

CHUBB CORP
Form 10-Q
May 06, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2015

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-8661

THE CHUBB CORPORATION

(Exact name of registrant as specified in its charter)

NEW JERSEY
(State or other jurisdiction of
incorporation or organization)

13-2595722
(I. R. S. Employer
Identification No.)

15 MOUNTAIN VIEW ROAD, WARREN, NEW JERSEY
(Address of principal executive offices)

07059
(Zip Code)

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

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

YES ☒ NO ☐

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

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YES ☐ NO ☐

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

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

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

YES ☐ NO ☐

The number of shares of common stock outstanding as of March 31, 2015 was 229,752,692.

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Part I. FINANCIAL INFORMATION

Item 1 Financial Statements

THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31

(in millions)

	2015	2014
Revenues		
Premiums Earned	\$ 3,105	\$ 3,029
Investment Income	339	358
Other Revenues	2	3
Realized Investment Gains (Losses), Net		
Total Other-Than-Temporary Impairment Losses on Investments	(23)	
Other Realized Investment Gains, Net	34	116
Total Realized Investment Gains, Net	11	116
Total Revenues	3,457	3,506
Losses and Expenses		
Losses and Loss Expenses	1,920	1,845
Amortization of Deferred Policy Acquisition Costs	626	622
Other Insurance Operating Costs and Expenses	347	356
Investment Expenses	12	11
Other Expenses	4	5
Corporate Expenses	66	64
Total Losses and Expenses	2,975	2,903
Income Before Federal and Foreign Income Tax	482	603
Federal and Foreign Income Tax	107	154
Net Income	\$ 375	\$ 449

Net Income Per Share

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Basic	\$ 1.61	\$ 1.81
Diluted	1.60	1.80
Dividends Declared Per Share	.57	.50
See Notes to Consolidated Financial Statements.		

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THE CHUBB CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31
(in millions)

	2015	2014
Net Income	\$ 375	\$ 449
Other Comprehensive Income (Loss), Net of Tax		
Change in Unrealized Appreciation of Investments	109	235
Change in Postretirement Benefit Costs Not Yet Recognized in Net Income	17	6
Foreign Currency Translation Losses	(176)	(19)
	(50)	222
Comprehensive Income	\$ 325	\$ 671

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions)

	March 31 2015	December 31 2014
Assets		
Invested Assets		
Short Term Investments	\$ 1,220	\$ 1,318
Fixed Maturities (cost \$36,483 and \$36,958)	38,457	38,780
Equity Securities (cost \$1,074 and \$1,089)	1,964	1,964
Other Invested Assets	1,408	1,423
TOTAL INVESTED ASSETS	43,049	43,485
Cash	52	47
Accrued Investment Income	406	410
Premiums Receivable	2,434	2,560
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	1,583	1,639
Prepaid Reinsurance Premiums	249	256
Deferred Policy Acquisition Costs	1,280	1,284
Goodwill	467	467
Other Assets	1,332	1,138
TOTAL ASSETS	\$ 50,852	\$ 51,286
Liabilities		
Unpaid Losses and Loss Expenses	\$ 22,515	\$ 22,678
Unearned Premiums	6,463	6,581
Long Term Debt	3,300	3,300
Dividend Payable to Shareholders	133	117
Deferred Income Tax	50	15
Accrued Expenses and Other Liabilities	2,229	2,299
TOTAL LIABILITIES	34,690	34,990
Shareholders' Equity		
Common Stock - \$1 Par Value; 371,980,460 Shares	372	372

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Paid-In Surplus	135	171
Retained Earnings	23,762	23,520
Accumulated Other Comprehensive Income	1,060	1,110
Treasury Stock, at Cost - 142,227,768 and 139,551,071 Shares	(9,167)	(8,877)

TOTAL SHAREHOLDERS' EQUITY	16,162	16,296
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 50,852	\$ 51,286
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See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31

(in millions)

	2015	2014
Common Stock		
Balance, Beginning and End of Period	\$ 372	\$ 372
Paid-In-Surplus		
Balance, Beginning of Year	171	171
Changes Related to Stock-Based Employee Compensation (includes tax benefit of \$3 and \$14)	(36)	(63)
Balance, End of Period	135	108
Retained Earnings		
Balance, Beginning of Year	23,520	21,902
Net Income	375	449
Dividends Declared (per share \$.57 and \$.50)	(133)	(124)
Balance, End of Period	23,762	22,227
Accumulated Other Comprehensive Income		
Unrealized Appreciation of Investments Including Unrealized Other-Than-Temporary Impairment Losses		
Balance, Beginning of Year	1,753	1,225
Change During Period, Net of Tax	109	235
Balance, End of Period	1,862	1,460
Postretirement Benefit Costs Not Yet Recognized in Net Income		
Balance, Beginning of Year	(589)	(253)
Change During Period, Net of Tax	17	6
Balance, End of Period	(572)	(247)
Foreign Currency Translation Gains (Losses)		
Balance, Beginning of Year	(54)	63
Change During Period, Net of Tax	(176)	(19)
Balance, End of Period	(230)	44

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Accumulated Other Comprehensive Income, End of Period	1,060	1,257
Treasury Stock, at Cost		
Balance, Beginning of Year	(8,877)	(7,383)
Repurchase of Shares	(326)	(409)
Shares Issued Under Stock-Based Employee Compensation Plans	36	54
Balance, End of Period	(9,167)	(7,738)
TOTAL SHAREHOLDERS' EQUITY	\$ 16,162	\$ 16,226

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31

(in millions)

	2015	2014
Cash Flows from Operating Activities		
Net Income	\$ 375	\$ 449
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Increase in Unpaid Losses and Loss Expenses, Net	260	51
Increase in Unearned Premiums, Net	1	33
Amortization of Premiums and Discounts on Fixed Maturities	54	46
Depreciation	12	14
Realized Investment Gains, Net	(11)	(116)
Other, Net	(161)	(105)
Net Cash Provided by Operating Activities	530	372
Cash Flows from Investing Activities		
Proceeds from Fixed Maturities		
Sales	1,436	379
Maturities, Calls and Redemptions	820	957
Proceeds from Sales of Equity Securities	29	101
Purchases of Fixed Maturities	(2,421)	(1,810)
Purchases of Equity Securities	(24)	(89)
Investments in Other Invested Assets, Net	17	98
Decrease in Short Term Investments, Net	82	417
Change in Receivable or Payable from Security Transactions Not Settled, Net	5	105
Purchases of Property and Equipment, Net	(18)	(10)
Other, Net		(3)
Net Cash Provided by (Used in) Investing Activities	(74)	145
Cash Flows from Financing Activities		
Decrease in Funds Held Under Deposit Contracts	(1)	(1)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	5	14
Repurchase of Shares	(338)	(415)
Dividends Paid to Shareholders	(117)	(110)
Net Cash Used in Financing Activities	(451)	(512)

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Net Increase in Cash	5	5
Cash at Beginning of Year	47	52
Cash at End of Period	\$ 52	\$ 57

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) General

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

The amounts included in this report are unaudited but include those adjustments, consisting of normal recurring items, that management considers necessary for a fair presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Notes to Consolidated Financial Statements included in Chubb's Annual Report on Form 10-K for the year ended December 31, 2014.

2) Accounting Pronouncements Not Yet Adopted

In February 2015, the Financial Accounting Standards Board issued updated guidance that amends certain aspects of the current consolidation accounting guidance. In particular, the new guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities and eliminates the presumption that a general partner should consolidate a limited partnership. The new guidance would be effective for the Corporation for the year beginning January 1, 2016. The Corporation is in the process of assessing the effect, if any, that the implementation of this guidance will have on its financial position and results of operations.

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3) Invested Assets

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

	March 31, 2015			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation (in millions)	Fair Value
Fixed maturities				
Tax exempt	\$ 19,260	\$ 1,179	\$ 24	\$ 20,415
Taxable				
U.S. government and government agency and authority obligations	1,460	59	1	1,518
Corporate bonds	8,756	402	19	9,139
Foreign government and government agency obligations	5,844	335	2	6,177
Residential mortgage-backed securities	175	20	1	194
Commercial mortgage-backed securities	988	27	1	1,014
	17,223	843	24	18,042
 Total fixed maturities	 \$ 36,483	 \$ 2,022	 \$ 48	 \$ 38,457
 Equity securities	 \$ 1,074	 \$ 900	 \$ 10	 \$ 1,964

	December 31, 2014			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation (in millions)	Fair Value
Fixed maturities				
Tax exempt	\$ 18,614	\$ 1,174	\$ 16	\$ 19,772
Taxable				
U.S. government and government agency and authority obligations	1,962	46	1	2,007
Corporate bonds	8,741	327	40	9,028
Foreign government and government agency obligations	6,380	295	3	6,672
Residential mortgage-backed securities	192	20	1	211
Commercial mortgage-backed securities	1,069	22	1	1,090
	18,344	710	46	19,008
 Total fixed maturities	 \$ 36,958	 \$ 1,884	 \$ 62	 \$ 38,780

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Equity securities	\$ 1,089	\$ 894	\$ 19	\$ 1,964
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The fair value and amortized cost of fixed maturities at March 31, 2015 by contractual maturity were as follows:

	Fair Value	Amortized Cost
	<i>(in millions)</i>	
Due in one year or less	\$ 2,460	\$ 2,438
Due after one year through five years	12,329	11,794
Due after five years through ten years	13,321	12,449
Due after ten years	9,139	8,639
	37,249	35,320
Residential mortgage-backed securities	194	175
Commercial mortgage-backed securities	1,014	988
	\$ 38,457	\$ 36,483

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

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

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

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

	March 31 2015	December 31 2014
	<i>(in millions)</i>	
Fixed maturities		
Gross unrealized appreciation	\$ 2,022	\$ 1,884
Gross unrealized depreciation	48	62
	1,974	1,822
Equity securities		
Gross unrealized appreciation	900	894
Gross unrealized depreciation	10	19
	890	875
	2,864	2,697
Deferred income tax liability	1,002	944

\$ 1,862

\$ 1,753

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The following table summarizes, for all investment securities in an unrealized loss position at March 31, 2015, the aggregate fair value and gross unrealized depreciation, including unrealized other-than-temporary impairment losses, by investment category and length of time that individual securities have continuously been in an unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
	<i>(in millions)</i>					
Fixed maturities						
Tax exempt	\$ 1,103	\$ 9	\$ 219	\$ 15	\$ 1,322	\$ 24
Taxable						
U.S. government and government agency and authority obligations	170	1	10		180	1
Corporate bonds	474	15	311	4	785	19
Foreign government and government agency obligations	344	2	77		421	2
Residential mortgage-backed securities			6	1	6	1
Commercial mortgage-backed securities	14		83	1	97	1
	1,002	18	487	6	1,489	24
Total fixed maturities	2,105	27	706	21	2,811	48
Equity securities	59	7	3	3	62	10
	\$ 2,164	\$ 34	\$ 709	\$ 24	\$ 2,873	\$ 58

At March 31, 2015, approximately 580 individual fixed maturities and 15 individual equity securities were in an unrealized loss position. The Corporation does not have the intent to sell and it is not more likely than not that the Corporation will be required to sell these fixed maturities before the securities recover to their amortized cost value. In addition, the Corporation believes that none of the declines in the fair values of these fixed maturities relate to credit losses. The Corporation has the intent and ability to hold the equity securities in an unrealized loss position for a period of time sufficient to allow for the recovery of cost. The Corporation believes that none of the declines in the fair value of these fixed maturities and equity securities were other than temporary at March 31, 2015.

