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

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 x NO ¨

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

YES x 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 x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

YES ¨ NO x

The number of shares of common stock outstanding as of September 30, 2015 was 227,055,872.

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THE CHUBB CORPORATION

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Part I. FINANCIAL INFORMATION

Item 1 Financial Statements

THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

PERIODS ENDED SEPTEMBER 30

(in millions)

	Third Quarter		Nine Months	
	2015	2014	2015	2014
Revenues				
Premiums Earned	$ 3,166	$ 3,119	$ 9,404	$ 9,212
Investment Income	328	344	1,001	1,053
Other Revenues	2	1	6	6
Realized Investment Gains (Losses), Net				
Total Other-Than-Temporary Impairment Losses on Investments	(26)		(49)	(5)
Other Realized Investment Gains, Net	108	110	162	356
Total Realized Investment Gains, Net	82	110	113	351
Total Revenues	3,578	3,574	10,524	10,622
Losses and Expenses				
Losses and Loss Expenses	1,633	1,679	5,260	5,316
Amortization of Deferred Policy Acquisition Costs	663	644	1,941	1,896
Other Insurance Operating Costs and Expenses	349	357	1,049	1,079
Investment Expenses	13	12	36	32
Other Expenses	4	4	10	14
Corporate Expenses	69	60	221	186
Total Losses and Expenses	2,731	2,756	8,517	8,523
Income Before Federal and Foreign Income Tax	847	818	2,007	2,099
Federal and Foreign Income Tax	246	224	537	557
Net Income	$ 601	$ 594	$ 1,470	$ 1,542
Net Income Per Share				

Basic	$ 2.62	$ 2.47	$ 6.36	$ 6.30
Diluted	2.60	2.47	6.33	6.28
Dividends Declared Per Share	.57	.50	1.71	1.50

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PERIODS ENDED SEPTEMBER 30

(in millions)

	Third Quarter		Nine Months	
	2015	2014	2015	2014
Net Income	$ 601	$ 594	$ 1,470	$ 1,542
Other Comprehensive Income (Loss), Net of Tax				
Change in Unrealized Appreciation of Investments	(19)	(46)	(285)	427
Change in Postretirement Benefit Costs Not Yet Recognized in Net Income	11	6	35	17
Foreign Currency Translation Losses	(38)	(26)	(199)	(41)
	(46)	(66)	(449)	403
Comprehensive Income	$ 555	$ 528	$ 1,021	$ 1,945

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions)

	September 30 2015	December 31 2014
Assets		
Invested Assets		
Short Term Investments	$ 3,052	$ 1,318
Fixed Maturities (cost $35,469 and $36,958)	37,016	38,780
Equity Securities (cost $1,060 and $1,089)	1,771	1,964
Other Invested Assets	1,422	1,423
TOTAL INVESTED ASSETS	43,261	43,485
Cash	53	47
Accrued Investment Income	403	410
Premiums Receivable	2,480	2,560
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	1,505	1,639
Prepaid Reinsurance Premiums	257	256
Deferred Policy Acquisition Costs	1,302	1,284
Deferred Income Tax	120	
Goodwill	467	467
Other Assets	1,344	1,138
TOTAL ASSETS	$ 51,192	$ 51,286
Liabilities		
Unpaid Losses and Loss Expenses	$ 22,359	$ 22,678
Unearned Premiums	6,636	6,581
Long Term Debt	3,300	3,300
Dividend Payable to Shareholders	130	117
Deferred Income Tax		15
Accrued Expenses and Other Liabilities	2,396	2,299
TOTAL LIABILITIES	34,821	34,990
Shareholders Equity		
Common Stock - $1 Par Value; 371,980,460 Shares	372	372

Paid-In Surplus	179	171
Retained Earnings	24,596	23,520
Accumulated Other Comprehensive Income	661	1,110
Treasury Stock, at Cost - 144,924,588 and 139,551,071 Shares	(9,437)	(8,877)
TOTAL SHAREHOLDERS EQUITY	16,371	16,296
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 51,192	$ 51,286

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

NINE MONTHS ENDED SEPTEMBER 30

(in millions)

	2015	2014
Common Stock		
Balance, Beginning of Year 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 $4 and $16)	8	(20)
Balance, End of Period	179	151
Retained Earnings		
Balance, Beginning of Year	23,520	21,902
Net Income	1,470	1,542
Dividends Declared (per share $1.71 and $1.50)	(394)	(365)
Balance, End of Period	24,596	23,079
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	(285)	427
Balance, End of Period	1,468	1,652
Postretirement Benefit Costs Not Yet Recognized in Net Income		
Balance, Beginning of Year	(589)	(253)
Change During Period, Net of Tax	35	17
Balance, End of Period	(554)	(236)
Foreign Currency Translation Gains (Losses)		
Balance, Beginning of Year	(54)	63
Change During Period, Net of Tax	(199)	(41)
Balance, End of Period	(253)	22

Accumulated Other Comprehensive Income, End of Period	661	1,438
Treasury Stock, at Cost		
Balance, Beginning of Year	(8,877)	(7,383)
Repurchase of Shares	(604)	(1,209)
Shares Issued Under Stock-Based Employee Compensation Plans	44	58
Balance, End of Period	(9,437)	(8,534)
TOTAL SHAREHOLDERS EQUITY	$ 16,371	$ 16,506

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30

(in millions)

	2015	2014
Cash Flows from Operating Activities		
Net Income	$ 1,470	$ 1,542
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Increase in Unpaid Losses and Loss Expenses, Net	176	151
Increase in Unearned Premiums, Net	182	242
Change in Income Tax Payable or Recoverable	(45)	163
Deferred Income Tax	107	66
Amortization of Premiums and Discounts on Fixed Maturities	173	143
Depreciation	39	41
Realized Investment Gains, Net	(113)	(351)
Other, Net	(32)	(78)
Net Cash Provided by Operating Activities	1,957	1,919
Cash Flows from Investing Activities		
Proceeds from Fixed Maturities		
Sales	3,197	3,243
Maturities, Calls and Redemptions	3,207	3,162
Proceeds from Sales of Equity Securities	94	199
Purchases of Fixed Maturities	(5,683)	(7,517)
Purchases of Equity Securities	(48)	(109)
Investments in Other Invested Assets, Net	74	189
Decrease (Increase) in Short Term Investments, Net	(1,757)	56
Change in Receivable or Payable from Security Transactions Not Settled, Net	14	457
Purchases of Property and Equipment, Net	(54)	(44)
Net Cash Used in Investing Activities	(956)	(364)
Cash Flows from Financing Activities		
Decrease in Funds Held Under Deposit Contracts	(3)	(2)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	13	18
Repurchase of Shares	(624)	(1,210)
Dividends Paid to Shareholders	(381)	(356)
Net Cash Used in Financing Activities	(995)	(1,550)

Net Increase in Cash		6		5
Cash at Beginning of Year		47		52
Cash at End of Period	$	53	$	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) Merger Agreement with ACE Limited

On June 30, 2015, Chubb entered into an Agreement and Plan of Merger (Merger Agreement) with ACE Limited (ACE), a company organized under the laws of Switzerland, and William Investment Holdings Corporation (Merger Sub), a New Jersey corporation and a wholly owned indirect subsidiary of ACE, pursuant to which Merger Sub will merge with and into Chubb, with Chubb surviving as a wholly owned indirect subsidiary of ACE (the Merger). ACE has indicated that shortly after the completion of the Merger, it expects to merge Chubb with and into ACE INA Holdings Inc., a Delaware corporation and indirect subsidiary of ACE, with ACE INA Holdings Inc. continuing as the surviving corporation.

