CHUBB CORP
Form 10-Q
May 07, 2010

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

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

For the quarterly period ended March 31, 2010

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 number 1-8661

THE CHUBB CORPORATION

(Exact name of registrant as specified in its charter)

NEW JERSEY	13-2595722
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
15 MOUNTAIN VIEW ROAD, WARREN, NEW JERSEY	07059
(Address of principal executive offices)	(Zip Code)

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

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

YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES þ NO o

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 þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

The number of shares of common stock outstanding as of March 31, 2010 was 326,772,038.

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Part I. FINANCIAL INFORMATION

Item 1 Financial Statements

THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31

	2010	2009
	(in millions)	
Revenues		
Premiums Earned	$ 2,782	$ 2,826
Investment Income	410	402
Other Revenues	4	3
Realized Investment Gains (Losses), Net		
Total Other-Than-Temporary Impairment Losses on Investments		(59)
Other-Than-Temporary Impairment Losses on Investments Recognized in Other Comprehensive Income	(1)	
Other Realized Investment Gains (Losses), Net	128	(207)
Total Realized Investment Gains (Losses), Net	127	(266)
Total Revenues	3,323	2,965
Losses and Expenses		
Losses and Loss Expenses	1,730	1,615
Amortization of Deferred Policy Acquisition Costs	740	728
Other Insurance Operating Costs and Expenses	115	103
Investment Expenses	10	9
Other Expenses	4	3
Corporate Expenses	76	77
Total Losses and Expenses	2,675	2,535
Income Before Federal and Foreign Income Tax	648	430
Federal and Foreign Income Tax	184	89
Net Income	$ 464	$ 341
Net Income Per Share		
Basic	$ 1.39	$ .96
Diluted	1.39	.95

Dividends Declared Per Share	.37	.35

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION
CONSOLIDATED BALANCE SHEETS

	Mar. 31, 2010	Dec. 31, 2009
	(in millions)	
Assets		
Invested Assets		
Short Term Investments	$ 2,394	$ 1,918
Fixed Maturities		
Tax Exempt (cost $18,604 and $18,720)	19,462	19,587
Taxable (cost $16,184 and $16,470)	16,825	16,991
Equity Securities (cost $1,221 and $1,215)	1,497	1,433
Other Invested Assets	2,151	2,075
TOTAL INVESTED ASSETS	42,329	42,004
Cash	51	51
Accrued Investment Income	448	460
Premiums Receivable	2,031	2,101
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	2,071	2,053
Prepaid Reinsurance Premiums	329	308
Deferred Policy Acquisition Costs	1,553	1,533
Deferred Income Tax	149	272
Goodwill	467	467
Other Assets	1,442	1,200
TOTAL ASSETS	$ 50,870	$ 50,449
Liabilities		
Unpaid Losses and Loss Expenses	$ 23,099	$ 22,839
Unearned Premiums	6,149	6,153
Long Term Debt	3,975	3,975
Dividend Payable to Shareholders	121	118
Accrued Expenses and Other Liabilities	1,785	1,730
TOTAL LIABILITIES	35,129	34,815
Contingent Liabilities (Note 6)		
Shareholders Equity		

Common Stock $1 Par Value; 371,980,460 Shares	372	372
Paid-In Surplus	158	224
Retained Earnings	16,578	16,235
Accumulated Other Comprehensive Income	812	720
Treasury Stock, at Cost 45,208,422 and 39,972,796 Shares	(2,179)	(1,917)
TOTAL SHAREHOLDERS EQUITY	15,741	15,634
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 50,870	$ 50,449

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31

	2010	2009
	(in millions)	
Net Income	$ 464	$ 341
Other Comprehensive Income (Loss), Net of Tax		
Change in Unrealized Appreciation or Depreciation of Investments	107	327
Change in Unrealized Other-Than-Temporary Impairment Losses on Investments	3	
Foreign Currency Translation Losses	(28)	(113)
Amortization of Net Loss and Prior Service Cost Included in Net Postretirement Benefit Costs	10	9
	92	223
Comprehensive Income	$ 556	$ 564

