

CNA FINANCIAL CORP
Form 10-K
February 13, 2019

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

FORM 10-K
 ANNUAL
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2018
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 36-6169860
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
151 N. Franklin 60606
Chicago, Illinois (Zip Code)
(Address of principal executive offices)
(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	New York Stock Exchange
with a par value of \$2.50 per share	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 No

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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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of February 8, 2019, 271,469,504 shares of common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 29, 2018 was approximately \$1,295 million based on the closing price of \$45.68 per share of the common stock on the New York Stock Exchange on June 29, 2018.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the CNA Financial Corporation Proxy Statement prepared for the 2019 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this report.

Item Number		Page Number
	<u>PART I</u>	
1.	<u>Business</u>	<u>3</u>
1A.	<u>Risk Factors</u>	<u>6</u>
1B.	<u>Unresolved Staff Comments</u>	<u>14</u>
2.	<u>Properties</u>	<u>14</u>
3.	<u>Legal Proceedings</u>	<u>14</u>
4.	<u>Mine Safety Disclosures</u>	<u>14</u>
	<u>PART II</u>	
5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>15</u>
6.	<u>Selected Consolidated Financial Data</u>	<u>16</u>
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51</u>
8.	<u>Financial Statements and Supplementary Data</u>	<u>54</u>
9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>134</u>
9A.	<u>Controls and Procedures</u>	<u>134</u>
9B.	<u>Other Information</u>	<u>134</u>
	<u>PART III</u>	
10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>135</u>
11.	<u>Executive Compensation</u>	<u>137</u>
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>137</u>
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>137</u>
14.	<u>Principal Accounting Fees and Services</u>	<u>137</u>
	<u>PART IV</u>	
15.	<u>Exhibits, Financial Statement Schedules</u>	<u>138</u>

Table of Contents

PART I

ITEM 1. BUSINESS

CNA Financial Corporation (CNAF) was incorporated in 1967 and is an insurance holding company. References to “CNA,” “the Company,” “we,” “our,” “us” or 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, CNA Insurance Company Limited and Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy). Loews Corporation (Loews) owned approximately 89% of our outstanding common stock as of December 31, 2018.

Our insurance products primarily include commercial property and casualty coverages, including surety. Our services include warranty, risk management information services 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 commercial property and casualty insurance operations are reported in three business segments: Specialty, Commercial and International, which we refer to collectively as Property & Casualty Operations. Our operations outside of Property & Casualty Operations are reported in two business segments: Life & Group and Corporate & Other. Each segment is managed separately due to differences in their markets and product mix. Discussion of each segment, including the products offered, customers served and distribution channels used, is 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. Accordingly, we must continuously allocate resources to refine and improve our insurance products and services. We are one of the largest commercial property and casualty insurance companies in the United States of America (U.S.).

Current Regulation

The insurance industry is subject to comprehensive and detailed regulation and supervision. Regulatory oversight by applicable agencies is exercised through review of submitted filings and information, examinations (both financial and market conduct), direct inquiries and interviews. 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 corporate governance requirements, risk management practices and disclosures and premium rate regulations requiring rates not be excessive, inadequate or unfairly discriminatory. In addition to regulation of dividends by insurance subsidiaries, intercompany transfers of assets or payments 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 payments.

As our insurance operations are conducted in both domestic and foreign jurisdictions, we are subject to a number of regulatory agency requirements applicable to a portion, or all, of our operations. These include but are not limited to, the State of Illinois Department of Insurance (which is our global group-wide supervisor), the U.K. Prudential Regulatory Authority and Financial Conduct Authority, the Office of Superintendent of Financial Institutions in Canada and the Bermuda Monetary Authority.

Domestic insurers are also required by state insurance regulators to provide coverage to certain 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.

Table of Contents

Further, domestic insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty funds are governed by state insurance guaranty associations which levy assessments to meet the funding needs of insolvent insurer estates. 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, and we have the ability to recoup certain of these assessments from policyholders.

Although the U.S. federal government does not currently directly regulate the business of insurance, federal legislative and regulatory initiatives can affect the insurance industry. These initiatives and legislation include proposals relating to terrorism and natural catastrophe exposures, cybersecurity risk management, federal financial services reforms and certain tax reforms.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 provides for a federal government backstop for insured terrorism risks through 2020. The mitigating effect of such law is part of the analysis of our overall risk posture for terrorism and, accordingly, our risk positioning may change if such law were modified.

We also continue to invest in the security of our systems and network on an enterprise-wide basis. This requires investment of a significant amount of resources by us on an ongoing basis. Potential implications of possible cybersecurity legislation on such current investment, if any, are uncertain.

The foregoing laws, regulations and proposals, either separately or in the aggregate, create a regulatory and legal environment that may require changes in our business plan or significant investment of resources in order to operate in an effective and compliant manner.

Additionally, various legislative and regulatory efforts to reform the tort liability system have, and will continue to, affect 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 court actions and by federal and state legislatures that continue to expand liability for insurers and their policyholders.

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 plan of each syndicate is subject to the review and approval of the Lloyd's Franchise Board, which is responsible for business planning and monitoring for all syndicates.

Capital adequacy and risk management regulations, referred to as Solvency II, apply to our European operations and are enacted by the European Commission, the executive body of the European Union (E.U.). Additionally, the International Association of Insurance Supervisors (IAIS) continues to consider regulatory proposals addressing group supervision, capital requirements and enterprise risk management as more fully discussed below.

Regulation Outlook

The IAIS has developed a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) which is focused on the effective group-wide supervision of internationally active insurance groups, such as CNA. As part of ComFrame, the IAIS is developing an international capital standard for insurance groups. While the details of ComFrame, including a global group capital standard and its applicability to CNA, are uncertain at this time, certain jurisdictional regulatory regimes are subject to revision in response to these global developments.

There have also been definitive developments with respect to prudential insurance supervision unrelated to the IAIS activities. On September 22, 2017, the U.S. Treasury Department, the U.S. Trade Representative (USTR) and the E. U. announced they had formally signed a covered agreement on Prudential Measures Regarding Insurance and Reinsurance (U.S.-E.U. Covered Agreement). The U.S.-E.U. Covered Agreement requires U.S. states to prospectively eliminate the requirement that domestic insurance companies must obtain collateral from E.U. reinsurance companies that are not licensed in their state (alien reinsurers) in order to obtain reserve credit under statutory accounting. In exchange, the E.U. will not impose local presence requirements on U.S. firms operating in the E.U., and effectively must defer to U.S. group capital regulation for these firms. On December 18, 2018, the U.S. Treasury Department, the USTR, and the United Kingdom (U.K.) announced they formally signed the Bilateral Agreement on Prudential Measures Regarding Insurance and Reinsurance (U.S.-U.K. Covered

Table of Contents

Agreement). This Agreement has similar terms as the U.S.-E.U. Covered Agreement, and will become effective upon the U.K.'s exit from the E.U.

Because these covered agreements are not self-executing, U.S. state laws will need to be revised to change reinsurance collateral requirements to conform to the provisions within each of the agreements. Before any such revision to state laws can be advanced, the NAIC must develop a new approach for determination of the appropriate reserve credit under statutory accounting for E.U. and U.K. based alien reinsurers. In addition, the NAIC is currently developing an approach to group capital regulation as the current U.S. regulatory regime is based on legal entity regulation. Both the reinsurance collateral requirement change and adoption of group capital regulation must be effected by the states within five years from the signing of the Covered Agreements, or states risk federal preemption. We will monitor the modification of state laws and regulations in order to comply with the provisions of the Covered Agreements and assess potential effects on our operations and prospects.

Employee Relations

As of December 31, 2018, we had approximately 6,100 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 and savings plans, disability programs, group life programs and group health care programs. See Note I to the Consolidated Financial Statements included under Item 8 for further discussion of our benefit plans.

Available Information

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, including CNA. The public can obtain any documents that we file with the SEC at www.sec.gov.

We also make available free of charge on or through our internet website at www.cna.com our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Copies of these reports may also be obtained, free of charge, upon written request to: CNA Financial Corporation, 151 N. Franklin Street, Chicago, IL 60606, Attn: Scott L. Weber, Executive Vice President and General Counsel.

Table of Contents

ITEM 1A. RISK FACTORS

Our business faces many risks and uncertainties. These risks and uncertainties could lead to events or circumstances that have a material adverse effect on our results of operations, equity, business and insurer financial strength and corporate debt ratings. We have described below the most significant risks that we face. There may be additional risks that we do not yet know of or that we do not currently perceive to be as significant that may also affect our business. You should carefully consider and evaluate all of the information included in this report and any subsequent reports we may file with the SEC or make available to the public before investing in any securities we issue.

If we determine that our recorded insurance reserves are insufficient to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, we may need to increase our insurance reserves which would result in a charge to our earnings.

We maintain insurance reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for reported and unreported claims. Insurance reserves are not an exact calculation of liability but instead are complex management estimates developed utilizing a variety of actuarial reserve estimation techniques as of a given reporting date. The reserve estimation process involves a high degree of judgment and variability and is subject to a number of factors which are highly uncertain. These variables can be affected by both changes in internal processes and external events. Key variables include frequency of claims, claim severity, mortality, morbidity, discount rates, inflation, claim handling policies and procedures, case reserving approach, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time of its ultimate settlement. Mortality is the relative incidence of death. Morbidity is the frequency and severity of injury, illness, sickness and diseases contracted.

There is generally a higher degree of variability in estimating required reserves for long-tail coverages, such as general liability and workers' compensation, as they require a relatively longer period of time for claims to be reported and settled. The impact of changes in inflation and medical costs are also more pronounced for long-tail coverages due to the longer settlement period. Certain risks and uncertainties associated with our insurance reserves are outlined in the Critical Accounting Estimates and the Reserves - Estimates and Uncertainties sections of MD&A in Item 7.