At the effective time of the Merger, each share (except for certain shares held by ACE, Chubb or their subsidiaries) of common stock of Chubb, par value $1.00 per share, will be converted into the right to receive 0.6019 of a common share of ACE, par value CHF 24.15 per share, and $62.93 in cash.

The Board of Directors of Chubb (the Board) unanimously approved the Merger Agreement and the transactions contemplated thereby, including the Merger. The closing of the Merger is subject to various customary conditions, including receipt of required insurance regulatory and other governmental approvals. Some other closing conditions have already been satisfied, including Chubb shareholder approval of the Merger Agreement, approval by ACE shareholders of certain Merger-related matters and the termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The transaction is expected to close during the first quarter of 2016.

The Merger Agreement contains certain termination rights for both Chubb and ACE and further provides that, upon termination under specified circumstances, Chubb would be required to pay to ACE a termination fee of $930 million. No such termination fee has been accrued as of September 30, 2015.

Pursuant to the Merger Agreement, until the effective time of the Merger or termination of the Merger Agreement, the Corporation is required to conduct its business in the ordinary course in all material respects and, without the prior written consent of ACE, cannot take certain actions, except in each case as permitted pursuant to the Merger Agreement.

3) 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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4) Invested Assets

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

	September 30, 2015			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
	(in millions)			
Fixed maturities				
Tax exempt	$ 18,890	$ 1,012	$ 29	$ 19,873
Taxable				
U.S. government and government agency and authority obligations	1,259	54	1	1,312
Corporate bonds	8,409	260	45	8,624
Foreign government and government agency obligations	5,858	269	5	6,122
Residential mortgage-backed securities	110	15	1	124
Commercial mortgage-backed securities	943	19	1	961
	16,579	617	53	17,143
Total fixed maturities	$ 35,469	$ 1,629	$ 82	$ 37,016
Equity securities	$ 1,060	$ 742	$ 31	$ 1,771

	December 31, 2014			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
	(in millions)			
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
Equity securities	$ 1,089	$ 894	$ 19	$ 1,964

The fair value and amortized cost of fixed maturities at September 30, 2015 by contractual maturity were as follows:

	Fair Value	Amortized Cost
	(in millions)	
Due in one year or less	$ 2,193	$ 2,174
Due after one year through five years	11,621	11,173
Due after five years through ten years	13,722	13,032
Due after ten years	8,395	8,037
	35,931	34,416
Residential mortgage-backed securities	124	110
Commercial mortgage-backed securities	961	943
	$ 37,016	$ 35,469

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:

	September 30 2015	December 31 2014
	(in millions)	
Fixed maturities		
Gross unrealized appreciation	$ 1,629	$ 1,884
Gross unrealized depreciation	82	62
	1,547	1,822
Equity securities		
Gross unrealized appreciation	742	894
Gross unrealized depreciation	31	19
	711	875
	2,258	2,697
Deferred income tax liability	790	944

	$ 1,468	$ 1,753

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The following table summarizes, for all investment securities in an unrealized loss position at September 30, 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
			(in millions)			
Fixed maturities						
Tax exempt	$ 1,287	$ 16	$ 249	$ 13	$ 1,536	$ 29
Taxable						
U.S. government and government agency and authority obligations	52	1	10		62	1
Corporate bonds	1,695	30	441	15	2,136	45
Foreign government and government agency obligations	430	3	125	2	555	5
Residential mortgage-backed securities			5	1	5	1
Commercial mortgage-backed securities	47	1	32		79	1
	2,224	35	613	18	2,837	53
Total fixed maturities	3,511	51	862	31	4,373	82
Equity securities	138	27	8	4	146	31
	$ 3,649	$ 78	$ 870	$ 35	$ 4,519	$ 113

At September 30, 2015, approximately 1,125 individual fixed maturities and 25 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 September 30, 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
			(in millions)			
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:

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2015	2014	2015	2014
	(in millions)			
Change in unrealized appreciation of fixed maturities	$ 134	$ 2	$ (275)	$ 619
Change in unrealized appreciation of equity securities	(163)	(73)	(164)	37
	(29)	(71)	(439)	656
Deferred income tax (credit)	(10)	(25)	(154)	229
	$ (19)	$ (46)	$ (285)	$ 427

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

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2015	2014	2015	2014
	(in millions)			
Fixed maturities				
Gross realized gains	$ 20	$ 27	$ 50	$ 104
Gross realized losses	(5)	(5)	(23)	(33)
Other-than-temporary impairment losses	(11)		(12)	(4)
	4	22	15	67
Equity securities				
Gross realized gains	42	43	58	132
Other-than-temporary impairment losses	(15)		(37)	(1)
	27	43	21	131
Other invested assets	51	45	77	153
	$ 82	$ 110	$ 113	$ 351

(d) As of September 30, 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 $16 million and $18 million, respectively, recognized in net income.

5) 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:

	Periods Ended September 30, 2015					
	Third Quarter			Nine Months		
	Before Tax	Income Tax	Net of Tax	Before Tax	Income Tax	Net of Tax
	(in millions)					
Net unrealized holding gains (losses) arising during the period	$ 2	$ 1	$ 1	$ (403)	$ (141)	$ (262)
Reclassification adjustment for net realized gains included in net income	31	11	20	36	13	23
Net unrealized losses recognized in other comprehensive loss	(29)	(10)	(19)	(439)	(154)	(285)
Postretirement benefit gain not yet recognized in net income arising during the period	2		2	7	2	5
Reclassification adjustment for the amortization of net actuarial loss and prior service cost included in net income (a)	(15)	(6)	(9)	(47)	(17)	(30)
Net change in postretirement benefit costs not yet recognized in net income	17	6	11	54	19	35
Foreign currency translation losses	(58)	(20)	(38)	(305)	(106)	(199)
Total other comprehensive loss	$ (70)	$ (24)	$ (46)	$ (690)	$ (241)	$ (449)

	Periods Ended September 30, 2014					
	Third Quarter			Nine Months		
	Before Tax	Income Tax	Net of Tax	Before Tax	Income Tax	Net of Tax
	(in millions)					
Net unrealized holding gains (losses) arising during the period	$ (6)	$ (3)	$ (3)	$ 854	$ 298	$ 556
Reclassification adjustment for net realized gains included in net income	65	22	43	198	69	129
Net unrealized gains (losses) recognized in other comprehensive income or loss	(71)	(25)	(46)	656	229	427
Postretirement benefit gain not yet recognized in net income arising during the period	1		1	1		1
Reclassification adjustment for the amortization of net actuarial loss and prior service cost included in net income (a)	(9)	(4)	(5)	(26)	(10)	(16)
Net change in postretirement benefit costs not yet recognized in net income	10	4	6	27	10	17
Foreign currency translation losses	(40)	(14)	(26)	(62)	(21)	(41)