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The following table summarizes, for all investment securities in an unrealized loss position at December 31, 2014, the aggregate fair value and gross unrealized depreciation, including unrealized other-than-temporary impairment losses, by investment category and length of time that individual securities have continuously been in an unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
	<i>(in millions)</i>					
Fixed maturities						
Tax exempt	\$ 422	\$ 3	\$ 305	\$ 13	\$ 727	\$ 16
Taxable						
U.S. government and government agency and authority obligations	936	1	36		972	1
Corporate bonds	1,327	23	888	17	2,215	40
Foreign government and government agency obligations	318	1	207	2	525	3
Residential mortgage-backed securities			7	1	7	1
Commercial mortgage-backed securities	106		67	1	173	1
	2,687	25	1,205	21	3,892	46
Total fixed maturities	3,109	28	1,510	34	4,619	62
Equity securities	67	11	11	8	78	19
	\$ 3,176	\$ 39	\$ 1,521	\$ 42	\$ 4,697	\$ 81

The change in unrealized appreciation or depreciation of investments carried at fair value, including the change in unrealized other-than-temporary impairment losses, was as follows:

	Three Months Ended March 31	
	2015	2014
	<i>(in millions)</i>	
Change in unrealized appreciation of fixed maturities	\$ 152	\$ 362
Change in unrealized appreciation of equity securities	15	(1)
	167	361
Deferred income tax	58	126
	\$ 109	\$ 235

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(c) Realized investment gains and losses were as follows:

	Three Months Ended March 31	
	2015	2014
	<i>(in millions)</i>	
Fixed maturities		
Gross realized gains	\$ 13	\$ 8
Gross realized losses	(5)	(11)
Other-than-temporary impairment losses	(1)	
	7	(3)
Equity securities		
Gross realized gains	16	66
Other-than-temporary impairment losses	(22)	
	(6)	66
Other invested assets	10	53
	\$ 11	\$ 116

(d) As of March 31, 2015 and December 31, 2014, fixed maturities still held by the Corporation for which a portion of their other-than-temporary impairment losses were recognized in other comprehensive income had cumulative credit-related losses of \$17 million and \$18 million, respectively, recognized in net income.

4) Comprehensive Income

Comprehensive income is defined as all changes in shareholders' equity, except those arising from transactions with shareholders. Comprehensive income includes net income and other comprehensive income or loss, which for the Corporation consists of changes in unrealized appreciation or depreciation of investments carried at fair value, changes in unrealized other-than-temporary impairment losses of fixed maturities, changes in postretirement benefit costs not yet recognized in net income and changes in foreign currency translation gains or losses.

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The components of other comprehensive income or loss were as follows:

	Three Months Ended March 31, 2015		
	Before Tax	Income Tax	Net of Tax
	<i>(in millions)</i>		
Net unrealized holding gains arising during the period	\$ 168	\$ 58	\$ 110
Reclassification adjustment for net realized gains included in net income	1		1
Net unrealized gains recognized in other comprehensive income	167	58	109
Postretirement benefit gain not yet recognized in net income arising during the year	9	3	6
Reclassification adjustment for the amortization of net actuarial loss and prior service cost included in net income (a)	(16)	(5)	(11)
Net change in postretirement benefit costs not yet recognized in net income	25	8	17
Foreign currency translation losses	(270)	(94)	(176)
Total other comprehensive loss	\$ (78)	\$ (28)	\$ (50)

	Three Months Ended March 31, 2014		
	Before Tax	Income Tax	Net of Tax
	<i>(in millions)</i>		
Net unrealized holding gains arising during the period	\$ 424	\$ 148	\$ 276
Reclassification adjustment for net realized gains included in net income	63	22	41
Net unrealized gains recognized in other comprehensive income	361	126	235
Reclassification adjustment for the amortization of net actuarial loss and prior service cost included in net income (a)	(9)	(3)	(6)
Net change in postretirement benefit costs not yet recognized in net income	9	3	6
Foreign currency translation losses	(28)	(9)	(19)
Total other comprehensive income	\$ 342	\$ 120	\$ 222

(a) Postretirement benefit costs recognized in net income during the period are included among several of the loss and expense components presented in the consolidated statements of income.

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5) Segments Information

The principal business of the Corporation is the sale of property and casualty insurance. The profitability of the property and casualty insurance business depends on the results of both underwriting operations and investments, which are viewed as two distinct operations. The underwriting operations are managed and evaluated separately from the investment function.

The property and casualty insurance subsidiaries underwrite most lines of property and casualty insurance. Underwriting operations consist of four separate business units: personal insurance, commercial insurance, specialty insurance and reinsurance assumed. The personal segment targets the personal insurance market. The personal classes include automobile, homeowners and other personal coverages. The commercial segment includes those classes of business that are generally available in broad markets and are of a more commodity nature. Commercial classes include multiple peril, casualty, workers' compensation and property and marine. The specialty segment includes those classes of business that are available in more limited markets since they require specialized underwriting and claim settlement. Specialty classes include professional liability coverages and surety. The reinsurance assumed business has been in runoff since the transfer of the ongoing reinsurance assumed business to a reinsurance company in 2005.

Corporate and other includes investment income earned on corporate invested assets, corporate expenses and the results of the Corporation's non-insurance subsidiaries.

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Revenues and income before income tax of each operating segment were as follows:

	Three Months Ended March 31	
	2015	2014
	<i>(in millions)</i>	
Revenues		
Property and casualty insurance		
Premiums earned		
Personal insurance	\$ 1,113	\$ 1,076
Commercial insurance	1,342	1,300
Specialty insurance	650	653
Total insurance	3,105	3,029
Investment income	332	351
Total property and casualty insurance	3,437	3,380
Corporate and other	9	10
Realized investment gains, net	11	116
Total revenues	\$ 3,457	\$ 3,506
Income (loss) before income tax		
Property and casualty insurance		
Underwriting		
Personal insurance	\$ (30)	\$ 2
Commercial insurance	91	111
Specialty insurance	127	82
Total insurance	188	195
Increase in deferred policy acquisition costs	17	13
Underwriting income	205	208
Investment income	321	341
Other income (charges)	7	(2)

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Total property and casualty insurance	533	547
Corporate and other	(62)	(60)
Realized investment gains, net	11	116
Total income before income tax	\$ 482	\$ 603

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6) Fair Values of Financial Instruments

Fair values of financial instruments are determined by management using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical assets or liabilities or other inputs, such as quoted prices for similar assets or liabilities, that are observable, either directly or indirectly. In those instances where observable inputs are not available, fair values are measured using unobservable inputs for the asset or liability. Unobservable inputs reflect the Corporation's own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange. Certain financial instruments, particularly insurance contracts, are excluded from fair value disclosure requirements.

The methods and assumptions used to estimate the fair values of financial instruments are as follows:

- (i) The carrying value of short term investments approximates fair value due to the short maturities of these investments.
- (ii) Fair values of fixed maturities are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from third party brokers. For fixed maturities that have quoted prices in active markets, market quotations are provided. For fixed maturities that do not trade on a daily basis, the pricing service and brokers provide fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment rates and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing service and brokers. In addition, management, using the prices received for the securities from the pricing service and brokers, determines the aggregate portfolio price performance and reviews it against applicable indices. If management believes that significant discrepancies exist, it will discuss these with the relevant pricing service or broker to resolve the discrepancies.
- (iii) Fair values of equity securities are determined by management, utilizing quoted market prices.
- (iv) Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service.

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The carrying values and fair values of financial instruments were as follows:

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in millions)</i>			
Assets				
Invested assets				
Short term investments	\$ 1,220	\$ 1,220	\$ 1,318	\$ 1,318
Fixed maturities	38,457	38,457	38,780	38,780
Equity securities	1,964	1,964	1,964	1,964
Liabilities				
Long term debt	3,300	4,046	3,300	4,013

At March 31, 2015 and December 31, 2014, a pricing service provided fair value amounts for approximately 99% of the Corporation's fixed maturities. The prices obtained from a pricing service and brokers generally are non-binding, but are reflective of current market transactions in the applicable financial instruments.

At March 31, 2015 and December 31, 2014, the Corporation held an insignificant amount of financial instruments in its investment portfolio for which a lack of market liquidity impacted the determination of fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 Unadjusted quoted prices in active markets for identical financial instruments.

Level 2 Other inputs that are observable for the financial instrument, either directly or indirectly.

Level 3 Significant unobservable inputs.

