CNA FINANCIAL CORP
Form 10-K/A
February 27, 2008

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

**FORM 10-K/A**
**AMENDMENT NO. 1 TO FORM 10-K**

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2007**

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the transition period from _______ to _______**

**Commission File Number 1-5823**

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

| | |
|---|---|
| **Delaware** | **36-6169860** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **333 S. Wabash** | **60604** |
| **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 with a par value of $2.50 per share | New York Stock Exchange<br>Chicago Stock Exchange |

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

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

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 o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
As of February 22, 2008, 270,716,622 shares of common stock were outstanding. The aggregate market value of the common stock held by non affiliates of the registrant as of June 30, 2007 was approximately $1,438 million based on the closing price of $47.69 per share of the common stock on the New York Stock Exchange on June 30, 2007.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the CNA Financial Corporation Proxy Statement prepared for the 2008 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this Report.

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## Explanatory Note

This Amendment No. 1 to Part I, Item 1 of the registrant s Annual Report on Form 10-K for the year ended December 31, 2007 is being filed solely for the purpose of correcting the Cumulative net paid amount presented in the 2006 column on the Schedule of Loss Reserve Development. This Amendment No. 1 does not affect the Financial Statements and Supplementary Data or Management s Discussion and Analysis of Financial Condition and Results of Operations as originally filed in the Annual Report on Form 10-K on February 26, 2008.

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# PART I

## ITEM 1. BUSINESS

CNA Financial Corporation (CNAF) was incorporated in 1967 and is an insurance holding company. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. References to CNA, the Company, we, our, like terms refer to the business of CNA and its subsidiaries. Our property and casualty insurance operations are conducted by Continental Casualty Company (CCC), incorporated in 1897, and The Continental Insurance Company (CIC), organized in 1853, and affiliates. CIC became a subsidiary of ours in 1995 as a result of the acquisition of The Continental Corporation (Continental). Loews Corporation (Loews) owned approximately 89% of our outstanding common stock as of December 31, 2007.

We serve a wide variety of customers, including small, medium and large businesses, associations, professionals, and groups and individuals with a broad range of insurance and risk management products and services.

Our insurance products primarily include commercial property and casualty coverages. Our services include risk management, information services, warranty and claims administration. Our products and services are marketed through independent agents, brokers, managing general agents and direct sales.

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

### Competition

The property and casualty insurance industry is highly competitive both as to rate and service. Our consolidated property and casualty subsidiaries compete not only with other stock insurance companies, but also with mutual insurance companies, reinsurance companies and other entities for both producers and customers. We must continuously allocate resources to refine and improve our insurance products and services.

Rates among insurers vary according to the types of insurers and methods of operation. We compete for business not only on the basis of rate, but also on the basis of availability of coverage desired by customers, ratings and quality of service, including claim adjustment services.

There are approximately 2,300 individual companies that sell property and casualty insurance in the United States. Our consolidated property and casualty subsidiaries ranked as the 13$^{th}$ largest property and casualty insurance organization and we are the seventh largest commercial insurance writer in the United States based upon 2006 statutory net written premiums.

### Regulation

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

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

Further, insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty fund assessments are levied by the state departments of insurance to cover claims of insolvent insurers. Other insurance-related assessments are generally levied by state agencies to fund various organizations including disaster

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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.

Reform of the U.S. tort liability system is another issue facing the insurance industry. Over the last decade, many states have passed some type of reform. In recent years, for example, significant state general tort reforms have been enacted in Georgia, Ohio, Mississippi and South Carolina. Specific state legislation addressing state asbestos reform has been passed in Ohio, Georgia, Florida and Texas in past years as well. Although these states legislatures have begun to address their litigious environments, some reforms are being challenged in the courts and it will take some time before they are finalized. Even though there has been some tort reform success, new causes of action and theories of damages continue to be proposed in state court actions or by legislatures. For example, some state legislatures are considering legislation addressing direct actions against insurers related to bad faith claims. As a result of this unpredictability in the law, insurance underwriting and rating are expected to continue to be difficult in commercial lines, professional liability and some specialty coverages and therefore could materially adversely affect our results of operations and equity.