Total other comprehensive income (loss)	$ (101)	$ (35)	$ (66)	$ 621	$ 218	$ 403

(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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6) 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:

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2015	2014	2015	2014
	(in millions)			
Revenues				
Property and casualty insurance				
Premiums earned				
Personal insurance	$ 1,114	$ 1,118	$ 3,364	$ 3,296
Commercial insurance	1,390	1,338	4,077	3,943
Specialty insurance	662	663	1,964	1,972
Total insurance	3,166	3,119	9,405	9,211
Reinsurance assumed			(1)	1
	3,166	3,119	9,404	9,212
Investment income	322	338	982	1,034
Total property and casualty insurance	3,488	3,457	10,386	10,246
Corporate and other	8	7	25	25
Realized investment gains, net	82	110	113	351
Total revenues	$ 3,578	$ 3,574	$ 10,524	$ 10,622
Income (loss) before income tax				
Property and casualty insurance				
Underwriting				
Personal insurance	$ 154	$ 141	$ 213	$ 188
Commercial insurance	207	151	446	333
Specialty insurance	161	133	448	355
Total insurance	522	425	1,107	876
Reinsurance assumed	4		7	1
	526	425	1,114	877
Increase (decrease) in deferred policy acquisition costs	(1)	14	44	48

Underwriting income	525	439	1,158	925
Investment income	310	327	949	1,004
Other charges	(4)		(4)	(4)
Total property and casualty insurance	831	766	2,103	1,925
Corporate and other	(66)	(58)	(209)	(177)
Realized investment gains, net	82	110	113	351
Total income before income tax	$ 847	$ 818	$ 2,007	$ 2,099

7) 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.

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

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Assets				
Invested assets				
Short term investments	$ 3,052	$ 3,052	$ 1,318	$ 1,318
Fixed maturities	37,016	37,016	38,780	38,780
Equity securities	1,771	1,771	1,964	1,964
Liabilities				
Long term debt	3,300	3,788	3,300	4,013

At September 30, 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 September 30, 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:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Short term investments	$ 277	$ 2,775	$	$ 3,052
Fixed maturities				
Tax exempt		19,871	2	19,873
Taxable				
U.S. government and government agency and authority obligations		1,312		1,312
Corporate bonds		8,431	193	8,624
Foreign government and government agency obligations		6,122		6,122
Residential mortgage-backed securities		122	2	124
Commercial mortgage-backed securities		961		961
		16,948	195	17,143
Total fixed maturities		36,819	197	37,016
Equity securities	1,765		6	1,771
	$ 2,042	$ 39,594	$ 203	$ 41,839
Liabilities				
Long term debt	$	$ 3,788	$	$ 3,788

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	December 31, 2014			
	Level 1	Level 2	Level 3	Total
		(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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8) Earnings Per Share

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

	Periods Ended September 30			
	Third Quarter		Nine Months	
	2015	2014	2015	2014
	(in millions, except for per share amounts)			
Basic earnings per share:				
Net income	$ 601	$ 594	$ 1,470	$ 1,542
Weighted average shares outstanding	229.4	240.2	231.2	244.8
Basic earnings per share	$ 2.62	$ 2.47	$ 6.36	$ 6.30
Diluted earnings per share:				
Net income	$ 601	$ 594	$ 1,470	$ 1,542
Weighted average shares outstanding	229.4	240.2	231.2	244.8
Additional shares from assumed issuance of shares under stock-based compensation awards	1.7	.4	.9	.6
Weighted average shares and potential shares assumed outstanding for computing diluted earnings per share	231.1	240.6	232.1	245.4
Diluted earnings per share	$ 2.60	$ 2.47	$ 6.33	$ 6.28

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 (MD&A) addresses the financial condition of the Corporation as of September 30, 2015 compared with December 31, 2014 and the results of operations for the nine months and three months ended September 30, 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. References to we, us and our appearing in the Form 10-Q should be read as referring to the Corporation.

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 the pending acquisition of Chubb by ACE Limited (ACE) discussed below; the payment by Chubb and its property and casualty subsidiaries of dividends that may be used in connection with ACE s funding of the cash consideration to be paid to Chubb shareholders in connection with the acquisition of Chubb by ACE discussed below; 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; cash flows generated by our investments; our limited partnership investments; 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, predict, potential, c 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:

- the ability of Chubb or ACE to satisfy the conditions to the closing of the pending acquisition or the length of time required to do so;
- 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;
- 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;
- 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; 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.

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 $1.47 billion in the first nine months of 2015 and $601 million in the third quarter compared with $1.54 billion and $594 million, respectively, in the same periods of 2014. The lower net income in the first nine months of 2015 compared to the same period of 2014 was due to lower net realized investment gains, offset in part by higher operating income. The higher net income in the third quarter of 2015 compared with the same period of 2014 was due to higher operating income, offset in part by lower net realized investment gains.

Operating income, which we define as net income excluding realized investment gains and losses after tax, was $1.40 billion in the first nine months of 2015 and $547 million in the third quarter compared with $1.31 billion and $522 million, respectively, in the same periods of 2014. The higher operating income in the first nine months and third quarter of 2015 compared with the same periods of 2014 was due to higher underwriting income in our property and casualty insurance business, offset in part by lower property and casualty investment income. 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 nine months and third quarter of 2015 and 2014, but more so in the 2015 periods. The combined loss and expense ratio was 87.5% in the first nine months of 2015 and 83.3% in the third quarter compared with 89.6% and 85.8%, respectively, in the same periods of 2014. The 2.1 percentage point decrease in the combined loss and expense ratio in the first nine months of 2015 compared with the same period of 2014 was due to a lower current accident year loss ratio excluding catastrophes. The 2.5 percentage point decrease in the combined loss and expense ratio in the third quarter of 2015 compared with the same period of 2014 was due primarily to a lower impact of castastrophes and, to a lesser extent, a higher amount of favorable prior year loss development. The impact of catastrophes accounted for 4.6 percentage points of the combined ratio in the first nine months of 2015 and 2014. The impact of catastrophes accounted for 1.0 percentage point of the combined ratio in the third quarter of 2015 compared with 2.4 percentage points in the same period of 2014.

In the first nine months and third quarter of 2015, we estimate that we experienced overall favorable development of about $475 million and $180 million, respectively, on net loss reserves established as of the previous year end. We estimate that in the first nine months and third quarter of 2014, we experienced overall favorable prior year loss development of about $480 million and $155 million, respectively. In the first nine months and third quarter of both years we experienced favorable prior year loss development in each segment of our insurance business, but more so in our commercial insurance and specialty insurance segments.

