CHUBB CORP
Form 10-K
March 11, 2004

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, 2003

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, P.O. Box 1615 **Warren, New Jersey**	**07061-1615**
(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
Common Stock Purchase Warrants[1]	New York Stock Exchange
4% Senior Notes Due 2007[1]	New York Stock Exchange
Common Stock Purchase Contracts[2]	New York Stock Exchange
2.25% Senior Notes due 2008[2]	New York Stock Exchange

1 Offered together in the form of 7% Equity Units.
2 Offered together in the form of 7% Equity Units.

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

None
(Title of class)

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 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 an accelerated filer (as defined in Rule 12b-2 of the Act) Yes ü. No .

The aggregate market value of common stock held by non-affiliates of the registrant was $11,203,724,340 as of June 30, 2003, computed on the basis of the closing sale price of the common stock on that date.

188,701,756
Number of shares of common stock outstanding as of February 27, 2004

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2004 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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PART I.

Item 1. *Business*

General

The Chubb Corporation (Chubb) was incorporated as a business corporation under the laws of the State of New Jersey in June 1967. Chubb and its subsidiaries are referred to collectively as the Corporation. Chubb is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the P&C Group). Since 1882, the P&C Group has provided property and casualty insurance to businesses and individuals around the world. According to A.M. Best, the P&C Group is the 12th largest U.S. property and casualty insurance group based on 2002 net written premiums.

Chubb Financial Solutions (CFS) was organized in 2000 to develop and provide customized risk-financing services through both the capital and insurance markets. CFS s non-insurance business was primarily structured credit derivatives, principally as a counterparty in portfolio credit default swaps. In the second quarter of 2003, the Corporation implemented a plan to exit the credit derivatives business and is running off the financial products portfolio of CFS. Additional information related to CFS s operations is presented in the Chubb Financial Solutions section of Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

At December 31, 2003, the Corporation had total assets of $38.4 billion and shareholders equity of $8.5 billion. Revenues, income before income tax and assets for each operating segment for the three years ended December 31, 2003 are included in Note (15) of the Notes to Consolidated Financial Statements. The Corporation employed approximately 12,300 persons worldwide on December 31, 2003.

The Corporation s principal executive offices are located at 15 Mountain View Road, Warren, New Jersey 07061-1615, 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) or 15(d) of the Securities Exchange Act 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. The Corporation 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 customer 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 executive protection and professional liability products for privately and publicly owned companies, financial institutions, professional firms and healthcare organizations. Chubb Specialty Insurance also includes our surety and accident businesses, as well as our reinsurance assumed business produced by Chubb Re. Chubb Personal Insurance offers products for individuals with fine homes and possessions who require more coverage choices and higher limits than standard insurance policies.

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, 2003 are included in Note (15) 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), Executive Risk Specialty Insurance Company (Executive Risk Specialty) and Quadrant Indemnity Company (Quadrant) in the United States, as well as Chubb Atlantic Indemnity Ltd. (a Bermuda company), Chubb Insurance Company of Canada, Chubb Insurance Company of Europe, S.A., Chubb Insurance Company of Australia Limited, Chubb Argentina de Seguros, S.A. and Chubb do Brasil Companhia de Seguros.

Federal is the manager of Vigilant, Pacific Indemnity, Great Northern, Chubb National, Chubb Indemnity, Chubb New Jersey, Executive Risk Indemnity, Executive Risk Specialty and Quadrant. 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)		
2001	$ 7,534.3	$ 525.2	$1,098.0	$ 6,961.5
2002	9,799.3	806.1	1,558.1	9,047.3
2003	11,337.7	1,266.0	1,535.8	11,067.9

(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 Results Underwriting Results section of 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 2003, approximately 82% 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 four states accounting for the largest amounts of direct premiums written were New York with 12%, California with 10%, Texas with 6% and New Jersey with 5%. No other state accounted for 5% of such premiums. Approximately 10% of the P&C Group s direct premiums written was produced in Europe and 4% 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. This ratio is the sum of the ratio of incurred losses and related loss adjustment expenses to premiums earned (loss ratio) plus the ratio of 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 operations and investments.

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 Results Underwriting Results 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, 2003 and 2002, such ratio for the P&C Group was 1.74 and 2.00, respectively.

Producing and Servicing of Business

In the United States and Canada, the P&C Group is represented by approximately 5,000 independent agencies and accepts business on a regular basis from an estimated 1,000 insurance brokers. In most instances, these agencies and brokers also represent 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 seven zone offices and branch and service offices throughout the United States and Canada.

