CHUBB CORP
Form 10-K
March 15, 2005

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, 2004
	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 $12,978,901,955 as of June 30, 2004, computed on the basis of the closing sale price of the common stock on that date.

194,166,186

Number of shares of common stock outstanding as of February 28, 2005

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2005 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 10th largest U.S. property and casualty insurance group based on 2003 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, 2004, the Corporation had total assets of $44.3 billion and shareholders equity of $10.1 billion. Revenues, income before income tax and assets for each operating segment for the three years ended December 31, 2004 are included in Note (13) of the Notes to Consolidated Financial Statements. The Corporation employed approximately 11,800 persons worldwide on December 31, 2004.

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, 2004 are included in Note (13) 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)		
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
2004	12,001.3	1,397.7	1,346.1	12,052.9

(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 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 2004, approximately 80% 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 5% and New Jersey with 5%. No other state accounted for 5% of such premiums. Approximately 11% 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 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 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 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, 2004 and 2003, such ratio for the P&C Group was 1.53 and 1.74, 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 catastrophic events.

Ceded reinsurance contracts do not relieve the P&C Group of the primary obligation to its 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 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 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 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, informed 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 the gross liabilities that will be recovered from reinsurers. Amounts recoverable from reinsurers are recognized as assets at the same time as and in a manner consistent with the gross losses 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 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 2004 was approximately 7% lower than the number at year-end 2003. This compares with a 5% decrease in new arising claims during 2004.

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 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 850 asbestos claims outstanding at December 31, 2004 compared with 800 asbestos claims outstanding at December 31, 2003 and 900 asbestos claims outstanding at December 31, 2002. In 2004, approximately 200 claims were opened and 150 claims were closed. In 2003, approximately 200 claims were opened and 300 claims were closed. In 2002, approximately 300 claims were opened and 400 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 650 toxic waste claims outstanding at December 31, 2004, compared with 600 toxic waste claims outstanding at December 31, 2003 and 2002. Approximately 350 claims were opened in 2004, 300 claims were opened in 2003 and 250 claims were opened in 2002. There were approximately 300 claims closed in each year. 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 2004. The Corporation acquired Executive Risk Inc. in 1999. The amounts in the table for the years ended December 31, 1994 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 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 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, 2004. 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 2004 relating to losses incurred prior to December 31, 1994 would be included in the cumulative deficiency amount for each year in the period 1994 through 2003. Yet, the deficiency would be reflected in operating results only in 2004. 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.

The subsequent development of the net liability for unpaid losses and loss adjustment expenses as of year-ends 1994 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 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 the years 1994 through 1999, 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 for commercial excess liability. In 2001, 2002 and 2003, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the executive protection classes, principally directors and officers liability and errors and omissions liability, due to adverse loss trends related to corporate failures and allegations of management misconduct and accounting irregularities.

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 1994 column, as of December 31, 2004 the P&C Group had paid $5,471.5 million of the currently estimated $7,055.3 million of losses and loss adjustment expenses that were unpaid at the end of 1994; thus, an estimated $1,583.8 million of losses incurred through 1994 remain unpaid as of December 31, 2004, approximately 70% 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, 2004.

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	
	2004	**2003**
	(in millions)	
U.S. subsidiaries	$14,244.0	$12,477.4
Foreign subsidiaries	2,564.7	2,043.8
	$16,808.7	$14,521.2

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 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.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

	December 31										
Year Ended	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
						(in millions)					
Net Liability for Unpaid Losses and Loss Adjustment Expenses	$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	$16,808.7
Net Liability Reestimated as of:											
One year later	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	14,848.1	
Two years later	6,874.5	7,520.9	7,419.6	7,899.8	8,516.5	9,094.5	10,550.7	12,143.3	13,633.6		
Three years later	6,829.8	7,256.8	6,986.2	7,564.8	8,058.0	9,652.9	10,761.5	12,642.2			
Four years later	6,605.4	6,901.5	6,719.4	7,145.0	8,527.1	9,739.7	11,149.9				
Five years later	6,352.2	6,692.1	6,409.4	7,570.7	8,655.7	9,998.7					
Six years later	6,191.4	6,476.7	6,886.9	7,693.7	8,844.3						
Seven years later	6,044.5	7,035.9	7,051.5	7,821.8							
Eight years later	6,655.4	7,253.8	7,197.0								
Nine years later	6,870.1	7,422.9									
Ten years later	7,055.3										
Total Cumulative Net Deficiency (Redundancy)	122.4	(191.6)	(558.9)	(742.8)	(205.6)	249.9	1,098.6	1,632.5	992.0	326.9	
Cumulative Net Deficiency Related to Asbestos and Toxic Waste Claims (Included in Above Total)	1,730.3	1,548.5	1,397.8	1,272.6	1,204.8	1,158.0	1,127.0	1,066.1	325.0	75.0	
Cumulative Amount of Net Liability Paid as of:											
One year later	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	3,342.0	
Two years later	2,550.7	2,678.2	2,488.2	3,444.2	3,707.8	4,079.3	4,668.7	5,354.1	5,671.4		
Three years later	3,073.7	3,438.8	3,757.0	4,160.6	4,653.1	5,285.8	5,981.4	6,931.6			
Four years later	3,589.8	4,457.6	4,194.8	4,710.9	5,351.1	6,138.9	7,011.9				
	4,444.4	4,755.4	4,555.6	5,132.9	5,894.3	6,829.0					

Five years later											
Six years later	4,683.3	5,010.6	4,857.2	5,481.1	6,325.5						
Seven years later	4,896.6	5,251.0	5,137.4	5,806.6							
Eight years later	5,068.1	5,480.9	5,420.3								
Nine years later	5,234.5	5,735.4									
Ten years later	5,471.5										
Gross Liability, End of Year	$8,913.2	$9,588.2	$9,523.7	$9,772.5	$10,356.5	$11,434.7	$11,904.6	$15,514.9	$16,713.1	$17,947.8	$20,291.9
Reinsurance Recoverable, End of Year	1,980.3	1,973.7	1,767.8	1,207.9	1,306.6	1,685.9	1,853.3	4,505.2	4,071.5	3,426.6	3,483.2
Net Liability, End of Year	$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	$16,808.7
Reestimated Gross Liability	$9,227.5	$9,509.6	$8,986.3	$9,057.0	$10,264.2	$12,166.8	$13,633.2	$18,024.5	$18,323.8	$18,595.8	
Reestimated Reinsurance Recoverable	2,172.2	2,086.7	1,789.3	1,235.2	1,419.9	2,168.1	2,483.3	5,382.3	4,690.2	3,747.7	
Reestimated Net Liability	$7,055.3	$7,422.9	$7,197.0	$7,821.8	$ 8,844.3	$ 9,998.7	$11,149.9	$12,642.2	$13,633.6	$14,848.1	
Cumulative Gross Deficiency (Redundancy)	$ 314.3	$ (78.6)	$ (537.4)	$ (715.5)	$ (92.3)	$ 732.1	$ 1,728.6	$ 2,509.6	$ 1,610.7	$ 648.0	

The amounts for the years 1994 through 1998 do not include Executive Risk s unpaid losses and loss adjustment expenses. Executive Risk was acquired in 1999.

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 member of the P&C Group.