We are subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social, economic and other environmental conditions change. These issues have had, and may continue to have, a negative effect on our business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims, resulting in further increases in our reserves. The effects of unforeseen emerging claim and coverage issues are extremely difficult to predict.

In light of the many uncertainties associated with establishing the estimates and making the judgments necessary to establish reserve levels, we continually review and change our reserve estimates in a regular and ongoing process as experience develops from the actual reporting and settlement of claims and as the legal, regulatory and economic environment evolves. If our recorded reserves are insufficient for any reason, the required increase in reserves would be recorded as a charge against our earnings in the period in which reserves are determined to be insufficient. These charges could be substantial.

Our actual experience could vary from the key assumptions used to determine active life reserves for long term care policies.

Our active life reserves for long term care policies are based on our best estimate assumptions as of December 31, 2015, due to a reserve unlocking at that date. Key assumptions include morbidity, persistency (the percentage of policies remaining in force), discount rate and future premium rate increases. These assumptions, which are critical bases for our reserve estimates, are inherently uncertain. If actual experience varies from these assumptions or the future outlook for these assumptions changes, we may be required to increase our reserves. See the Life & Group Policyholder Reserves portion of Reserves - Estimates and Uncertainties section of MD&A in Item 7 for more information.

Table of Contents

Estimating future experience for long term care policies is highly uncertain, because the required projection period is very long and there is limited claim history. Morbidity and persistency experience, inclusive of mortality, can be volatile and may be negatively affected by many factors including, but not limited to, policyholder behavior, judicial decisions regarding policy terms, socioeconomic factors, cost of care inflation, changes in health trends and advances in medical care.

A prolonged period during which interest rates remain at levels lower than those anticipated in our reserving would result in shortfalls in investment income on assets supporting our obligations under long term care policies, which may require changes to our reserves. This risk is more significant for our long term care products because the long potential duration of the policy obligations exceeds the duration of the supporting investment assets. Further, changes to the corporate tax code may also affect the rate at which we discount our reserves. In addition, we may not receive regulatory approval for the level of premium rate increases we request. Any adverse deviation between the level of future premium rate increases approved and the level included in our reserving assumptions may require an increase to our reserves.

If our estimated reserves are insufficient for any reason, including changes in assumptions, the required increase in reserves would be recorded as a charge against our earnings in the period in which reserves are determined to be insufficient. These charges could be substantial.

Catastrophe and systemic losses are unpredictable and could result in material losses.

Catastrophe losses are an inevitable part of our business. Various events can cause catastrophe losses. These events can be natural or man-made, and may include hurricanes, windstorms, earthquakes, hail, severe winter weather, fires, floods, riots, strikes, civil commotion, cyber attacks, pandemics and acts of terrorism. The frequency and severity of these catastrophe events are inherently unpredictable. In addition, longer-term natural catastrophe trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain, hail and snow.

The extent of our losses from catastrophes is a function of the total amount of our insured exposures in the affected areas, the frequency and severity of the events themselves, the level of reinsurance coverage, reinsurance reinstatement premiums and state residual market assessments, if any. It can take a long time for the ultimate cost of any catastrophe losses to us to be finally determined, as a multitude of factors contribute to such costs, including evaluation of general liability and pollution exposures, infrastructure disruption, business interruption and reinsurance collectibility. Reinsurance coverage for terrorism events is provided only in limited circumstances, especially in regard to “unconventional” terrorism acts, such as nuclear, biological, chemical or radiological attacks. As a result of the items discussed above, catastrophe losses are particularly difficult to estimate. Additionally, catastrophic events could cause us to exhaust our available reinsurance limits and could adversely affect the cost and availability of reinsurance. Claim frequency and severity for some lines of business can be correlated to external factors such as economic activity, financial market volatility, increasing health care costs or changes in the legal or regulatory environment. Claim frequency and severity can also be correlated to insureds' use of common business practices, equipment, vendors or software. This can result in multiple insured losses emanating out of the same underlying cause. In these instances, we may be subject to increased claim frequency and severity across multiple policies or lines of business concurrently. While we do not define such systemic losses as catastrophes for financial reporting purposes, they are similar to catastrophes in terms of the uncertainty and potential impact on our results.

We have exposures related to asbestos and environmental pollution (A&EP) claims, which could result in material losses.

Our property and casualty insurance subsidiaries have exposures related to A&EP claims. Our experience has been that establishing claim and claim adjustment expense reserves for casualty coverages relating to A&EP claims is subject to uncertainties that are greater than those presented by other claims. Additionally, traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for A&EP. As a result, estimating the ultimate cost of both reported and unreported A&EP claims is subject to a higher degree of variability. On August 31, 2010, we completed a retroactive reinsurance transaction under which substantially all of our legacy

Table of Contents

A&EP liabilities were ceded to National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., subject to an aggregate limit of \$4 billion (Loss Portfolio Transfer). The cumulative amount ceded under the Loss Portfolio Transfer as of December 31, 2018 is \$3.1 billion. If the other parties to the Loss Portfolio Transfer do not fully perform their obligations, net losses incurred on A&EP claims covered by the Loss Portfolio Transfer exceed the aggregate limit of \$4 billion, or we determine we have exposures to A&EP claims not covered by the Loss Portfolio Transfer, we may need to increase our recorded net reserves which would result in a charge against our earnings. These charges could be substantial. Additionally, if the A&EP claims exceed the limit of the Loss Portfolio Transfer, we will need to assess whether to purchase additional limit or to reassume claim handling responsibility for A&EP claims from an affiliate of NICO. Any additional reinsurance premium or future claim handling costs would also reduce our earnings.

We use analytical models to assist our decision making in key areas such as pricing, reserving and capital modeling and may be adversely affected if actual results differ materially from the model outputs and related analyses.

We use various modeling techniques and data analytics (e.g., scenarios, predictive, stochastic and/or forecasting) to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. This includes both proprietary and third party modeled outputs and related analyses to assist us in decision-making related to underwriting, pricing, capital allocation, reserving, investing, reinsurance and catastrophe risk, among other things. We incorporate numerous assumptions and forecasts about the future level and variability of policyholder behavior, loss frequency and severity, interest rates, equity markets, inflation, capital requirements, and currency exchange rates, among others. The modeled outputs and related analyses from both proprietary models and third parties are subject to various assumptions, uncertainties, model design errors and the inherent limitations of any statistical analysis, including those arising from the use of historical internal and industry data and assumptions.

In addition, the effectiveness of any model can be degraded by operational risks including, but not limited to, the improper use of the model, including input errors, data errors and human error. As a result, actual results may differ materially from our modeled results. The profitability and financial condition of the Company substantially depends on the extent to which our actual experience is consistent with assumptions we use in our models and ultimate model outputs. If, based upon these models or other factors, we misprice our products or fail to appropriately estimate the risks we are exposed to, our business, financial condition, results of operations or liquidity may be materially adversely affected.

We face intense competition in our industry; we may be adversely affected by the cyclical nature of the property and casualty business and the evolving landscape of our distribution network.

All aspects of the insurance industry are highly competitive and we must continuously allocate resources to refine and improve our insurance products and services to remain competitive. We compete with a large number of stock and mutual insurance companies and other entities, some of which may be larger or have greater financial or other resources than we do, for both distributors and customers. This includes agents, brokers and managing general underwriters who may increasingly compete with us to the extent that markets continue to provide them with direct access to providers of capital seeking exposure to insurance risk. Insurers compete on the basis of many factors, including products, price, services, ratings and financial strength. The competitor landscape has evolved substantially in recent years, with significant consolidation and new market entrants, resulting in increased pressures on our ability to remain competitive, particularly in obtaining pricing that is both attractive to our customer base and risk-appropriate to us.

In addition, the property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, resulting in less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. During periods in which price competition is high, we may lose business to competitors offering competitive insurance products at lower prices. As a result, our premium levels and expense ratio could be materially adversely impacted.

We market our insurance products worldwide primarily through independent insurance agents, insurance brokers, and managing general underwriters who also promote and distribute the products of our competitors. Any change in our relationships with our distribution network agents, brokers or managing general underwriters including as

Table of Contents

a result of consolidation and their increased promotion and distribution of our competitors' products, could adversely affect our ability to sell our products. As a result, our business volume and results of operations could be materially adversely impacted.

We may be adversely affected by technological changes or disruptions in the insurance marketplace.

Technological changes in the way insurance transactions are completed in the marketplace, and our ability to react effectively to such change, may present significant competitive risks. For example, more insurers are utilizing "big data" analytics to make underwriting and other decisions that impact product design and pricing. If such utilization is more effective than how we use similar data and information, we will be at a competitive disadvantage. There can be no assurance that we will continue to compete effectively with our industry peers due to technological changes; accordingly, this may have a material adverse effect on our business and results of operations.

In addition, agents and brokers, technology companies, or other third parties may create alternate distribution channels for commercial business that may adversely impact product differentiation and pricing. For example, they may create a digitally enabled distribution channel that may adversely impact our competitive position. Our efforts or the efforts of agents and brokers with respect to new products or alternate distribution channels, as well as changes in the way agents and brokers utilize greater levels of data and technology, could adversely impact our business relationship with independent agents and brokers who currently market our products, resulting in a lower volume and/or profitability of business generated from these sources.

We may not be able to obtain sufficient reinsurance at a cost or on terms and conditions we deem acceptable, which could result in increased exposure to risk or a decrease in our underwriting commitments.

A primary reason we purchase reinsurance is to manage our exposure to risk. Under our ceded reinsurance arrangements, another insurer assumes a specified portion of our exposure in exchange for a specified portion of policy premiums. Market conditions determine the availability and cost of the reinsurance protection we purchase, which affects the level of our business and profitability, as well as the level and types of risk we retain. If we are unable to obtain sufficient reinsurance at a cost or on terms and conditions we deem acceptable, we may have increased exposure to risk. Alternatively, we may be unwilling to bear the increased risk and would reduce the level of our underwriting commitments.

We may not be able to collect amounts owed to us by reinsurers, which could result in higher net incurred losses.