Total net premiums written increased by 1% in the first nine months of 2015 and were flat in the third quarter compared with the same periods of 2014. The growth in net premiums written in the first nine months and third quarter of 2015 was negatively impacted by foreign currency translation, reflecting the impact of the stronger U.S. dollar relative to several currencies in which we wrote business outside the United States in the 2015 periods compared with the same periods of 2014. In the first nine months of 2015, net premiums written outside the United States represented 22% of our total net premiums written. Total net premiums written excluding the effect of foreign currency translation increased by 4% in the first nine months of 2015 and 3% in the third quarter. Net premiums written in the United States increased by 5% in the first nine months of 2015 and 4% in the third quarter. Net premiums written outside the United States decreased by 9% in the first nine months of 2015 and 12% in the third quarter, when measured in U.S. dollars. Excluding the effect of foreign currency translation, such premiums increased by 4% in the first nine months of 2015 and 2% in the third quarter. 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 5% in the first nine months and third quarter of 2015 compared with the same periods of 2014. Property and casualty investment income after tax decreased by 5% in the first nine months of 2015 and 6% in the third quarter compared with the same periods of 2014. The decreases in both periods of 2015 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.

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Net realized investment gains before tax were $113 million ($75 million after tax) in the first nine months of 2015 and $82 million ($54 million after tax) in the third quarter compared with $351 million ($228 million after tax) and $110 million ($72 million after tax), respectively, in the same periods of 2014. The net realized investment gains in the first nine months and third quarter of 2015 were primarily related to investments in limited partnerships, which generally are reported on a one quarter lag, and sales of equity securities. The net realized investment gains in the first nine months and third quarter of 2014 were primarily related to investments in limited partnerships, sales of equity securities and, to a lesser extent, sales of fixed maturity securities.

On June 30, 2015, Chubb entered into an Agreement and Plan of Merger (Merger Agreement) with ACE, a company organized under the laws of Switzerland, and William Investment Holdings Corporation (Merger Sub), a New Jersey corporation and a wholly owned indirect subsidiary of ACE, pursuant to which Merger Sub will merge with and into Chubb, with Chubb surviving as a wholly owned indirect subsidiary of ACE (the Merger). At the effective time of the Merger, each share (except for certain shares held by ACE, Chubb or their subsidiaries) of common stock of Chubb, par value $1.00 per share, will be converted into the right to receive 0.6019 of a common share of ACE, par value CHF 24.15 per share, and $62.93 in cash. The closing of the Merger is subject to various customary conditions, including receipt of required insurance regulatory and other governmental approvals. Some other closing conditions have already been satisfied, including Chubb shareholder approval of the Merger Agreement, approval by ACE shareholders of certain Merger-related matters and the termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The transaction is expected to close during the first quarter of 2016. The Merger Agreement is discussed further in Note (2) of the Notes to Consolidated Financial Statements and in Capital Resources and Liquidity   Liquidity.

A summary of our consolidated net income is as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2015	2014	2015	2014
		(in millions)		
Property and casualty insurance	$ 2,103	$ 1,925	$ 831	$ 766
Corporate and other	(209)	(177)	(66)	(58)
Consolidated operating income before income tax	1,894	1,748	765	708
Federal and foreign income tax	499	434	218	186
Consolidated operating income	1,395	1,314	547	522
Realized investment gains after income tax	75	228	54	72
Consolidated net income	$ 1,470	$ 1,542	$ 601	$ 594

Property and Casualty Insurance

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

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2015	2014	2015	2014
	(in millions)			
Underwriting				
Net premiums written	$ 9,586	$ 9,454	$ 3,171	$ 3,169
Increase in unearned premiums	(182)	(242)	(5)	(50)
Premiums earned	9,404	9,212	3,166	3,119
Losses and loss expenses	5,260	5,316	1,633	1,679
Operating costs and expenses	2,999	2,987	996	1,004
Decrease (increase) in deferred policy acquisition costs	(44)	(48)	1	(14)
Dividends to policyholders	31	32	11	11
Underwriting income	1,158	925	525	439
Investments				
Investment income before expenses	982	1,034	322	338
Investment expenses	33	30	12	11
Investment income	949	1,004	310	327
Other charges	(4)	(4)	(4)	
Property and casualty income before tax	$ 2,103	$ 1,925	$ 831	$ 766
Property and casualty investment income after tax	$ 782	$ 822	$ 255	$ 270

Property and casualty income before tax was higher in the first nine months and third quarter of 2015 compared with the same periods of 2014, due to higher underwriting income, offset in part by lower investment income. The higher underwriting income in the first nine months of 2015 compared with the same period of 2014 was due to a lower current accident year loss ratio excluding catastrophes. The higher underwriting income in the third quarter of 2015 compared with the same period of 2014 was due primarily to a lower impact of catastrophes and, to a lesser extent, a higher amount of favorable prior year loss development. The lower investment income in the first nine months and third quarter of 2015 compared with the same periods 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.

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.

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 $9.6 billion in the first nine months of 2015 compared with $9.5 billion in the same period of 2014. Net premiums written were $3.2 billion in the third quarter of both years. Net premiums written by business unit were as follows:

	Nine Months Ended September 30		% Incr.	Quarter Ended September 30		% Incr.
	2015	2014	(Decr.)	2015	2014	(Decr.)
	(in millions)			*(in millions)*		
Personal insurance	$ 3,423	$ 3,389	1%	$ 1,156	$ 1,167	(1)%
Commercial insurance	4,206	4,084	3	1,334	1,301	3
Specialty insurance	1,958	1,980	(1)	681	701	(3)
Total insurance	9,587	9,453	1	3,171	3,169	
Reinsurance assumed	(1)	1	*			*
Total	$ 9,586	$ 9,454	1	$ 3,171	$ 3,169	

* 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 nine months of 2015 compared with the same period of 2014 as a result of growth in premiums written in the United States. Net premiums written were flat in the third quarter of 2015 compared with the same period of 2014 as growth inside the United States was offset by a decline outside the United States. The growth in net premiums written in the first nine months and third quarter of 2015 was negatively impacted by foreign currency translation, reflecting the impact of the stronger U.S. dollar relative to several currencies in which we wrote business outside the United States in the 2015 periods compared with the same periods of 2014. Net premiums written excluding the effect of foreign currency translation increased by 4% in the first nine months of 2015 and 3% in the third quarter. Net premiums written in the United States, which in the first nine months of 2015 represented 78% of our total net premiums written, increased by 5% in the first nine months of 2015 and 4% in the third quarter. Net premiums written outside the United States decreased by 9% in the first nine months of 2015 and 12% in the third quarter, when measured in U.S. dollars. Excluding the effect of foreign currency translation, such premiums increased by 4% in the first nine months of 2015 and 2% in the third quarter.

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 in each segment of our business in the first nine months of 2015 compared with the same period of 2014, with the most significant growth occurring in our personal insurance and commercial insurance segments. Net premiums written in the United States also grew in our personal insurance and commercial insurance segments in the third quarter of 2015 compared with the same period of 2014, but were flat in our specialty insurance segment. Growth in the United States in our personal insurance segment in both periods of 2015 reflected higher insured exposures, higher rates upon renewal, strong retention of existing business, and new business. Growth in the United States in the first nine months of 2015 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. Growth in the United States in the third quarter in our commercial insurance segment also reflected high retention of existing business and new business, but renewal rates were flat. Net premiums written in the United States in the third quarter of 2015 in our professional liability business reflected strong retention and new business, as well as slightly higher renewal rates and insured exposures.