Additional information about the investment portfolio of the Corporation as well as the Corporation s 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	After Tax
	(in millions)			
2002	$17,665.9	$ 929.4	5.26%	4.31%
2003	22,168.5	1,058.4	4.77	3.80
2004	26,778.2	1,184.3	4.42	3.55

(a) Average of amounts for the years presented with fixed maturity securities at amortized cost and equity securities at market value.

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

Real Estate

Bellemead Development Corporation and its subsidiaries (Bellemead) are involved in commercial development activities primarily in New Jersey and residential development activities primarily in central Florida. Additional information related to the Corporation s real estate operations is included in the Corporate and Other Real Estate section of MD&A.

Regulation, Premium Rates and Competition

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.

The P&C Group is subject to regulation and supervision in the states in which it does business. In general, such regulation is for the protection of policyholders rather than shareholders. 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 to, among other things, 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 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 which may be undercapitalized and which 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, 2004, each member of the P&C Group had more than sufficient capital to meet the risk-based capital requirement.

Regulatory requirements applying to premium rates vary from state to state, but generally provide that rates not be excessive, inadequate or unfairly discriminatory. Rates for many lines of business, including automobile and homeowners insurance, are subject to prior regulatory approval in many states. However, in certain states, prior regulatory approval of rates is not required for most lines of insurance that the P&C Group underwrites. Ocean marine insurance rates are exempt from regulation.

Subject to 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, tax law and rate changes, and anticipated changes in the legal environment, both judicial and legislative. 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 such other matters as underwriting selectivity and expense control.

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 obtain their business at a lower cost through the use of salaried personnel rather than independent agents and brokers. Rates are not uniform for all insurers and vary according to the types of insurers and methods of operation. The P&C Group competes for business not only on the basis of price, but also on the basis of 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 customers and to reinforce with them the stability, expertise and added value the P&C Group provides.

There are approximately 3,100 property and casualty insurance companies in the United States operating independently or in groups and no single company or group is dominant. The relatively large size and underwriting capacity of the P&C Group provide opportunities not available to smaller companies.

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, members are assessed 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, a portion of these assessments is recovered through premium tax offsets and policyholder surcharges. In 2004, assessments to the members of the P&C Group amounted to $20 million. The amount of future assessments cannot be reasonably estimated.

State insurance regulation requires insurers 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 participation in Fair Plans or Windstorm Plans, which provide basic property coverages. 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.

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 insurance business include federal terrorism insurance, asbestos liability reform measures, tort reform, corporate governance including the expansion of the Securities and Exchange Commission s oversight authority over public companies and public accounting firms, 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.

Insurance companies 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; products liability and commercial general liability; extension and protection of employee benefits, including workers compensation and disability benefits; and credit scoring.

Another area of potential regulation and supervision of the P&C Group relates to the form of compensation paid to agents and brokers and the disclosure of such compensation. A number of states are considering new legislation or regulations in this area. The rules that would be imposed if these proposals were adopted range in nature from disclosure requirements to prohibition of certain forms of compensation to imposition of new duties on insurance agents and brokers in dealing with customers. These proposals are in the early stages of development and we cannot predict their potential impact on our business.

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.

Item 2. *Properties*

The executive offices of the Corporation are in Warren, New Jersey. The administrative offices of the P&C Group are in Warren and Whitehouse Station, New Jersey. The P&C Group maintains zone administrative and branch 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 and Branchburg, 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 in our Annual Report on Form 10-K for the year ended December 31, 2003, a purported class action complaint was filed in the United States District Court for the District of New Jersey on August 31, 2000 by the California Public Employees Retirement System. The complaint alleges that the Corporation and one current officer, Henry B. Schram, and two former officers, Dean R. O Hare and David B. Kelso, and Executive Risk Inc. and three of its former officers, Stephen J. Sills, Robert H. Kullas and Robert V. Deutsch, are liable for certain misrepresentations and omissions regarding, among other matters, disclosures made between April 27, 1999 and October 15, 1999 relating to the improved pricing in the Corporation s standard commercial insurance business and relating to the offer of the Corporation s securities to, and solicitation of votes from, the former shareholders of Executive Risk Inc. in connection with the Corporation s acquisition of Executive Risk Inc. The complaint seeks unspecified damages, a recision of the sale of Executive Risk Inc. to the Corporation or a new vote on the merger, and such other relief as the court may deem proper. On June 26, 2002, the United States District Court for the District of New Jersey entered an order dismissing in its entirety the previously reported purported class action complaint originally filed on August 31, 2000, as amended on September 4, 2001, and granting plaintiffs the right to file a Second Amended Complaint. On August 9, 2002, plaintiffs filed a Second Amended Complaint based on substantially the same allegations as previously reported. On August 11, 2003, the trial court dismissed the entire action with prejudice. On September 10, 2003, the plaintiffs filed a Notice of Appeal to the United States Court of Appeals for the Third Circuit. On December 30, 2004, the Court of Appeals affirmed the trial court s dismissal in all respects. On February 1, 2005, the plaintiffs filed with the Court of Appeals a petition for rehearing or for rehearing en banc. On February 14, 2005, the Court of Appeals denied this petition.

As previously disclosed, beginning in December 2002, Chubb Indemnity was named in a series of actions commenced by various plaintiffs against Chubb Indemnity and other non-affiliated insurers in the District Courts in Nueces, Travis and Bexar Counties in Texas. The plaintiffs generally allege that Chubb Indemnity and the other defendants breached duties to asbestos product end-users and conspired to conceal risks associated with asbestos exposure. The plaintiffs seek to impose liability on insurers directly. The plaintiffs seek unspecified monetary damages and punitive damages. Chubb Indemnity is vigorously defending all of these actions and has been successful in getting a number of them dismissed through summary judgment, special exceptions, or voluntarily.

Beginning in June 2003, Chubb Indemnity was also named in a number of similar cases in Cuyahoga, Mahoning, and Trumbull Counties in Ohio. The allegations and the damages sought in the Ohio actions are substantially similar to those in the Texas actions. Chubb Indemnity is vigorously defending all of these actions and has been successful in getting a number of them dismissed based on plaintiffs failure to state a claim. While plaintiffs have appealed the dismissals, we believe the appeals have no merit.

As previously disclosed, as part of ongoing investigations of market practices in the insurance industry, the Corporation has received subpoenas and other information requests from the Attorneys General and insurance departments of several states and from the Securities and Exchange Commission. Although the Corporation, as well as other non-affiliated insurers, have been specifically referred to in complaints filed by regulators in New York and Illinois against Aon Corporation and Marsh & McLennan Companies, Inc., it is our belief that the aforementioned inquiries into certain market practices are being made to a number of industry participants doing business in the relevant jurisdictions and that the Corporation has not been singled out in being asked to provide information in any investigation. We anticipate that officials from other jurisdictions will initiate investigations into similar matters and, because the Corporation s insurance subsidiaries operate throughout the United States and in many jurisdictions outside of the United States, the Corporation believes that it is likely that it will receive additional subpoenas and requests for information in connection with such inquiries. The Corporation will cooperate fully in such investigations.