The P&C Group s overseas business is developed by its foreign agencies and brokers through local branch offices of the P&C Group and by its United States and Canadian agencies and brokers. In conducting its overseas business, the P&C Group reduces the risks relating to currency fluctuations by maintaining investments in those foreign currencies in which the P&C Group has loss reserves and other liabilities. Such investments have characteristics similar to liabilities in those currencies. 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

In accordance with the normal practice of the insurance industry, the P&C Group assumes and cedes reinsurance with other insurers or reinsurers. 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 hazards of potential catastrophic events.

Ceded reinsurance contracts do not relieve the P&C Group of its primary obligation to the policyholders. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance contracts. The collectibility of reinsurance is subject to the solvency of the reinsurers and other factors. The P&C Group is selective in regard to its reinsurers, placing reinsurance with only those reinsurers with strong balance sheets and superior underwriting ability. The P&C Group monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have not been significant.

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 with other insurers or reinsurers which 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 which vary by line of business and type of coverage. Retention limits are continually reviewed and are revised periodically as the P&C Group s capacity to underwrite risks changes.

For a further discussion of the cost and availability of reinsurance, see the Property and Casualty Insurance Results Underwriting Results section of MD&A.

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, subjective judgments as to our ultimate exposure to losses are an integral component of our loss reserving process.

The P&C Group s estimates of losses for reported claims are established judgmentally on an individual case basis. Such estimates are based on the P&C Group s particular experience with the type of risk involved and its knowledge of the circumstances surrounding each individual claim. These estimates are reviewed on a regular basis or as additional facts become known. The reliability of the estimation process is monitored through comparison with ultimate settlements.

The P&C Group s estimates of losses for unreported claims are principally derived from analyses of historical patterns of the development of paid and reported losses by accident year for each class of business. This 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. For certain classes of business where anticipated loss experience is less predictable because of the small number of claims and/or erratic claim severity patterns, the P&C Group s estimates are based on both expected and actual reported losses. Salvage and subrogation estimates are developed from patterns of actual recoveries.

The P&C Group s estimates of unpaid loss adjustment expenses are based on analyses of the relationship of projected ultimate loss adjustment expenses to projected ultimate losses for each class of business. Claim staff has discretion to override these expense formulas where judgment indicates such action is appropriate.

The P&C Group s estimates of reinsurance recoverable related to reported and unreported losses and loss adjustment expenses represent the portion of such liabilities that will be recovered from reinsurers. Amounts recoverable from reinsurers are recognized as assets at the same time and in a manner consistent with the liabilities associated with the reinsured policies.

Estimates are continually reviewed and updated. Any changes in estimates are reflected in operating results in the period in which the estimates are changed.

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.

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 Results Loss Reserves section of MD&A.

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 2003 was approximately 2% lower than the number at year-end 2002. This compares with a 7% increase in new arising claims during 2003.

The significant uncertainties relating to asbestos and toxic waste claims on insurance policies written many years ago are discussed in the Property and Casualty Insurance Results Loss Reserves section of MD&A.

One master claim is generally established for all similar asbestos claims and lawsuits involving an insured. A counted claim can have from one to thousands of claimants. Generally, a toxic waste claim is established for each lawsuit, or alleged equivalent, against an insured where potential liability has been determined to exist under a policy issued by a member of the P&C Group. Management does not believe the following claim count data is meaningful for analysis purposes.

There were approximately 800 asbestos claims outstanding at December 31, 2003 compared with 900 asbestos claims outstanding at December 31, 2002 and 1,000 asbestos claims outstanding at December 31, 2001. In 2003, approximately 200 claims were opened and 300 claims were closed. In 2002, approximately 300 claims were opened and 400 claims were closed. In 2001, approximately 200 claims were opened and 300 claims were closed. Indemnity payments per claim have varied over time due primarily to variations in insureds, policy terms and types of claims. Management cannot predict whether indemnity payments per claim will increase, decrease or remain the same.

There were approximately 600 toxic waste claims outstanding at December 31, 2003 and 2002, compared with 650 toxic waste claims outstanding at December 31, 2001. Approximately 300 claims were opened in 2003 and 250 claims were opened in both 2002 and 2001. There were approximately 300 claims closed in both 2003 and 2002, and 250 claims closed in 2001. Because payments to date for toxic waste claims have varied from claim to claim, management cannot determine whether past claims experience will prove to be representative of future claims experience.

The table on page 9 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 2003. The Corporation acquired Executive Risk Inc. in 1999. The amounts in the table for the years ended December 31, 1993 through 1998 do not include Executive Risk s unpaid losses and loss adjustment expenses.

The top line of the table shows the estimated net liability for unpaid losses and loss adjustment expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all prior years that are 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 claims for each individual year. The increase or decrease is reflected in operating results in the year 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, 2003. 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 2003 relating to losses incurred prior to December 31, 1993 would be included in the cumulative deficiency amount for each year in the period 1993 through 2002. Yet, the deficiency would be reflected in operating results only in 2003. 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 Results Loss Reserves section of MD&A.

