

CHUBB CORP
Form 10-Q
August 05, 2011

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

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-8661

THE CHUBB CORPORATION

(Exact name of registrant as specified in its charter)

NEW JERSEY

13-2595722

(State or other jurisdiction of
incorporation or organization)

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

15 MOUNTAIN VIEW ROAD, WARREN, NEW
JERSEY

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 NO

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 NO

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

Large accelerated
filer

Accelerated filer

Non-accelerated filer
(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

The number of shares of common stock outstanding as of June 30, 2011 was 285,924,718.

THE CHUBB CORPORATION
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Part I. FINANCIAL INFORMATION

Item 1 Financial Statements

THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
PERIODS ENDED JUNE 30

| | Second Quarter | | Six Months | |
|--|----------------------|----------|------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| | <i>(in millions)</i> | | | |
| Revenues | | | | |
| Premiums Earned | \$ 2,913 | \$ 2,799 | \$ 5,767 | \$ 5,581 |
| Investment Income | 416 | 426 | 820 | 836 |
| Other Revenues | 2 | 3 | 4 | 7 |
| Realized Investment Gains (Losses), Net | | | | |
| Total Other-Than-Temporary Impairment Losses on Investments | (14) | (6) | (16) | (6) |
| Other-Than-Temporary Impairment Losses on Investments Recognized in Other Comprehensive Income | | (2) | | (3) |
| Other Realized Investment Gains, Net | 83 | 98 | 245 | 226 |
| Total Realized Investment Gains, Net | 69 | 90 | 229 | 217 |
| | | | | |
| Total Revenues | 3,400 | 3,318 | 6,820 | 6,641 |
| | | | | |
| Losses and Expenses | | | | |
| Losses and Loss Expenses | 1,847 | 1,660 | 3,612 | 3,390 |
| Amortization of Deferred Policy Acquisition Costs | 816 | 765 | 1,591 | 1,505 |
| Other Insurance Operating Costs and Expenses | 104 | 107 | 211 | 222 |
| Investment Expenses | 12 | 8 | 23 | 18 |
| Other Expenses | 3 | 4 | 5 | 8 |
| Corporate Expenses | 72 | 72 | 147 | 148 |
| Total Losses and Expenses | 2,854 | 2,616 | 5,589 | 5,291 |
| | | | | |
| Income Before Federal and Foreign Income Tax | 546 | 702 | 1,231 | 1,350 |
| Federal and Foreign Income Tax | 127 | 184 | 303 | 368 |
| | | | | |
| Net Income | \$ 419 | \$ 518 | \$ 928 | \$ 982 |

Net Income Per Share

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| | | | | |
|---|---------|---------|---------|---------|
| Basic | \$ 1.43 | \$ 1.60 | \$ 3.14 | \$ 2.99 |
| Diluted | 1.42 | 1.59 | 3.12 | 2.97 |
| Dividends Declared Per Share | .39 | .37 | .78 | .74 |
| See Notes to Consolidated Financial Statements. | | | | |

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THE CHUBB CORPORATION
CONSOLIDATED BALANCE SHEETS

| | June 30, 2011 | Dec. 31, 2010 |
|--|----------------------|------------------|
| | <i>(in millions)</i> | |
| Assets | | |
| Invested Assets | | |
| Short Term Investments | \$ 1,690 | \$ 1,905 |
| Fixed Maturities | | |
| Tax Exempt (cost \$19,216 and \$19,072) | 20,164 | 19,774 |
| Taxable (cost \$16,440 and \$15,989) | 17,203 | 16,745 |
| Equity Securities (cost \$1,292 and \$1,285) | 1,663 | 1,550 |
| Other Invested Assets | 2,337 | 2,239 |
| | | |
| TOTAL INVESTED ASSETS | 43,057 | 42,213 |
| | | |
| Cash | 71 | 70 |
| Accrued Investment Income | 458 | 447 |
| Premiums Receivable | 2,227 | 2,098 |
| Reinsurance Recoverable on Unpaid Losses and Loss Expenses | 1,778 | 1,817 |
| Prepaid Reinsurance Premiums | 328 | 325 |
| Deferred Policy Acquisition Costs | 1,634 | 1,562 |
| Deferred Income Tax | | 98 |
| Goodwill | 467 | 467 |
| Other Assets | 1,422 | 1,152 |
| | | |
| TOTAL ASSETS | \$ 51,442 | \$ 50,249 |
| | | |
| Liabilities | | |
| | | |
| Unpaid Losses and Loss Expenses | \$ 23,269 | \$ 22,718 |
| Unearned Premiums | 6,399 | 6,189 |
| Long Term Debt | 3,975 | 3,975 |
| Dividend Payable to Shareholders | 113 | 112 |
| Deferred Income Tax | 106 | |
| Accrued Expenses and Other Liabilities | 1,789 | 1,725 |
| | | |
| TOTAL LIABILITIES | 35,651 | 34,719 |
| | | |
| Contingent Liabilities (Note 6) | | |