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The fair value of financial instruments categorized based upon the lowest level of input that was significant to the fair value measurement was as follows:

	Level 1	March 31, 2015		Total
		Level 2	Level 3	
		(in millions)		
Assets				
Short term investments	\$ 192	\$ 1,028	\$	\$ 1,220
Fixed maturities				
Tax exempt		20,413	2	20,415
Taxable				
U.S. government and government agency and authority obligations		1,518		1,518
Corporate bonds		8,954	185	9,139
Foreign government and government agency obligations		6,169	8	6,177
Residential mortgage-backed securities		193	1	194
Commercial mortgage-backed securities		1,014		1,014
		17,848	194	18,042
Total fixed maturities		38,261	196	38,457
Equity securities				
	1,958		6	1,964
	\$ 2,150	\$ 39,289	\$ 202	\$ 41,641
Liabilities				
Long term debt	\$	\$ 4,046	\$	\$ 4,046

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	Level 1	December 31, 2014		Total
		Level 2	Level 3	
		(in millions)		
Assets				
Short term investments	\$ 206	\$ 1,112	\$	\$ 1,318
Fixed maturities				
Tax exempt		19,769	3	19,772
Taxable				
U.S. government and government agency and authority obligations		2,007		2,007
Corporate bonds		8,912	116	9,028
Foreign government and government agency obligations		6,663	9	6,672
Residential mortgage-backed securities		210	1	211
Commercial mortgage-backed securities		1,090		1,090
		18,882	126	19,008
Total fixed maturities		38,651	129	38,780
Equity securities				
	1,958		6	1,964
	\$ 2,164	\$ 39,763	\$ 135	\$ 42,062
Liabilities				
Long term debt	\$	\$ 4,013	\$	\$ 4,013

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7) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended March 31	
	2015	2014
	(in millions, except for per share amounts)	
Basic earnings per share:		
Net income	\$ 375	\$ 449
Weighted average shares outstanding	233.5	248.6
Basic earnings per share	\$ 1.61	\$ 1.81
Diluted earnings per share:		
Net income	\$ 375	\$ 449
Weighted average shares outstanding	233.5	248.6
Additional shares from assumed issuance of shares under stock-based compensation awards	.7	.6
Weighted average shares and potential shares assumed outstanding for computing diluted earnings per share	234.2	249.2
Diluted earnings per share	\$ 1.60	\$ 1.80

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Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses the financial condition of the Corporation as of March 31, 2015 compared with December 31, 2014 and the results of operations for the quarters ended March 31, 2015 and 2014. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes contained in this report and the consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations included in Chubb's Annual Report on Form 10-K for the year ended December 31, 2014.

Cautionary Statement Regarding Forward-Looking Information

Certain statements in this document are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements are made pursuant to the safe harbor provisions of the PSLRA and include statements regarding our loss reserve and reinsurance recoverable estimates; market conditions affecting us and our competitors in 2015, including premium volume, rate trends, pricing and competition; the cost of our property reinsurance program in 2015; property and casualty investment income during 2015; cash flows generated by our investments; currency rate fluctuations; the repurchase of common stock under our share repurchase program; and our financial position, capital adequacy and funding of liquidity needs. Forward-looking statements frequently can be identified by words such as believe, expect, anticipate, intend, plan, will, may, should, could, would, likely, estimate, or other similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning trends and future developments and their potential effects on us. These statements are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties, which include, among others, those discussed or identified in our Annual Report on Form 10-K for the year ended December 31, 2014 and from time to time in our other public filings with the Securities and Exchange Commission and those associated with:

global political, economic and market conditions, particularly in the jurisdictions in which we operate and/or invest, including:

changes in credit ratings, interest rates, market credit spreads and the performance of the financial markets;

currency fluctuations;

the effects of inflation;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and pricing environments;

regional or general changes in asset valuations;

the inability to reinsure certain risks economically; and

changes in the litigation environment;

the effects of the outbreak or escalation of war or hostilities;

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the occurrence of terrorist attacks, including any nuclear, biological, chemical or radiological events;

premium pricing and profitability or growth estimates overall or by lines of business or geographic area, and related expectations with respect to the timing and terms of any required regulatory approvals;

adverse changes in loss cost trends;

our ability to retain existing business and attract new business at acceptable rates;

our expectations with respect to cash flow and investment income and with respect to other income;

the adequacy of our loss reserves, including:

our expectations relating to reinsurance recoverables;

the willingness of parties, including us, to settle disputes;

developments in judicial decisions or regulatory or legislative actions relating to coverage and liability, in particular, for asbestos, toxic waste and other mass tort claims;

development of new theories of liability;

our estimates relating to ultimate asbestos liabilities; and

the impact from the bankruptcy protection sought by various asbestos producers and other related businesses;

the availability and cost of reinsurance coverage;

the occurrence of significant weather-related or other natural or human-made disasters, particularly in locations where we have concentrations of risk or changes to our estimates (or the assessments of rating agencies and other third parties) of our potential exposure to such events;

the impact of economic factors on companies on whose behalf we have issued surety bonds, and in particular, on those companies that file for bankruptcy or otherwise experience deterioration in creditworthiness;

the effects of disclosures by, and investigations of, companies we insure, particularly with respect to our lines of business that have a longer time span, or tail, between the incidence of a loss and the settlement of the claim;

the impact of legislative, regulatory, judicial and similar developments on companies we insure, particularly with respect to our longer tail lines of business;

the impact of legislative, regulatory, judicial and similar developments on our business, including those relating to insurance industry reform, terrorism, catastrophes, the financial markets, solvency standards, capital requirements, accounting guidance and taxation;

any downgrade in our claims-paying, financial strength or other credit ratings;

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the ability of our subsidiaries to pay us dividends;

our ability and the ability of our third party vendors to maintain the availability of systems and safeguard the security of our data in the event of a disaster or other information security incident;

our plans to repurchase shares of our common stock, including as a result of changes in:

our financial position and financial results;

our capital position and/or capital adequacy levels required to maintain our existing ratings from independent rating agencies;

our share price;

investment opportunities;

opportunities to profitably grow our property and casualty insurance business; and

corporate and regulatory requirements; and

our ability to implement management's strategic plans and initiatives.

Chubb assumes no obligation to update any forward-looking statement 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 transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the financial statements. Those estimates and judgments that were most critical to the preparation of the financial statements involved the determination of loss reserves and the recoverability of related reinsurance recoverables and the evaluation of whether a decline in value of any investment is temporary or other than temporary. These estimates and judgments, which are discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014 as supplemented 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.

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Overview

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

Net income was \$375 million in the first quarter of 2015 compared with \$449 million in the same period of 2014. The lower net income in the first quarter of 2015 compared with the same period of 2014 was due primarily to lower net realized investment gains.

Operating income, which we define as net income excluding realized investment gains and losses after tax, was \$367 million in the first quarter of 2015 compared with \$374 million in the same period of 2014. The slightly lower operating income in the first quarter of 2015 was due primarily to lower property and casualty investment income. Underwriting income in our property and casualty insurance business was essentially unchanged in the first quarter of 2015 compared with the same period of 2014. Management uses operating income, a non-GAAP financial measure, among other measures, to evaluate its performance because the realization of investment gains and losses in any period could be discretionary as to timing and can fluctuate significantly, which could distort the analysis of operating trends.

Underwriting results were profitable in the first quarter of 2015 and 2014. The combined loss and expense ratio was 93.9% in the first quarter of 2015 compared with 93.2% in the same period of 2014. The 0.7 of a percentage point increase in the combined loss and expense ratio in the first quarter of 2015 compared with the same period of 2014 was due to a lower amount of favorable prior year loss development and a higher impact of catastrophes, largely offset by a lower current accident year loss ratio excluding catastrophes. The impact of catastrophes accounted for 8.1 percentage points of the combined ratio in the first quarter of 2015 compared with 6.6 percentage points in the same period of 2014.

During the first quarter of 2015, we estimate that we experienced overall favorable development of about \$110 million on net loss reserves established as of the previous year end. We estimate that during the first quarter of 2014, we experienced overall favorable prior year loss development of about \$160 million. In the first quarter of both years we experienced favorable prior year loss development in each segment of our insurance business, but more so in our commercial and specialty insurance segments.

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Foreign currency translation had a negative effect on growth in net premiums written outside the United States in the first quarter of 2015, reflecting the impact of the stronger U.S. dollar relative to several currencies in which we wrote business in the first quarter of 2015 compared to the same period of 2014. In the first quarter of 2015, net premiums written outside the United States represented 26% of our total net premiums written. Total net premiums written increased by 1% in the first quarter of 2015 compared with the same period of 2014. Total net premiums written excluding the effect of foreign currency translation increased by 4% in the first quarter of 2015. Net premiums written in the United States increased by 4% in the first quarter of 2015. Net premiums written outside the United States decreased by 5% in the first quarter of 2015, when measured in U.S. dollars. Excluding the effect of foreign currency translation, such premiums increased by 6% in the first quarter of 2015. Management uses growth in net premiums written excluding the effect of foreign currency translation, a non-GAAP financial measure, to evaluate the trends in net premiums written, exclusive of the effect of fluctuations in exchange rates between the U.S. dollar and the foreign currencies in which business is transacted. The impact of foreign currency translation is excluded as exchange rates may fluctuate significantly and the effect of fluctuations could distort the analysis of trends. When excluding the effect of foreign currency translation on growth, management uses the current period average exchange rates to translate both the current period and the prior period foreign currency denominated net premiums written amounts.

Property and casualty investment income before taxes decreased by 6% in the first quarter of 2015 compared with the same period of 2014. Property and casualty investment income after tax decreased by 5% in the first quarter of 2015 compared with the same period of 2014. The decreases were due to a decline in the average yield on our investment portfolio and, to a lesser extent, the effect of foreign currency translation. Management uses property and casualty investment income after tax, a non-GAAP financial measure, to evaluate its investment results because it reflects the impact of any change in the proportion of tax exempt investment income to total investment income and is therefore more meaningful for analysis purposes than investment income before income tax.

Net realized investment gains before tax were \$11 million (\$8 million after tax) in the first quarter of 2015 compared with \$116 million (\$75 million after tax) in the same period of 2014. The net realized investment gains in the first quarter of 2015 were primarily related to investments in limited partnerships, which generally are reported on a one quarter lag, and sales of fixed maturities. The net realized investment gains in the first quarter of 2014 were primarily related to investments in limited partnerships and sales of equity securities.

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A summary of our consolidated net income is as follows:

	Quarter Ended March 31	
	2015	2014
	<i>(in millions)</i>	
Property and casualty insurance	\$ 533	\$ 547
Corporate and other	(62)	(60)
Consolidated operating income before income tax	471	487
Federal and foreign income tax	104	113
Consolidated operating income	367	374
Realized investment gains after income tax	8	75
Consolidated net income	\$ 375	\$ 449

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Property and Casualty Insurance

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

	Quarter Ended March 31	
	2015	2014
	(in millions)	
Underwriting		
Net premiums written	\$ 3,106	\$ 3,062
Increase in unearned premiums	(1)	(33)
Premiums earned	3,105	3,029
Losses and loss expenses	1,920	1,845
Operating costs and expenses	987	979
Increase in deferred policy acquisition costs	(17)	(13)
Dividends to policyholders	10	10
Underwriting income	205	208
Investments		
Investment income before expenses	332	351
Investment expenses	11	10
Investment income	321	341
Other income (charges)	7	(2)
Property and casualty income before tax	\$ 533	\$ 547
Property and casualty investment income after tax	\$ 264	\$ 277

Property and casualty income before tax was lower in the first quarter of 2015 compared with the same period of 2014, due to lower investment income. The lower investment income in the first quarter of 2015 compared with the same period of 2014 was due to a decline in the average yield on our investment portfolio and, to a lesser extent, the effect of foreign currency translation. Underwriting income was essentially unchanged in the first quarter of 2015 compared with the same period of 2014, as a lower amount of favorable prior year loss development and a higher impact of catastrophes was largely offset by a lower current accident year loss ratio excluding catastrophes.