Although the federal government and its regulatory agencies do not directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance industry in a variety of ways. These initiatives and legislation include tort reform proposals; proposals addressing natural catastrophe exposures; terrorism risk mechanisms; federal regulation of insurance; and various tax proposals affecting insurance companies.

In addition, our domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the National Association of Insurance Commissioners to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, which are applied to certain financial balances and financial activity. The adequacy of a company s actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2007 and 2006, all of our domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Subsidiaries with insurance operations outside the United States are also subject to regulation in the countries in which they operate. We have operations in the United Kingdom, Canada and other countries.

**Employee Relations**

As of December 31, 2007, we had approximately 9,400 employees and have experienced satisfactory labor relations. We have never had work stoppages due to labor disputes.

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

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**Supplementary Insurance Data**

The following table sets forth supplementary insurance data.

**Supplementary Insurance Data**

| **Years ended December 31**<br>(In millions) | **2007** | **2006** | **2005** |
|---|---|---|---|
| Trade Ratios GAAP basis (a) | | | |
| Loss and loss adjustment expense ratio | 77.7% | 75.7% | 89.4% |
| Expense ratio | 30.0 | 30.0 | 31.2 |
| Dividend ratio | 0.2 | 0.3 | 0.3 |
| Combined ratio | 107.9% | 106.0% | 120.9% |
| Trade Ratios Statutory basis (preliminary) (a) | | | |
| Loss and loss adjustment expense ratio | 79.8% | 78.7% | 92.2% |
| Expense ratio | 30.0 | 30.2 | 30.0 |
| Dividend ratio | 0.3 | 0.2 | 0.5 |
| Combined ratio | 110.1% | 109.1% | 122.7% |
| Individual Life and Group Life Insurance Inforce | | | |
| Individual life | $ 9,204 | $ 9,866 | $ 10,711 |
| Group life | 4,886 | 5,787 | 9,838 |
| Total | $ 14,090 | $ 15,653 | $ 20,549 |
| Other Data Statutory basis (preliminary) (b) | | | |
| Property and casualty companies capital and surplus (c) | $ 8,511 | $ 8,137 | $ 6,940 |
| Life company s capital and surplus | 471 | 687 | 627 |
| Property and casualty companies written premiums to surplus ratio | 0.8 | 0.9 | 1.0 |
| Life company s capital and surplus-percent to total liabilities | 28.2% | 38.9% | 33.1% |
| Participating policyholders-percent of gross life insurance inforce | 4.7% | 4.4% | 3.5% |

(a) Trade ratios reflect the results of our property and casualty insurance subsidiaries. Trade ratios are industry measures of property and casualty underwriting results. The loss and loss adjustment expense ratio is the percentage of net incurred claim and claim adjustment expenses and the expenses incurred related to uncollectible reinsurance receivables to net earned premiums. The primary difference in this ratio between accounting principles generally accepted in the United States of America (GAAP) and statutory accounting practices (SAP) is related to the treatment of active life reserves (ALR) related to long term care insurance products written in property and casualty insurance subsidiaries. For GAAP, ALR is classified as claim and claim adjustment expense reserves whereas for SAP, ALR is classified as unearned premium reserves. The expense ratio, using amounts determined in accordance with GAAP, is the percentage of underwriting and acquisition expenses (including the amortization of deferred acquisition expenses) to net earned premiums. The expense ratio, using amounts determined in accordance with SAP, is the percentage of acquisition and underwriting expenses (with no deferral of acquisition expenses) to net written premiums. The dividend ratio, using amounts determined in accordance with GAAP, is the ratio of policyholders dividends incurred to net earned premiums. The dividend ratio, using amounts determined in accordance with SAP, is the ratio of policyholders dividends paid to net earned premiums. The combined ratio is the sum of the loss and loss adjustment expense, expense and dividend ratios.

(b) Other data is determined in accordance with SAP. Life statutory capital and surplus as a percent of total liabilities is determined after excluding separate account liabilities and reclassifying the statutorily required Asset Valuation Reserve to surplus.

(c) Surplus includes the property and casualty companies equity ownership of the life company s capital and surplus.

