CNA FINANCIAL CORP
Form 10-K
February 19, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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 1-5823

CNA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 36-6169860<br>(I.R.S. Employer Identification No.) |
| 333 S. Wabash<br>Chicago, Illinois<br>(Address of principal executive offices) | 60604<br>(Zip Code) |

(312) 822-5000
(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock with a par value of $2.50 per share | New York Stock Exchange<br>Chicago Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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 Act). Yes [ ] No [x]

As of February 14, 2014, 269,824,832 shares of common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2013 was approximately $870 million based on the closing price of $32.62 per share of the common stock on the New York Stock Exchange on June 30, 2013.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the CNA Financial Corporation Proxy Statement prepared for the 2014 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this Report.

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# PART I

## ITEM 1. BUSINESS

CNA Financial Corporation (CNAF) was incorporated in 1967 and is an insurance holding company. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. References to “CNA,” “the Company,” “we,” “our,” “us” o like terms refer to the business of CNAF and its subsidiaries. CNA's property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company, Western Surety Company, Hardy Underwriting Bermuda Limited and its subsidiaries and Continental Assurance Company (CAC). Loews Corporation (Loews) owned approximately 90% of our outstanding common stock as of December 31, 2013.

Our insurance products primarily include commercial property and casualty coverages, including surety. Our services include risk management, information services, warranty and claims administration. Our products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Our core business, commercial property and casualty insurance operations, is reported in three business segments: CNA Specialty, CNA Commercial and Hardy. Our non-core businesses are managed in two business segments: Life & Group Non-Core and Corporate & Other Non-Core. Each segment is managed separately due to differences in their product lines and markets. Discussions of each segment, including the products offered, customers served, and distribution channels used, are set forth in the Management's Discussion and Analysis (MD&A) included under Item 7 and in Note O to the Consolidated Financial Statements included under Item 8.

### Competition

The property and casualty insurance industry is highly competitive both as to rate and service. We compete with a large number of stock and mutual insurance companies and other entities for both distributors and customers. Insurers compete on the basis of factors including products, price, services, ratings and financial strength. We must continuously allocate resources to refine and improve our insurance products and services.

There are approximately 2,800 individual companies that sell property and casualty insurance in the United States. Based on 2012 statutory net written premiums, we are the eighth largest commercial insurance writer and the 13$^{th}$ largest property and casualty insurance organization in the United States.

### Regulation

The insurance industry is subject to comprehensive and detailed regulation and supervision. Each domestic and foreign jurisdiction has established supervisory agencies with broad administrative powers relative to licensing insurers and agents, approving policy forms, establishing reserve requirements, prescribing the form and content of statutory financial reports, and regulating capital adequacy and the type, quality and amount of investments permitted. Such regulatory powers also extend to premium rate regulations, which require that rates not be excessive, inadequate or unfairly discriminatory. In addition to regulation of dividends by insurance subsidiaries, intercompany transfers of assets may be subject to prior notice or approval by insurance regulators, depending on the size of such transfers and payments in relation to the financial position of the insurance subsidiaries making the transfer or payment.

Hardy, a specialized Lloyd's of London (Lloyd's) underwriter, is also supervised by the Council of Lloyd's, which is the franchisor for all Lloyd's operations. The Council of Lloyd's has wide discretionary powers to regulate Lloyd's underwriting, such as establishing the capital requirements for syndicate participation. In addition, the annual business plans of each syndicate are subject to the review and approval of the Lloyd's Franchise Board, which is responsible for business planning and monitoring for all syndicates.

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The European Union's executive body, the European Commission, is implementing new capital adequacy and risk management regulations called Solvency II that would apply to our European operations. In addition, global regulators, including the United States National Association of Insurance Commissioners, are working with the International Association of Insurance Supervisors (IAIS) to consider changes to insurance company supervision. Among the areas being addressed are company and group capital requirements, group supervision and enterprise risk management. It is not currently clear to what extent or how the activities of the IAIS will impact the Company or U.S. insurance regulation.

Domestic insurers are also required by the state insurance regulators to provide coverage to insureds who would not otherwise be considered eligible by the insurers. Each state dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each state.

Further, insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty fund assessments are levied by the state departments of insurance to cover claims of insolvent insurers. Other insurance-related assessments are generally levied by state agencies to fund various organizations including disaster relief funds, rating bureaus, insurance departments, and workers' compensation second injury funds, or by industry organizations that assist in the statistical analysis and ratemaking process.

Although the federal government does not currently directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance industry. These initiatives and legislation include proposed federal oversight of certain insurers; tort reform proposals; proposals addressing natural catastrophe exposures; terrorism risk mechanisms; federal financial services reforms; and various tax proposals affecting insurance companies. Any of the foregoing regulatory limitations, impositions and restrictions may result in significant burdens on us.

Various legislative and regulatory efforts to reform the tort liability system have, and will continue to, impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in state court actions or by federal or state legislatures that continue to expand liability for insurers and their policyholders.

Employee Relations

As of December 31, 2013, we had approximately 7,035 employees and have experienced satisfactory labor relations. We have never had work stoppages due to labor disputes.

We have comprehensive benefit plans for substantially all of our employees, including retirement plans, savings plans, disability programs, group life programs and group health care programs. See Note J to the Consolidated Financial Statements included under Item 8 for further discussion of our benefit plans.

