ended December 31		
	2009	**2008**	**2007**
		(in millions)	
Reserves, beginning of year	$ 181	$ 154	$ 169
Incurred losses	90	85	13
Losses paid	56	58	28
Reserves, end of year	$ 215	$ 181	$ 154

At December 31, 2009, $142 million of the net toxic waste loss reserves were IBNR reserves.

Reinsurance Recoverable. Reinsurance recoverable is the estimated amount recoverable from reinsurers related to the losses we have incurred. At December 31, 2009, reinsurance recoverable included $209 million recoverable with respect to paid losses and loss expenses, which is included in other assets, and $2.1 billion recoverable on unpaid losses and loss expenses.

Reinsurance recoverable on unpaid losses and loss expenses represents an estimate of the portion of our gross loss reserves that will be recovered from reinsurers. Such reinsurance recoverable is estimated as part of our loss reserving process using assumptions that are consistent with the assumptions used in estimating the gross loss reserves. Consequently, the estimation of reinsurance recoverable is subject to similar judgments and uncertainties as the estimation of gross loss reserves.

Table of Contents

Ceded reinsurance contracts do not relieve us of our primary obligation to our policyholders. Consequently, an exposure exists with respect to reinsurance recoverable to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities we believe it has assumed under the reinsurance contracts. We are selective in regard to our reinsurers, placing reinsurance with only those reinsurers who we believe have strong balance sheets and superior underwriting ability, and we monitor the financial strength of our reinsurers on an ongoing basis. Nevertheless, in recent years, certain of our reinsurers have experienced financial difficulties or exited the reinsurance business. In addition, we may become involved in coverage disputes with our reinsurers. A provision for estimated uncollectible reinsurance is recorded based on periodic evaluations of balances due from reinsurers, the financial condition of the reinsurers, coverage disputes and other relevant factors.

Prior Year Loss Development

Changes in loss reserve estimates are unavoidable because such estimates are subject to the outcome of future events. Loss trends vary and time is required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development or reserve releases.

A reconciliation of our beginning and ending loss reserves, net of reinsurance, for the three years ended December 31, 2009 is as follows:

	Years Ended December 31		
	2009	**2008**	**2007**
		(in millions)	
Net loss reserves, beginning of year	$ 20,155	$ 20,316	$ 19,699
Net incurred losses and loss expenses related to			
Current year	7,030	7,771	6,996
Prior years	(762)	(873)	(697)
	6,268	6,898	6,299
Net payments for losses and loss expenses related to			
Current year	1,943	2,401	1,883
Prior years	4,063	4,108	4,066
	6,006	6,509	5,949
Foreign currency translation effect	369	(550)	267
Net loss reserves, end of year	$ 20,786	$ 20,155	$ 20,316

During 2009, we experienced overall favorable prior year development of $762 million, which represented 3.8% of the net loss reserves as of December 31, 2008. This compares with favorable prior year development of $873 million during 2008, which represented 4.3% of the net loss reserves at December 31, 2007, and favorable prior year development of $697 million during 2007, which represented 3.5% of the net loss reserves at December 31, 2006.

Such favorable development was reflected in operating results in these respective years.

Table of Contents

The following table presents the overall prior year loss development for the three years ended December 31, 2009 by accident year.

Accident Year	Calendar Year (Favorable) Unfavorable Development 2009	2008	2007
	(in millions)		
2008	$ 62		
2007	(180)	$ (86)	
2006	(230)	(224)	$ (141)
2005	(299)	(364)	(233)
2004	(256)	(272)	(240)
2003	(50)	(84)	(148)
2002	(33)	(25)	(71)
2001	30	31	53
2000	11	25	(17)
1999 and prior	183	126	100
	$ (762)	$ (873)	$ (697)

The net favorable development of $762 million in 2009 was due to various factors. The most significant factors were:

We experienced favorable development of about $340 million in the professional liability classes other than fidelity, including about $110 million outside the U.S. A significant amount of favorable development occurred in the directors and officers liability, fiduciary liability and employment practices liability classes. We had a modest amount of unfavorable development in the errors and omissions liability class, particularly outside the U.S. A majority of the favorable development in the professional liability classes was in accident years 2004 through 2006. Reported loss activity related to these accident years was less than expected reflecting a favorable business climate, lower policy limits and better terms and conditions. As these years have become increasingly mature, and as the reported loss experience has emerged better than we expected, we have gradually decreased the expected loss ratios for these accident years. This favorable development was recognized as one among many factors in the determination of loss reserves for more current accident years. Our estimates of expected loss ratios for more recent accident years, particularly 2007 through 2009, were more influenced by the uncertainty surrounding the crisis in the financial markets as well as the general downward trend in prices in recent years.