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

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Underwriting Results

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

Net Premiums Written

Net premiums written were \$3.1 billion in the first quarter of 2015 and 2014. Net premiums written by business unit were as follows:

	Quarter Ended March 31		% Increase
	2015	2014	
	<i>(in millions)</i>		
Personal insurance	\$ 1,036	\$ 1,013	2%
Commercial insurance	1,449	1,425	2
Specialty insurance	621	624	
Total insurance	3,106	3,062	1
Reinsurance assumed			*
Total	\$ 3,106	\$ 3,062	1

* The change in net premiums written is not presented for this business unit since it is in runoff.

Net premiums written increased by 1% in the first quarter of 2015 compared with the same period of 2014 as a result of growth in premiums written in the United States. Net premiums written excluding the effect of foreign currency translation increased by 4% in the first quarter of 2015. Net premiums written in the United States, which in the first quarter of 2015 represented 74% of our total net premiums written, increased by 4%. Net premiums written outside the United States decreased by 5% in the first quarter of 2015, when measured in U.S. dollars. Excluding the effect of foreign currency translation, net premiums written outside the United States increased by 6%. Foreign currency translation had a negative effect on growth in net premiums written outside the United States in the first quarter of 2015, reflecting the impact of the stronger U.S. dollar relative to several currencies in which we wrote business in the first quarter of 2015 compared to the same period of 2014.

We classify business as written inside or outside the United States based on the location of the risks associated with the underlying policies. The method of determining location of risk varies by class of business. Location of risk for property classes is typically based on the physical location of the covered property, while location of risk for liability classes may be based on the main location of the insured, or in the case of the workers compensation class, the primary work location of the covered employee.

Net premiums written in the United States grew modestly in each segment of our business in the first quarter of 2015 compared with the same period of 2014. Growth in the United States in our personal insurance segment was attributable to higher insured exposures, higher rates upon renewal, strong retention of existing business, and new business. Growth in the United States in our commercial insurance segment and our professional liability business, which is the predominant component of our specialty insurance segment, reflected high retention of existing business, new business, as well as renewal rate increases.

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Average renewal rates in the United States in our personal insurance segment were up slightly in the first quarter of 2015 compared with expiring rates. The amounts of coverage purchased or the insured exposures, both of which are bases upon which we calculate the premiums we charge, were up modestly in the United States in the first quarter of 2015. Retention levels in our personal insurance segment in the United States remained strong in the first quarter of 2015. The level of new business in the United States in our personal insurance business in the first quarter of 2015 was similar to the first quarter of 2014.

Average renewal rates in the United States in the first quarter of 2015 were up slightly compared with expiring rates in our commercial insurance segment and up modestly compared with expiring rates in our professional liability business. On average, the amounts of coverage purchased or the insured exposures upon renewal were flat in our commercial insurance segment and up slightly in our professional liability business in the United States in the first quarter of 2015. We continued to retain a high percentage of our existing commercial insurance and professional liability business in the United States in the first quarter of 2015. Retention levels in the first quarter of 2015 were modestly higher in both our commercial insurance segment and professional liability business compared with the same period of 2014. As portions of our business have approached rate adequacy due to pricing and underwriting actions over the past several years, the level of renewal rate increases has moderated and we have achieved higher retention levels. The level of new business in the United States was up in both our commercial insurance segment and professional liability business in the first quarter of 2015 compared with the same period of 2014.

The decrease in net premiums written outside the United States in the first quarter of 2015 compared with the same period of 2014 reflected a modest decrease in our personal insurance and commercial insurance segments and a more significant decrease in our specialty insurance segment. Net premiums written outside the United States excluding the effect of foreign currency translation increased by 6% in the first quarter of 2015, with modest growth in our specialty insurance segment and more significant growth in our personal insurance and commercial insurance segments.

Average renewal rates outside the United States in our personal insurance segment were modestly higher in the first quarter of 2015 compared with expiring rates, driven particularly by the automobile class.

Average renewal rates outside the United States were flat in both our commercial insurance segment and professional liability business in the first quarter of 2015 compared with expiring rates. On average, the amounts of coverage purchased or the insured exposures upon renewal were flat in both our commercial insurance segment and professional liability business outside the United States in the first quarter of 2015. We continued to retain a high percentage of our existing commercial and professional liability business outside the United States in the first quarter of 2015. Retention levels in the first quarter of 2015 were flat in our commercial insurance segment and increased modestly in our professional liability business compared with the same period of 2014. The level of new business outside the United States in the first quarter of 2015 compared with the same period of 2014 was higher in our commercial insurance segment and slightly lower in our professional liability business.

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We expect that during the remainder of 2015 market conditions will remain competitive and average renewal rate increases in some classes of business will be at lower levels than those achieved in 2014.

Ceded Reinsurance

Our premiums written are net of amounts ceded to reinsurers who assume a portion of the risk under the insurance policies we write that are subject to reinsurance.

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

For property risks in the United States and Canada we purchase traditional catastrophe reinsurance, including our primary treaty, which we refer to as the North American catastrophe treaty, as well as supplemental catastrophe reinsurance that provides additional coverage for our exposures in the northeast United States. For certain exposures in the United States, we have also arranged for the purchase of reinsurance funded through the issuance of multi year, collateralized risk-linked securities, known as catastrophe bonds. For events outside the United States, we also purchase traditional catastrophe reinsurance.

We renewed our primary traditional property catastrophe treaties and our commercial property per risk treaty in April 2015 with limit structures similar to the expiring treaties and with modest enhancements in coverage, as well as in terms and conditions. The supplemental catastrophe reinsurance that provides coverage for our exposures in the northeast United States remains in effect until June 2016. In March 2015, we arranged for the purchase of reinsurance through the issuance of a catastrophe bond to replace the portion of a catastrophe bond that expired in March 2015.

The North American catastrophe treaty has an initial retention of \$500 million and provides coverage for exposures in the United States and Canada of approximately 34% of losses (net of recoveries from other available reinsurance) between \$500 million and \$900 million and approximately 75% of losses (net of recoveries from other available reinsurance) between \$900 million and \$1.75 billion. For certain catastrophic events in the northeast United States or along the southern U.S. coastline, the combination of the North American catastrophe treaty, the supplemental catastrophe reinsurance and/or the catastrophe bond arrangements provides additional coverage as discussed below.

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The catastrophe bond arrangements provide reinsurance coverage for specific types of losses in specific geographic locations. They are generally designed to supplement coverage provided under the North American catastrophe treaty. We currently have three catastrophe bond arrangements in effect that expire between 2016 and 2020. We have a \$150 million arrangement that expires in March 2016 that provides reinsurance coverage for our exposure to homeowners-related hurricane and severe thunderstorm losses in eight states along the southern U.S. coastline. We have a \$270 million arrangement that expires in March 2018. We also have a \$250 million arrangement that incepted in March 2015 and expires in March 2020, which replaced a \$250 million arrangement that expired in March 2015. Both of the latter two catastrophe bond arrangements provide reinsurance coverage for our exposure to homeowners and commercial losses related to certain perils, including hurricanes and other named storms, earthquakes, severe thunderstorms and winter storms in 12 states in the northeast United States and the District of Columbia.

For the indicated catastrophic events in the northeast United States, the combination of the North American catastrophe treaty, the supplemental catastrophe reinsurance, and the \$270 million and \$250 million catastrophe bond arrangements provides additional coverage of approximately 63% of losses (net of recoveries from other available reinsurance) between \$1.75 billion and \$3.67 billion.

For hurricane and severe thunderstorm events along the southern U.S. coastline, the \$150 million catastrophe bond arrangement provides additional coverage of approximately 45% of homeowners-related hurricane and severe thunderstorm losses (net of recoveries from other available reinsurance) between \$875 million and \$1.21 billion.

For hurricane events in Florida, in addition to the coverage provided by the North American catastrophe treaty and the \$150 million catastrophe bond arrangement discussed above, we have reinsurance from the Florida Hurricane Catastrophe Fund, which is a state-mandated fund designed to reimburse insurers for a portion of their residential catastrophe-related hurricane losses. Our participation in this program, for which the most recent annual period began on June 1, 2014, provides coverage of 90% of homeowners-related hurricane losses in Florida in excess of our initial retention of \$160 million per event. Under the terms of the program, our aggregate recoveries during the annual coverage period are limited to approximately \$380 million, based on our current level of participation.

Our primary property catastrophe treaty for events outside the continental United States, including Canada, provides coverage of approximately 75% of losses (net of recoveries from other available reinsurance) between \$100 million and \$350 million. For catastrophic events in Australia and Canada, additional reinsurance provides coverage of 80% of losses (net of recoveries from other available reinsurance) between \$350 million and \$475 million.

Our commercial property per risk treaty provides coverage for property exposures both inside and outside the United States. Depending upon the currency in which the covered insurance policy was issued and prevailing foreign currency exchange rates, the treaty provides coverage per risk of approximately \$470 million to \$645 million in excess of our initial retention, which is generally between \$20 million and \$25 million.

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In addition to our major property catastrophe and property per risk treaties, we purchase several smaller property treaties that provide coverage for specific classes of business or locations having concentrations of risk.

Recoveries under our property reinsurance treaties are subject to certain coinsurance requirements that affect the interaction of some elements of our reinsurance program.

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

The renewal rates associated with the North American catastrophe treaty, the catastrophe treaty that covers events outside the United States and the commercial property per risk treaty were lower than the rates for the expiring treaties. The costs related to the reinsurance purchased through the issuance of the catastrophe bond in March 2015 were also lower than those related to the expiring bond. We therefore expect that the overall cost of our property reinsurance program will be lower in 2015 than in 2014.

Profitability

The combined loss and expense ratio (or combined ratio), expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance business. Management evaluates the performance of our underwriting operations and of each of our business units using, among other measures, the combined loss and expense ratio calculated in accordance with U.S. statutory accounting principles. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) and 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 U.S. property and casualty insurance companies differ in certain respects from generally accepted accounting principles in the United States (GAAP). Under statutory accounting principles, policy acquisition and other underwriting expenses are recognized immediately, not at the time premiums are earned. Management uses underwriting results determined in accordance with GAAP, among other measures, to assess the overall performance of our underwriting operations. To convert statutory underwriting results to a GAAP basis, certain policy acquisition expenses are deferred and amortized over the period in which the related premiums are earned. Underwriting income determined in accordance with GAAP is defined as premiums earned less losses and loss expenses incurred and GAAP underwriting expenses incurred.