Average renewal rates in the United States in our personal insurance segment were up slightly in the first nine months and third 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 nine months and third quarter of 2015. Retention levels in our personal insurance segment in the United States remained strong in the first nine months and third quarter of 2015. The amount of new business in the United States in our personal insurance segment was higher in the first nine months and third quarter of 2015, but more so in the third quarter, compared with the same periods of 2014.

Average renewal rates in the United States in the first nine months of 2015 were up slightly in our commercial insurance segment and up modestly in our professional liability business compared with expiring rates. In the third quarter, such rates were flat in our commercial insurance segment and up slightly in our professional liability business compared with expiring rates. On average, the amounts of coverage purchased or the insured exposures upon renewal were flat in our commercial insurance segment in the United States in the first nine months and third quarter of 2015. Such amounts were up slightly in our professional liability business in the first nine months and third 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 nine months and third quarter of 2015. Retention levels in the first nine months of 2015 were modestly higher in our commercial insurance segment and slightly higher in our professional liability business compared with the same period of 2014. In the third quarter of 2015, such levels were slightly higher in our commercial insurance segment and flat in our 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 sought to maintain high retention levels. The amount of new business in the United States was up in both our commercial insurance segment and professional liability business in the first nine months and third quarter of 2015 compared with the same periods of 2014, but more so in our commercial insurance segment.

The decrease in net premiums written outside the United States in the first nine months and third quarter of 2015 compared with the same periods of 2014 reflected decreases in each segment of our insurance business driven primarily by the negative effect of foreign currency translation. In both periods, the most significant decrease occurred in our personal insurance segment. Net premiums written outside the United States excluding the effect of foreign currency translation increased by 4% in the first nine months of 2015, with the most significant growth occurring in our commercial insurance segment, a modest increase in our specialty insurance segment and a slight increase in our personal insurance segment. In the third quarter of 2015, net premiums written outside the United States excluding the effect of foreign currency translation increased by 2%, with a modest increase occurring in our commercial insurance and specialty insurance segments and a slight decrease in our personal insurance segment.

Average renewal rates outside the United States in our personal insurance segment were higher in the first nine months and third 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 nine months of 2015. Such rates were also flat in our commercial insurance segment, but down slightly in our professional liability business in the third quarter compared with expiring rates. On average, the amounts of coverage purchased or the insured exposures upon renewal were up slightly in the first nine months of 2015 and up modestly in the third quarter in our commercial insurance segment outside the United States. Such amounts were flat in our professional liability business outside the United States in the first nine months and third 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 nine months and third quarter of 2015. Retention levels in the first nine months of 2015 were flat in our commercial insurance segment and up slightly in our professional liability business compared with the same period of 2014. Retention levels in the third quarter of 2015 were down modestly in our commercial insurance segment and down slightly in our professional liability business compared with the same period of 2014. The amount of new business outside the United States in the first nine months and third quarter of 2015 compared with the same periods of 2014 was lower in both our commercial insurance segment and professional liability business.

We expect that during the remainder of 2015, market conditions will remain competitive. We also expect that our net premiums written in the fourth quarter of 2015 will be negatively impacted by foreign currency translation, assuming average foreign currency to U.S. dollar exchange rates for the major currencies in which we write business remain similar to the September 30, 2015 levels.

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.

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, 2015, provides coverage of 90% of homeowners-related hurricane losses in Florida in excess of our initial retention of $140 million per event. Under the terms of the program, our aggregate recoveries during the annual coverage period are limited to approximately $340 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 $435 million to $690 million in excess of our initial retention, which is generally between $20 million and $25 million.

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.

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.

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Underwriting results for our property and casualty insurance business were profitable in the first nine months and third quarter of 2015 and 2014, but more so in the 2015 periods. The combined loss and expense ratio was as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2015	2014	2015	2014
Loss ratio	56.1%	57.9%	51.8%	54.0%
Expense ratio	31.4	31.7	31.5	31.8
Combined loss and expense ratio	87.5%	89.6%	83.3%	85.8%

The 1.8 percentage point decrease in the loss ratio in the first nine months of 2015 compared with the same period of 2014 was driven by a lower current accident year loss ratio excluding catastrophes. The 2.2 percentage point decrease in the loss ratio in the third quarter of 2015 compared with the same period of 2014 was due primarily to a lower impact of catastrophes and, to a lesser extent, a higher amount of favorable prior year loss development. The current accident year loss ratio excluding catastrophes was lower in the first nine months of 2015 in each segment of our insurance business compared with the same period of 2014. The current accident year loss ratio excluding catastrophes was lower in the third quarter of 2015 in our specialty insurance segment, similar in our personal insurance segment and slightly higher in our commercial insurance segment compared with the same period of 2014. The loss ratio in the first nine months reflected the significant impact of catastrophes experienced in the first six months of both years. The impact of catastrophes was more modest in the third quarter of both years. The loss ratio in the first nine months and third quarter of 2015 and 2014 also reflected favorable loss experience excluding catastrophes that we believe resulted from our disciplined underwriting in recent years. The loss ratio in the first nine months and third 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 nine months of 2015 was $430 million, which represented 4.6 percentage points of the combined ratio, compared with $419 million or 4.6 percentage points in the same period of 2014. The net impact of catastrophes in the third quarter of 2015 was $32 million, which represented 1.0 percentage point of the combined ratio, compared with $74 million or 2.4 percentage points in the same period of 2014. Most of the catastrophe losses in the first nine months of 2015 and 2014 related to weather-related events 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:

Nine Months Ended September 30			Impact of Catastrophes *(in millions)*
2015			
Winter freeze	Mid-Atlantic and Northeast United States	February 2015	$ 154
Other events			276
Total			$ 430
2014			
Winter freeze	17 states in the United States	January 2014	$ 121
Other events			298
Total			$ 419

The net impact of catastrophes in the first nine months of 2015 reflected $12 million of favorable prior year loss development. The net impact of catastrophes in the first nine months of 2014 reflected no prior year loss development. The net impact of catastrophes in the third quarter of 2015 reflected $3 million of unfavorable prior year loss development compared with $8 million in the same period of 2014.

The expense ratio decreased by 0.3 of a percentage point in the first nine months and third quarter of 2015 compared with the same periods of 2014. The decrease in the expense ratio in the first nine months of 2015 was due primarily to growth in net premiums written while overhead expenses were flat compared with the same period of 2014. The decrease in the third quarter of 2015 was due primarily to lower commissions outside the United States and, to a lesser extent, lower overhead expenses compared with the same period of 2014.