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The following table displays the distribution of gross written premiums for our operations by geographic concentration.

**Gross Written Premiums**

| | Percent of Total | | |
|---|---|---|---|
| **Years ended December 31** | **2007** | **2006** | **2005** |
| California | 9.1% | 9.6% | 9.0% |
| Florida | 7.3 | 7.9 | 7.1 |
| New York | 6.8 | 7.3 | 7.9 |
| Texas | 5.9 | 5.9 | 5.7 |
| Illinois | 3.7 | 4.1 | 4.2 |
| New Jersey | 3.6 | 4.4 | 3.8 |
| Missouri | 3.4 | 3.0 | 2.8 |
| Pennsylvania | 3.2 | 3.4 | 4.2 |
| Massachusetts | 2.3 | 2.4 | 3.3 |
| All other states, countries or political subdivisions (a) | 54.7 | 52.0 | 52.0 |
| Total | 100.0% | 100.0% | 100.0% |

(a) No other individual state, country or political subdivision accounts for more than 3.0% of gross written premiums.

Approximately 8.4%, 7.1% and 6.1% of our gross written premiums were derived from outside of the United States for the years ended December 31, 2007, 2006 and 2005. Premiums from any individual foreign country were not significant.

**Property and Casualty Claim and Claim Adjustment Expenses**

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

The loss reserve development table for property and casualty companies is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Additionally, the development amounts in the table below are the amounts prior to consideration of any related reinsurance bad debt allowance impacts.

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## Schedule of Loss Reserve Development