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An accident year is the calendar year in which a loss is incurred or, in the case of claims-made policies, the calendar year in which a loss is reported. The total losses and loss expenses incurred for a particular calendar year include current accident year losses and loss expenses as well as any increases or decreases to our estimates of losses and loss expenses that occurred in all prior accident years, which we refer to as prior year loss development.

Underwriting results for our property and casualty insurance business were profitable in the first quarter of 2015 and 2014. The combined loss and expense ratio was as follows:

	Quarter Ended March 31	
	2015	2014
Loss ratio	62.0%	61.1%
Expense ratio	31.9	32.1
Combined loss and expense ratio	93.9%	93.2%

The 0.9 of a percentage point increase in the loss ratio in the first quarter of 2015 compared with the same period of 2014 was due to a lower amount of favorable prior year loss development and a higher impact of catastrophes, largely offset by a lower current accident year loss ratio excluding catastrophes. The current accident year loss ratio excluding catastrophes was lower in the first quarter of 2015 in our personal and specialty insurance segments and similar in our commercial insurance segment compared with the same period of 2014. The loss ratio in the first quarter of 2015 and 2014 included a significant impact from catastrophes. It also reflected favorable loss experience excluding catastrophes that we believe resulted from our disciplined underwriting in recent years. The loss ratio in the first quarter of both years also benefited from the positive impact of rate increases on premiums earned in most classes of business as well as favorable prior year loss development.

Our underwriting profitability in any given period will be affected by the impact of catastrophes in that period. We define a catastrophe as an event that is estimated to cause \$25 million or more in industry-wide insured property losses and affects a significant number of policyholders and insurers.

The net impact of catastrophes in the first quarter of 2015 was \$250 million, which represented 8.1 percentage points of the combined ratio, compared with \$199 million or 6.6 percentage points in the same period of 2014. Most of the catastrophe losses in the first quarter of 2015 and 2014 related to severe winter weather in the United States.

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The impact of catastrophes, including losses and any related reinsurance reinstatement premiums, for individually significant events and all other events was as follows:

Quarter Ended March 31			Impact of Catastrophes (in millions)
2015			
Winter freeze	Mid-Atlantic and Northeast United States	February 2015	\$ 165
Other events			85
Total			\$ 250
2014			
Winter freeze	17 states in the United States	January 2014	\$ 138
Other events			61
Total			\$ 199

The net impact of catastrophes in the first quarter of 2015 and 2014 reflected \$14 million and \$7 million, respectively, of favorable prior year loss development.

The expense ratio decreased by 0.2 of a percentage point in the first quarter of 2015 compared with the same period of 2014, due primarily to net premiums written increasing at a slightly higher rate than overhead expenses.

Review of Underwriting Results by Business Unit*Personal Insurance*

Net premiums written in our personal insurance segment, which represented 33% of our total net premiums written in the first quarter of 2015, increased by 2% in the first quarter of 2015 compared with the same period of 2014. Net premiums written for the classes of business within the personal insurance segment were as follows:

	Quarter Ended March 31		% Increase
	2015	2014	
	(in millions)		
Automobile	\$ 176	\$ 173	2%
Homeowners	600	592	1
Other	260	248	5
Total personal	\$ 1,036	\$ 1,013	2

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The increase in net premiums written in our personal insurance segment in the first quarter of 2015 compared with the same period of 2014 was driven by growth in the United States. Premium growth occurred in all classes of this business in the first quarter of 2015 in the United States. Net premiums written outside the United States decreased modestly in the first quarter of 2015, due to the negative effect of foreign currency translation. Excluding the effect of foreign currency translation, net premiums written outside the United States increased. The overall growth in our personal insurance segment excluding the effect of foreign currency translation was 5%. Such growth was attributable to higher insured exposures, higher rates upon renewal, strong retention of existing business, and new business.

Net premiums written for our personal automobile business increased in the first quarter of 2015 compared with the same period of 2014, driven by growth in the United States. Personal automobile net premiums written outside the United States were flat in the first quarter of 2015, due to the negative effect of foreign currency translation. Personal automobile net premiums written outside the United States have represented approximately 40% of our annual total personal automobile net premiums written, with more than half of such premiums written in Brazil.

Net premiums written for our homeowners business increased in the first quarter of 2015 compared with the same period of 2014, due to growth in the United States, reflecting increases in the values insured on existing policies, higher renewal rates, strong retention of existing business, and new business. Net premiums written outside the United States for our homeowners business decreased in the first quarter of 2015 compared with the same period of 2014, due to the negative effect of foreign currency translation.

Net premiums written for our other personal business, which includes accident and health, excess liability and yacht coverages, increased in the first quarter of 2015 compared with the same period of 2014, driven by significant growth in the United States. Premiums for our other personal business written outside the United States decreased in the first quarter of 2015 compared with the same period of 2014, due to the negative effect of foreign currency translation. Premiums for our accident and health business, about half of which is written outside the United States, increased modestly in the first quarter of 2015 compared with the same period of 2014, driven by significant growth in the United States. Accident and health premiums written outside the United States decreased modestly in the first quarter of 2015 due to the negative effect of foreign currency translation. Premiums for our excess liability business, most of which is written in the United States, increased in the first quarter of 2015 compared with the same period of 2014.

Our personal insurance segment produced unprofitable underwriting results in the first quarter of 2015 and 2014, but more so in 2015. The combined loss and expense ratios for the classes of business within the personal insurance segment were as follows:

	Quarter Ended March 31	
	2015	2014
Automobile	92.9%	101.4%
Homeowners	112.7	104.9
Other	92.3	92.4
Total personal	105.1	101.8

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The 3.3 percentage point increase in the combined loss and expense ratio for our personal insurance segment in the first quarter of 2015 compared with the same period of 2014 was driven by deterioration in the results for our homeowners business, partially offset by improved results in our personal automobile business. The impact of catastrophes accounted for 18.4 percentage points of the combined ratio for our personal insurance segment in the first quarter of 2015 compared with 11.2 percentage points in the same period of 2014.

Personal automobile results were profitable in the first quarter of 2015 compared with unprofitable results in the same period of 2014. The 8.5 percentage point decrease in the combined ratio in the first quarter of 2015 compared with the same period of 2014 was driven by more profitable results in the United States. Results in the United States were highly profitable in the first quarter of 2015 compared with slightly unprofitable results in the same period of 2014. Results outside the United States were modestly unprofitable in the first quarter of both years. Personal automobile results in the first quarter of 2015 benefited from a modest amount of favorable prior year loss development while results in the same period of 2014 reflected a modest amount of unfavorable prior year loss development.

Homeowners results were unprofitable in the first quarter of 2015 and 2014, but more so in 2015. The 7.8 percentage point increase in the combined ratio in the first quarter of 2015 compared with the same period of 2014 was due to a higher impact of catastrophes, offset in part by a lower current accident year loss ratio excluding catastrophes, driven primarily by a decrease in fire losses. The impact of catastrophes accounted for 30.0 percentage points of the combined ratio for this class in the first quarter of 2015 compared with 17.9 percentage points in the same period of 2014.

Other personal results were similarly profitable in the first quarter of 2015 and 2014. Other personal results were highly profitable in the United States in the first quarter of both years. Results for this business outside the United States were modestly unprofitable in the first quarter of 2015 compared with slightly unprofitable results in the same period of 2014. Our accident and health business produced slightly profitable results in the first quarter of 2015 and 2014. In the first quarter of both years, results for this business were highly profitable in the United States and unprofitable outside the United States. Results for the excess liability component of this business were highly profitable in the first quarter of 2015 compared with profitable results in the same period of 2014. Excess liability results benefited from favorable prior year loss development in the first quarter of both years, but more so in 2015. Our yacht business produced highly profitable results in the first quarter of 2015 and 2014.

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Commercial Insurance

Net premiums written in our commercial insurance segment, which represented 47% of our total net premiums written in the first quarter of 2015, increased by 2% in the first quarter of 2015 compared with the same period of 2014. Net premiums written for the classes of business within the commercial insurance segment were as follows:

	Quarter Ended March 31		% Increase (Decrease)
	2015	2014	
	<i>(in millions)</i>		
Multiple peril	\$ 269	\$ 261	3%
Casualty	423	446	(5)
Workers compensation	343	310	11
Property and marine	414	408	1
Total commercial	\$ 1,449	\$ 1,425	2

Growth in net premiums written in our commercial insurance segment in the first quarter of 2015 compared with the same period of 2014 was driven by growth in the United States. Net premiums written outside the United States decreased modestly in the first quarter of 2015, due to the negative effect of foreign currency translation. Excluding the effect of foreign currency translation, net premiums written outside the United States increased. Overall premium growth in our commercial insurance segment excluding the effect of foreign currency translation was 5%. Such growth reflected high retention, new business and higher rates upon renewal. The most significant growth in our commercial insurance segment in the first quarter of 2015 occurred in the workers compensation class, which is primarily written in the United States, reflecting high retention, higher renewal exposure and new business. In the first quarter of 2015, premiums written for the multiple peril and property and marine classes also increased, but were negatively impacted by foreign currency translation. Premiums written in the casualty class decreased in the first quarter of 2015 due primarily to the negative effect of foreign currency translation. Average renewal rates in our commercial insurance segment in the United States were up slightly in the first quarter of 2015 compared with expiring rates, but the level of increase was lower than in recent years. Average renewal rates outside the United States were flat compared to expiring rates in the first quarter of 2015. Retention levels of our existing policyholders were strong in the first quarter of both years. Retention levels in the United States were modestly higher in the first quarter of 2015 compared with the same period of 2014 while retention levels outside the United States were flat. The average renewal exposure change was flat both inside and outside the United States in the first quarter of 2015. The amount of new business, both inside and outside the United States, was higher in the first quarter of 2015 compared with the same period of 2014, as a result of more opportunities to write business at appropriate rates.

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Our commercial insurance segment produced profitable underwriting results in the first quarter of 2015 and 2014, but more so in 2014. The combined loss and expense ratios for the classes of business within the commercial insurance segment were as follows:

	Quarter Ended March 31	
	2015	2014
Multiple peril	96.9%	91.8%
Casualty	93.7	89.7
Workers compensation	84.1	84.0
Property and marine	89.0	89.1
Total commercial	90.8	88.5

The 2.3 percentage point increase in the combined loss and expense ratio for our commercial insurance segment in the first quarter of 2015 compared with the same period of 2014 was due to a lower amount of favorable prior year loss development, offset in part by a lower impact of catastrophes. The current accident year loss ratio excluding catastrophes was similar in the first quarter of both years. The impact of catastrophes accounted for 3.4 percentage points of the combined ratio for our commercial insurance segment in the first quarter of 2015 compared with 6.1 percentage points in the same period of 2014. Results for our commercial insurance business in the first quarter of 2015 and 2014 benefited from favorable prior year loss development and our disciplined risk selection in recent years.