Purported class actions arising out of the aforementioned investigations into market practices in the property and casualty insurance industry have been filed in a number of states. On February 16, 2005, the Corporation was named in one such suit in state court in Seminole County, Florida, where the plaintiffs allege that the Corporation and the other non-affiliated defendants violated the unfair and deceptive trade practices statutes and consumer protection statutes of all fifty states by, among other practices, using contingent commission agreements to steer business in its direction. The action seeks unspecified damages and attorneys fees. The Corporation believes it has substantial defenses to this lawsuit and intends to defend the action vigorously. It is reasonable to expect that, in the ordinary course of business, the Corporation may be involved in additional suits of this sort.

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 materially affect the consolidated financial position of the registrant.

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

No matters were submitted to a vote of the shareholders during the last quarter of the year ended December 31, 2004.

Executive Officers of the Registrant

	Age(a)	Year of Election(b)
John D. Finnegan, Chairman, President and Chief Executive Officer	56	2002
Robert C. Cox, Executive Vice President of Chubb & Son, a division of Federal	46	2003
John J. Degnan, Vice Chairman and Chief Administrative Officer	60	1994
Paul J. Krump, Executive Vice President of Chubb & Son, a division of Federal	45	2001
Michael J. Marchio, Executive Vice President of Chubb & Son, a division of Federal	57	2002
Andrew A. McElwee, Jr., Executive Vice President of Chubb & Son, a division of Federal	50	1997
Thomas F. Motamed, Vice Chairman and Chief Operating Officer	56	1997
Michael O Reilly, Vice Chairman and Chief Financial Officer	61	1976
Henry B. Schram, Senior Vice President	58	1985

(a) Ages listed above are as of April 26, 2005.

(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 Mr. Finnegan.

Before joining the Corporation in 2002, Mr. Finnegan was Executive Vice President of General Motors Corporation and Chairman, President and Chief Executive Officer of General Motors Acceptance Corporation (GMAC). Previously, he had also served as President, Vice President and Group Executive of GMAC.

PART II.

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

The common stock of the Corporation 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 2004 and 2003.

	2004			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Common stock prices				
High	$73.66	$72.07	$71.37	$77.00
Low	66.59	66.35	64.00	64.80
Dividends declared	.39	.39	.39	.39

	2003			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Common stock prices				
High	$57.60	$65.01	$69.09	$69.24
Low	42.45	44.81	59.24	62.99
Dividends declared	.36	.36	.36	.36

At February 28, 2005, there were approximately 5,500 common shareholders of record.

The declaration and payment of future dividends to the Corporation s shareholders will be at the discretion of the Corporation 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)(f) of the Notes to Consolidated Financial Statements.

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

	2004	2003	2002	2001	2000
	(in millions except for per share amounts)				
FOR THE YEAR					
Revenues					
Property and Casualty Insurance					
Premiums Earned	$11,635.7	$10,182.5	$ 8,085.3	$ 6,656.4	$ 6,145.9
Investment Income	1,207.0	1,082.9	952.2	914.7	890.8
Corporate and Other	116.3	44.2	68.9	182.1	163.3
Realized Investment Gains	218.2	84.4	33.9	.8	51.5
Total Revenues	$13,177.2	$11,394.0	$ 9,140.3	$ 7,754.0	$ 7,251.5
Income					
Property and Casualty Insurance					
Underwriting Income (Loss)(a)	$ 846.1(c)	$ 104.5	$ (625.9)(b)	$ (903.5)(b)(c)	$ (23.6)
Investment Income	1,184.3	1,058.4	929.4	902.6	879.2
Other Charges	(4.7)	(29.5)	(25.3)	(52.3)(c)	(52.2)
Property and Casualty Insurance Income (Loss)	2,025.7	1,133.4	278.2	(53.2)	803.4
Chubb Financial Solutions Non-Insurance Business	(17.2)	(126.9)	(69.8)	9.2	2.8
Corporate and Other	(158.5)	(157.3)	(73.9)	(22.8)	(6.7)
Realized Investment Gains	218.2	84.4	33.9	.8	51.5
Income (Loss) Before Income Tax	2,068.2	933.6	168.4	(66.0)	851.0
Federal and Foreign Income Tax (Credit)	519.8	124.8(d)	(54.5)(d)	(177.5)	136.4
Net Income	$ 1,548.4	$ 808.8	$ 222.9	$ 111.5	$ 714.6
Per Share					
Net Income	$ 8.01	$ 4.46	$ 1.29	$ .63	$ 4.01
Dividends Declared on Common Stock	1.56	1.44	1.40	1.36	1.32
AT DECEMBER 31					
Total Assets	$44,260.3	$38,360.6	$34,080.9	$29,415.5	$24,993.2
Long Term Debt	2,813.7	2,813.9	1,959.1	1,351.0	753.8
Total Shareholders Equity	10,126.4	8,522.0	6,825.7	6,491.8	6,948.2
Book Value Per Share	52.55	45.33	39.87	38.17	39.72

(a) Underwriting income has been reduced by net losses of $75.0 million ($48.8 million after-tax or $0.25 per share) in 2004, $250.0 million ($162.5 million after-tax or $0.90 per share) in 2003, $741.1 million ($481.7 million after-tax or $2.79 per share) in 2002, $60.9 million ($39.6 million after-tax or $0.22 per share) in 2001, and $31.0 million ($20.2 million after-tax or $0.11 per share) in 2000, related to asbestos and toxic waste claims.

(b) Underwriting income in 2001 has been reduced by net surety bond losses of $220.0 million ($143.0 million after-tax or $0.81 per share) related to the bankruptcy of Enron Corp. Underwriting income in 2002 has been increased by a reduction in net surety bond losses of $88.0 million ($57.2 million after-tax or $0.33 per share) resulting from the settlement of litigation related to Enron Corp.

(c) Underwriting income in 2001 has been reduced by net costs of $635.0 million and other charges included costs of $10.0 million (in the aggregate, $420.0 million after-tax or $2.39 per share) related to the September 11 attack. Underwriting income in 2004 has been increased by a reduction in net losses of $80.0 million ($52.0 million after-tax or $0.27 per share) related to the September 11 attack.

(d) Federal and foreign income tax in 2002 included a $40.0 million ($0.23 per share) charge to establish a tax valuation allowance from not being able to recognize, for accounting purposes, certain U.S. tax benefits related to European losses. Federal and foreign income tax in 2003 included a $40.0 million ($0.22 per share) credit for the reversal of the tax valuation allowance established in 2002.

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 Chubb Corporation and its subsidiaries as of December 31, 2004 compared with December 31, 2003 and the results of operations for each of the three years in the period ended December 31, 2004. This discussion should be read in conjunction with the consolidated financial statements and related notes and the other information contained in this report.