Review of Underwriting Results by Business Unit

Personal Insurance

Net premiums written in our personal insurance segment, which represented 36% of our total net premiums written in the first nine months of 2015, increased by 1% in the first nine months of 2015 and decreased by 1% in the third quarter compared with the same periods of 2014. Net premiums written for the classes of business within the personal insurance segment were as follows:

	Nine Months Ended September 30		% Incr.	Quarter Ended September 30		% Incr.
	2015	2014	(Decr.)	2015	2014	(Decr.)
	(in millions)			*(in millions)*		
Automobile	$ 539	$ 558	(3)%	$ 174	$ 190	(8)%
Homeowners	2,139	2,093	2	745	735	1
Other	745	738	1	237	242	(2)
Total personal	$ 3,423	$ 3,389	1	$ 1,156	$ 1,167	(1)

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The increase in net premiums written in our personal insurance segment in the first nine months of 2015 compared with the same period of 2014 was driven by growth in the United States, offset in part by a decrease in net premiums written outside the United States. The decrease in net premiums written in our personal insurance segment in the third quarter of 2015 compared with the same period of 2014 was driven by a decrease in net premiums written outside the United States, offset in part by growth inside the United States. Premium growth occurred in all classes of our personal insurance segment in the first nine months and third quarter of 2015 in the United States. Net premiums written outside the United States decreased in all classes of this segment in the first nine months and third quarter of 2015. In both periods, net premiums written reflected the negative effect of foreign currency translation. Excluding the effect of foreign currency translation, net premiums written outside the United States increased slightly in the first nine months of 2015 and decreased slightly in the third quarter compared with the same periods of 2014. The overall growth in our personal insurance segment excluding the effect of foreign currency translation was 4% in the first nine months of 2015 and 3% in the third quarter. Such growth reflected higher insured exposures, higher rates upon renewal, strong retention of existing business, and new business.

Net premiums written for our personal automobile business decreased in the first nine months and third quarter of 2015 compared with the same periods of 2014, driven by a decrease in net premiums written outside the United States, which reflected the negative effect of foreign currency translation and underwriting actions in Brazil. Personal automobile net premiums written outside the United States represented approximately 35% of our total personal automobile net premiums written in the first nine months of 2015, with approximately half of such premiums written in Brazil. Personal automobile net premiums written outside the United States represented approximately 30% of our total personal automobile net premiums written in the third quarter of 2015, with approximately 40% of such premiums written in Brazil. Personal automobile net premiums written in the United States increased modestly in the first nine months and third quarter of 2015 compared with the same periods of 2014.

Net premiums written for our homeowners business increased in the first nine months and third quarter of 2015 compared with the same periods 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 nine months and third quarter of 2015 compared with the same periods 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 nine months of 2015 compared with the same period of 2014, as growth inside the United States was mostly offset by a decrease in net premiums written outside the United States. The decrease in net premiums written outside the United States for our other personal business in the first nine months of 2015 compared with the same period of 2014 was due to the negative effect of foreign currency translation. Net premiums written for our other personal business decreased in the third quarter of 2015 compared with the same period of 2014, driven by a significant decrease in net premiums written outside the United States due to the negative effect of foreign currency translation. Net premiums written in the United States increased in the third quarter of 2015. Premiums for our accident and health business, about half of which was written outside the United States in the first nine months of 2015, decreased slightly in the first nine months of 2015 and decreased modestly in the third quarter compared with the same periods of 2014. The decreases in accident and health premiums written in the 2015 periods were caused by decreases in premiums written outside the United States due to the negative effect of foreign currency translation. Premiums for our accident and health business written in the United States increased significantly in the first nine months of 2015, but increased only slightly in the third quarter compared with the same periods of 2014. Premiums for our excess liability business, most of which is written in the United States, increased in the first nine months and third quarter of 2015 compared with the same periods of 2014.

Our personal insurance segment produced similarly profitable underwriting results in the first nine months of 2015 and 2014. Results for our personal insurance segment were also profitable in the third quarter of both years, but more so in 2015. The combined loss and expense ratios for the classes of business within the personal insurance segment were as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2015	2014	2015	2014
Automobile	98.1%	97.4%	98.5%	95.2%
Homeowners	91.7	92.2	77.2	80.3
Other	93.5	93.7	97.6	95.4
Total personal	93.1	93.3	84.9	85.9

The combined loss and expense ratio for our personal insurance segment was similar in the first nine months of 2015 and 2014, reflecting slightly improved results in our homeowners and other personal businesses, mostly offset by slightly worse results in our automobile business. The 1.0 percentage point decrease in the combined loss and expense ratio for our personal insurance segment in the third quarter of 2015 compared with the same period of 2014 was driven by improved results for our homeowners business, partially offset by worse results in our personal automobile and other personal businesses. The impact of catastrophes accounted for 9.4 percentage points of the combined ratio for our personal insurance segment in the first nine months of 2015 and 2.0 percentage points in the third quarter compared with 7.3 and 3.5 percentage points, respectively, in the same periods of 2014.

Personal automobile results were less profitable in the first nine months of 2015 compared with the same period of 2014, as modestly worse results outside the United States in 2015 were partially offset by slightly better results inside the United States. Our personal automobile business produced profitable results in the United States in the first nine months of both years, but slightly more so in 2015. Personal automobile results outside the United States were unprofitable in the first nine months of 2015 compared with near breakeven results in the same period of 2014. Personal automobile results were profitable in the third quarter of 2015 and 2014, but more so in 2014. The 3.3 percentage point increase in the combined ratio in the third quarter of 2015 compared with the same period of 2014 reflected a deterioration in our personal automobile results outside the United States. Results in the United States were similarly profitable in the third quarter of 2015 and 2014. Results outside the United States were unprofitable in the third quarter of 2015 compared with modestly profitable results in the same period of 2014.

Homeowners results were profitable in the first nine months of 2015 and 2014. The 0.5 of a percentage point decrease in the combined ratio in the first nine months of 2015 compared with the same period of 2014 was mainly due to a lower current accident year loss ratio excluding catastrophes, substantially offset by a higher impact of catastrophes. Homeowners results were profitable in the third quarter of both years, but more so in 2015. The 3.1 percentage point decrease in the combined ratio in the third quarter of 2015 compared with the same period of 2014 was due primarily to a lower impact of catastrophes. The impact of catastrophes accounted for 14.9 percentage points of the combined ratio for this class in the first nine months of 2015 and 3.0 percentage points in the third quarter compared with 11.8 and 5.6 percentage points, respectively, in the same periods of 2014.

Other personal results were similarly profitable in the first nine months of 2015 and 2014 as improved results in the excess liability and accident and health components of this business were substantially offset by worse results in the yacht component. Other personal results were profitable in the third quarter of both years, but more so in 2014, due primarily to better results in the yacht component of this business. Results for the excess liability component of our other personal business were highly profitable in the first nine months of both years, but more so in 2015. Results for this component were also highly profitable in the third quarter of both years, but more so in 2014. Excess liability results benefited from favorable prior year loss development in the first nine months and third quarter of both years. The accident and health component of our other personal business produced near breakeven results in the first nine months of 2015 compared with slightly unprofitable results in the same period of 2014. Results for this component were modestly unprofitable in the third quarter of both years, but more so in 2014. In the first nine months and third quarter of both years, results for our accident and health business were profitable in the United States and unprofitable outside the United States. Our yacht business produced unprofitable results in the first nine months and third quarter of 2015 compared with highly profitable results in the same periods of 2014.