We have significant amounts recoverable from reinsurers which are reported as receivables on our Consolidated Balance Sheets and are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefit reserves. The ceding of insurance does not, however, discharge our primary liability for claims. As a result, we are subject to credit risk relating to our ability to recover amounts due from reinsurers. Certain of our reinsurance carriers could experience credit downgrades by rating agencies within the term of our contractual relationship, which would indicate an increase in the likelihood that we would not be able to recover amounts due. In addition, reinsurers could dispute amounts which we believe are due to us. If the amounts collected from reinsurers, including any collateral, are less than the amounts recorded by us, our net incurred losses will be higher.

We may not be able to collect amounts owed to us by policyholders who hold deductible policies and/or who purchase retrospectively rated policies, which could result in higher net incurred losses.

A portion of our business is written under deductible policies. Under these policies, we are obligated to pay the related insurance claims and are reimbursed by the policyholder to the extent of the deductible, which may be significant.

Moreover, certain policyholders purchase retrospectively rated workers' compensation policies (i.e., policies in which premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium, which may be significant. As a result, we are exposed to policyholder credit risk. If the amounts collected from policyholders, including any collateral, are less than the amounts recorded by us, our net incurred losses will be higher.

Table of Contents

We may incur significant realized and unrealized investment losses and volatility in net investment income arising from changes in the financial markets.

Our investment portfolio is exposed to various risks, such as interest rate, credit spread, issuer default, equity prices and foreign currency, which are unpredictable. Financial markets are highly sensitive to changes in economic conditions, monetary policies, tax policies, domestic and international geopolitical issues and many other factors. Changes in financial markets including fluctuations in interest rates, credit, equity prices and foreign currency prices and many other factors beyond our control can adversely affect the value of our investments, the realization of investment income and the rate at which we discount certain liabilities.

We have significant holdings in fixed income investments that are sensitive to changes in interest rates. A decline in interest rates may reduce the returns earned on new fixed income investments, thereby reducing our net investment income, while an increase in interest rates may reduce the value of our existing fixed income investments. The value of our fixed income investments is also subject to risk that certain investments may default or become impaired due to deterioration in the financial condition of issuers of the investments we hold or in the underlying collateral of the security. Any such impairments which we deem to be other-than-temporary would result in a charge to our earnings. In addition, we invest a portion of our assets in limited partnerships which are subject to greater market volatility than our fixed income investments. Limited partnership investments generally provide a lower level of liquidity than fixed maturity or equity investments which may also limit our ability to withdraw assets.

Further, we hold a portfolio of commercial mortgage loans. We are subject to risk related to the recoverability of loan balances, which is influenced by declines in the estimated cash flows from underlying property leases, fair value of collateral and creditworthiness of tenants of credit tenant loan properties, where lease payments directly service the loan. Collecting amounts from borrowers that are less than the amounts recorded would result in a charge to our earnings.

As a result of these factors, we may not earn an adequate return on our investments, may be required to write down the value of our investments and may incur losses on the disposition of our investments.

Changes in tax laws of jurisdictions in which we operate could adversely impact our results of operations.

Federal, state or foreign tax legislation that would lessen or eliminate some or all of the tax attributes currently affecting us could materially and adversely impact our results of operations, in particular, changes to tax laws governing tax credits. Other potential tax law changes, including further modification of the corporate tax rate and the taxation of interest from municipal bonds, could also adversely affect the value of the tax benefit received on tax exempt municipal investments and thus the rate at which we discount our long term care active life reserves.

Any significant interruption in the operation of our facilities, systems and business functions could result in a materially adverse effect on our operations.

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted manner, through our employees or vendor relationships, necessary business functions (such as internet support and 24-hour call centers), processing new and renewal business and processing and paying claims and other obligations. Our facilities and systems could become unavailable, inoperable, or otherwise impaired from a variety of causes, including, without limitation, natural events, such as hurricanes, tornadoes, windstorms, earthquakes, severe winter weather and fires, or other events, such as explosions, terrorist attacks, computer security breaches or cyber attacks, riots, hazardous material releases, medical epidemics, utility outages, interruptions of our data processing and storage systems or the systems of third-party vendors, or unavailability of communications facilities. Likewise, we could experience a significant failure or corruption of one or more of our information technology, telecommunications, or other systems for various reasons, including significant failures that might occur as existing systems are replaced or upgraded.

The shut-down or unavailability of one or more of our systems or facilities for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such events could result in a deterioration of our ability to write and process new and

Table of Contents

renewal business, provide customer service, pay claims in a timely manner, or perform other necessary business functions, including the ability to issue financial statements in a timely manner. This could result in a materially adverse effect on our business results, prospects and liquidity, as well as damage to customer goodwill.

The foregoing risks could expose us to monetary and reputational damages. Potential exposures include substantially increased compliance costs and required computer system upgrades and security-related investments.

Any significant breach in our data security infrastructure could result in a materially adverse effect on our operations. A significant breach of our data security infrastructure may result from actions by our employees, vendors, third-party administrators or by unknown third parties. Such a breach could affect our data framework or cause a failure to protect the personal information of our customers, claimants or employees, or sensitive and confidential information regarding our business and may result in operational impairments and financial losses, as well as significant harm to our reputation.

The breach of confidential information also could give rise to legal liability and regulatory action under data protection and privacy laws, as well as evolving regulation in this regard. Any such legal or regulatory action could have a material adverse effect on our operations.

Inability to detect and prevent significant employee or third party service provider misconduct, inadvertent errors and omissions, or exposure relating to functions performed on our behalf could result in a materially adverse effect on our operations.

We may incur losses which arise from employees or third party service providers engaging in intentional misconduct, fraud, errors and omissions, failure to comply with internal guidelines, including with respect to underwriting authority, or failure to comply with regulatory requirements. Our controls may not be able to detect all possible circumstances of employee and third party service provider non-compliant activity and the internal structures in place to prevent this activity may not be effective in all cases. Any losses relating to such non-compliant activity could adversely affect our results of operations.

Portions of our insurance business is underwritten and serviced by third parties. With respect to underwriting, our contractual arrangements with third parties will typically grant them limited rights to write new and renewal policies, subject to contractual restrictions and obligations and requiring them to underwrite within the terms of our licenses. Should these third parties issue policies that exceed these contractual restrictions, we could be deemed liable for such policies and subject to regulatory fines and penalties for any breach of licensing requirements. It is possible that in such circumstance we might not be fully indemnified for such third parties' contractual breaches.

Additionally, we rely on certain third-party claims administrators, including the administrators of our long term care claims, to perform significant claim administration and claim adjudication functions. Any failure by such administrator to properly perform service functions may result in losses as a result of over-payment of claims, legal claims against us and adverse regulatory enforcement exposure.

We have also licensed certain systems from third parties. We cannot be certain that we will have access to these systems or that our information technology or application systems will continue to operate as intended.

These risks could adversely impact our reputation or client relationships or have a material adverse effect on our financial condition or results of operations.

Loss of key vendor relationships and issues relating to the transitioning of vendor relationships could result in a materially adverse effect on our operations.

In the event that one or more of our vendors suffers a bankruptcy, is sold to another entity, sustains a significant business interruption or otherwise becomes unable to continue to provide products or services at the requisite level, we may be adversely affected. We may suffer operational impairments and financial losses associated with transferring business to a new vendor, assisting a vendor with rectifying operational difficulties, failure by vendors to properly perform service functions or assuming previously outsourced operations ourselves. Our inability to provide for appropriate servicing if a vendor becomes unable to fulfill its contractual obligations to us, either through transitioning to another service provider temporarily or permanently or assuming servicing internally, may have a materially adverse effect on our operations.

Table of Contents

We face considerable competition within our industry for qualified, specialized talent and any significant inability to attract and retain talent may adversely affect the execution of our business strategies.

The successful execution of our business plan depends on our ability to attract and retain qualified talent. Due to the intense competition in our industry for qualified employees with specialized industry experience, we may encounter obstacles to our ability to attract and retain such employees, which could materially adversely affect our results of operations.

We are controlled by a single stockholder which could result in potential conflicts of interest.

Loews beneficially owned approximately 89% of our outstanding shares of common stock as of December 31, 2018, and is in a position to control actions that require the consent of stockholders, including the election of directors, amendment of our Restated Certificate of Incorporation and any merger or sale of substantially all of our assets. In addition, four officers of Loews currently serve on our Board of Directors. We have also entered into services agreements and a registration rights agreement with Loews, and we may in the future enter into other agreements with Loews. It is possible that potential conflicts of interest could arise in the future for our directors who are also officers of Loews with respect to a number of areas relating to the past and ongoing relationships of Loews and us, including tax and insurance matters, financial commitments and sales of common stock pursuant to registration rights or otherwise.

We are subject to capital adequacy requirements and, if we are unable to maintain or raise sufficient capital to meet these requirements, regulatory agencies may restrict or prohibit us from operating our business.

Insurance companies such as ours are subject to capital adequacy standards set by regulators to help identify companies that merit further regulatory attention. In the U.S., these standards apply specified risk factors to various asset, premium and reserve components of our legal entity statutory basis of accounting financial statements. Current rules, including those promulgated by insurance regulators and specialized markets, such as Lloyd's, require companies to maintain statutory capital and surplus at a specified minimum level determined using the applicable jurisdiction's regulatory capital adequacy formula. If we do not meet these minimum requirements, we may be restricted or prohibited from operating our business in the applicable jurisdictions and specialized markets. If we are required to record a material charge against earnings in connection with a change in estimated insurance reserves, the occurrence of a catastrophic event, or if we incur significant losses related to our investment portfolio, which severely deteriorates our capital position, we may violate these minimum capital adequacy requirements unless we are able to raise sufficient additional capital. We may be limited in our ability to raise significant amounts of capital on favorable terms or at all.