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31

	2010	2009
	(in millions)	
Cash Flows from Operating Activities		
Net Income	$ 464	$ 341
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Increase in Unpaid Losses and Loss Expenses, Net	298	106
Decrease in Unearned Premiums, Net	(17)	(83)
Decrease in Premiums Receivable	70	98
Amortization of Premiums and Discounts on Fixed Maturities	46	47
Depreciation	16	15
Realized Investment Losses (Gains), Net	(127)	266
Other, Net	(129)	(240)
Net Cash Provided by Operating Activities	621	550
Cash Flows from Investing Activities		
Proceeds from Fixed Maturities		
Sales	1,000	855
Maturities, Calls and Redemptions	634	610
Proceeds from Sales of Equity Securities	18	46
Purchases of Fixed Maturities	(1,342)	(1,958)
Purchases of Equity Securities	(15)	
Investments in Other Invested Assets, Net	8	(22)
Increase in Short Term Investments, Net	(471)	(104)
Increase (Decrease) in Net Payable from Security Transactions Not Settled	(20)	214
Purchases of Property and Equipment, Net	(13)	(12)
Other, Net		4
Net Cash Used in Investing Activities	(201)	(367)
Cash Flows from Financing Activities		
Increase (Decrease) in Funds Held Under Deposit Contracts	25	(2)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	24	14
Repurchase of Shares	(351)	(77)
Dividends Paid to Shareholders	(118)	(118)
Net Cash Used in Financing Activities	(420)	(183)

Net Increase in Cash				
Cash at Beginning of Year		51		56
Cash at End of Period	$	51	$	56

See Notes to Consolidated Financial Statements.

THE CHUBB CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) General

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of The Chubb Corporation (Chubb) and its subsidiaries (collectively, the Corporation). Significant intercompany transactions have been eliminated in consolidation.

Effective April 1, 2009, the Corporation adopted new guidance issued by the Financial Accounting Standards Board (FASB) related to the recognition and presentation of other-than-temporary impairments. This guidance was not permitted to be retroactively applied to prior periods financial statements; accordingly, consolidated financial statements for periods prior to April 1, 2009 have not been restated for this change in accounting policy. This accounting change is further described in Note (3)(b).

The amounts included in this report are unaudited but include those adjustments, consisting of normal recurring items, that management considers necessary for a fair presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Notes to Consolidated Financial Statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2009.

2) Adoption of New Accounting Pronouncement

Effective January 1, 2010, the Corporation adopted new guidance issued by the FASB related to the accounting for a variable interest entity (VIE). A company would consolidate a VIE, as the primary beneficiary, when a company has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Ongoing reassessment of whether a company is the primary beneficiary of a VIE is required. The new guidance replaces the quantitative-based approach previously required for determining which company, if any, has a controlling financial interest in a VIE. The adoption of this guidance did not have a significant effect on the Corporation s financial position or results of operations.

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

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3) Invested Assets

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

	March 31, 2010			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
	(in millions)			
Fixed maturities				
Tax exempt	$ 18,604	$ 916	$ 58	$ 19,462
Taxable				
U.S. Government and government agency and authority obligations	776	16	9	783
Corporate bonds	6,170	352	17	6,505
Foreign government and government agency obligations	5,847	216	10	6,053
Residential mortgage-backed securities	1,706	75	16	1,765
Commercial mortgage-backed securities	1,685	39	5	1,719
	16,184	698	57	16,825
Total fixed maturities	$ 34,788	$ 1,614	$ 115	$ 36,287
Equity securities	$ 1,221	$ 314	$ 38	$ 1,497

	December 31, 2009			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
	(in millions)			
Fixed maturities				
Tax exempt	$ 18,720	$ 933	$ 66	$ 19,587
Taxable				
U.S. Government and government agency and authority obligations	756	12	10	758
Corporate bonds	6,287	327	24	6,590
Foreign government and government agency obligations	5,903	221	11	6,113
Residential mortgage-backed securities	1,850	69	20	1,899
Commercial mortgage-backed securities	1,674	6	49	1,631
	16,470	635	114	16,991

Total fixed maturities	$ 35,190	$ 1,568	$ 180	$ 36,578
Equity securities	$ 1,215	$ 261	$ 43	$ 1,433

At March 31, 2010 and December 31, 2009, the gross unrealized depreciation of fixed maturities included $12 million and $15 million, respectively, of unrealized other-than-temporary impairment losses recognized in accumulated other comprehensive income.