Commercial Insurance

Net premiums written in our commercial insurance segment, which represented 44% of our total net premiums written in the first nine months of 2015, increased by 3% in the first nine months and third quarter of 2015 compared with the same periods of 2014. Net premiums written for the classes of business within the commercial insurance segment were as follows:

	Nine Months Ended September 30		% Incr.	Quarter Ended September 30		% Incr.
	2015	2014	(Decr.)	2015	2014	(Decr.)
	(in millions)			*(in millions)*		
Multiple peril	$ 843	$ 837	1%	$ 289	$ 291	(1)%
Casualty	1,243	1,251	(1)	396	401	(1)
Workers compensation	989	874	13	326	279	17
Property and marine	1,131	1,122	1	323	330	(2)
Total commercial	$ 4,206	$ 4,084	3	$ 1,334	$ 1,301	3

Growth in net premiums written in our commercial insurance segment in the first nine months and third quarter of 2015 compared with the same periods of 2014 was driven by growth in the United States. Net premiums written outside the United States decreased in the first nine months and third quarter of 2015, more so in the third quarter, due to the negative effect of foreign currency translation. Excluding the effect of foreign currency translation, net premiums written outside the United States increased in both periods of 2015. Overall premium growth in our commercial insurance segment excluding the effect of foreign currency translation was 6% in the first nine months of 2015 and 5% in the third quarter. Such growth in both periods primarily reflected high retention and new business. The most significant growth in our commercial insurance segment in the first nine months and third quarter of 2015 occurred in the workers compensation class, which is primarily written in the United States, reflecting high retention, increased renewal exposure and new business. In the first nine months and third quarter of 2015, net premiums written for the other classes within our commercial insurance segment increased or decreased only slightly, reflecting the negative effect of foreign currency translation on net premiums written outside the United States. Average renewal rates in our commercial insurance segment in the United States were up slightly in the first nine months of 2015 but flat in the third quarter compared with expiring rates. Average renewal rates outside the United States were flat in the first nine months and third quarter of 2015 compared to expiring rates. Retention levels of our existing policyholders were strong in the first nine months and third quarter of both years. Retention levels in the United States were modestly higher in the first nine months of 2015 and slightly higher in the third quarter compared with the same periods of 2014. Retention levels outside the United States were flat in the first nine months of 2015 and down modestly in the third quarter compared with the same periods of 2014. The average renewal exposure change was flat in the United States in the first nine months and third quarter of 2015. The average renewal exposure change was up slightly outside the United States in the first nine months of 2015 and up modestly in the third quarter. The amount of new business was higher in the United States in the first nine months and third quarter of 2015 compared with the same periods of 2014. The amount of new business was lower outside the United States in the first nine months and third quarter of 2015 compared with the same periods of 2014.

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

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2015	2014	2015	2014
Multiple peril	88.9%	88.4%	78.2%	81.9%
Casualty	85.9	90.0	84.5	95.3
Workers compensation	87.3	84.1	87.0	83.9
Property and marine	90.7	97.3	94.5	93.3
Total commercial	88.0	90.4	86.3	89.5

The 2.4 percentage point decrease in the combined loss and expense ratio for our commercial insurance segment in the first nine months of 2015 compared with the same period of 2014 was due to a lower impact of catastrophes and a lower current accident year loss ratio excluding catastrophes, offset in part by a lower amount of favorable prior year loss development. The 3.2 percentage point decrease in the combined loss and expense ratio for our commercial insurance segment in the third quarter of 2015 compared with the same period of 2014 was due primarily to a lower impact of catastrophes and a higher amount of favorable prior year loss development. The impact of catastrophes accounted for 2.8 percentage points of the combined ratio for our commercial insurance segment in the first nine months of 2015 and 0.7 of a percentage point in the third quarter compared with 4.5 and 2.6 percentage points, respectively, in the same periods of 2014. Results for our commercial insurance segment in the first nine months and third 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 nine months of 2015 and 2014. Multiple peril results were also profitable in the third quarter of both years, but more so in 2015. The 0.5 of a percentage point increase in the combined ratio in the first nine months of 2015 compared with the same period of 2014 was due to less profitable results for the property component of this business, offset in part by more profitable results in the liability component. The 3.7 percentage point decrease in the combined ratio in the third quarter of 2015 compared with the same period of 2014 was due to better results in the property component of this business. Results for the property component of this business were profitable in the first nine months of 2015 compared with highly profitable results in the same period of 2014. Results for this component were highly profitable in the third quarter of both years. Results for the liability component of this business were highly profitable in the first nine months and third quarter of both years. The impact of catastrophes accounted for 5.7 percentage points of the combined ratio for the multiple peril class in the first nine months of 2015 and 1.1 percentage points in the third quarter compared with 5.9 and 3.2 percentage points, respectively, in the same periods of 2014.

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Casualty results were profitable in the first nine months and third quarter of 2015 and 2014, but more so in the 2015 periods. The 4.1 percentage point decrease in the combined ratio in the first nine months of 2015 compared with the same period of 2014 was due to more profitable results in the primary liability and excess liability components of this business. The 10.8 percentage point decrease in the combined ratio in the third quarter of 2015 compared with the same period of 2014 was driven by more profitable results in the excess liability component and, to a lesser extent, the primary liability component of this business. Results for the primary liability component were profitable in the first nine months of 2015 compared with the slightly profitable results in the same period of 2014. Results for this component were also profitable in the third quarter of 2015 compared with near breakeven results in the same period of 2014. Results for the excess liability component were highly profitable in the first nine months and third quarter of 2015 and 2014, but more so in the 2015 periods. Excess liability results in all periods benefited from substantial favorable prior year loss development driven mainly by lower than expected claim severity. Results for the automobile component were breakeven in the first nine months of 2015 and 2014. Results for this component were also breakeven in the third quarter of 2015 compared with modestly profitable results in the same period of 2014. Casualty results were adversely affected by incurred losses related to asbestos and toxic waste claims in the first nine months and third quarter of 2015 and 2014. Our analysis of these exposures resulted in an increase in the estimate of our ultimate liabilities. Such losses represented 4.1 percentage points of the combined ratio for our casualty business in the first nine months of 2015 and 7.4 percentage points in the third quarter compared with 2.9 and 5.9 percentage points, respectively, in the same periods of 2014.

Workers compensation results were profitable in the first nine months and third quarter of 2015 and 2014, but more so in the 2014 periods. The 3.2 percentage point increase in the combined ratio in the first nine months of 2015 compared with the same period of 2014 was due to a lower amount of favorable prior year loss development and a slightly higher current accident year loss ratio. The 3.1 percentage point increase in the combined ratio in the third quarter of 2015 compared with the same period of 2014 was also due to a lower amount of favorable prior year loss development and a slightly higher current accident year loss ratio. Results in all periods reflected our disciplined risk selection during the past several years.