We experienced favorable development of about $160 million in the aggregate in the homeowners and commercial property classes, primarily related to the 2007 and 2008 accident years. The severity of late reported property claims that emerged during 2009 was lower than expected and development on prior year catastrophe events was favorable. Because the incidence of large property losses is subject to a considerable element of fortuity, reserve estimates for these classes are based on an analysis of past loss experience on average over a period of years. As a result, the favorable development in 2009 was recognized, but had a relatively modest effect on our determination of carried property loss reserves at December 31, 2009.

We experienced favorable development of about $150 million in the aggregate in the commercial and personal liability classes. Favorable development in more recent accident years, particularly 2004 through 2006, was partially offset by adverse development in accident years 1999 and prior, which included $90 million of incurred losses related to toxic waste claims. The frequency and severity of prior period excess and primary liability claims have been generally lower than expected and the effects of underwriting changes that affected these years appear to have been more positive than expected. These factors were reflected in the determination of the carried loss reserves for these classes at December 31, 2009.

We experienced favorable development of about $55 million in the run-off of our reinsurance assumed business due primarily to better than expected reported loss activity from cedants.

We experienced favorable development of about $35 million in the surety business due to lower than expected loss emergence, mainly related to more recent accident years. Loss reserve estimates at the end of 2008 in this class included an expectation of more late reported losses than actually occurred in 2009. However, since we would still expect such losses to occur in a typical year, factors that resulted in the favorable development in 2009 were given only modest weight in our determination of carried surety loss reserves at December 31, 2009.

We experienced favorable development of about $30 million in the personal automobile business due primarily to lower than expected severity. This factor was given only modest weight in our determination of carried personal automobile loss reserves at December 31, 2009.

The net favorable development of $873 million in 2008 was also due to various factors. The most significant factors were:

We experienced favorable development of about $390 million in the professional liability classes other than fidelity, including about $150 million outside the U.S. Favorable development occurred in each of the primary professional liability classes, including directors and officers liability, errors and omissions liability, fiduciary liability and employment practices liability. A majority of this favorable development was in the 2004 and 2005 accident years. Reported loss activity related to these accident years was less than expected, reflecting a favorable business climate, lower policy limits and better terms and conditions. As these years became increasingly mature, and as the reported loss experience emerged better than we expected, we gradually decreased the expected loss ratios for these accident years.

We experienced favorable development of about $170 million in the aggregate in the homeowners and commercial property classes, primarily related to the 2006 and 2007 accident years. The severity of late reported property claims that emerged during 2008 was lower than expected.

We experienced favorable development of about $120 million in the commercial liability classes. Favorable development, particularly in excess liability and multiple peril liability classes in accident years 2002 through 2006, more than offset adverse development in accident years prior to 1998, which was mostly due to $85 million of incurred losses related to toxic waste claims.

We experienced favorable development of about $75 million in the fidelity class due to lower than expected reported loss emergence, particularly outside the U.S., mainly related to recent accident years.

We experienced favorable development of about $60 million in the run-off of our reinsurance assumed business due primarily to better than expected reported loss activity from cedants.

We experienced favorable development of about $30 million in the workers compensation class due in part to the positive effects of reforms in California.

We experienced favorable development of about $30 million in the personal automobile business due primarily to lower than expected severity.

The net favorable development of $697 million in 2007 was also due to various factors. The most significant factors were:

We experienced favorable development of about $300 million in the professional liability classes other than fidelity, including about $100 million outside the U.S. A majority of this favorable development was in the 2003 through 2005 accident years. Reported loss activity related to these accident years was less than expected, reflecting a favorable business climate, lower policy limits and better terms and conditions. While these accident years were still somewhat immature, we concluded that there was sufficient evidence to modestly decrease the expected loss ratios for these accident years.