Shareholders' Equity

| | | |
|--|-----------|-----------|
| Common Stock - \$1 Par Value; 371,980,460 Shares | 372 | 372 |
| Paid-In Surplus | 157 | 208 |
| Retained Earnings | 18,643 | 17,943 |
| Accumulated Other Comprehensive Income | 1,130 | 790 |
| Treasury Stock, at Cost - 86,055,742 and 74,707,547 Shares | (4,511) | (3,783) |
| | | |
| TOTAL SHAREHOLDERS' EQUITY | 15,791 | 15,530 |
| | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 51,442 | \$ 50,249 |

See Notes to Consolidated Financial Statements.

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

| | Second Quarter | | Six Months | |
|---|----------------------|--------|------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| | <i>(in millions)</i> | | | |
| Net Income | \$ 419 | \$ 518 | \$ 928 | \$ 982 |
| Other Comprehensive Income (Loss), Net of Tax | | | | |
| Change in Unrealized Appreciation of Investments | 290 | 56 | 232 | 163 |
| Change in Unrealized Other-Than-Temporary Impairment | | | | |
| Losses on Investments | (1) | 1 | 1 | 4 |
| Foreign Currency Translation Gains (Losses) | 24 | (66) | 85 | (94) |
| Amortization of Net Actuarial Loss and Prior Service Cost | | | | |
| Included in Net Postretirement Benefit Costs | 11 | 9 | 22 | 19 |
| | 324 | | 340 | 92 |
| Comprehensive Income | \$ 743 | \$ 518 | \$ 1,268 | \$ 1,074 |

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30

| | 2011 | 2010 |
|--|----------------------|-------------|
| | <i>(in millions)</i> | |
| Cash Flows from Operating Activities | | |
| Net Income | \$ 928 | \$ 982 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities | | |
| Increase in Unpaid Losses and Loss Expenses, Net | 402 | 272 |
| Increase in Unearned Premiums, Net | 147 | 70 |
| Increase in Premiums Receivable | (129) | (51) |
| Change in Income Tax Payable or Recoverable | (174) | 19 |
| Amortization of Premiums and Discounts on Fixed Maturities | 90 | 89 |
| Depreciation | 29 | 31 |
| Realized Investment Gains, Net | (229) | (217) |
| Other, Net | (216) | (196) |
| Net Cash Provided by Operating Activities | 848 | 999 |
| Cash Flows from Investing Activities | | |
| Proceeds from Fixed Maturities | | |
| Sales | 832 | 1,593 |
| Maturities, Calls and Redemptions | 1,445 | 1,215 |
| Proceeds from Sales of Equity Securities | 66 | 42 |
| Purchases of Fixed Maturities | (2,644) | (2,457) |
| Purchases of Equity Securities | (61) | (52) |
| Investments in Other Invested Assets, Net | 128 | 1 |
| Decrease (Increase) in Short Term Investments, Net | 221 | (275) |
| Increase in Net Payable from Security Transactions Not Settled | 200 | 118 |
| Purchases of Property and Equipment, Net | (19) | (25) |
| Net Cash Provided by Investing Activities | 168 | 160 |
| Cash Flows from Financing Activities | | |
| Increase in Funds Held Under Deposit Contracts | 11 | 24 |
| Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans | 56 | 31 |
| Repurchase of Shares | (855) | (976) |
| Dividends Paid to Shareholders | (227) | (239) |
| Net Cash Used in Financing Activities | (1,015) | (1,160) |

| | | |
|---------------------------------|-------|-------|
| Net Increase (Decrease) in Cash | 1 | (1) |
| Cash at Beginning of Year | 70 | 51 |
| Cash at End of Period | \$ 71 | \$ 50 |

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.

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, 2010.

2) Accounting Pronouncements Not Yet Adopted

(a) In June 2011, the Financial Accounting Standards Board (FASB) issued new guidance related to the presentation of comprehensive income. The guidance provides that an entity has the option to present the components of net income and the components of other comprehensive income either in a single statement of comprehensive income or in two separate, but consecutive, statements. The guidance does not change whether items are reported in net income or in other comprehensive income and does not change the guidance on whether or when items of other comprehensive income are reclassified to net income. This guidance is to be applied retrospectively and is effective for the Corporation for the year beginning January 1, 2012. The adoption of this guidance will not have an effect on the Corporation's financial position or results of operations. The Corporation is in the process of evaluating the presentation options permitted by the guidance.