Globally, insurance regulators are working cooperatively to develop a common framework for the supervision of internationally active insurance groups that includes an International Capital Standard (ICS) that may need to be implemented on a group basis. Finalization and adoption of this framework, including the ICS, could increase our prescribed capital requirement, the level at which regulatory scrutiny intensifies, as well as significantly increase our cost of regulatory compliance.

Our insurance subsidiaries, upon whom we depend for dividends in order to fund our corporate obligations, are limited by insurance regulators in their ability to pay dividends.

We are a holding company and are dependent upon dividends, loans and other sources of cash from our subsidiaries in order to meet our obligations. Ordinary dividend payments, or dividends that do not require prior approval by the insurance subsidiaries' domiciliary insurance regulator, are generally limited to amounts determined by formulas that vary by jurisdiction. If we are restricted from paying or receiving intercompany dividends, by regulatory rule or otherwise, we may not be able to fund our corporate obligations and debt service requirements or pay our stockholders dividends from available cash. As a result, we would need to look to other sources of capital which may be more expensive or may not be available at all.

Rating agencies may downgrade their ratings of us and thereby adversely affect our ability to write insurance at competitive rates or at all.

Ratings are an important factor in establishing the competitive position of insurance companies. Our insurance company subsidiaries, as well as our public debt, are rated by rating agencies, including, A.M. Best Company (A.M. Best), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's (S&P). Ratings reflect the rating

Table of Contents

agency's opinions of an insurance company's or insurance holding company's financial strength, capital adequacy, enterprise risk management practices, operating performance, strategic position and ability to meet its obligations to policyholders and debt holders.

The rating agencies may take action to lower our ratings in the future as a result of any significant financial loss or possible changes in the methodology or criteria applied by the rating agencies. The severity of the impact on our business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of our insurance products to certain markets and the required collateralization of certain future payment obligations or reserves.

In addition, it is possible that a significant lowering of the corporate debt ratings of Loews by certain of the rating agencies could result in an adverse effect on our ratings, independent of any change in our circumstances.

We are subject to extensive existing state, local, federal and foreign governmental regulations that restrict our ability to do business and generate revenues; additional regulation or significant modification to existing regulations or failure to comply with regulatory requirements may have a materially adverse effect on our business, our operations and financial condition.

The insurance industry is subject to comprehensive and detailed regulation and supervision. Most insurance regulations are designed to protect the interests of our policyholders and third-party claimants, rather than our investors. Each jurisdiction in which we do business has established supervisory agencies that regulate the manner in which we do business. Any changes in regulation could impose significant burdens on us. In addition, the Lloyd's marketplace sets rules under which its members, including our Hardy syndicate, operate.

These rules and regulations relate to, among other things, the standards of solvency (including risk-based capital measures), government-supported backstops for certain catastrophic events (including terrorism), investment restrictions, accounting and reporting methodology, establishment of reserves and potential assessments of funds to settle covered claims against impaired, insolvent or failed private or quasi-governmental insurers.

Regulatory powers also extend to premium rate regulations which require that rates not be excessive, inadequate or unfairly discriminatory. State jurisdictions ensure compliance with such regulations through market conduct exams, which may result in losses to the extent non-compliance is ascertained, either as a result of failure to document transactions properly or failure to comply with internal guidelines, or otherwise. The jurisdictions in which we do business may also require us to provide coverage to persons whom we would not otherwise consider eligible or restrict us from withdrawing from unprofitable lines of business or unprofitable market areas. Each jurisdiction 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 jurisdiction.

Changes in accounting principles and financial reporting requirements could adversely affect our results of operations or financial condition.

We are required to prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB). It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results of operations and financial condition. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note A to the Consolidated Financial Statements included under Item 8.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease office space in various cities throughout the U.S. and in other countries. The following table sets forth certain information with respect to our principal office locations.

Location	Amount (Square Feet) of Space Leased and Occupied by CNA	Principal Usage
151 N. Franklin Street, Chicago, Illinois	245,582	Principal executive offices of CNAF
333 S. Wabash Avenue, Chicago, Illinois	104,393	Corporate offices
500 Colonial Center Parkway, Lake Mary, Florida	73,191	Property and casualty insurance offices
125 S. Broad Street, New York, New York	52,341	Property and casualty insurance offices
101 S. Reid Street, Sioux Falls, South Dakota	49,222	Property and casualty insurance offices
1 Meridian Boulevard, Wyomissing, Pennsylvania	47,629	Property and casualty insurance offices
4150 N. Drinkwater Boulevard, Scottsdale, Arizona	43,354	Property and casualty insurance offices
801 Warrenville Road, #700, Lisle, Illinois	28,421	Property and casualty insurance offices
20 Fenchurch Street, London, U.K.	25,641	Property and casualty insurance offices
66 Wellington Street, Toronto, O.N.	24,226	Property and casualty insurance offices

We lease all of the office space described above. We consider our properties to be in generally good condition, well maintained and suitable and adequate to carry on our business.

ITEM 3. LEGAL PROCEEDINGS

Information on our legal proceedings is set forth in Note F to the Consolidated Financial Statements included under Item 8.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange under the symbol CNA.

As of February 8, 2019, we had 271,469,504 shares of common stock outstanding and approximately 89% of our outstanding common stock was owned by Loews. We had 936 stockholders of record as of February 8, 2019 according to the records maintained by our transfer agent.

Our Board of Directors has approved an authorization to purchase, in the open market or through privately negotiated transactions, our outstanding common stock, as our management deems appropriate. No repurchases were made in 2018 or 2017.

The following graph compares the five-year total return of our common stock, the Standard & Poor's 500 (S&P 500) Index and the S&P 500 Property & Casualty Insurance Index. The graph assumes that the value of the investment in our common stock and each index was \$100 at the base period, January 1, 2014, and that dividends, if any, were reinvested.

Company / Index	Base Period	2014	2015	2016	2017	2018
CNA Financial Corporation	\$100.00	\$94.76	\$92.57	\$120.56	\$165.09	\$146.66
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
S&P 500 Property & Casualty Insurance Index	100.00	115.74	126.77	146.69	179.52	171.10

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial data. The table should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data of this Form 10-K.

As of or for the years ended December 31

(In millions, except per share data)	2018	2017	2016	2015	2014
Results of Operations:					
Revenues	\$10,134	\$9,542	\$9,366	\$9,101	\$9,692
Income (loss) from continuing operations, net of tax	\$813	\$899	\$859	\$479	\$888
(Loss) income from discontinued operations, net of tax	—	—	—	—	(197)
Net income (loss)	\$813	\$899	\$859	\$479	\$691
Basic Earnings (Loss) Per Share:					
Income (loss) from continuing operations	\$2.99	\$3.32	\$3.18	\$1.77	\$3.29
(Loss) income from discontinued operations	—	—	—	—	(0.73)
Basic earnings (loss) per share	\$2.99	\$3.32	\$3.18	\$1.77	\$2.56
Diluted Earnings (Loss) Per Share:					
Income (loss) from continuing operations	\$2.98	\$3.30	\$3.17	\$1.77	\$3.28
(Loss) income from discontinued operations	—	—	—	—	(0.73)
Diluted earnings (loss) per share	\$2.98	\$3.30	\$3.17	\$1.77	\$2.55
Dividends declared per common share	\$3.30	\$3.10	\$3.00	\$3.00	\$2.00
Financial Condition:					
Total investments	\$44,486	\$46,870	\$45,420	\$44,699	\$46,262
Total assets	57,152	56,567	55,233	55,045	55,564
Insurance reserves	36,764	37,212	36,431	36,486	36,380
Long and short term debt	2,680	2,858	2,710	2,560	2,557
Stockholders' equity	11,217	12,244	11,969	11,756	12,794
Book value per common share	\$41.32	\$45.15	\$44.25	\$43.49	\$47.39

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Index to this MD&A

Management's discussion and analysis of financial condition and results of operations is comprised of the following sections:

	Page No.
<u>Overview</u>	<u>18</u>
<u>Critical Accounting Estimates</u>	<u>18</u>
<u>Reserves - Estimates and Uncertainties</u>	<u>20</u>
<u>Catastrophes and Related Reinsurance</u>	<u>26</u>
<u>Consolidated Operations</u>	<u>28</u>
<u>Segment Results</u>	<u>30</u>
<u>Specialty</u>	<u>31</u>
<u>Commercial</u>	<u>34</u>
<u>International</u>	<u>36</u>
<u>Life & Group</u>	<u>39</u>
<u>Corporate & Other</u>	<u>41</u>
<u>Investments</u>	<u>42</u>
<u>Net Investment Income</u>	<u>42</u>
<u>Net Realized Investment Gains (Losses)</u>	<u>43</u>
<u>Portfolio Quality</u>	<u>44</u>
<u>Duration</u>	<u>45</u>
<u>Short Term Investments</u>	<u>45</u>
<u>Liquidity and Capital Resources</u>	<u>46</u>
<u>Cash Flows</u>	<u>46</u>
<u>Liquidity</u>	<u>46</u>
<u>Common Stock Dividends</u>	<u>47</u>
<u>Commitments, Contingencies and Guarantees</u>	<u>47</u>
<u>Ratings</u>	<u>48</u>
<u>Accounting Standards Updates</u>	<u>49</u>
<u>Forward-Looking Statements</u>	<u>49</u>

Table of Contents

OVERVIEW

The following discussion should be read in conjunction with Item 1A Risk Factors, Item 6 Selected Financial Data and Item 8 Financial Statements and Supplementary Data of this Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the amount of revenues and expenses reported during the period. Actual results may differ from those estimates.

Our Consolidated Financial Statements and accompanying notes have been prepared in accordance with GAAP applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the Consolidated Financial Statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third-party professionals and various other assumptions that are believed to be reasonable under the known facts and circumstances.

The accounting estimates discussed below are considered by us to be critical to an understanding of our Consolidated Financial Statements as their application places the most significant demands on our judgment. Note A to the Consolidated Financial Statements included under Item 8 should be read in conjunction with this section to assist with obtaining an understanding of the underlying accounting policies related to these estimates. Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from our estimates and may have a material adverse impact on our results of operations, equity, business, and insurer financial strength and corporate debt ratings.