| alendar Year Ended<br>n millions) | 1997 | 1998 | 1999 (a) | 2000 | 2001 (b) | 2002 (c) | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| riginally reported oss reserves for npaid claim and claim ljustment expenses | $ 28,731 | $ 28,506 | $ 26,850 | $ 26,510 | $ 29,649 | $ 25,719 | $ 31,284 | $ 31,204 | $ 30,694 | $ 29,459 | $ 28,41 |
| riginally reported eded recoverable | 5,056 | 5,182 | 6,091 | 7,333 | 11,703 | 10,490 | 13,847 | 13,682 | 10,438 | 8,078 | 6,94 |
| riginally reported net serves for unpaid aim and claim ljustment expenses | $ 23,675 | $ 23,324 | $ 20,759 | $ 19,177 | $ 17,946 | $ 15,229 | $ 17,437 | $ 17,522 | $ 20,256 | $ 21,381 | $ 21,47 |
| umulative net paid as f: | | | | | | | | | | | |
| ne year later | $ 5,954 | $ 7,321 | $ 6,547 | $ 7,686 | $ 5,981 | $ 5,373 | $ 4,382 | $ 2,651 | $ 3,442 | $ 4,436 | $ |
| wo years later | 11,394 | 12,241 | 11,937 | 11,992 | 10,355 | 8,768 | 6,104 | 4,963 | 7,022 | | |
| hree years later | 14,423 | 16,020 | 15,256 | 15,291 | 12,954 | 9,747 | 7,780 | 7,825 | | | |
| our years later | 17,042 | 18,271 | 18,151 | 17,333 | 13,244 | 10,870 | 10,085 | | | | |
| ve years later | 18,568 | 20,779 | 19,686 | 17,775 | 13,922 | 12,814 | | | | | |
| x years later | 20,723 | 21,970 | 20,206 | 18,970 | 15,493 | | | | | | |
| even years later | 21,649 | 22,564 | 21,231 | 20,297 | | | | | | | |
| ght years later | 22,077 | 23,453 | 22,373 | | | | | | | | |
| ine years later | 22,800 | 24,426 | | | | | | | | | |
| en years later | 23,491 | | | | | | | | | | |
| et reserves -estimated as of: | | | | | | | | | | | |
| nd of initial year | $ 23,675 | $ 23,324 | $ 20,759 | $ 19,177 | $ 17,946 | $ 15,229 | $ 17,437 | $ 17,522 | $ 20,256 | $ 21,381 | $ 21,47 |
| ne year later | 23,904 | 24,306 | 21,163 | 21,502 | 17,980 | 17,650 | 17,671 | 18,513 | 20,588 | 21,601 | |
| wo years later | 24,106 | 24,134 | 23,217 | 21,555 | 20,533 | 18,248 | 19,120 | 19,044 | 20,975 | | |
| hree years later | 23,776 | 26,038 | 23,081 | 24,058 | 21,109 | 19,814 | 19,760 | 19,631 | | | |
| our years later | 25,067 | 25,711 | 25,590 | 24,587 | 22,547 | 20,384 | 20,425 | | | | |
| ve years later | 24,636 | 27,754 | 26,000 | 25,594 | 22,983 | 21,076 | | | | | |
| x years later | 26,338 | 28,078 | 26,625 | 26,023 | 23,603 | | | | | | |
| even years later | 26,537 | 28,437 | 27,009 | 26,585 | | | | | | | |
| ght years later | 26,770 | 28,705 | 27,541 | | | | | | | | |
| ine years later | 26,997 | 29,211 | | | | | | | | | |
| en years later | 27,317 | | | | | | | | | | |
| otal net (deficiency) dundancy | $ (3,642) | $ (5,887) | $ (6,782) | $ (7,408) | $ (5,657) | $ (5,847) | $ (2,988) | $ (2,109) | $ (719) | $ (220) | $ |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| econciliation to gross -estimated reserves: | | | | | | | | | | | |
| et reserves -estimated | $ 27,317 | $ 29,211 | $ 27,541 | $ 26,585 | $ 23,603 | $ 21,076 | $ 20,425 | $ 19,631 | $ 20,975 | $ 21,601 | $ |
| e-estimated ceded coverable | 7,221 | 7,939 | 10,283 | 11,047 | 16,487 | 15,846 | 14,257 | 13,112 | 10,505 | 8,230 | |
| otal gross -estimated reserves | $ 34,538 | $ 37,150 | $ 37,824 | $ 37,632 | $ 40,090 | $ 36,922 | $ 34,682 | $ 32,743 | $ 31,480 | $ 29,831 | $ |
| et (deficiency) dundancy related to: | | | | | | | | | | | |
| sbestos claims | $ (2,367) | $ (2,125) | $ (1,549) | $ (1,485) | $ (713) | $ (712) | $ (71) | $ (17) | $ (7) | $ (6) | $ |
| nvironmental claims | (541) | (533) | (533) | (476) | (129) | (123) | (51) | (51) | (1) | (1) | |
| otal asbestos and nvironmental | (2,908) | (2,658) | (2,082) | (1,961) | (842) | (835) | (122) | (68) | (8) | (7) | |
| ther claims | (734) | (3,229) | (4,700) | (5,447) | (4,815) | (5,012) | (2,866) | (2,041) | (711) | (213) | |
| otal net (deficiency) dundancy | $ (3,642) | $ (5,887) | $ (6,782) | $ (7,408) | $ (5,657) | $ (5,847) | $ (2,988) | $ (2,109) | $ (719) | $ (220) | $ |

(a) Ceded recoverable includes reserves transferred under retroactive reinsurance agreements of $784 million as of December 31, 1999.
(b) Effective January 1, 2001, we established a new life insurance company, CNA Group Life Assurance Company (CNAGLA). Further, on January 1, 2001 $1,055 million of reserves were transferred from CCC to CNAGLA.
(c) Effective October 31, 2002, we sold CNA Reinsurance Company Limited. As a result of the sale, net reserves were reduced by $1,316 million.

Additional information regarding our property and casualty claim and claim adjustment expense reserves and reserve development is set forth in the MD&A included under Item 7 and in Notes A and F of the Consolidated Financial Statements included under Item 8.

**Investments**

Information on our investments is set forth in the MD&A included under Item 7 and in Notes A, B, C and D of the Consolidated Financial Statements included under Item 8.

**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 public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including CNA, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We also make available free of charge on or through our internet website (http://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 filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act 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, 333 S. Wabash Avenue, Chicago, IL 60604, Attn. Jonathan D. Kantor, Executive Vice President, General Counsel and Secretary.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNA Financial
Corporation