Multiple peril results were profitable in the first quarter of 2015 and 2014, but more so in 2014. The 5.1 percentage point increase in the combined ratio in the first quarter of 2015 compared with the same period of 2014 was due to worse results for the property component of this business. Results for the property component of this business were unprofitable in the first quarter of 2015 compared with highly profitable results in the same period of 2014, reflecting unfavorable prior year loss development in the first quarter of 2015 and favorable prior year loss development in the same period of 2014. Results for the liability component of this business were highly profitable in the first quarter of 2015 compared with modestly profitable results in the same period of 2014. The impact of catastrophes accounted for 9.6 percentage points of the combined ratio for the multiple peril class in the first quarter of 2015 compared with 9.4 percentage points in the same period of 2014.

Casualty results were profitable in the first quarter of 2015 and 2014, but more so in 2014. The 4.0 percentage point increase in the combined ratio in the first quarter of 2015 compared with the same period of 2014 was due mainly to less profitable results in the excess liability component of this business. Results for the primary liability component were profitable in the first quarter of 2015 compared with near breakeven results in the same period of 2014. Results for the automobile component were slightly unprofitable in the first quarter of 2015 compared with modestly profitable results in the same period of 2014. Results for the excess liability component were highly profitable in the first quarter of 2015 and 2014, but more so in 2014. Excess liability results in the first quarter of both years benefited from substantial favorable prior year loss development driven mainly by lower than expected claim severity. Casualty results were adversely affected by incurred losses related to asbestos.

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and toxic waste claims in the first quarter of 2015. Our analysis of these exposures resulted in an increase in the estimate of our ultimate liabilities. Such losses represented 2.0 percentage points of the combined ratio for our casualty business in the first quarter of 2015, compared with an insignificant impact in the same period of 2014.

Workers' compensation results were similarly profitable in the first quarter of 2015 and 2014. Results in the first quarter of both years reflected favorable prior year loss development as well as our disciplined risk selection during the past several years.

Property and marine results were also similarly profitable in the first quarter of 2015 and 2014. Results in the first quarter of 2015 reflected a lower impact of catastrophes compared with the same period of 2014, but results in the first quarter of 2014 benefited from favorable prior year loss development. The impact of catastrophes accounted for 4.7 percentage points of the combined ratio in the first quarter of 2015 compared with 14.6 percentage points in the same period of 2014.

Specialty Insurance

Net premiums written in our specialty insurance segment, which represented 20% of our total net premiums written in the first quarter of 2015, were flat in the first quarter of 2015 compared with the same period of 2014. Net premiums written for the classes of business within the specialty insurance segment were as follows:

	Quarter Ended March 31		% Increase (Decrease)
	2015	2014	
	<i>(in millions)</i>		
Professional liability	\$ 545	\$ 552	(1)%
Surety	76	72	6
Total specialty	\$ 621	\$ 624	

Growth in net premiums written in our specialty insurance segment in the first quarter of 2015 compared with the same period of 2014 reflected the negative effect of foreign currency translation. Premium growth excluding the effect of foreign currency translation was 4%.

The decrease in net premiums written for our professional liability business in the first quarter of 2015 was driven by a significant decline in net premiums written outside the United States, due to the negative effect of foreign currency translation. Net premiums written in the United States were modestly higher in the first quarter of 2015 compared with the same period of 2014. Overall premium growth in our professional liability business continued to reflect our focus on profitability in the pricing of renewal policies and new business, in what remains a competitive marketplace. Retention levels for this business remained strong and were modestly higher in the first quarter of 2015 compared with those in the same period of 2014, both inside and outside the United States. New business increased in the United States in the first quarter of 2015 compared with the same period of 2014, but decreased slightly outside the United States. The new business volume in the first quarter of 2015,

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particularly in the United States, reflected opportunities to write suitably priced business in select classes due to the positive pricing trends in the market over the last few years. Average renewal rates in the United States for our professional liability business were up in the first quarter of 2015 compared with expiring rates, with increases occurring in most classes of this business. Average renewal rates outside the United States were flat in the first quarter of 2015 compared with expiring rates. On average, the amounts of insured exposures upon renewal were up slightly in the United States and close to flat outside the United States in the first quarter of 2015.

The increase in net premiums written for our surety business in the first quarter of 2015 compared with the same period of 2014 was driven by an increase in premiums written outside the United States, particularly in Latin America. Net premiums written in the United States for our surety business were flat in the first quarter of 2015. Premiums written in our surety business depend significantly on the extent to which our existing customers are awarded contracts to perform services. As a result, premium growth in our surety business can often vary from period to period.

Our specialty insurance business produced profitable underwriting results in the first quarter of 2015 and 2014, but more so in 2015. The combined loss and expense ratios for the classes of business within the specialty insurance segment were as follows:

	Quarter Ended March 31	
	2015	2014
Professional liability	85.2%	84.6%
Surety	54.8	122.9
Total specialty	81.9	88.9

The 7.0 percentage point decrease in the combined loss and expense ratio for our specialty insurance segment in the first quarter of 2015 compared with the same period of 2014 was driven by improved results for our surety business.

Professional liability results were profitable in the first quarter of 2015 and 2014. The 0.6 of a percentage point increase in the combined ratio for this business in the first quarter of 2015 compared with the same period of 2014 was due to a slightly lower amount of favorable prior year loss development, offset in part by slightly improved current accident year results compared with the same period of 2014.

Results for the directors and officers liability and fiduciary liability classes were highly profitable in the first quarter of 2015 and 2014, but more so in 2014. Results for these classes reflected favorable prior year loss development in the first quarter of both years, but more so in 2014. Results for the fidelity class were also highly profitable in the first quarter of 2015 and 2014. Results for the employment practices liability class were modestly unprofitable in the first quarter of 2015 compared with slightly unprofitable results in the same period of 2014. Results for the errors and omissions liability class were highly profitable in the first quarter of 2015 compared with highly unprofitable results in the same period of 2014. Results for this class reflected favorable prior year loss development in the first quarter of 2015 compared with unfavorable prior year loss development in the same period of 2014.

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Surety results were profitable in the first quarter of 2015 compared with unprofitable results in the same period of 2014. The combined ratio was 68.1 percentage points lower in the first quarter of 2015 compared with the same period of 2014. The higher combined ratio in the first quarter of 2014 was due to one large loss outside the United States. Our surety business tends to be characterized by losses that are infrequent but have the potential to be highly severe.

Reinsurance Assumed

Net premiums written in our runoff reinsurance assumed business were not significant in the first quarter of 2015 or 2014. Results for this business were breakeven in the first quarter of both years.

Catastrophe Risk Management

Our property and casualty insurance subsidiaries have exposure to losses caused by natural perils such as hurricanes and other windstorms, earthquakes, severe winter weather and brush fires as well as from man-made catastrophic events such as terrorism. The frequency and severity of catastrophes are inherently 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 regularly assess our concentrations of risk in catastrophe exposed areas globally and have strategies and underwriting standards to manage these exposures through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance coverage. We use catastrophe modeling and a risk concentration management tool to monitor and control our accumulations of potential losses in catastrophe exposed areas in the United States, such as California and the gulf and east coasts, as well as in catastrophe exposed areas in other countries. The information provided by the catastrophe modeling and the risk concentration management tool has resulted in our non-renewing or reducing our exposure on some accounts and refraining from writing others.

Catastrophe modeling generally relies on multiple inputs based on experience, science, engineering and history, and the selection of those inputs requires a significant amount of judgment. Also, the modeling results may fail to account for risks that are outside the range of normal probability or are otherwise unforeseen. Because of this, actual results may differ materially from those derived from our modeling exercises.

We also continue to assess how changes in catastrophe risk, including the potential impact of global climate change, may affect our ability to manage our exposure under the insurance policies we issue, as well as how laws and regulations intended to combat climate change may affect us.

Despite our efforts to manage our catastrophe exposure, the occurrence of one or more severe catastrophic events could have a material effect on the Corporation's results of operations, financial condition or liquidity.

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Loss Reserves

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

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

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

Incurred but not reported (IBNR) reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. The IBNR reserve includes a provision for claims that have occurred but have not yet been reported to us, some of which are not yet known to the insured, as well as a provision for future development on reported claims. A relatively large proportion of our net loss reserves, particularly for long tail liability classes, are reserves for IBNR losses. In fact, about 75% of our aggregate net loss reserves at March 31, 2015 were for IBNR losses.

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

	Gross Loss Reserves			Reinsurance	Net
	Case	IBNR	Total	Recoverable	Loss
<u>March 31, 2015</u>			(in millions)		Reserves
Personal insurance					
Automobile	\$ 248	\$ 145	\$ 393	\$ 13	\$ 380
Homeowners	467	516	983	32	951
Other	311	747	1,058	65	993
Total personal	1,026	1,408	2,434	110	2,324
Commercial insurance					
Multiple peril	587	1,209	1,796	36	1,760
Casualty	1,326	5,500	6,826	407	6,419
Workers compensation	1,138	2,113	3,251	291	2,960
Property and marine	748	475	1,223	340	883
Total commercial	3,799	9,297	13,096	1,074	12,022
Specialty insurance					
Professional liability	1,109	5,406	6,515	271	6,244
Surety	17	66	83	5	78
Total specialty	1,126	5,472	6,598	276	6,322
Total insurance	5,951	16,177	22,128	1,460	20,668
Reinsurance assumed	134	253	387	123	264
Total	\$ 6,085	\$ 16,430	\$ 22,515	\$ 1,583	\$ 20,932

	Gross Loss Reserves			Reinsurance	Net
	Case	IBNR	Total	Recoverable	Loss
<u>December 31, 2014</u>			(in millions)		Reserves
Personal insurance					
Automobile	\$ 260	\$ 151	\$ 411	\$ 14	\$ 397
Homeowners	438	353	791	43	748
Other	331	739	1,070	70	1,000
Total personal	1,029	1,243	2,272	127	2,145

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Commercial insurance					
Multiple peril	596	1,194	1,790	40	1,750
Casualty	1,412	5,514	6,926	412	6,514
Workers compensation	1,116	2,091	3,207	289	2,918
Property and marine	773	465	1,238	355	883
Total commercial	3,897	9,264	13,161	1,096	12,065
Specialty insurance					
Professional liability	1,180	5,587	6,767	287	6,480
Surety	18	62	80	5	75
Total specialty	1,198	5,649	6,847	292	6,555
Total insurance	6,124	16,156	22,280	1,515	20,765
Reinsurance assumed	145	253	398	124	274
Total	\$ 6,269	\$ 16,409	\$ 22,678	\$ 1,639	\$ 21,039

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Loss reserves, net of reinsurance recoverable, decreased by \$107 million during the first quarter of 2015. The decrease in loss reserves during the first quarter of 2015 included a decrease of \$367 million related to the effect of foreign currency translation, due to a stronger U.S. dollar relative to the currencies in which our loss reserves were held at March 31, 2015 compared with December 31, 2014. The decrease in loss reserves also reflected an increase of \$184 million related to catastrophe losses. Loss reserves related to our insurance business decreased by \$97 million and loss reserves related to our runoff reinsurance assumed business decreased by \$10 million.