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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 estimates and assumptions related to economic, competitive, regulatory, judicial, legislative and other developments. These include statements relating to trends in, or representing management s beliefs about, our future strategies, operations and financial results, as well as other statements that include words such as anticipate, believe, estimate, expect, intend, may, plan, should, will, or other similar expressions. Forward statements are made based upon management s current expectations and beliefs concerning trends and future developments and their potential effects on us. These statements are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties, which include, among others, those discussed or identified from time to time in our public filings with the Securities and Exchange Commission and those associated with:

- the availability of primary and reinsurance coverage, including the implications relating to terrorism legislation and regulation;
- global political conditions and the occurrence of terrorist attacks, including any nuclear, biological, 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;
- our expectations with respect to cash flow projections and investment income and with respect to other income;
- the adequacy of loss reserves, including:
  - our expectations relating to reinsurance recoverables;
  - the effects of proposed asbestos liability legislation, including the impact of claims patterns arising from the possibility of legislation and those that may arise if legislation is not passed;
  - our estimates relating to ultimate asbestos liabilities and related reinsurance recoverables;
  - the impact from the bankruptcy protection sought by various asbestos producers and other related businesses;
  - the willingness of parties, including us, to settle disputes;
  - developments in judicial decisions or regulatory or legislative actions relating to coverage and liability for asbestos, toxic waste and mold claims;
  - development of new theories of liability;
- the impact of economic factors on companies on whose behalf we have issued surety bonds, and in particular, on those companies that have filed for bankruptcy or otherwise experienced deterioration in creditworthiness;

- the effects of disclosures by, and investigations of, public companies relating to possible accounting irregularities, practices in the financial services industry and other corporate governance issues, including:
  - 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;
  - legislative or regulatory proposals or changes, including the changes in law and regulation implemented under the Sarbanes-Oxley Act of 2002;
- the effects of investigations into market practices in the U.S. property and casualty insurance industry and any legal or regulatory proceedings arising therefrom;
- the occurrence of significant weather-related or other natural or human-made disasters, particularly in locations where we have concentrations of risk;
- any downgrade in our claims-paying, financial strength or other credit ratings;
- the ability of our subsidiaries to pay us dividends;
- general economic conditions including:
  - changes in interest rates, market credit spreads and the performance of the financial markets, generally and as they relate to credit risks assumed by our Chubb Financial Solutions unit in particular;
  - the effects of inflation;
  - changes in domestic and foreign laws, regulations and taxes;
  - changes in competition and pricing environments;
  - regional or general changes in asset valuations;
  - the inability to reinsure certain risks economically;
  - changes in the litigation environment;
  - general market conditions; and
- our ability to implement management s strategic plans and initiatives.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The consolidated financial statements include amounts based on informed estimates and judgments of management for those 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 adequacy of loss reserves and the recoverability of related reinsurance recoverables, the fair value of future obligations under financial products contracts and the recoverability of the carrying value of real estate properties. 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.

EXECUTIVE SUMMARY

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 the Corporation s shareholders or the investing public. This summary 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 $1,548 million in 2004 compared with $809 million in 2003 and $223 million in 2002.

Premium growth was 9% in 2004 and 22% in 2003. Rate increases were substantial in 2003. Rates continued to increase in 2004. However, as expected, the level of rate increases declined in each succeeding quarter.

Our combined loss and expense ratio was 92.3% in 2004 compared with 98.0% in 2003 and 106.7% in 2002. Our underwriting results were adversely affected by asbestos and toxic waste losses of $75 million, $250 million and $741 million in 2004, 2003 and 2002, respectively. Our combined loss and expense ratio, excluding the effects of asbestos and toxic waste losses, was 91.7% in 2004, 95.5% in 2003 and 97.5% in 2002.

During 2004, we experienced overall unfavorable development of $327 million on loss reserves established as of the previous year end, due primarily to unfavorable development in our executive protection classes, principally directors and officers liability and errors and omissions liability, resulting from adverse loss trends in accident years 1998 through 2002 related to corporate failures and allegations of management misconduct and accounting irregularities.

We reached an agreement in July 2004 with respect to gas forward purchase surety bonds issued for Aquila that resulted in Aquila providing us with collateral sufficient to cover our entire $500 million exposure under the bonds.

Property and casualty investment income after taxes increased by 13% in 2004 compared with growth of 11% in 2003.

The non-insurance business of Chubb Financial Solutions (CFS) produced a loss before taxes of $17 million in 2004 compared with losses of $127 million in 2003 and $70 million in 2002. As announced in April 2003, we are exiting this business and are running off the financial products portfolio of CFS. We reduced our aggregate notional exposure by $16 billion during 2004 to approximately $9 billion at year end.

A summary of our consolidated net income is as follows:

	Years Ended December 31		
	2004	**2003**	**2002**
		(in millions)	
Property and casualty insurance	$2,026	$1,133	$278
Chubb Financial Solutions non-insurance business	(17)	(127)	(70)
Corporate and other	(159)	(157)	(74)
Realized investment gains	218	85	34
Consolidated income before income tax	2,068	934	168
Federal and foreign income tax (credit)	520	125	(55)
Consolidated net income	$1,548	$ 809	$223

Net income included realized investment gains after tax of $146 million in 2004, $55 million in 2003 and $22 million in 2002. Decisions to sell securities are governed principally by considerations of

investment opportunities and tax consequences. As a result, realized gains and losses on the sale of investments may vary significantly from period to period.

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		
	2004	**2003**	**2002**
		(in millions)	
Underwriting			
Net premiums written	$12,053	$11,068	$9,047
Increase in unearned premiums	(417)	(885)	(962)
Premiums earned	11,636	10,183	8,085
Losses and loss expenses	7,321	6,867	6,065
Operating costs and expenses	3,516	3,356	2,823
Increase in deferred policy acquisition costs	(76)	(168)	(213)
Dividends to policyholders	29	23	36
Underwriting income (loss)	846	105	(626)
Investments			
Investment income before expenses	1,207	1,083	952
Investment expenses	23	25	23
Investment income	1,184	1,058	929
Other charges	(4)	(30)	(25)
Property and casualty income before tax	$ 2,026	$ 1,133	$ 278
Property and casualty investment income after tax	$ 949	$ 843	$ 761

The growth in property and casualty earnings in 2004 and 2003 was due primarily to a substantial improvement in underwriting results. Earnings in both years also benefited from a significant increase in investment income.

Our property and casualty underwriting results in 2004, 2003 and 2002 were adversely affected by incurred losses of $75 million, $250 million and $741 million, respectively, related to asbestos and toxic waste claims. Excluding the effects of asbestos and toxic waste losses, property and casualty earnings in 2004 were substantially higher than in 2003, which in turn were significantly higher than in 2002.

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

Underwriting Operations

We evaluate the underwriting results of our property and casualty insurance business in the aggregate and also for each of our three separate business units: personal insurance, commercial insurance and specialty insurance.

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 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 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 (loss) determined in accordance with GAAP is defined as premiums earned less losses and loss expenses incurred and GAAP underwriting expenses incurred.

Underwriting Results

Net Premiums Written

Net premiums written amounted to $12.1 billion in 2004, an increase of 9% over 2003. Net premiums written increased 22% in 2003 compared with 2002.

Over 80% of our premiums are written in the United States. Premium growth in the U.S. was 8% in 2004 and 22% in 2003. Non-U.S. premium growth in 2004 and 2003 benefited from the weakness of the U.S. dollar. On a reported basis, non-U.S. premiums grew 12% in 2004 and 25% in 2003. In local currencies, such growth was 4% and 15% in 2004 and 2003, respectively.