Insurance Reserves

Insurance reserves are established for both short and long-duration insurance contracts. Short-duration contracts are primarily related to property and casualty insurance policies where the reserving process is based on actuarial estimates of the amount of loss, including amounts for known and unknown claims. Long-duration contracts are primarily related to long term care policies and are estimated using actuarial estimates about morbidity and persistency as well as assumptions about expected investment returns and future premium rate increases. The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage. The reserving process is discussed in further detail in the Reserves-Estimates and Uncertainties section below.

Reinsurance and Insurance Receivables

Exposure exists with respect to the collectibility of ceded property and casualty and life reinsurance to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities we have ceded under reinsurance agreements. An allowance for uncollectible reinsurance is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, industry experience and current economic conditions. Further information on our reinsurance receivables is in Note G to the Consolidated Financial Statements included under Item 8.

Additionally, exposure exists with respect to the collectibility of amounts due from policyholders related to insurance contracts, including amounts due from insureds under high deductible policies and retrospectively rated policies. An allowance for uncollectible insurance receivables is recorded on the basis of periodic evaluations of balances due from insureds, currently as well as in the future, historical business default data, management's experience and current economic conditions.

If actual experience differs from the estimates made by management in determining the allowances for uncollectible reinsurance and insurance receivables, net receivables as reflected on our Consolidated Balance Sheets may not be collected. Therefore, our results of operations or equity could be materially adversely affected.

Table of Contents

Valuation of Investments and Impairment of Securities

Our fixed maturity and equity securities are carried at fair value on the balance sheet. Fair value represents the price that would be received in a sale of an asset in an orderly transaction between market participants on the measurement date, the determination of which requires us to make a significant number of assumptions and judgments. Securities with the greatest level of subjectivity around valuation are those that rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs are based on assumptions consistent with what we believe other market participants would use to price such securities. Further information on our fair value measurements is in Note C to the Consolidated Financial Statements included under Item 8.

Our fixed maturity securities are subject to market declines below amortized cost that may be other-than-temporary and therefore result in the recognition of impairment losses in earnings. Factors considered in the determination of whether or not a decline is other-than-temporary include a current intention or need to sell the security or an indication that a credit loss exists. Significant judgment exists regarding the evaluation of the financial condition and expected near-term and long-term prospects of the issuer or the underlying collateral, the relevant industry conditions and trends, and whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. Further information on our process for evaluating impairments is in Note A to the Consolidated Financial Statements included under Item 8.

Long Term Care Policies

Future policy benefit reserves for our long term care policies are based on certain assumptions, including morbidity, persistency, inclusive of mortality, discount rates and future premium rate increases. The adequacy of the reserves is contingent upon actual experience and our future expectations related to these key assumptions. If actual or expected future experience differs from these assumptions, the reserves may not be adequate, requiring us to add to reserves. A prolonged period during which interest rates remain at levels lower than those anticipated in our reserving discount rate assumption could result in shortfalls in investment income on assets supporting our obligations under long term care policies, which may also require an increase to our reserves. In addition, we may not receive regulatory approval for the premium rate increases we request.

These changes to our reserves could materially adversely impact our results of operations and equity. The reserving process is discussed in further detail in the Reserves - Estimates and Uncertainties section below.

Income Taxes

We account for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return basis of assets and liabilities. Any resulting future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized. The assessment of the need for a valuation allowance requires management to make estimates and assumptions about future earnings, reversal of existing temporary differences and available tax planning strategies. If actual experience differs from these estimates and assumptions, the recorded deferred tax asset may not be fully realized resulting in an increase to income tax expense in our results of operations. In addition, the ability to record deferred tax assets in the future could be limited, resulting in a higher effective tax rate in that future period.

Table of Contents

RESERVES - ESTIMATES AND UNCERTAINTIES

The level of reserves we maintain represents our best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on our assessment of facts and circumstances known at that time. Reserves are not an exact calculation of liability but instead are complex estimates that we derive, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain. As noted below, we review our reserves for each segment of our business periodically, and any such review could result in the need to increase reserves in amounts which could be material and could adversely affect our results of operations, equity, business and insurer financial strength and corporate debt ratings. Further information on reserves is provided in Note E to the Consolidated Financial Statements included under Item 8.

Property and Casualty Claim and Claim Adjustment Expense Reserves

We maintain loss reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled (case reserves) and claims that have been incurred but not reported (IBNR). IBNR includes a provision for development on known cases as well as a provision for late reported incurred claims. Claim and claim adjustment expense reserves are reflected as liabilities and are included on the Consolidated Balance Sheets under the heading "Insurance Reserves." Adjustments to prior year reserve estimates, if necessary, are reflected in results of operations in the period that the need for such adjustments is determined. The carried case and IBNR reserves as of each balance sheet date are provided in the Segment Results section of this MD&A and in Note E to the Consolidated Financial Statements included under Item 8.

As discussed in the Risk Factors discussion within Item 1A, there is a risk that our recorded reserves are insufficient to cover our estimated ultimate unpaid liability for claims and claim adjustment expenses. Unforeseen emerging or potential claims and coverage issues are difficult to predict and could materially adversely affect the adequacy of our claim and claim adjustment expense reserves and could lead to future reserve additions.

In addition, our property and casualty insurance subsidiaries also have actual and potential exposures related to A&EP claims, which could result in material losses. To mitigate the risks posed by our exposure to A&EP claims and claim adjustment expenses, we completed a transaction with NICO under which substantially all of our legacy A&EP liabilities were ceded to NICO effective January 1, 2010. See Note E to the Consolidated Financial Statements included under Item 8 for further discussion about the transaction with NICO, its impact on our results of operations and the deferred retroactive reinsurance gain.

Establishing Property & Casualty Reserve Estimates

In developing claim and claim adjustment expense ("loss" or "losses") reserve estimates, our actuaries perform detailed reserve analyses that are staggered throughout the year. The data is organized at a reserve group level. A reserve group can be a line of business covering a subset of insureds such as commercial automobile liability for small or middle market customers, it can encompass several lines of business provided to a specific set of customers such as aging services, or it can be a particular type of claim such as construction defect. Every reserve group is reviewed at least once during the year, but most are reviewed more frequently. The analyses generally review losses gross of ceded reinsurance and apply the ceded reinsurance terms to the gross estimates to establish estimates net of reinsurance. In addition to the detailed analyses, we review actual loss emergence for all products each quarter.

Most of our business can be characterized as long-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. Our long-tail exposures include commercial automobile liability, workers' compensation, general liability, medical professional liability, other professional liability and management liability coverages, assumed reinsurance run-off and products liability. Short-tail exposures include property, commercial automobile physical damage, marine, surety and warranty. Specialty, Commercial and International contain both long-tail and short-tail exposures. Corporate & Other contains run-off long-tail exposures.

Various methods are used to project ultimate losses for both long-tail and short-tail exposures.

Table of Contents

The paid development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident or policy years with further expected changes in paid losses. Selection of the paid loss pattern may require consideration of several factors, including the impact of inflation on claim costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself may require evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can affect the results. Since the method does not rely on case reserves, it is not directly influenced by changes in their adequacy.

For many reserve groups, paid loss data for recent periods may be too immature or erratic for accurate predictions. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail products such as workers' compensation. The incurred development method is similar to the paid development method, but it uses case incurred losses instead of paid losses. Since the method uses more data (case reserves in addition to paid losses) than the paid development method, the incurred development patterns may be less variable than paid patterns. However, selection of the incurred loss pattern typically requires analysis of all of the same factors described above. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place, and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available.

The loss ratio method multiplies earned premiums by an expected loss ratio to produce ultimate loss estimates for each accident or policy year. This method may be useful for immature accident or policy periods or if loss development patterns are inconsistent, losses emerge very slowly or there is relatively little loss history from which to estimate future losses. The selection of the expected loss ratio typically requires analysis of loss ratios from earlier accident or policy years or pricing studies and analysis of inflationary trends, frequency trends, rate changes, underwriting changes and other applicable factors.

The Bornhuetter-Ferguson method using paid loss is a combination of the paid development method and the loss ratio method. This method normally determines expected loss ratios similar to the approach used to estimate the expected loss ratio for the loss ratio method and typically requires analysis of the same factors described above. This method assumes that future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the paid development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the paid development method typically requires consideration of the same factors listed in the description of the paid development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each year. For long-tail lines, this method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the expected loss ratio calculation.

The Bornhuetter-Ferguson method using incurred loss is similar to the Bornhuetter-Ferguson method using paid loss except that it uses case incurred losses. The use of case incurred losses instead of paid losses can result in development patterns that are less variable than paid patterns. However, the inclusion of case reserves can lead to distortions if changes in case reserving have taken place, and the method typically requires analysis of the same factors that need to be reviewed for the loss ratio and incurred development methods.

The frequency times severity method multiplies a projected number of ultimate claims by an estimated ultimate average loss for each accident or policy year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve groups where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that affect the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims may require analysis of several factors, including the rate at which policyholders report claims to us, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss may require

Table of Contents

analysis of the impact of large losses and claim cost trends based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

Stochastic modeling produces a range of possible outcomes based on varying assumptions related to the particular reserve group being modeled. For some reserve groups, we use models which rely on historical development patterns at an aggregate level, while other reserve groups are modeled using individual claim variability assumptions supplied by the claims department. In either case, multiple simulations using varying assumptions are run and the results are analyzed to produce a range of potential outcomes. The results will typically include a mean and percentiles of the possible reserve distribution which aid in the selection of a point estimate.