(b) In October 2010, the FASB issued new guidance related to the accounting for costs associated with acquiring or renewing insurance contracts. The guidance identifies those costs relating to the successful acquisition of new or renewal insurance contracts that should be capitalized. This guidance is effective for the Corporation for the year beginning January 1, 2012 and may be applied prospectively or retrospectively. The Corporation is continuing to assess the effect that the implementation of the new guidance will have on its financial position and results of operations. The amount of acquisition costs the Corporation will defer under the new guidance will be less than the amount deferred under the Corporation's current accounting practice. If prospective application is elected, net income in the year of adoption would be reduced as the amount of acquisition costs eligible for deferral under the new guidance would be lower. Amortization of the balance of deferred policy acquisition costs as of the date of adoption would continue over the period in which the related premiums are earned. If retrospective application is elected, deferred policy acquisition costs and related deferred taxes would be reduced as of the beginning of the earliest period presented in the financial statements with a corresponding reduction to shareholders' equity.

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3) Invested Assets

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

| | Amortized Cost | June 30, 2011 | | Fair Value |
|--|-------------------|-------------------------------------|-------------------------------------|---------------|
| | | Gross Unrealized Appreciation | Gross Unrealized Depreciation | |
| | | <i>(in millions)</i> | | |
| Fixed maturities | | | | |
| Tax exempt | \$ 19,216 | \$ 1,008 | \$ 60 | \$ 20,164 |
| Taxable | | | | |
| U.S. Government and government agency and authority obligations | 803 | 36 | 7 | 832 |
| Corporate bonds | 6,453 | 419 | 17 | 6,855 |
| Foreign government and government agency obligations | 6,312 | 222 | 12 | 6,522 |
| Residential mortgage-backed securities | 1,061 | 53 | 6 | 1,108 |
| Commercial mortgage-backed securities | 1,811 | 76 | 1 | 1,886 |
| | 16,440 | 806 | 43 | 17,203 |
| Total fixed maturities | \$ 35,656 | \$ 1,814 | \$ 103 | \$ 37,367 |
| Equity securities | \$ 1,292 | \$ 421 | \$ 50 | \$ 1,663 |

| | Amortized Cost | December 31, 2010 | | Fair Value |
|--|-------------------|-------------------------------------|-------------------------------------|---------------|
| | | Gross Unrealized Appreciation | Gross Unrealized Depreciation | |
| | | <i>(in millions)</i> | | |
| Fixed maturities | | | | |
| Tax exempt | \$ 19,072 | \$ 824 | \$ 122 | \$ 19,774 |
| Taxable | | | | |
| U.S. Government and government agency and authority obligations | 807 | 31 | 9 | 829 |
| Corporate bonds | 6,258 | 411 | 21 | 6,648 |
| Foreign government and government agency obligations | 5,943 | 231 | 13 | 6,161 |
| Residential mortgage-backed securities | 1,293 | 63 | 6 | 1,350 |
| Commercial mortgage-backed securities | 1,688 | 70 | 1 | 1,757 |
| | 15,989 | 806 | 50 | 16,745 |

| | | | | |
|------------------------|-----------|----------|--------|-----------|
| Total fixed maturities | \$ 35,061 | \$ 1,630 | \$ 172 | \$ 36,519 |
| Equity securities | \$ 1,285 | \$ 340 | \$ 75 | \$ 1,550 |

At June 30, 2011 and December 31, 2010, the gross unrealized depreciation of fixed maturities included \$3 million and \$4 million, respectively, of unrealized other-than-temporary impairment losses recognized in accumulated other comprehensive income.

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The amortized cost and fair value of fixed maturities at June 30, 2011 by contractual maturity were as follows:

| | Amortized Cost | Fair Value |
|--|----------------------|---------------|
| | <i>(in millions)</i> | |
| Due in one year or less | \$ 1,991 | \$ 2,023 |
| Due after one year through five years | 11,536 | 12,102 |
| Due after five years through ten years | 11,870 | 12,647 |
| Due after ten years | 7,387 | 7,601 |
| | 32,784 | 34,373 |
| Residential mortgage-backed securities | 1,061 | 1,108 |
| Commercial mortgage-backed securities | 1,811 | 1,886 |
| | \$ 35,656 | \$ 37,367 |

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.

The Corporation is involved in the normal course of business with variable interest entities (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.

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

| | June 30 2011 | December 31 2010 |
|-------------------------------|----------------------|------------------------|
| | <i>(in millions)</i> | |
| Fixed maturities | | |
| Gross unrealized appreciation | \$ 1,814 | \$ 1,630 |
| Gr | | |