In each of the years 1993 through 2002, there was 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 number of potential claims estimated; (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. In addition to the unfavorable development related to asbestos and toxic waste claims in 2001 and 2002, there was unfavorable development in the executive protection classes, principally directors and officers liability and errors and omissions liability, due to adverse loss trends related to the corporate failures and allegations of management misconduct and accounting irregularities in recent years. In the years 1993 through 2000, the unfavorable development related to asbestos and toxic waste claims was offset in varying degrees by favorable loss experience for certain executive protection coverages, particularly directors and officers liability and fiduciary liability, and commercial excess liability.

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 9 shows the cumulative amount paid with respect to the reestimated liability as of the end of each succeeding year. For example, in the 1993 column, as of December 31, 2003 the P&C Group had paid $5,037.8 million of the currently estimated $6,594.1 million of losses and loss adjustment expenses that were unpaid at the end of 1993; thus, an estimated $1,556.3 million of losses incurred through 1993 remain unpaid as of December 31, 2003, approximately 80% of which relates to asbestos and toxic waste claims.

The lower section of the table on page 9 shows the gross liability, reinsurance recoverable and net liability recorded at each year-end and the reestimation of these amounts as of December 31, 2003.

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	
	2003	**2002**
	(in millions)	
U.S. subsidiaries	$12,477.4	$11,093.3
Foreign subsidiaries	2,043.8	1,548.3
	$14,521.2	$12,641.6

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). There is no difference between the liability for unpaid losses and loss expenses reported in the statutory basis financial statements of the U.S. members of the P&C Group and such liability reported on a GAAP basis in the consolidated financial statements.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

	December 31										
Year Ended	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
						(in millions)					
Net Liability for Unpaid Losses and Loss Adjustment Expenses	$6,450.0	$6,932.9	$7,614.5	$7,755.9	$8,564.6	$ 9,049.9	$9,748.8	$10,051.3	$11,009.7	$12,641.6	$14,521.2
Net Liability Reestimated as of:											
One year later	6,420.3	6,897.1	7,571.7	7,690.6	8,346.2	8,854.8	9,518.8	9,855.8	11,799.4	13,038.9	
Two years later	6,363.1	6,874.5	7,520.9	7,419.6	7,899.8	8,516.5	9,094.5	10,550.7	12,143.3		
Three years later	6,380.4	6,829.8	7,256.8	6,986.2	7,564.8	8,058.0	9,652.9	10,761.5			
Four years later	6,338.1	6,605.4	6,901.5	6,719.4	7,145.0	8,527.1	9,739.7				
Five years later	6,150.1	6,352.2	6,692.1	6,409.4	7,570.7	8,655.7					
Six years later	5,904.9	6,191.4	6,476.7	6,886.9	7,693.7						
Seven years later	5,751.4	6,044.5	7,035.9	7,051.5							
Eight years later	5,692.2	6,655.4	7,253.8								
Nine years later	6,346.4	6,870.1									
Ten years later	6,594.1										
Total Cumulative Net Deficiency (Redundancy)	144.1	(62.8)	(360.7)	(704.4)	(870.9)	(394.2)	(9.1)	710.2	1,133.6	397.3	
Cumulative Net Deficiency Related to Asbestos and Toxic Waste Claims (Included in Above Total)	1,770.5	1,655.3	1,473.5	1,322.8	1,197.6	1,129.8	1,083.0	1,052.0	991.1	250.0	
Cumulative Amount of Net Liability Paid as of:											
One year later	1,272.0	1,250.7	1,889.4	1,418.3	1,797.7	2,520.1	2,482.7	2,793.7	3,084.5	3,398.8	
Two years later	1,985.7	2,550.7	2,678.2	2,488.2	3,444.2	3,707.8	4,079.3	4,668.7	5,354.1		
Three years later	3,015.8	3,073.7	3,438.8	3,757.0	4,160.6	4,653.1	5,285.8	5,981.4			
Four years later	3,264.5	3,589.8	4,457.6	4,194.8	4,710.9	5,351.1	6,138.9				
Five years later	3,624.2	4,444.4	4,755.4	4,555.6	5,132.9	5,894.3					
Six years later	4,367.9	4,683.3	5,010.6	4,857.2	5,481.1						
Seven years later	4,545.5	4,896.6	5,251.0	5,137.4							

Eight years later	4,738.2	5,068.1	5,480.9			
Nine years later	4,883.6	5,234.5				
Ten years later	5,037.8					
Gross Liability, End of Year	$8,235.4	$8,913.2	$9,588.2	$9,523.7	$9,772.5	$10,356.5