For many exposures, especially those that can be considered long-tail, a particular accident or policy year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, our actuaries typically assign more weight to the incurred development method than to the paid development method. As claims continue to settle and the volume of paid loss increases, the actuaries may assign additional weight to the paid development method. For most of our products, even the incurred losses for accident or policy years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, we may not assign much, if any, weight to the paid and incurred development methods. We may use the loss ratio, Bornhuetter-Ferguson and/or frequency times severity methods. For short-tail exposures, the paid and incurred development methods can often be relied on sooner, primarily because our history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, we may also use the loss ratio, Bornhuetter-Ferguson and/or frequency times severity methods for short-tail exposures. For other more complex reserve groups where the above methods may not produce reliable indications, we use additional methods tailored to the characteristics of the specific situation.

Periodic Reserve Reviews

The reserve analyses performed by our actuaries result in point estimates. Each quarter, the results of the detailed reserve reviews are summarized and discussed with senior management to determine the best estimate of reserves. Senior management considers many factors in making this decision. Our recorded reserves reflect our best estimate as of a particular point in time based upon known facts and circumstances, consideration of the factors cited above and our judgment. The carried reserve differs from the actuarial point estimate as discussed further below.

Currently, our recorded reserves are modestly higher than the actuarial point estimate. For Commercial, Specialty and International, the difference between our reserves and the actuarial point estimate is primarily driven by uncertainty with respect to immature accident years, claim cost inflation, changes in claims handling, changes to the tort environment which may adversely affect claim costs and the effects from the economy. For Corporate & Other, the difference between our reserves and the actuarial point estimate is primarily driven by the potential tail volatility of run-off exposures.

The key assumptions fundamental to the reserving process are often different for various reserve groups and accident or policy years. Some of these assumptions are explicit assumptions that are required of a particular method, but most of the assumptions are implicit and cannot be precisely quantified. An example of an explicit assumption is the pattern employed in the paid development method. However, the assumed pattern is itself based on several implicit assumptions such as the impact of inflation on medical costs and the rate at which claim professionals close claims. As a result, the effect on reserve estimates of a particular change in assumptions typically cannot be specifically quantified, and changes in these assumptions cannot be tracked over time.

Our recorded reserves are management's best estimate. In order to provide an indication of the variability associated with our net reserves, the following discussion provides a sensitivity analysis that shows the approximate estimated impact of variations in significant factors affecting our reserve estimates for particular types of business. These significant factors are the ones that we believe could most likely materially affect the reserves. This discussion covers the major types of business for which we believe a material deviation to our reserves is reasonably possible. There can be no assurance that actual experience will be consistent with the current assumptions or with the variation indicated by the discussion. In addition, there can be no assurance that other factors and assumptions will not have a material impact on our reserves.

Table of Contents

The three areas for which we believe a significant deviation to our net reserves is reasonably possible are (i) professional liability, management liability and surety products; (ii) workers' compensation; and (iii) general liability. Professional liability, management liability and surety products include professional liability coverages provided to various professional firms, including architects, real estate agents, small and mid-sized accounting firms, law firms and other professional firms. They also include directors and officers (D&O), employment practices, fiduciary, fidelity and surety coverages, as well as insurance products serving the healthcare delivery system. The most significant factor affecting reserve estimates for these liability coverages is claim severity. Claim severity is driven by the cost of medical care, the cost of wage replacement, legal fees, judicial decisions, legislative changes and other factors. Underwriting and claim handling decisions, such as the classes of business written and individual claim settlement decisions, can also affect claim severity. If the estimated claim severity increases by 9%, we estimate that net reserves would increase by approximately \$400 million. If the estimated claim severity decreases by 3%, we estimate that net reserves would decrease by approximately \$150 million. Our net reserves for these products were approximately \$4.7 billion as of December 31, 2018.

For workers' compensation, since many years will pass from the time the business is written until all claim payments have been made, the most significant factor affecting workers' compensation reserve estimates is claim cost inflation on claim payments. Workers' compensation claim cost inflation is driven by the cost of medical care, the cost of wage replacement, expected claimant lifetimes, judicial decisions, legislative changes and other factors. If estimated workers' compensation claim cost inflation increases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would increase by approximately \$350 million. If estimated workers' compensation claim cost inflation decreases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would decrease by approximately \$300 million. Our net reserves for workers' compensation were approximately \$4.0 billion as of December 31, 2018.

For general liability, the most significant factor affecting reserve estimates is claim severity. Claim severity is driven by changes in the cost of repairing or replacing property, the cost of medical care, the cost of wage replacement, judicial decisions, legislation and other factors. If the estimated claim severity for general liability increases by 6%, we estimate that our net reserves would increase by approximately \$200 million. If the estimated claim severity for general liability decreases by 3%, we estimate that our net reserves would decrease by approximately \$100 million. Our net reserves for general liability were approximately \$3.4 billion as of December 31, 2018.

Given the factors described above, it is not possible to quantify precisely the ultimate exposure represented by claims and related litigation. As a result, we regularly review the adequacy of our reserves and reassess our reserve estimates as historical loss experience develops, additional claims are reported and settled and additional information becomes available in subsequent periods. In reviewing our reserve estimates, we make adjustments in the period that the need for such adjustments is determined. These reviews have resulted in our identification of information and trends that have caused us to change our reserves in prior periods and could lead to our identification of a need for additional material increases or decreases in claim and claim adjustment expense reserves, which could materially affect our results of operations, equity, business and insurer financial strength and corporate debt ratings positively or negatively. See discussion within Note E to the Consolidated Financial Statements included under Item 8 for additional information about reserve development and the Ratings section of this MD&A for further information regarding our financial strength and corporate debt ratings.

Life & Group Policyholder Reserves

Our Life & Group segment includes our run-off long term care business as well as structured settlement obligations not funded by annuities related to certain property and casualty claimants. Long term care policies provide benefits for nursing homes, assisted living facilities and home health care subject to various daily and lifetime caps. Generally, policyholders must continue to make periodic premium payments to keep the policy in force and we have the ability to increase policy premiums, subject to state regulatory approval.

We maintain both claim and claim adjustment expense reserves as well as future policy benefit reserves for policyholder benefits for our Life & Group segment. Claim and claim adjustment expense reserves consist of estimated reserves for long term care policyholders that are currently receiving benefits, including claims that have

Table of Contents

been incurred but are not yet reported. In developing the claim and claim adjustment expense reserve estimates for our long term care policies, our actuaries perform a detailed claim experience study on an annual basis. The study reviews the sufficiency of existing reserves for policyholders currently on claim and includes an evaluation of expected benefit utilization and claim duration. Our recorded claim and claim adjustment expense reserves reflect management's best estimate after incorporating the results of the most recent study. In addition, claim and claim adjustment expense reserves are also maintained for the structured settlement obligations.

Future policy benefit reserves represent the active life reserves related to our long term care policies and are the present value of expected future benefit payments and expenses less expected future premium. The determination of these reserves is fundamental to our financial results and requires management to make estimates and assumptions about expected investment and policyholder experience over the life of the contract. Since many of these contracts may be in force for several decades, these assumptions are subject to significant estimation risk.

The actuarial assumptions that management believes are subject to the most variability are morbidity, persistency, discount rate and anticipated future premium rate increases. Persistency can be affected by policy lapses, benefit reductions and death. Discount rate is influenced by the investment yield on assets supporting long term care reserves which is subject to interest rate and market volatility and may also be affected by changes to the Internal Revenue Code. As a result of this variability, our long term care reserves may be subject to material increases if actual experience develops adversely to our expectations.

Annually, management assesses the adequacy of its long term care future policy benefit reserves by performing a gross premium valuation (GPV) to determine if there is a premium deficiency. Management also uses the GPV process to evaluate the adequacy of the claim and claim adjustment expense reserves for structured settlement obligations. Under the GPV, management estimates required reserves using best estimate assumptions as of the date of the assessment without provisions for adverse deviation. The GPV required reserves are then compared to the recorded reserves. If the GPV required reserves are greater than the existing recorded reserves, the existing assumptions are unlocked and future policy benefit reserves are increased to the greater amount. Any such increase is reflected in our results of operations in the period in which the need for such adjustment is determined, and could materially adversely affect our results of operations, equity and business and insurer financial strength and corporate debt ratings. Periodically, management engages independent third parties to assess the appropriateness of its best estimate assumptions and the associated GPV required reserves. The last independent assessment was performed in 2017.

Our most recent GPV indicated the future policy benefit reserves for our long term care business were not deficient in the aggregate, but profits are expected to be recognized in early years followed by losses in later years. In that circumstance, future policy benefit reserves are increased in the profitable years by an amount necessary to offset losses that are projected to be recognized in later years. The amount of the additional future policy benefit reserves recorded in each quarterly period is based on the ratio of the present value of future losses divided by the present value of future profits from the most recently completed GPV applied to long term care core income.

Table of Contents

The GPV process was performed in the third quarter of 2018 as compared to the fourth quarter in 2017. The September 30, 2018 GPV indicated our recorded reserves included a margin of approximately \$182 million. A summary of the changes in the estimated reserve margin is presented in the table below:

Long Term Care Active Life Reserve - Change in estimated reserve margin (In millions)	
2017 Estimated Margin	\$246
Changes in underlying morbidity assumptions	(213)
Changes in underlying persistency assumptions and inforce policy inventory	(86)
Changes in underlying discount rate assumptions	17
Changes in underlying premium rate action assumptions	178
Changes in underlying expense and other assumptions	40
2018 Estimated Margin	\$182

The decrease in the margin in 2018 was driven by the removal of the future morbidity improvement assumption and extending the period of mortality improvement within the persistency assumptions. These unfavorable drivers were partially offset by higher than expected rate increases on active rate action programs and favorable changes to the underlying expense and discount rate assumptions.