Direct Written Premiums by Geographic Concentration

Set forth below is the distribution of our direct written premiums by geographic concentration.

Direct Written Premiums

| Years ended December 31 | Percent of Total | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| California | 9.2 | % | 9.5 | % | 9.4 | % |
| Texas | 8.0 | | 7.4 | | 6.7 | |
| New York | 7.3 | | 7.1 | | 6.7 | |
| Illinois | 5.9 | | 6.5 | | 4.9 | |
| Florida | 5.9 | | 5.8 | | 6.1 | |
| New Jersey | 3.7 | | 3.5 | | 3.5 | |
| Pennsylvania | 3.7 | | 3.4 | | 3.4 | |
| Canada | 3.1 | | 3.0 | | 3.0 | |
| All other states, countries or political subdivisions | 53.2 | | 53.8 | | 56.3 | |
| Total | 100.0 | % | 100.0 | % | 100.0 | % |

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Approximately 8.9%, 9.2% and 8.8% of our direct written premiums were derived from outside of the United States for the years ended December 31, 2013, 2012 and 2011.

Property and Casualty Claim and Claim Adjustment Expenses

The following loss reserve development table illustrates the change over time of reserves established for property and casualty claim and claim adjustment expenses at the end of the preceding ten calendar years for our property and casualty insurance companies. The table excludes our life insurance subsidiaries, and as such, the carried reserves will not agree to the Consolidated Financial Statements included under Item 8. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to the originally reported reserve liability. The third section, reading down, shows re-estimates of the originally recorded reserves as of the end of each successive year, which is the result of our property and casualty insurance subsidiaries' expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserves to the reserves originally established, and indicates whether the original reserves were adequate or inadequate to cover the estimated costs of unsettled claims. The loss reserve development table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

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Schedule of Loss Reserve Development

| Calendar Year Ended | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 [(a)] | 2011 | 2012 [(b)] | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (In millions) | | | | | | | | | | | |
| Originally reported gross reserves for unpaid claim and claim adjustment expenses | $31,284 | $31,204 | $30,694 | $29,459 | $28,415 | $27,475 | $26,712 | $25,412 | $24,228 | $24,696 | $24,015 |
| Originally reported ceded recoverable | 13,847 | 13,682 | 10,438 | 8,078 | 6,945 | 6,213 | 5,524 | 6,060 | 4,967 | 5,075 | 4,911 |
| Originally reported net reserves for unpaid claim and claim adjustment expenses | $17,437 | $17,522 | $20,256 | $21,381 | $21,470 | $21,262 | $21,188 | $19,352 | $19,261 | $19,621 | $19,104 |
| Cumulative net paid as of: | | | | | | | | | | | |
| One year later | $4,382 | $2,651 | $3,442 | $4,436 | $4,308 | $3,930 | $3,762 | $3,472 | $4,277 | $4,588 | $— |
| Two years later | 6,104 | 4,963 | 7,022 | 7,676 | 7,127 | 6,746 | 6,174 | 6,504 | 7,459 | — | — |
| Three years later | 7,780 | 7,825 | 9,620 | 9,822 | 9,102 | 8,340 | 8,374 | 8,822 | — | — | — |
| Four years later | 10,085 | 9,914 | 11,289 | 11,312 | 10,121 | 9,863 | 10,038 | — | — | — | — |
| Five years later | 11,834 | 11,261 | 12,465 | 11,973 | 11,262 | 11,115 | — | — | — | — | — |
| Six years later | 12,988 | 12,226 | 12,917 | 12,858 | 12,252 | — | — | — | — | — | — |
| Seven years later | 13,845 | 12,551 | 13,680 | 13,670 | — | — | — | — | — | — | — |
| Eight years later | 14,073 | 13,245 | 14,409 | — | — | — | — | — | — | — | — |
| Nine years later | 14,713 | 13,916 | — | — | — | — | — | — | — | — | — |
| Ten years later | 15,337 | — | — | — | — | — | — | — | — | — | — |
| Net reserves re-estimated as of: | | | | | | | | | | | |
| End of initial year | $17,437 | $17,522 | $20,256 | $21,381 | $21,470 | $21,262 | $21,188 | $19,352 | $19,261 | $19,621 | $19,104 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| One year later | 17,671 | 18,513 | 20,588 | 21,601 | 21,463 | 21,021 | 20,643 | 18,923 | 19,081 | 19,506 | — |
| Two years later | 19,120 | 19,044 | 20,975 | 21,706 | 21,259 | 20,472 | 20,237 | 18,734 | 18,946 | — | — |
| Three years later | 19,760 | 19,631 | 21,408 | 21,609 | 20,752 | 20,014 | 20,012 | 18,514 | — | — | — |
| Four years later | 20,425 | 20,212 | 21,432 | 21,286 | 20,350 | 19,784 | 19,758 | — | — | — | — |
| Five years later | 21,060 | 20,301 | 21,326 | 20,982 | 20,155 | 19,597 | — | — | — | — | — |
| Six years later | 21,217 | 20,339 | 21,060 | 20,815 | 20,021 | — | — | — | — | — | — |
| Seven years later | 21,381 | 20,142 | 20,926 | 20,755 | — | — | — | — | — | — | — |
| Eight years later | 21,199 | | | | | | | | | | |