Net premiums written by business unit were as follows:

	Years Ended December 31				
		% Increase		% Increase	
	2004	2004 vs. 2003	2003	2003 vs. 2002	2002
	(dollars in millions)				
Personal insurance					
Automobile	$ 629	7%	$ 590	10%	$ 536
Homeowners	1,635	10	1,485	14	1,299
Other	566	10	515	8	479
Total personal	2,830	9	2,590	12	2,314
Commercial insurance					
Multiple peril	1,191	9	1,089	17	930
Casualty	1,552	14	1,362	22	1,119
Workers compensation	742	18	626	37	458
Property and marine	1,079	4	1,032	15	897
Total commercial	4,564	11	4,109	21	3,404
Specialty insurance					
Executive protection	2,201	4	2,114	24	1,703
Financial institutions	872	5	830	22	680
Other	1,586	11	1,425	51	946
Total specialty	4,659	7	4,369	31	3,329

Total	$12,053	9	$11,068	22	$9,047

Premium growth in 2003 and 2004 occurred in all segments of our business. In 2003, growth was particularly strong in the commercial and specialty classes due primarily to higher rates. In 2004, premium growth was largely the result of our retaining a higher percentage of our existing customers and attracting new customers. We continued to get rate increases on much of the business we wrote, although the size of such increases decelerated throughout the year. We expect that pricing pressure will continue in 2005. In this environment, we will continue to stress underwriting discipline.

Premium growth in our other specialty insurance business in both years was primarily in our reinsurance assumed business generated by Chubb Re.

Reinsurance

Our premiums written are net of amounts ceded to reinsurers who assume a portion of the risk under the insurance policies that are subject to the reinsurance. After several years of significant price increases, the cost of reinsurance in the marketplace has leveled off. However, reinsurance capacity for certain coverages, such as terrorism, continues to be limited and expensive.

Our 2003 reinsurance program was similar to that in 2002. Reinsurance costs increased in line with the higher premiums on the policies reinsured. We discontinued some lower limit treaties that we believed were no longer economical and increased our participation in certain layers of the treaties that we did renew. Our property reinsurance program renews each April. At the 2003 renewal, our property catastrophe treaty for events in the United States was modified to increase the reinsurance coverage at the top due to our increased exposure in certain catastrophe exposed areas.

Our reinsurance costs in 2004 were similar to those in 2003. We discontinued a casualty per risk treaty that responded primarily to excess liability exposures over $25 million. Underwriting actions we have taken in recent years have resulted in a reduction in the number of such exposures, which we believe made this treaty no longer economical. Our executive protection per risk treaty was renewed with coverage similar to the prior year. On our property per risk treaty, our retention remained at $15 million. Our property catastrophe treaty for events in the United States was modified to increase our initial retention and to increase the reinsurance coverage at the top. The program now provides coverage of approximately 88% of losses between $250 million and $1.25 billion, with additional coverage of 95% of losses between $1.25 billion and $1.5 billion in the northeastern part of the country. Our property reinsurance treaties generally contain terrorism exclusions.

We expect our reinsurance costs in 2005 to be less than those in 2004. In January 2005, we discontinued our executive protection per risk treaty. Underwriting actions we have taken in recent years have resulted in lower average limits on those large risks we write, which we believe made this treaty no longer economical. On our casualty clash treaty, which operates like a catastrophe treaty, we increased our retention from $50 million to $75 million. This treaty now provides $125 million of coverage in excess of $75 million per insured event. We did not renew a high excess surety per risk treaty as we believe the cost was not justified.

Profitability

Underwriting results were highly profitable in 2004 compared with modestly profitable results in 2003 and unprofitable results in 2002. The combined loss and expense ratio for our overall property and casualty insurance business was as follows:

	Years Ended December 31		
	2004	**2003**	**2002**
Loss ratio	63.1%	67.6%	75.4%
Expense ratio	29.2	30.4	31.3
Combined ratio	92.3%	98.0%	106.7%

Underwriting results in 2004, 2003 and 2002 were adversely affected by incurred losses of $75 million, $250 million and $741 million, respectively, related to asbestos and toxic waste claims. Asbestos and toxic waste losses are a significant component in understanding and assessing the financial performance of our property and casualty insurance business. However, notwithstanding the significance of asbestos and toxic waste losses, the magnitude of such losses, particularly in 2002, makes it difficult to assess the underlying trends in our property and casualty insurance business. Excluding the effects of asbestos and toxic waste losses, the combined loss and expense ratio was as follows:

	Years Ended December 31		
	2004	**2003**	**2002**
Loss ratio	62.5%	65.1%	66.2%
Expense ratio	29.2	30.4	31.3
Combined ratio	91.7%	95.5%	97.5%

Underwriting results, excluding the effects of asbestos and toxic waste losses, were substantially more profitable in 2004 than in 2003. Such results in 2003 were more profitable than in 2002.

The loss ratio, excluding the effects of asbestos and toxic waste losses, improved in 2003 and improved further in 2004, reflecting the favorable experience resulting from our disciplined underwriting standards in recent years. The improvement in 2003 was achieved despite higher catastrophe losses compared with the prior year. Losses from catastrophes were $350 million in 2004, which represented 3.0 percentage points of the loss ratio, compared with $294 million or 2.9 percentage points in 2003 and $98 million or 1.2 percentage points in 2002. The 2004 catastrophe loss amount excludes an $80 million reduction in loss reserves related to the September 11, 2001 attack, which reduced the loss ratio for the year by 0.7 of a percentage point. We did not have any recoveries from our catastrophe reinsurance program during the three year period since there were no individual catastrophes for which our losses exceeded the initial retention. Our initial retention level for each catastrophic event in the United States was increased from $150 million to $250 million during 2004. Our initial retention is generally $25 million outside the United States.

Our expense ratio improved in 2003 and again in 2004. The lower expense ratio in 2003 was due in large part to premiums written growing at a substantially higher rate than overhead expenses and was achieved despite an approximate 0.4 of a percentage point adverse impact of our decision to expense stock options for the first time. The improvement in 2004 was due to premiums written growing at a higher rate than overhead expenses, as we made continued progress in reducing our expense structure, and to lower contingent commission expense.

The decrease in contingent commissions in 2004 was due to two factors that reduced producer compensation. First, we did not pay contingent commissions in the fourth quarter to those large brokers who elected to terminate such arrangements before year end (see Producer

Compensation). Second, the slowdown of premium growth in the second half of the year resulted in lower compensation to other producers whose commissions, in part, are contingent on the volume of business placed with us.

Asbestos and Toxic Waste Losses. In October 2002, our actuaries and outside actuarial consultants completed their periodic ground-up exposure based analysis of our asbestos related exposures. Upon completion of the analysis and assessment of the results, we increased our net loss reserves by $625 million in the third quarter. In the fourth quarter of 2002, we reduced our previous estimate of reinsurance recoverable on potential asbestos claims, resulting in an additional increase in our net loss reserves of $75 million. Prior to the completion of the analysis, we had incurred asbestos and toxic waste net losses of $41 million in the first half of 2002.

In the fourth quarter of 2003, our actuaries and outside actuarial consultants performed a rigorous update of the 2002 ground-up analysis of our asbestos related exposures. Upon completion of the update, we increased our net loss reserves by $250 million.

In the fourth quarter of 2004, we increased our net loss reserves related to asbestos claims by $75 million based on an internal analysis that was confirmed by a rollforward review by our outside actuarial consultants. Our asbestos and toxic waste exposure is further discussed under Loss Reserves.