The table below summarizes the estimated pretax impact on our results of operations from various hypothetical revisions to our active life reserve assumptions. The annual GPV process involves updating all assumptions to the then current best estimate, and historically all significant assumptions have been revised each year. In the Hypothetical Revisions table below, we have assumed that revisions to such assumptions would occur in each policy type, age and duration within each policy group and would occur absent any changes, mitigating or otherwise, in the other assumptions. Although such hypothetical revisions are not currently required or anticipated, we believe they could occur based on past variances in experience and our expectations of the ranges of future experience that could reasonably occur. Any required increase in the recorded reserves resulting from the hypothetical revision in the table below would first reduce the margin in our carried reserves before it would affect results of operations. Any actual adjustment would be dependent on the specific policies affected and, therefore, may differ from the estimates summarized below. The estimated impacts to results of operations in the table below are after consideration of the existing margin.

2018 GPV	
	Estimated
	reduction
Hypothetical revisions (In millions)	to pretax
	income
Morbidity:	
5% increase in morbidity	\$ 460
10% increase in morbidity	1,103
Persistency:	
5% decrease in active life mortality and lapse	\$ 31
10% decrease in active life mortality and lapse	253
Discount Rates:	
50 basis point decline in future interest rates	\$ 140
100 basis point decline in future interest rates	500
Premium Rate Actions:	
50% decrease in anticipated future premium rate increases	\$ —

Table of Contents**CATASTROPHES AND RELATED REINSURANCE**

We generally define catastrophe loss events in the U.S. consistent with the definition of the Property Claims Service (PCS). PCS defines a catastrophe as an event that causes damage of \$25 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. For events outside of the U.S., we define a catastrophe as an industry recognized event that generates an accumulation of claims amounting to more than \$1 million for the International segment.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in our results of operations and/or equity. We reported catastrophe losses, net of reinsurance, of \$252 million, \$380 million and \$165 million for the years ended December 31, 2018, 2017 and 2016. Net catastrophe losses for the year ended December 31, 2018 included \$88 million related to Hurricane Michael, \$47 million related to the California wildfires and \$33 million related to Hurricane Florence. The remaining net catastrophe losses in 2018 resulted primarily from U.S. weather related events.

Net catastrophe losses for the year ended December 31, 2017 included \$256 million related to Hurricanes Harvey, Irma and Maria and also required reinsurance reinstatement premium of \$4 million. The remaining net catastrophe losses in 2017 resulted primarily from the California wildfires and U.S. weather related events.

Net catastrophe losses for the year ended December 31, 2016 related primarily to U.S. weather-related events and the Fort McMurray wildfires.

We generally seek to manage our exposure to catastrophes through the purchase of catastrophe reinsurance and have catastrophe reinsurance treaties that cover property and workers' compensation losses. We conduct an ongoing review of our risk and catastrophe coverages and from time to time make changes as we deem appropriate. The following discussion summarizes our most significant catastrophe reinsurance coverage at January 1, 2019.

Group North American Property Treaty

We purchased corporate catastrophe excess-of-loss treaty reinsurance covering our U.S. states and territories and Canadian property exposures underwritten in our North American and European companies. Exposures underwritten through Hardy are excluded. The treaty has a term of January 1, 2019 to May 1, 2020. The 2019 treaty provides coverage for the accumulation of losses from catastrophe occurrences above our per occurrence retention of \$250 million up to \$1.0 billion. There is no co-participation for the treaty term. Losses stemming from terrorism events are covered unless they are due to a nuclear, biological or chemical attack. All layers of the treaty provide for one full reinstatement.

Group Workers' Compensation Treaty

We also purchased corporate Workers' Compensation catastrophe excess-of-loss treaty reinsurance for the period January 1, 2019 to January 1, 2020 providing \$275 million of coverage for the accumulation of covered losses related to natural catastrophes above our retention of \$25 million. The treaty also provides \$475 million of coverage for the accumulation of covered losses related to terrorism events above our retention of \$25 million. Of this \$475 million in Terrorism coverage, \$200 million is provided for nuclear, biological chemical and radiation events. One full reinstatement is available for the first \$275 million above the retention, regardless of the covered peril. We also purchased a targeted facultative facility to address exposure accumulations in specific peak Terrorism zones.

Table of Contents

Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA)

Our principal reinsurance protection against large-scale terrorist attacks, including nuclear, biological, chemical or radiological attacks, is the coverage currently provided through TRIPRA which runs through the end of 2020.

TRIPRA provides a backstop for insurance-related losses resulting from any “act of terrorism”, which is certified by the Secretary of Treasury in consultation with the Secretary of Homeland Security for losses that exceed a threshold of \$180 million industry-wide for calendar year 2019, with the threshold increasing to \$200 million for 2020. Under the current provisions of the program, in 2019, the federal government will reimburse 81% of our covered losses in excess of our applicable deductible up to a total industry program cap of \$100 billion. This amount will decrease to 80% in the year 2020. Our deductible is based on eligible commercial property and casualty earned premiums for the preceding calendar year. Based on 2018 earned premiums, our estimated deductible under the program is \$1.4 billion for 2019. If an act of terrorism or acts of terrorism result in covered losses exceeding the \$100 billion annual industry aggregate limit, Congress would be responsible for determining how additional losses in excess of \$100 billion will be paid.

Table of Contents

CONSOLIDATED OPERATIONS

Results of Operations

The following table includes the consolidated results of our operations including our financial measure, Core income (loss). For more detailed components of our business operations and a discussion of the core income (loss) financial measure, see the segment sections within this MD&A. For further discussion of Net investment income and Net realized investment results, see the Investments section of this MD&A.

Years ended December 31

(In millions)	2018	2017	2016
Operating Revenues			
Net earned premiums	\$7,312	\$6,988	\$6,924
Net investment income	1,817	2,034	1,988
Non-insurance warranty revenue ⁽¹⁾	1,007	390	361
Other revenues	50	37	43
Total operating revenues	10,186	9,449	9,316
Claims, Benefits and Expenses			
Net incurred claims and benefits	5,547	5,288	5,270
Policyholders' dividends	25	22	13
Amortization of deferred acquisition costs	1,335	1,233	1,235
Other insurance related expenses	1,039	1,098	1,122
Non-insurance warranty expense ⁽¹⁾	923	299	271
Other expenses	301	292	318
Total claims, benefits and expenses	9,170	8,232	8,229
Core income before income tax	1,016	1,217	1,087
Income tax expense on core income	(171)	(298)	(263)
Core income	845	919	824
Net realized investment (losses) gains	(52)	93	50
Income tax benefit (expense) on net realized investment (losses) gains	14	(30)	(15)
Net realized investment (losses) gains, after tax	(38)	63	35
Net deferred tax asset remeasurement	6	(83)	—
Net income	\$813	\$899	\$859

(1) See Notes A and R to the Consolidated Financial Statements included under Item 8 for further information regarding Non-insurance warranty revenue and Non-insurance warranty expense.

On December 22, 2017, H.R. 1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018," was signed into law (Tax Reform Legislation). The Tax Reform Legislation provided for a permanent reduction in the Federal corporate income tax rate from 35% to 21% effective January 1, 2018, among other provisions. We were required to recognize the effect of the tax rate change on our deferred tax assets in the period the tax rate change was signed into law. Consequently, we recorded a non-cash increase to Income tax expense of \$83 million in the Consolidated Statements of Operations for the year ended December 31, 2017. Based on the filed 2017 tax return, the effect of the tax rate change decreased Income tax expense by \$6 million for the year ended December 31, 2018.

Table of Contents

2018 Compared with 2017

Core income decreased \$74 million in 2018 as compared with 2017. Excluding the favorable effect of the Federal corporate income tax rate change, core income for our Property & Casualty Operations decreased approximately \$158 million primarily due to lower net investment income driven by limited partnership returns and lower favorable net prior year loss reserve development partially offset by lower net catastrophe losses. Excluding the unfavorable effect of the Federal corporate income tax rate change which reduced the income tax benefit, core income for our Life & Group segment increased approximately \$42 million while core loss for our Corporate & Other segment increased approximately \$46 million.

Pretax net catastrophe losses were \$252 million in 2018 as compared with \$380 million in 2017. Favorable net prior year loss reserve development of \$181 million and \$308 million was recorded in 2018 and 2017 related to our Specialty, Commercial, International and Corporate & Other segments. Further information on net prior year loss reserve development is in Note E to the Consolidated Financial Statements included under Item 8.

2017 Compared with 2016

Core income increased \$95 million in 2017 as compared with 2016. Core income for our Property & Casualty Operations declined \$23 million primarily driven by higher net catastrophe losses partially offset by improved non-catastrophe current accident year underwriting results. Core loss for our operations outside of Property & Casualty Operations improved \$118 million driven by lower adverse prior year A&EP reserve development.

Pretax net catastrophe losses were \$380 million in 2017 as compared with \$165 million in 2016. Favorable net prior year loss reserve development of \$308 million and \$288 million was recorded in 2017 and 2016 related to our Specialty, Commercial, International and Corporate & Other segments. Further information on net prior year loss reserve development is in Note E to the Consolidated Financial Statements included under Item 8.

Table of Contents

SEGMENT RESULTS

The following discusses the results of operations for our business segments.

Our property and casualty commercial insurance operations are managed and reported in three business segments: Specialty, Commercial and International, which we refer to collectively as Property & Casualty Operations. Specialty provides management and professional liability and other coverages through property and casualty products and services using a network of brokers, independent agencies and managing general underwriters. Commercial works with a network of brokers and independent agents to market a broad range of property and casualty insurance products and services to small, middle-market and large businesses. The International segment underwrites property and casualty coverages on a global basis through its U.K.-based insurance company, a branch operation in Canada as well as through its presence at Lloyd's of London (Hardy).

Our operations outside of Property & Casualty Operations are managed and reported in two segments: Life & Group and Corporate & Other. Life & Group primarily includes the results of our long term care business that is in run-off. Corporate & Other primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty businesses in run-off, including CNA Re and A&EP. Intersegment eliminations are also included in this segment.