We experienced favorable development of about $180 million in the aggregate in the homeowners and commercial property classes, primarily related to the 2005 and 2006 accident years. This favorable development arose from the lower than expected emergence of actual losses during 2007 relative to expectations used to establish our loss reserves at the end of 2006. The severity of late reported property claims that emerged during 2007 was lower than expected and case development, including salvage recoveries, on previously reported claims was better than expected.

We experienced favorable development of about $135 million in the run-off of our reinsurance assumed business due primarily to better than expected reported loss activity from cedants.

We experienced favorable development of about $40 million in the fidelity class and $30 million in the surety class due to lower than expected reported loss emergence, mainly related to more recent accident years.

We experienced favorable development of about $30 million in the personal automobile class. Case development during 2007 on previously reported claims was better than expected, reflecting improved case management. Also, the number of late reported claims was less than expected, reflecting a continuation of recent generally favorable frequency trends.

We experienced adverse development of about $20 million in the commercial liability classes. Adverse development in accident years prior to 1997, mostly the $88 million related to asbestos and toxic waste claims, was largely offset by favorable development in these classes in the more recent accident years.

In Item 1 of this report, we present an analysis of our consolidated loss reserve development on a calendar year basis for each of the ten years prior to 2009. The variability in reserve development over the ten year period illustrates the uncertainty of the loss reserving process. Conditions and trends that have affected reserve development in the past will not necessarily recur in the future. It is not appropriate to extrapolate future favorable or unfavorable reserve development based on amounts experienced in prior years.

Our U.S. property and casualty subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities. These annual statements include an analysis of loss reserves, referred to as Schedule P, that presents accident year loss development information by line of business for the nine years prior to 2009. It is our intention to post the Schedule P for our combined U.S. property and casualty subsidiaries on our website as soon as it becomes available.

Investment Results

Property and casualty investment income before taxes decreased by 5% in 2009 compared with 2008 and increased by 2% in 2008 compared with 2007. Lower yields, primarily on short term investments, contributed to the decrease in investment income in 2009. In addition, almost half of the decline in 2009 was related to currency fluctuation on income from our non-U.S. investments. Growth in investment income in 2008 was due to an increase in average invested assets compared with 2007. The growth in investment income in 2009 and 2008 was limited as average invested assets increased only modestly in each year as a result of substantial dividend distributions made by the property and casualty subsidiaries to Chubb during 2009, 2008 and 2007.

The effective tax rate on our investment income was 19.2% in 2009 compared with 20.0% in 2008 and 19.9% in 2007. The effective tax rate fluctuates as a result of our holding a different proportion of our investment portfolio in tax exempt securities during different periods.

Table of Contents

On an after-tax basis, property and casualty investment income decreased by 3% in 2009 and increased by 2% in 2008. The after-tax annualized yield on the investment portfolio that supports our property and casualty insurance business was 3.39% in 2009 compared with 3.49% in 2008 and 3.50% in 2007.

If investment yields and average foreign currency to U.S. dollar exchange rates in 2010 are similar to 2009 year-end levels, property and casualty investment income for 2010 is expected to be about the same as in 2009.

Other Income and Charges

Other income and charges, which includes miscellaneous income and expenses of the property and casualty subsidiaries, was not significant in the last three years.

CORPORATE AND OTHER

Corporate and other comprises investment income earned on corporate invested assets, interest expense and other expenses not allocated to our operating subsidiaries and the results of our non-insurance subsidiaries, including Chubb Financial Solutions, which is in run-off.

Corporate and other produced a loss before taxes of $238 million in 2009 compared with losses of $214 million and $149 million in 2008 and 2007, respectively. The higher loss in 2009 and 2008 compared to the respective prior year was due in both years to increasingly higher interest expense and lower investment income. The higher interest expense was primarily due to an increase in average debt outstanding in both 2009 and 2008 as a result of the issuance of additional debt during 2008 and 2007. The lower investment income was primarily the result of a decrease in the average yield on short term investments. The higher interest expense in 2009 and 2008 was not offset by an increase in investment income as the proceeds from the issuance of the debt were used to repurchase Chubb s common stock.

Chubb Financial Solutions

Chubb Financial Solutions (CFS) participated in derivative financial instruments and has been in run-off since 2003. Since that date, CFS has terminated early or run-off nearly all of its contractual obligations within its financial products portfolio.

CFS s aggregate exposure, or retained risk, from each of its remaining in-force financial products contracts is referred to as notional amount. Notional 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.