Review of Underwriting Results by Business Unit

Personal Insurance

Net premiums from personal insurance, which represent 23% of the premiums written by our property and casualty subsidiaries, increased by 9% in 2004 compared with a 12% increase in 2003. Growth in 2004 slowed somewhat from 2003 levels due to a slowing in the pace of rate increases. In both 2004 and 2003, premium growth occurred in all classes. The premium growth in our homeowners business was due to increased insurance-to-value and, to a lesser extent, higher rates. The in-force policy count for this class had minimal growth in both years.

Our personal insurance business produced more profitable underwriting results in 2004 compared with the results in 2003 and 2002. The combined loss and expense ratios for the classes of business within the personal insurance segment were as follows:

	Years Ended December 31		
	2004	2003	2002
Automobile	93.3%	98.9%	97.5%
Homeowners	96.3	104.4	104.5
Other	82.2	79.8	77.8
Total personal	92.8%	98.2%	97.2%

Homeowners results were profitable in 2004 compared with unprofitable results in 2003 and 2002. The improvement in 2004 was largely the result of better pricing and a reduction in water damage losses primarily through the implementation of contract wording changes related to mold damage. Results in 2003 and 2002 were similar as higher catastrophe losses in 2003 were offset by a decline in fire and water damage losses and the impact of improved pricing. Results in 2002 were adversely affected by an increase in the severity of water damage claims, including those related to mold, particularly in Texas. Losses from catastrophes represented 15.0 percentage points of the loss ratio for this class in 2004 compared with 13.4 percentage points in 2003 and 2.9 percentage points in 2002.

Our remediation plan relating to our homeowners business in the United States, which began in the latter part of 2001, is on track. We have implemented rate increases in many states. In addition, we have made regulatory filings in most states to introduce contract changes that would enable us to treat mold as a separate peril available at an appropriate price. These changes, which have been implemented in 46 states, have begun to reduce the severity of our water damage losses, particularly in Texas, the state in which these losses have been most significant.

Our personal automobile results were more profitable in 2004 compared with 2003 and 2002. The improvement in 2004 was due to lower claim frequency and stable loss severity as well as modest rate increases.

Other personal coverages, which include insurance for personal valuable articles, excess liability and yacht, produced highly profitable results in each of the past three years, as favorable loss experience has continued.

Commercial Insurance

Net premiums from commercial insurance, which represent 38% of our total writings, increased by 11% in 2004 compared with a 21% increase in 2003. Growth occurred in all segments of this business but was particularly strong in the workers compensation and casualty classes. The premium growth was due in large part to higher rates as well as an increase in our in-force policy count. Rates increased substantially in 2003. As expected, the level of rate increases declined throughout 2004 as we experienced more competition in the marketplace, particularly in the property classes. Retention levels remained steady during 2003 and were somewhat higher in 2004. New business was strong in each of the past three years, but was down in 2004 from 2003 levels due to a decrease in submission activity. We continue to get favorable terms and conditions on business written.

Our commercial insurance business produced highly profitable underwriting results in 2004 compared with profitable results in 2003 and highly unprofitable results in 2002. The combined loss and expense ratios for the classes of business within commercial insurance were as follows:

	Years Ended December 31		
	2004	**2003**	**2002**
Multiple peril	77.9%	89.7%	99.7%
Casualty	91.7	108.0	166.6
Workers compensation	92.7	94.7	92.3
Property and marine	73.8	87.9	90.2
Total commercial	83.8%	95.9%	118.6%

Our commercial insurance results were adversely affected by incurred losses of $75 million in 2004, $250 million in 2003 and $741 million in 2002 related to asbestos and toxic waste claims. Excluding the effects of asbestos and toxic waste losses, the combined loss and expense ratios were as follows:

	Years Ended December 31		
	2004	**2003**	**2002**
Multiple peril	75.3%	89.7%	99.7%
Casualty	88.6	87.8	89.9
Workers compensation	92.7	94.7	92.3
Property and marine	73.8	87.9	90.2
Total commercial	82.1%	89.2%	93.1%

Excluding the effects of asbestos and toxic waste losses, our commercial insurance underwriting results were highly profitable in each of the past three years. Results have shown substantial improvement in each succeeding year. The improvement has been due in large part to the cumulative effect of price increases, better terms and conditions and more stringent risk selection in recent years. Results in 2004 were exceptionally profitable due in part to unusually low property losses.

Multiple peril results were highly profitable in 2004 and 2003, but more so in 2004, whereas results in 2002 were near breakeven. Both the property and liability components of this business contributed to the improvement in 2004. The property component was exceptionally profitable in 2004 due to unusually low losses. The improvement in 2003 was driven by the property component where earned premiums grew significantly while incurred losses were flat compared with the prior year. Losses from catastrophes represented 2.3 percentage points of the loss ratio for this class in 2004 compared with 3.0 percentage points in 2003 and 2.2 percentage points in 2002.

Casualty results in each of the past three years were adversely affected by asbestos and toxic waste losses. Excluding the effects of asbestos and toxic waste losses, casualty results were highly profitable in each of the past three years due to price increases over the last several years and favorable loss experience. The automobile and primary liability components of this business produced highly profitable results in all three years. The excess liability component was profitable in 2004 compared with near breakeven results in 2003 and 2002. Results in 2004 benefited from a $30 million reduction in net loss reserves related to the September 11, 2001 attack.

Workers compensation results were similarly profitable in each of the past three years due in large part to our disciplined risk selection during the past several years.

Property and marine results were highly profitable in each of the past three years, particularly in 2004 due in part to unusually low losses. Results in each year benefited from improved pricing, higher deductibles, better terms and conditions and a low number of severe losses. The strong results in 2003 were achieved despite a $25 million loss that resulted from an adverse arbitration decision rendered against an insurance pool in which we were formerly a participant. The decision related to a fire that occurred in 1995. Losses from catastrophes represented 4.0 percentage points of the loss ratio for this class in 2004 compared with 6.3 percentage points in 2003 and 6.6 percentage points in 2002.

Specialty Insurance

Net premiums from specialty insurance, which represent 39% of our total writings, increased by 7% in 2004 compared with a 31% increase in 2003. As discussed below, growth in both years was enhanced by the growth in our reinsurance assumed business produced by Chubb Re. Excluding Chubb Re premiums, our specialty premiums increased by 4% in 2004 and 19% in 2003.

In response to claim severity trends in our executive protection business and the professional liability component of our financial institutions business, we initiated a program in the latter half of 2001 to increase pricing and improve policy terms and to not renew business that did not meet our underwriting criteria. We implemented tighter terms and conditions, including lower policy limits and higher deductibles. We have reprofiled our book of business, generating most of our new business from small and middle market customers.

Premium growth in 2003 for this business was primarily attributable to higher rates. Rate increases moderated during the latter half of 2003 and throughout 2004 due to increased competition in the marketplace. Rates in the for-profit directors and officers liability component were down in 2004. We obtained modest rate increases in most other classes. Premium growth in 2004 was constrained by the competitive pressure on rates and our commitment to maintain underwriting discipline. New business in 2004 was similar to 2003 levels. Retention levels were significantly higher in 2004 compared with the prior year. We continued to get favorable terms and conditions on both renewals and new business.

In the fidelity and standard commercial components of our financial institutions business, we saw a similar moderation of rate increases in the latter half of 2003 and throughout 2004.