Our Property & Casualty Operations field structure in the U.S. consists of 49 underwriting locations. In addition, there are five centralized processing operations which handle policy processing, billing and collection activities and also act as call centers to optimize service. Our claim presence consists of six primary locations where we handle multiple claim types and key business functions. Additionally, regional claim offices are aligned with our underwriting field structure. We also have a presence in Canada and Europe consisting of 17 branch operations and access to business placed at Lloyd's of London through Hardy Syndicate 382.

Core income (loss) is calculated by excluding from net income (loss) the after-tax effects of i) net realized investment gains or losses, ii) income or loss from discontinued operations, iii) any cumulative effects of changes in accounting guidance and iv) deferred tax asset and liability remeasurement as a result of an enacted U.S. Federal tax rate change. The calculation of core income (loss) excludes net realized investment gains or losses because net realized investment gains or losses are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations.

Management monitors core income (loss) for each business segment to assess segment performance. Presentation of consolidated core income (loss) is deemed to be a non-GAAP financial measure. See further discussion regarding how we manage our business and reconciliations of non-GAAP measures to the most comparable GAAP measures and other information in Note O to the Consolidated Financial Statements included under Item 8.

In evaluating the results of our Specialty, Commercial and International segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios. In addition, we also utilize renewal premium change, rate, retention and new business in evaluating operating trends. Renewal premium change represents the estimated change in average premium on policies that renew, including rate and exposure changes. Rate represents the average change in price on policies that renew excluding exposure change. Retention represents the percentage of premium dollars renewed in comparison to the expiring premium dollars from policies available to renew. Renewal premium change, rate and retention presented for the prior year are updated to reflect subsequent activity on policies written in the period. New business represents premiums from policies written with new customers and additional policies written with existing customers.

Changes in estimates of claim and claim adjustment expense reserves, net of reinsurance, for prior years are defined as net prior year loss reserve development within this MD&A. These changes can be favorable or unfavorable. Net prior year loss reserve development does not include the effect of related acquisition expenses. Further information on our reserves is provided in Note E to the Consolidated Financial Statements included under Item 8.

Table of Contents

Specialty

Specialty provides management and professional liability and other coverages through property and casualty products and services using a network of brokers, independent agencies and managing general underwriters. Specialty includes the following business groups:

Management & Professional Liability consists of the following coverages and products:

• Professional liability coverages and risk management services to various professional firms, including but not limited to architects, real estate agents, accounting firms, and law firms.

• D&O, employment practices, fiduciary and fidelity coverages. Specific areas of focus include small and mid-size firms, public as well as privately held firms and not-for-profit organizations.

Insurance products to serve the healthcare industry, including professional and general liability as well as associated standard property and casualty coverages. Key customer groups include aging services, allied medical facilities, dentists, physicians, hospitals, nurses and other medical practitioners.

Surety offers small, medium and large contract and commercial surety bonds. Surety provides surety and fidelity bonds in all 50 states.

Warranty and Alternative Risks provides extended service contracts and insurance products that provide protection from the financial burden associated with mechanical breakdown and other related losses, primarily for vehicles, portable electronic communication devices and other consumer goods. Service contracts are generally distributed by commission-based independent representatives and sold by auto dealerships and retailers in North America to customers in conjunction with the purchase of a new or used vehicle or new consumer goods. Additionally, our insurance companies may issue contractual liability insurance policies or guaranteed asset protection reimbursement insurance policies to cover the liabilities of these service contracts issued by affiliated entities or third parties.

Table of Contents

The following table details the results of operations for Specialty.

Years ended December 31

(In millions, except ratios, rate, renewal premium change and retention)	2018	2017	2016
Net written premiums	\$2,744	\$2,731	\$2,738
Net earned premiums	2,732	2,712	2,743
Net investment income	439	522	497
Core income	629	582	606

Other performance metrics:

Loss and loss adjustment expense ratio	55.9	% 56.5	% 54.3	%
Expense ratio	32.1	32.0	32.1	
Dividend ratio	0.2	0.2	0.2	
Combined ratio	88.2	% 88.7	% 86.6	%

Rate	2	% 1	% 1	%
Renewal premium change	3	3	2	
Retention	84	89	88	
New business	\$353	\$242	\$239	

2018 Compared with 2017

Net written premiums for Specialty increased \$13 million in 2018 as compared with 2017 driven by higher new business and positive renewal premium change partially offset by lower retention. The increase in net earned premiums was consistent with the trend in net written premiums.

Core income increased \$47 million in 2018 as compared with 2017. Excluding the favorable effect of the Federal corporate income tax rate change, core income decreased approximately \$60 million due to lower net investment income driven by limited partnership returns and lower favorable net prior year loss reserve development partially offset by improved non-catastrophe current accident year underwriting results.

The combined ratio of 88.2% improved 0.5 points in 2018 as compared with 2017. The loss ratio improved 0.6 points primarily due to an improved current accident year loss ratio partially offset by lower favorable net prior year loss reserve development. Net catastrophe losses were \$26 million, or 1.0 points of the loss ratio, for 2018, as compared with \$44 million, or 1.6 points of the loss ratio, for 2017. The expense ratio in 2018 was consistent with the same period in 2017.

Favorable net prior year loss reserve development of \$150 million and \$174 million was recorded in 2018 and 2017. Further information on net prior year loss reserve development is in Note E to the Consolidated Financial Statements included under Item 8.

Table of Contents

The following table summarizes the gross and net carried reserves for Specialty.

December 31

(In millions)	2018	2017
Gross case reserves	\$1,623	\$1,742
Gross IBNR reserves	3,842	3,927
Total gross carried claim and claim adjustment expense reserves	\$5,465	\$5,669
Net case reserves	\$1,483	\$1,600
Net IBNR reserves	3,348	3,407
Total net carried claim and claim adjustment expense reserves	\$4,831	\$5,007

2017 Compared with 2016

Net written premiums for Specialty in 2017 were consistent with 2016. New business, renewal premium change and retention also remained at consistent levels. The decrease in net earned premiums was consistent with net written premiums.

Core income decreased \$24 million in 2017 as compared with 2016, primarily due to lower favorable net prior year loss reserve development and higher net catastrophe losses partially offset by improved non-catastrophe current accident year underwriting results and higher net investment income.

The combined ratio of 88.7% increased 2.1 points in 2017 as compared with 2016. The loss ratio increased 2.2 points primarily due to lower favorable net prior year loss reserve development and higher net catastrophe losses. Net catastrophe losses were \$44 million, or 1.6 points of the loss ratio, for 2017, as compared with \$17 million, or 0.6 points of the loss ratio, for 2016. The loss ratio excluding catastrophes and development improved 1.5 points. The expense ratio in 2017 was consistent with the same period in 2016.

Favorable net prior year loss reserve development of \$174 million and \$247 million was recorded in 2017 and 2016. Further information on net prior year loss reserve development is in Note E to the Consolidated Financial Statements included under Item 8.

Table of Contents

Commercial

Commercial works with a network of brokers and independent agents to market a broad range of property and casualty insurance products and services to small, middle-market and large businesses. Property products include standard and excess property, marine and boiler and machinery coverages. Casualty products include standard casualty insurance products such as workers' compensation, general and product liability, commercial auto and umbrella coverages. Most insurance programs are provided on a guaranteed cost basis; however, we also offer specialized loss-sensitive insurance programs and total risk management services relating to claim and information services to the large commercial insurance marketplace. These property and casualty products are offered through our Middle Market, Small Business and Other Commercial insurance groups.

The following table details the results of operations for Commercial.

Years ended December 31

(In millions, except ratios, rate, renewal premium change and retention)	2018	2017	2016
Net written premiums	\$3,060	\$2,922	\$2,883
Net earned premiums	3,050	2,881	2,840
Net investment income	500	658	657
Core income	357	369	355

Other performance metrics:

Loss and loss adjustment expense ratio	67.3	%	67.0	%	67.1	%
Expense ratio	33.1		35.1		36.7	
Dividend ratio	0.7		0.6		0.3	
Combined ratio	101.1	%	102.7	%	104.1	%

Rate	1	%	0	%	(2)%
Renewal premium change	3		3		3	
Retention	85		86		84	
New business	\$566		\$568		\$530	

2018 Compared with 2017

Net written premiums for Commercial increased \$138 million in 2018 as compared with 2017. Premium rate adjustments in Small Business affected both net written premiums and net earned premiums as more fully discussed in Note F to the Consolidated Financial Statements included under Item 8. Excluding the effect of the Small Business premium rate adjustments, net written premiums increased \$86 million driven by positive renewal premium change partially offset by a higher level of ceded reinsurance. The increase in net earned premium was consistent with the trend in net written premiums.

Core income decreased \$12 million in 2018 as compared with 2017. Excluding the favorable effect of the Federal corporate income tax rate change and the Small Business premium rate adjustments, core income decreased approximately \$92 million primarily due to lower net investment income driven by limited partnership returns and lower favorable net prior year loss reserve development partially offset by lower net catastrophe losses.

Table of Contents

The combined ratio of 101.1% improved 1.6 points in 2018 as compared with 2017. The loss ratio increased 0.3 points driven by lower favorable net prior year loss reserve development partially offset by lower net catastrophe losses. Net catastrophe losses were \$193 million, or 6.4 points of the loss ratio, for 2018, as compared with \$272 million, or 9.5 points of the loss ratio, for 2017. Excluding the Small Business premium rate adjustments, the expense ratio improved 1.5 points driven by lower employee costs and IT spend.

Favorable net prior year loss reserve development of \$25 million and \$115 million was recorded in 2018 and 2017. Further information on net prior year loss reserve development is in Note E to the Consolidated Financial Statements included under Item 8.

The following table summarizes the gross and net carried reserves for Commercial.

December 31

(In millions)

	2018	2017
Gross case reserves	\$4,181	\$4,427
Gross IBNR reserves	4,562	4,337
Total gross carried claim and claim adjustment expense reserves	\$8,743	\$8,764
Net case reserves	\$3,831	\$4,103
Net IBNR reserves	4,167	4,033
Total net carried claim and claim adjustment expense reserves	\$	