The increase in gross loss reserves in the homeowners class during the first quarter of 2015 was driven by catastrophe and other weather-related losses. The decrease in gross loss reserves in the professional liability classes reflected the effect of foreign currency translation as well as payment activity and favorable prior year loss development. The decrease in gross loss reserves in the casualty classes was due primarily to the effect of foreign currency translation.

In establishing the loss reserves of our property and casualty insurance subsidiaries, we consider facts currently known and the present state of the law and coverage litigation. Based on all information currently available, we believe that the aggregate net loss reserves at March 31, 2015 were adequate to cover claims for losses that had occurred as of that date, including both those known to us and those yet to be reported. However, as discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014, there are significant uncertainties inherent in the loss reserving process. It is therefore possible that management's estimate of the ultimate liability for losses that had occurred as of March 31, 2015 may change, which could have a material effect on the Corporation's results of operations and financial condition.

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

We estimate that we experienced overall favorable development of about \$110 million during the first quarter of 2015 compared with favorable development of about \$160 million in the same period of 2014, on net loss reserves established as of the respective prior year end.

The favorable development in the first quarter of 2015 was primarily in the professional liability classes due to favorable loss experience related mainly to accident years 2011 and prior, and in the commercial liability classes due to favorable loss experience related mainly to accident years 2012 and prior. The favorable development in the first quarter of 2014 was primarily in the professional liability classes due to favorable loss experience related mainly to accident years 2007 and prior, in the commercial liability classes due to favorable loss experience related mainly to accident years 2012 and prior, and in the commercial property classes due mainly to lower than expected severity primarily in the 2013 accident year.

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Investment Results

Our ability to grow our property and casualty investment income is a function of several variables, including investable cash flows, available reinvestment rates and foreign currency to U.S. dollar exchange rates. The property and casualty subsidiaries' investable cash flows are impacted by many factors, including operating activities, the payment of dividends to Chubb and the timing of maturities, calls and redemptions of fixed maturities. Economic conditions and national monetary policies both inside and outside the United States have resulted in a low interest rate environment in recent years that is expected to continue to adversely affect our ability to increase our investment income.

Property and casualty investment income before taxes decreased by 6% in the first quarter of 2015 compared with the same period in 2014. The decrease was due primarily to a decline in the average yield of our property and casualty subsidiaries' investment portfolio and, to a lesser extent, the impact of foreign currency translation, partially offset by the impact of an increase in our average invested assets. The decrease in the average yield on the investment portfolio primarily resulted from lower reinvestment yields on securities that we purchased to replace fixed maturities that matured, were redeemed by the issuer or were sold since the first quarter of 2014. While the property and casualty subsidiaries generated substantial operating cash flows in the last nine months of 2014 and the first quarter of 2015, average invested assets were impacted by substantial dividend distributions made by the property and casualty subsidiaries to Chubb during 2014. As a result of the dividend distributions, our property and casualty subsidiaries held only a slightly higher amount of average invested assets in the first quarter of 2015 compared with the same period of 2014.

The effective tax rate on our investment income was 17.8% in the first quarter of 2015 compared with 18.8% in the same period of 2014. The effective tax rate on our investment income is lower than the U.S. statutory tax rate since a portion of our investment income is tax exempt interest income. The effective tax rate fluctuates as the proportion of tax exempt investment income relative to total investment income changes from period to period.

On an after-tax basis, property and casualty investment income decreased by 5% in the first quarter of 2015 compared with the same period of 2014. The after-tax annualized yield on our property and casualty subsidiaries' investment portfolio was 2.65% and 2.80% in the first quarter of 2015 and 2014, respectively.

Other Income and Charges

Other income and charges, which includes miscellaneous income and expenses of the property and casualty subsidiaries, was not significant in the first quarter of 2015 and 2014.

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Corporate and Other

Corporate and other comprises investment income earned on corporate invested assets, interest expense and other expenses not allocated to our operating subsidiaries and the results of our non-insurance subsidiaries.

Corporate and other produced a loss before taxes of \$62 million in the first quarter of 2015 compared with a loss of \$60 million for the same period of 2014.

Realized Investment Gains and Losses

Net realized investment gains and losses were as follows:

	Quarter Ended March 31	
	2015	2014
	<i>(in millions)</i>	
Net realized gains (losses)		
Fixed maturities	\$ 8	\$ (3)
Equity securities	16	66
Other invested assets	10	53
	34	116
Other-than-temporary impairment losses		
Fixed maturities	(1)	
Equity securities	(22)	
	(23)	
Realized investment gains before tax	\$ 11	\$ 116
Realized investment gains after tax	\$ 8	\$ 75

The net realized gains and losses of other invested assets primarily include the aggregate of realized gain distributions to us from the private equity limited partnerships in which we have an interest and changes in our equity in the net assets of those partnerships based on valuations provided to us by the manager of each partnership. Due to the timing of our receipt of valuation data from the investment managers, the value of these investments and any related realized gains and losses are generally reported on a one quarter lag.

The net realized gains of the limited partnerships reported in the first quarter of 2015 primarily reflected the positive performance of the U.S. equity markets in the fourth quarter of 2014. The net realized gains of the limited partnerships reported in the first quarter of 2014 primarily reflected the positive performance of the global equity and high yield investment markets in the fourth quarter of 2013.

We regularly review invested assets that have a fair value less than cost to determine if an other-than-temporary decline in value has occurred. We have a monitoring process overseen by a committee of investment and accounting professionals that is responsible for identifying those securities to be specifically evaluated for a potential other-than-temporary impairment.

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The determination of whether a decline in value of any investment is temporary or other than temporary requires the judgment of management. The assessment of other-than-temporary impairment of fixed maturities and equity securities is based on both quantitative criteria and qualitative information. A number of factors are considered including, but not limited to, the length of time and the extent to which the fair value has been less than the cost, the financial condition and near term prospects of the issuer, whether the issuer is current on contractually obligated interest and principal payments, general market conditions and industry or sector specific factors. The decision to recognize a decline in the value of a security carried at fair value as other than temporary rather than temporary has no impact on shareholders' equity.

In determining whether fixed maturities are other than temporarily impaired, we are required to recognize an other-than-temporary impairment loss when we conclude that we have the intent to sell or it is more likely than not that we will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value or it is likely we will not recover the entire amortized cost value of an impaired security. If we have the intent to sell or it is more likely than not that we will be required to sell an impaired fixed maturity before the security recovers to its amortized cost value, the security is written down to fair value and the entire amount of the writedown is included in net income as a realized investment loss. For all other impaired fixed maturities, when the impairment is determined to be other than temporary, the impairment loss is separated into the amount representing the credit loss and the amount representing the loss related to all other factors. The amount of the impairment loss that represents the credit loss is included in net income as a realized investment loss and the amount of the impairment loss that relates to all other factors is included in other comprehensive income.

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

Capital Resources and Liquidity

Capital resources and liquidity represent a company's overall financial strength and its ability to generate cash flows, borrow funds at competitive rates and raise new capital to meet operating and growth needs.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. At March 31, 2015, the Corporation had shareholders' equity of \$16.2 billion and total debt of \$3.3 billion.

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Management regularly monitors the Corporation's capital resources. In connection with our long term capital strategy, from time to time Chubb may contribute capital to its property and casualty subsidiaries. In addition, in order to satisfy capital needs as a result of any rating agency capital adequacy or other future rating issues, or in the event we were to need additional capital to make strategic investments in light of market opportunities, we may take a variety of actions, which could include the issuance of additional debt and/or equity securities. We believe that our strong financial position and current debt level provide us with the flexibility and capacity to obtain funds externally through debt or equity financings on both a short term and long term basis.

In January 2014, the Board of Directors authorized the repurchase of up to \$1.5 billion of Chubb's common stock. Repurchases under this authorization were completed in January 2015. On January 29, 2015, the Board of Directors authorized the repurchase of up to \$1.3 billion of Chubb's common stock. During the first quarter of 2015, under these two authorizations we repurchased 3,234,526 shares of Chubb's common stock in open market transactions at a cost of \$326 million. As of March 31, 2015, \$1,026 million remained under the January 2015 authorization. This authorization has no expiration date. We expect to complete the repurchase of shares under this authorization by the end of January 2016, subject to market conditions and other factors.

Ratings

Chubb and its property and casualty insurance subsidiaries are rated by major rating agencies. These ratings reflect the rating agency's opinion of our financial strength, operating performance, strategic position and ability to meet our obligations to policyholders.

Credit ratings assess a company's ability to make timely payments of interest and principal on its debt. Financial strength ratings assess an insurer's ability to meet its financial obligations to policyholders.

Chubb's issuer credit ratings and its property and casualty subsidiaries' financial strength ratings were provided in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014. As of April 30, 2015, they were unchanged except that on April 16, 2015, A.M. Best raised the issuer credit rating for Chubb's senior unsecured debt to aa from aa- and for junior subordinated capital securities to a+ from a.

Ratings are an important factor in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed.

If our credit ratings were downgraded, we might incur higher borrowing costs and might have more limited means to access capital. A downgrade in our financial strength ratings could adversely affect the competitive position of our insurance operations, including a possible reduction in demand for our products in certain markets.

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Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short and long term cash requirements of its business operations.

The Corporation's liquidity requirements in the past have generally been met by funds from operations and we expect that funds from operations will continue to be sufficient to meet such requirements in the future. Liquidity requirements could also be met by funds received upon the maturity or sale of marketable securities in our investment portfolio. Chubb also has the ability to borrow under its \$500 million credit facility and we believe we could issue debt or equity securities.