Growth in our other specialty insurance business was primarily in our reinsurance assumed business. We write only treaty reinsurance, primarily casualty reinsurance. Premiums produced by Chubb Re amounted to $1,139 million in 2004 compared with $984 million in 2003 and $488 million in 2002. We expect reinsurance assumed premiums to decrease substantially in 2005 as we anticipate fewer attractive opportunities in the reinsurance market.

Our specialty insurance business produced breakeven underwriting results in 2004 and 2003 compared with modestly unprofitable results in 2002. The combined loss and expense ratios for the classes of business within specialty insurance were as follows:

	Years Ended December 31		
	2004	**2003**	**2002**
Executive protection	101.9%	103.9%	110.3%
Financial institutions	118.3	111.0	110.7
Other	88.4	86.2	77.8
Total specialty	100.3%	100.0%	101.8%

Executive protection results were unprofitable in each of the past three years but improved in 2003 and again in 2004. Results in each year were adversely affected by directors and officers liability and errors and omissions liability claim experience, predominantly from claims that have arisen due to corporate failures and allegations of management misconduct and accounting irregularities. Results improved in 2004 compared with 2003 due to the impact of higher premiums. Results in 2002 were particularly unprofitable due to deteriorating loss trends in our European operations caused by an increase in litigation, often involving European companies listed on U.S. exchanges being sued in U.S. courts for securities fraud.

Our financial institutions business produced highly unprofitable results in each of the past three years, particularly in 2004. The deterioration in 2004 was in the professional liability component of this business. Results for the professional liability component were highly unprofitable in all three years due to the same adverse directors and officers liability and errors and omissions liability claim trends experienced in our executive protection business. Results were particularly unprofitable in 2004 due to an increase of about $160 million in errors and omissions liability loss reserves in the second quarter related to investment banks. Financial institutions continue to be the focus of scrutiny by regulators and the plaintiffs bar related to investment banking and mutual fund scandals. The fidelity component of this business was highly profitable in each of the past three years due to favorable loss experience. The standard commercial business written on financial institutions produced profitable results in all three years, reflecting the rate increases and more stringent risk selection in recent years. Such results were highly profitable in 2004 due to a $50 million reduction in net loss reserves related to the September 11, 2001 attack.

Other specialty results were highly profitable in all three years. Our reinsurance assumed business generated by Chubb Re and our accident business were each profitable in all three years. Our surety business produced highly profitable results in each of the past three years, particularly in 2002. Results in 2002 benefited from an $88 million reduction in net loss reserves resulting from the settlement of litigation related to Enron Corp.

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

Notwithstanding our efforts to manage and reduce our surety exposure, we continue to have substantial commercial surety exposure for outstanding bonds. In that regard, we have exposures related to commercial surety bonds issued on behalf of companies that have experienced deterioration in creditworthiness since we issued bonds to them. We therefore may experience an increase in filed claims and may incur high severity losses. 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 and liquidity.

At December 31, 2003, we had in force $520 million of gas forward purchase surety bonds with one principal, Aquila. These surety bonds secured Aquila s obligation to supply gas under long-term forward purchase agreements. In July 2004, a settlement was reached and approved by the court that resulted in Aquila providing us with collateral sufficient to cover our entire exposure under the surety bonds. Our cost under this agreement was $15 million.

A property and casualty subsidiary issued a reinsurance contract to an insurer who provides financial guarantees on debt obligations. At December 31, 2004, the amount of aggregate principal commitments related to this contract was approximately $350 million, net of reinsurance. These commitments expire by 2023.

Producer Compensation

We have agreements in place with insurance brokers under which we agree to pay commissions that are contingent on the volume and/or the profitability of business placed with us. We also have in place contingent commission arrangements with agents who are appointed by us to sell our insurance. The New York Attorney General and other regulators have raised issues with respect to potential conflicts of interest arising from the payment of contingent commissions to brokers. In response, several brokers and some agents have announced that they are eliminating the practice of receiving contingent compensation from insurers. In addition, several state insurance regulators have announced that they are looking at compensation arrangements for brokers and agents and considering regulatory reform in this area. We will continue to monitor this situation and our compensation arrangements with agents and brokers and will amend such arrangements, as necessary, so that they are consistent with evolving standards in this area.

Although announced decisions by brokers and proposals by regulators may change the manner in which insurance intermediaries are compensated, we expect that total producer compensation in 2005 will be at about 2004 levels.

Catastrophe Risk Management

Our property and casualty subsidiaries have exposure to losses caused by hurricanes, earthquakes, winter storms, windstorms and other natural catastrophic events. The frequency and severity of natural catastrophes are unpredictable.

The extent of losses from a 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 continually assess our concentration of underwriting exposures in catastrophe exposed areas globally and develop strategies to manage this exposure through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance. In recent years, we have invested in modeling technologies and concentration management tools that allow us to better monitor and control our accumulations of potential losses from catastrophe exposures. We maintain records showing concentrations of risk in catastrophe exposed areas such as California (earthquake and brush fires) and the gulf and east coasts of the United States (hurricanes). We also continue to explore and analyze credible scientific evidence, including the impact of global climate change, that may affect our potential exposure under insurance policies.

Despite these efforts, the occurrence of one or more severe 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 tragic event of September 11, 2001 changed the way the property and casualty insurance industry views catastrophic risk. Numerous classes of business have become exposed to terrorism related catastrophic risks in addition to the catastrophic risks related to natural occurrences. This has required us to change how we identify and evaluate risk accumulations. We have purchased a terrorism model with more specific probable loss scenarios that allow us to better identify locations with large accumulation of limits. With the information provided by this tool, we may non-renew some accounts and be restricted in writing others. However, the model is new and relatively untested. Therefore, results may differ materially from those suggested by the model.

Since September 2001, we have changed our underwriting protocols to address terrorism and the limited availability of terrorism reinsurance. However, given the uncertainty of the potential threats, we cannot be sure that we have addressed all the possibilities.

The Terrorism Risk Insurance Act of 2002 (TRIA) was signed into law on November 26, 2002. TRIA established a temporary program under which the federal government will share the risk of loss from certain acts of international terrorism with the insurance industry. The program terminates on December 31, 2005. TRIA is applicable to almost all commercial lines of insurance. Insurance companies with direct commercial insurance exposure in the United States are required to participate in the program. Each insurer has a separate deductible in the event of an act of terrorism before federal assistance becomes available. The deductible is based on a percentage of direct commercial earned premiums from the previous calendar year. For 2005, that deductible is 15% of direct commercial earned premiums in 2004. For losses above the deductible, the federal government will pay for 90% of covered losses, while the insurer contributes 10%. There is a combined annual aggregate limit for the federal government and all insurers of $100 billion; above this amount, insurers are not liable for covered losses. For certain classes of business, such as workers compensation, terrorism coverage is mandatory. For those classes of business where it is not mandatory, insureds may choose not to accept the terrorism coverage, which would reduce our exposure. 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 2005.

It is unclear at this time whether Congress will reauthorize TRIA for periods subsequent to December 31, 2005. Regardless of whether or not TRIA is extended, we will continue to manage this type of catastrophic risk by monitoring and controlling terrorism risk aggregations. Nevertheless, given the unpredictable nature of terrorism, its targets, frequency and severity as well as the limited terrorism coverage in our reinsurance program, our future operating results could be more volatile.