Property and marine results were profitable in the first nine months of 2015 and 2014, but more so in 2015. Results were profitable in the third quarter of both years, but slightly more so in 2014. The 6.6 percentage point decrease in the combined ratio in the first nine months of 2015 compared with the same period of 2014 was due to a lower impact of catastrophes and, to a lesser extent, a lower current accident year loss ratio excluding catastrophes. The 1.2 percentage point increase in the combined ratio in the third quarter of 2015 compared to the same period of 2014 was due to a modest amount of unfavorable prior year loss development and a modestly higher current accident year loss ratio excluding catastrophes, offset in part by a lower impact of catastrophes. The impact of catastrophes accounted for 5.7 percentage points of the combined ratio in the first nine months of 2015 and 1.3 percentage points in the third quarter compared with 11.4 and 6.6 percentage points, respectively, in the same periods of 2014.

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Specialty Insurance

Net premiums written in our specialty insurance segment, which represented 20% of our total net premiums written in the first nine months of 2015, decreased by 1% in the first nine months of 2015 and 3% in the third quarter compared with the same periods of 2014. Net premiums written for the classes of business within the specialty insurance segment were as follows:

	Nine Months Ended September 30		% Incr.	Quarter Ended September 30		% Incr.
	2015	2014	(Decr.)	2015	2014	(Decr.)
	(in millions)			*(in millions)*		
Professional liability	$ 1,724	$ 1,753	(2)%	$ 606	$ 629	(4)%
Surety	234	227	3	75	72	4
Total specialty	$ 1,958	$ 1,980	(1)	$ 681	$ 701	(3)

The decrease in net premiums written in our specialty insurance segment in the first nine months and third quarter of 2015 compared with the same periods of 2014 reflected the negative effect of foreign currency translation. Excluding the effect of foreign currency translation, net premiums written increased by 2% in the first nine months of 2015 and were flat in the third quarter.

The decrease in net premiums written for our professional liability business in the first nine months and third quarter of 2015 was driven in large part by a decline in net premiums written outside the United States in both periods compared with the same periods of 2014, due to the negative effect of foreign currency translation. Net premiums written in the United States were modestly higher in the first nine months of 2015 and slightly lower in the third quarter compared with the same periods 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. Such levels were slightly higher in the first nine months of 2015 compared with those in the same period of 2014, both inside and outside the United States. Retention levels were flat inside the United States and down slightly outside the United States in the third quarter of 2015 compared with those in the same period of 2014. New business increased in the United States, but decreased outside the United States, in the first nine months and third quarter of 2015 compared with the same periods of 2014. Average renewal rates in the United States for our professional liability business were up modestly in the first nine months of 2015 and up slightly in the third quarter 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 nine months of 2015 and down slightly in the third quarter compared with expiring rates. On average, the amounts of insured exposures upon renewal were up slightly in the United States and flat outside the United States in the first nine months and third quarter of 2015.

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The increase in net premiums written for our surety business in the first nine months of 2015 compared with the same period of 2014 was driven primarily by an increase in premiums written in the United States. Net premiums written outside the United States for our surety business also increased in the first nine months of 2015, but only slightly. In the third quarter of 2015, the increase in net premiums written for our surety business was driven by growth in the United States, offset in part by a decrease in premiums written outside the United States. Growth in net premiums written outside the United States in both periods of 2015 reflected the negative effect of foreign currency translation. 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 segment produced profitable underwriting results in the first nine months and third quarter of 2015 and 2014, but more so in the 2015 periods. The combined loss and expense ratios for the classes of business within the specialty insurance segment were as follows:

	Periods Ended September 30			
	Nine Months		Third Quarter	
	2015	2014	2015	2014
Professional liability	81.3%	82.9%	78.1%	81.3%
Surety	46.8	73.3	52.1	54.8
Total specialty	77.2	81.8	74.8	78.3

The 4.6 percentage point decrease in the combined loss and expense ratio for our specialty insurance segment in the first nine months of 2015 compared with the same period of 2014 was driven by improved results for our surety business and, to a lesser extent, improved results for our professional liability business. The 3.5 percentage point decrease in the combined loss and expense ratio for our specialty insurance segment in the third quarter of 2015 was driven by improved results in both our professional liability and surety businesses.

Professional liability results were profitable in the first nine months and third quarter of 2015 and 2014, but more so in the 2015 periods. The 1.6 percentage point decrease in the combined ratio for this business in the first nine months of 2015 compared with the same period of 2014 was due to improved current accident year results. The 3.2 percentage point decrease in the combined ratio for this business in the third quarter of 2015 compared with the same period of 2014 was due to improved current accident year results and, to a lesser extent, a higher amount of favorable prior year loss development.

Results for the directors and officers liability class were highly profitable in the first nine months of 2015 and 2014, but more so in 2014. Results for this class were also highly profitable in the third quarter of both years. Results for the directors and officers liability class reflected favorable prior year loss development in the first nine months of 2015 and 2014, but more so in 2014. Results for this class reflected a similar amount of favorable prior year loss development in the third quarter of both years.

Results for the fiduciary liability class were also highly profitable in the first nine months and third quarter of 2015 and 2014, with results in all periods reflecting favorable prior year loss development. Results for the fidelity class were highly profitable in the first nine months and third quarter of 2015 compared with profitable results in the same periods of 2014. Results for this class reflected favorable prior year loss development in the first nine months of 2015 compared with unfavorable prior year loss development in the same period of 2014. Results for the employment practices liability class were slightly unprofitable in the first nine months of 2015 and modestly profitable in the third quarter compared with modestly unprofitable results in the same periods of 2014. Results for the errors and omissions liability class were profitable in the first nine months of 2015 compared with modestly unprofitable results in the same period of 2014. Results for this class reflected favorable prior year loss development in the first nine months of 2015 compared with unfavorable prior year loss development in the same period of 2014. Results for this class were similarly profitable in the third quarter of both years, reflecting favorable prior year loss development.

Surety results were profitable in the first nine months of 2015 and 2014, but more so in 2015. Such results were also profitable in the third quarter of both years. The combined ratio was 26.5 and 2.7 percentage points lower in the first nine months and third quarter of 2015, respectively, compared with the same periods of 2014. The significantly higher combined ratio in the first nine months of 2014 was due to one large loss in the first quarter 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 nine months and third quarter of 2015 or 2014. Results for this business were profitable in the first nine months and third quarter of 2015 compared with breakeven results in the same periods of 2014. Results in the 2015 periods benefited from favorable prior year loss development.

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.

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 September 30, 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:

September 30, 2015	Gross Loss Reserves Case	IBNR	Total	Reinsurance Recoverable	Net Loss Reserves
			(in millions)		
Personal insurance					
Automobile	$ 258	$ 147	$ 405	$ 12	$ 393
Homeowners	487	359	846	26	820
Other	306	742	1,048	66	982
Total personal	1,051	1,248	2,299	104	2,195
Commercial insurance					
Multiple peril	574	1,175	1,749	31	1,718
Casualty	1,332	5,516	6,848	419	6,429
Workers compensation	1,218	2,158	3,376	289	3,087
Property and marine	759				