The amortized cost and fair value of fixed maturities at March 31, 2010 by contractual maturity were as follows:

	Amortized Cost	Fair Value
	(in millions)	
Due in one year or less	$ 1,279	$ 1,303
Due after one year through five years	10,750	11,252
Due after five years through ten years	12,090	12,752
Due after ten years	7,278	7,496
	31,397	32,803
Residential mortgage-backed securities	1,706	1,765
Commercial mortgage-backed securities	1,685	1,719
	$ 34,788	$ 36,287

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

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

(b) The components of unrealized appreciation or depreciation, including unrealized other-than-temporary impairment losses, of investments carried at fair value were as follows:

	March 31 2010	December 31 2009
	(in millions)	
Fixed maturities		
Gross unrealized appreciation	$ 1,614	$ 1,568
Gross unrealized depreciation	115	180
	1,499	1,388
Equity securities		
Gross unrealized appreciation	314	261
Gross unrealized depreciation	38	43
	276	218
	1,775	1,606
Deferred income tax liability	621	562
	$ 1,154	$ 1,044

When the fair value of an investment is lower than its cost, an assessment is made to determine whether the decline is temporary or other than temporary. The assessment of other-than-temporary impairment of fixed maturities and equity securities is based on both quantitative criteria and qualitative information and also considers a number of other factors including, but not limited to, the length of time and the extent to which the fair value has been less than the cost, the financial condition and near term prospects of the issuer, whether the issuer is current on contractually obligated interest and principal payments, general market conditions and industry or sector specific factors.

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In determining whether fixed maturities are other than temporarily impaired, prior to April 1, 2009, the Corporation considered many factors including its intent and ability to hold a security for a period of time sufficient to allow for the recovery of the security s cost. When an impairment was deemed other than temporary, the security was written down to fair value and the entire writedown was included in net income as a realized investment loss. Effective April 1, 2009, the Corporation adopted new guidance which modified the guidance on the recognition and presentation of other-than-temporary impairments of debt securities. Under this guidance, the Corporation is required to recognize an other-than-temporary impairment loss when it concludes it has the intent to sell or it is more likely than not it will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value or it is likely it will not recover the entire amortized cost value of an impaired debt security. Also under this guidance, if the Corporation has the intent to sell or it is more likely than not that the Corporation will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value, the security is written down to fair value and the entire amount of the writedown is included in net income as a realized investment loss. For all other impaired fixed maturities, the impairment loss is separated into the amount representing the credit loss and the amount representing the loss related to all other factors. The amount of the impairment loss that represents the credit loss is included in net income as a realized investment loss and the amount of the impairment loss that relates to all other factors is included in other comprehensive income.

For fixed maturities, the split between the amount of other-than-temporary impairment losses that represents credit losses and the amount that relates to all other factors is principally based on assumptions regarding the amount and timing of projected cash flows. For fixed maturities other than mortgage-backed securities, cash flow estimates are based on assumptions regarding the probability of default and estimates regarding the timing and amount of recoveries associated with a default. For mortgage-backed securities, cash flow estimates are based on assumptions regarding future prepayment rates, default rates, loss severity and timing of recoveries. The Corporation has developed the estimates of projected cash flows using information based on historical market data, industry analyst reports and forecasts and other data relevant to the collectability of a security.

In determining whether equity securities are other than temporarily impaired, the Corporation considers its intent and ability to hold a security for a period of time sufficient to allow for the recovery of cost. If the decline in the fair value of an equity security is deemed to be other than temporary, the security is written down to fair value and the amount of the writedown is included in net income as a realized investment loss.

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The following table summarizes, for all investment securities in an unrealized loss position at March 31, 2010, the aggregate fair value and gross unrealized depreciation, including unrealized other-than-temporary impairment losses, by investment category and length of time that individual securities have continuously been in an unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair	Gross Unrealized