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.

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 the accumulation of individual case estimates for claims that have been reported and estimates of claims that have been incurred but not reported as well as estimates of the expenses associated with settling all reported and unreported claims. 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 continually review our loss reserves using a variety of statistical and actuarial techniques. We update the reserves as loss experience develops, additional claims are reported and new information becomes available. Any changes in estimates are reflected in operating results in the period in which the estimates are changed.

Our loss reserves include significant amounts related to asbestos and toxic waste claims and the September 11 attack. The components of our loss reserves were as follows:

	December 31		
	2004	2003	2002
		(in millions)	
Gross loss reserves			
Related to asbestos and toxic waste claims	$ 1,169	$ 1,295	$ 1,136
Related to September 11 attack	700	999	2,063
All other loss reserves	18,423	15,654	13,514
	20,292	17,948	16,713
Reinsurance recoverable			
Related to asbestos and toxic waste claims	55	57	53
Related to September 11 attack	582	748	1,558
All other reinsurance recoverable	2,846	2,622	2,460
	3,483	3,427	4,071
Net loss reserves	$16,809	$14,521	$12,642

Loss reserves, net of reinsurance recoverable, increased by $2.3 billion or 16% in 2004 compared with $1.9 billion or 15% in 2003. The loss reserves related to asbestos and toxic waste claims and the September 11 attack are significant components of our total loss reserves, but they distort the growth trend in our loss reserves. Excluding such loss reserves, our loss reserves, net of reinsurance recoverable, increased by $2.5 billion or 20% in 2004 compared with $2.0 billion or 18% in 2003.

The components of our net loss reserves were as follows:

	December 31		
	2004	2003	2002
		(in millions)	
Reserves related to asbestos and toxic waste claims	$ 1,114	$ 1,238	$ 1,083
Reserves related to September 11 attack	118	251	505
All other loss reserves			
Personal insurance	1,399	1,219	1,064
Commercial insurance	5,972	5,248	4,714
Specialty insurance	8,206	6,565	5,276
Net loss reserves	$16,809	$14,521	$12,642

Loss reserves for each of our business segments increased significantly in 2003 and again in 2004. The increase was most significant in specialty insurance, due in large part to directors and officers liability and errors and omissions liability claim activity as well as the strong growth in our reinsurance assumed business.

Based on all information currently available, we believe that the aggregate loss reserves of our property and casualty subsidiaries at December 31, 2004 were adequate to cover claims for losses that had occurred, including both those known to us and those yet to be reported. In establishing such reserves, we consider facts currently known and the present state of the law and coverage litigation. However, given the judicial decisions and legislative actions that have broadened the scope of coverage and expanded theories of liability in the past and the possibilities of similar interpretations in the future, particularly as they relate to asbestos claims and, to a lesser extent, toxic waste claims, it is possible that management s estimate of the ultimate liability for losses that had occurred as of December 31, 2004 may increase in future periods. Such increases in estimates could have a material adverse effect on the Corporation s future operating results. However, management does not expect that any such increases would have a material effect on the Corporation s consolidated financial condition or liquidity.

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

Due to the uncertainties inherent in the loss reserving process and the complexity of the assumptions used, the actual emergence of losses could vary, perhaps substantially, from the estimate of losses included in our financial statements, particularly when settlements may not occur until well into the future. A relatively small percentage change in the estimate of net loss reserves would have a material effect on the Corporation s operating results. For example, a hypothetical 1% increase in net loss reserves at December 31, 2004 would have resulted in a pre-tax charge of approximately $170 million.

We analyze loss reserves in two categories: (1) reserves relating to all claims other than asbestos and toxic waste claims and (2) reserves relating to asbestos and toxic waste claims.

Reserves Relating to Claims Other than 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, the estimation of loss reserves is less complex because claims are generally reported and settled shortly after the loss occurs and the claims relate to tangible property.

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 executive protection coverages, commercial excess liability, 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. For the long tail liability classes, a relatively small proportion of losses in the more recent accident years relate to reported claims and an even smaller proportion are paid losses. Consequently, the estimation of loss reserves for these classes is more complex and subject to a higher degree of estimation error.

Most of our reinsurance assumed business is long-tailed 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.

A relatively large proportion of our net loss reserves, particularly for long-tail liability classes, are reserves for incurred but not reported (IBNR) losses claims that had not yet been reported to us, some of which were not yet known to the insured, and future development on reported claims. In fact, approximately 65% of our aggregate net loss reserves at December 31, 2004 were for IBNR.

We review the loss reserves for each of the numerous classes of business we write as part of our overall analysis of loss reserves, taking into consideration the variety of trends that impact the ultimate settlement of claims in each particular class of business. In performing these reviews, our actuaries use a variety of complex actuarial methods that analyze experience trends and other relevant factors. These methods generally utilize analyses of historical patterns of the development of paid and reported losses by accident year by 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 long tail classes of business where anticipated loss experience is less predictable because of the small number of claims and/or erratic claim severity patterns, estimates are based on both expected losses and actual reported losses. These classes include directors and officers liability, errors and omissions liability and commercial excess liability, among others. For these classes, we judgmentally set ultimate losses for each accident year based on our evaluation of loss trends and the current risk environment. The expected ultimate losses are adjusted as the accident years mature.

Using the various complex actuarial methods and different underlying assumptions, our actuaries produce a number of point estimates for each class of business. After reviewing the appropriateness of the underlying assumptions, management selects the carried reserve for each class of business. We do not calculate a range of loss reserve estimates. Ranges 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 to the fact that 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.

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 environment regarding the 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 including the impact of the Class Action Fairness Act of 2005,

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 underwriting standards, and

Any changes in our claim handling procedures.

In addition, we must consider the uncertain effects of emerging or potential claims and coverage issues. These issues can 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 emerging or potential claims and coverage issues include increases in 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 increases in the number and size of water damage claims related to remediation of mold conditions. As a result of issues such as these, the uncertainties inherent in estimating ultimate claim costs on the basis of past experience have become increasingly unpredictable, further complicating the already complex loss reserving process.

The future impact of the various factors described above that contribute to the uncertainty in the loss reserving process and of emerging or potential claims and coverage issues is extremely hard to predict and cannot be quantified.

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 these 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 judgment. It is therefore not possible to determine the future development of asbestos and toxic waste claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts and legislatures continue to expand the intent of the policies and the scope of the coverage.

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.

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. 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 companies over many years and increases their exposure to liability.

The plaintiffs bar continues to solicit new claimants through extensive advertising and through asbestos medical screenings. Litigation is then initiated even though a vast majority of the new claimants do not show any signs of asbestos-related disease. Thus, new asbestos claims and new exposures on existing claims have continued unabated despite the fact that usage of asbestos has declined since the mid-1970 s. We expect that we will continue to receive a significant number of new asbestos claims for at least the next several years.

To date, approximately 75 manufacturers and distributors of asbestos products have filed for bankruptcy protection as a result of asbestos liabilities. In the past, bankruptcies generally were filed by companies with no financial alternative. A recent disturbing development is an increase in prepackaged bankruptcies, which are designed to circumvent the normal bankruptcy process. A prepackag