Our property and casualty operations provide liquidity in that insurance premiums are generally received months or even years before losses are paid under the policies purchased by such premiums. Cash receipts from operations, consisting of insurance premiums and investment income, provide funds to pay losses, operating expenses and dividends to Chubb. Cash receipts in excess of required cash outflows can be used to build the investment portfolio with the expectation of generating additional investment income in the future.

Our property and casualty subsidiaries maintain substantial investments in highly liquid, short term marketable securities. Accordingly, we do not anticipate selling long term fixed maturities to meet any liquidity needs.

Chubb's liquidity requirements primarily include the payment of dividends to shareholders and interest and principal on debt obligations. The declaration and payment of dividends to Chubb's shareholders is at the discretion of Chubb's Board of Directors and depends upon many factors, including our operating results, financial condition, capital requirements and any regulatory constraints.

As a holding company, Chubb's ability to continue to pay dividends to shareholders and to satisfy its debt obligations relies on the availability of liquid assets, which is dependent in large part on the dividend paying ability of its property and casualty subsidiaries. The timing and amount of dividends paid by the property and casualty subsidiaries to Chubb may vary from year to year. In the United States, our property and casualty subsidiaries are subject to laws and regulations in the jurisdictions in which they operate that restrict the amount and timing of dividends they may pay within twelve consecutive months without the prior approval of regulatory authorities. The restrictions are generally based on net income and on certain levels of policyholders' surplus as determined in accordance with statutory accounting principles. Dividends in excess of such thresholds are considered extraordinary and require prior regulatory approval.

During the first quarter of 2015, the property and casualty subsidiaries paid dividends of \$395 million to Chubb. Whether any dividends the property and casualty subsidiaries may pay during the remainder of 2015 require regulatory approval will depend on the amount and timing of the dividend payments. As of March 31, 2015, the maximum aggregate dividend distribution that may be made by the subsidiaries to Chubb during the remainder of 2015 without prior regulatory approval was approximately \$1.5 billion.

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The Corporation's strong underwriting and investment results generated substantial positive operating cash flows of \$530 million and \$372 million in the first quarter of 2015 and 2014, respectively. The cash provided by operating activities increased approximately \$160 million in the first quarter of 2015 compared with the same period of 2014 primarily as a result of lower loss payments and, to a lesser extent, higher premium collections, partially offset by higher tax payments.

Invested Assets

The main objectives in managing our investment portfolios are to maximize after-tax investment income and total investment return while managing credit risk and interest rate risk in order to ensure that funds will be available to meet our insurance obligations. Investment strategies are developed based on many factors including underwriting results and our resulting tax position, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the boards of directors of Chubb and its respective operating companies.

Our investment portfolio primarily comprises high quality bonds, principally tax exempt securities, corporate bonds, U.S. Treasury securities and mortgage-backed securities, as well as foreign government and corporate bonds that support our operations outside the United States. The portfolio also includes equity securities, primarily publicly traded common stocks, and other invested assets, primarily private equity limited partnerships, all of which are held with the primary objective of capital appreciation.

Our objective is to achieve an appropriate mix of taxable and tax exempt securities in our portfolio to balance both investment and tax strategies. At March 31, 2015, 65% of our U.S. fixed maturity portfolio was invested in tax exempt securities. At March 31, 2015, about 75% of our tax exempt securities were rated Aa or better, with about 15% rated Aaa. The average rating of our tax exempt securities was Aa. While about 10% of our tax exempt securities were insured, the effect of insurance on the average credit rating of these securities was insignificant. The insured tax exempt securities in our portfolio have been selected based on the quality of the underlying credit and not the value of the credit insurance enhancement.

At March 31, 2015, 8% of our taxable fixed maturity portfolio was invested in U.S. government and government agency and authority obligations other than mortgage-backed securities and had an average rating of Aa. About 75% of the U.S. government and government agency and authority obligations other than mortgage-backed securities were U.S. Treasury securities with an average rating of Aaa and the remainder were taxable bonds issued by states, municipalities and political subdivisions within the United States with an average rating of Aa.

At March 31, 2015, 51% of our taxable fixed maturity portfolio consisted of corporate bonds that were issued by a diverse group of U.S. and foreign issuers and had an average rating of A. About 60% of our corporate bonds were issued by U.S. companies and about 40% were issued by foreign companies. At March 31, 2015, about 5% of our foreign corporate bonds were below investment grade.

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At March 31, 2015, 34% of our taxable fixed maturity portfolio was invested in foreign government and government agency obligations, which had an average rating of Aa. The foreign government and government agency obligations consisted of high quality securities, primarily issued or guaranteed by national governments and, to a lesser extent, government agencies, regional governments and supranational organizations. The five largest sovereign issuers within our portfolio were Canada, the United Kingdom, Germany, Australia and Brazil, which collectively accounted for about 75% of our total foreign government and government agency obligations. Another 7% of our total foreign government and government agency obligations were issued by supranational organizations. At March 31, 2015, none of our foreign government and government agency obligations were below investment grade. We did not hold any foreign government or government agency obligations that have third party guarantees.

At March 31, 2015, 7% of our taxable fixed maturity portfolio was invested in mortgage-backed securities. About 95% of the mortgage-backed securities were rated Aaa. About half of the remaining 5% were below investment grade. Of the Aaa rated securities, 88% were call protected, commercial mortgage-backed securities (CMBS). All of our CMBS were senior securities with the highest level of credit support. The other 12% of the Aaa rated securities were residential mortgage-backed securities, consisting of government agency pass-through securities guaranteed by a government agency or a government sponsored enterprise and collateralized mortgage obligations backed by single family home mortgages.

The net unrealized appreciation before tax of our fixed maturities and equity securities carried at fair value was \$2.9 billion at March 31, 2015 compared with net unrealized appreciation before tax of \$2.7 billion at December 31, 2014. Such unrealized appreciation is reflected in accumulated other comprehensive income, net of applicable deferred income taxes.

Fair Values of Financial Instruments

Fair values of financial instruments are determined by management using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical assets or liabilities or other inputs, such as quoted prices for similar assets or liabilities, that are observable, either directly or indirectly. In those instances where observable inputs are not available, fair values are measured using unobservable inputs for the asset or liability. Unobservable inputs reflect our own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

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The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 Unadjusted quoted prices in active markets for identical financial instruments.

Level 2 Other inputs that are observable for the financial instrument, either directly or indirectly.

Level 3 Significant unobservable inputs.

The methods and assumptions used to estimate the fair values of financial instruments are as follows:

The carrying value of short term investments approximates fair value due to the short maturities of these investments.

Fair values of fixed maturities are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from third party brokers. For fixed maturities that have quoted prices in active markets, market quotations are provided. For fixed maturities that do not trade on a daily basis, the pricing service and brokers provide fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment rates and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing service and brokers. In addition, management, using the prices received for the securities from the pricing service and brokers, determines the aggregate portfolio price performance and reviews it against applicable indices. If management believes that significant discrepancies exist, it will discuss these with the relevant pricing service or broker to resolve the discrepancies.

Fair values of equity securities are determined by management, utilizing quoted market prices.

Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service.

At March 31, 2015 and December 31, 2014, a pricing service provided fair value amounts for approximately 99% of our fixed maturities. The prices we obtain from a pricing service and brokers generally are non-binding, but are reflective of current market transactions in the applicable financial instruments.

At March 31, 2015 and December 31, 2014, we held an insignificant amount of financial instruments in our investment portfolio for which a lack of market liquidity impacted our determination of fair value.

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Item 3 Quantitative and Qualitative Disclosures About Market Risk

For the Corporation's disclosures about market risk, see Item 7A in Part II of Chubb's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to the Corporation's disclosures about market risk in Item 7A of Chubb's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4 Controls and Procedures

As of March 31, 2015, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Corporation's management, including Chubb's chief executive officer and chief financial officer. Based on that evaluation, the chief executive officer and chief financial officer concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2015.

During the quarter ended March 31, 2015, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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PART II. OTHER INFORMATION**Item 1A Risk Factors**

For a discussion of the Corporation's potential risks and uncertainties that could have a material adverse effect on our business, results of operations, profitability, financial condition, liquidity or cash flows and that could cause our operating results to vary significantly from period to period, see Item 1A in Part I of Chubb's Annual Report on Form 10-K for the year ended December 31, 2014. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could have a material adverse effect on our business, results of operations, profitability, financial condition, liquidity or cash flows.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes Chubb's stock repurchased each month in the quarter ended March 31, 2015:

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a) (in millions)
January 1	January 31	510,185	\$ 102.49	510,185	\$ 1,300
February 1	February 28	1,858,188	100.27	1,858,188	1,114
March 1	March 31	866,153	100.82	866,153	1,026
Total		3,234,526	100.77	3,234,526	

- (a) On January 30, 2014, the Board of Directors authorized the repurchase of up to \$1.5 billion of Chubb's common stock. In January 2015, Chubb repurchased \$52 million of its common stock remaining under the January 30, 2014 authorization. On January 29, 2015, the Board of Directors authorized the repurchase of up to \$1.3 billion of Chubb's common stock. The January 29, 2015 authorization has no expiration date.

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Item 6 Exhibits

Exhibit Number	Description
	- Material Contracts
10.1*	Schedule of Salary Actions for Named Executive Officers incorporated by reference to Exhibit (10.1) of the registrant's Current Report on Form 8-K filed on March 3, 2015.
10.2*	Form of Performance Unit Award Agreement under The Chubb Corporation Long-Term Incentive Plan (2014) incorporated by reference to Exhibit (10.2) of the registrant's Current Report on Form 8-K filed on March 3, 2015.
10.3*	Form of Restricted Stock Unit Agreement under The Chubb Corporation Long-Term Incentive Plan (2014) incorporated by reference to Exhibit (10.3) of the registrant's Current Report on Form 8-K filed on March 3, 2015.
10.4*	Description of Non-Employee Director Compensation incorporated by reference to Exhibit (10.33) of the registrant's Annual Report on Form 10-K for the year ended December 31, 2014.
	- Rule 13a-14(a)/15d-14(a) Certifications
31.1	Certification by John D. Finnegan filed herewith.
31.2	Certification by Richard G. Spiro filed herewith.
	- Section 1350 Certifications
32.1	Certification by John D. Finnegan filed herewith.
32.2	Certification by Richard G. Spiro filed herewith.
	- Interactive Data File
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* This exhibit is a management contract or a compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Chubb Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CHUBB CORPORATION

(Registrant)

By: /s/ John J. Kennedy
John J. Kennedy
Senior Vice President and

Chief Accounting Officer

Date: May 6, 2015