

COMPANY PROFILE

CNA Financial Corporation

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COMPANY OVERVIEW

CNA Financial Corporation (CNA) is an insurance holding company that offers commercial property and casualty insurance products. It offers insurance products for general liability, management liability, professional liability, workers' compensation, ocean marine, equipment breakdown and business interruption. It also offers surety and fidelity bonds, ocean marine insurance, inland marine insurance, and commercial auto insurance. It offers services such as risk management, warranty, and claims administration. It markets and distributes its products to professionals, small, medium and large businesses, associations, insurance companies, and other groups through a network of brokers, independent agents, and managing general underwriters. The company primarily operates in the Americas and Europe. It is headquartered in Chicago, Illinois.

The company reported revenues of (US Dollars) US\$9,556 million for the fiscal year ended December 2017 (FY2017), an increase of 1.2% over FY2016. In FY2017, the company's operating margin was 15.4%, compared to an operating margin of 13.7% in FY2016. In FY2017, the company recorded a net margin of 9.4%, compared to a net margin of 9.1% in FY2016.

KEY FACTS

Head Office	CNA Financial Corporation 333 S Wabash Ave Chicago Illinois Chicago Illinois USA
Phone	1 312 8225000
Fax	
Web Address	www.cna.com
Revenue / turnover (USD Mn)	9,556.0
Financial Year End	December
Employees	6,300
New York Stock Exchange Ticker	CNA

SWOT ANALYSIS

CNA Financial Corporation (CNA) is an insurance holding company. Sound combined ratio, strong financial performance, and business performance of Commercial segment are the key strengths of the company, even as its core income of International segment remains an area of concern. In future, fluctuations in interest rates, competition, and changing regulations may affect its business performance. However, strategic initiatives, positive outlook for construction industry in the US, and expanding non-life insurance segment in the US may provide ample growth opportunities for the company.

<p>Strength</p> <p>Combined Ratio Financial Performance Business Performance: Commercial</p>	<p>Weakness</p> <p>Core Income: International</p>
<p>Opportunity</p> <p>Positive Outlook for Construction Industry in the US Expanding Non-Life Insurance Segment in the US Strategic Initiatives</p>	<p>Threat</p> <p>Fluctuations in Interest Rates Intense Competition Changing Regulations</p>

Strength

Combined Ratio

The company reported sound combined ratio during FY2017. CNA's combined ratio was 97.1% for FY2017, which was well-below the 100% threshold. The combined ratio below 100% indicates that the company has strong operational efficiency to make underwriting profit. During FY2017, the company reported underwriting gain of US\$186 million in FY2017. Its loss ratio and expense ratio was 62.6% and 34.2% in FY2017, respectively.

Financial Performance

The company exhibited strong financial performance during FY2017, which boosts its investor's confidence. During FY2017, the company's revenue grew by 1.2% to US\$9,556 million in FY2017 from US\$9,447 million in FY2016. Growth in revenue was primarily due to increase in net investment income, net realized investment gains, and other revenues by 2.3%, 86%, and 5.7% in FY2017, respectively. The company also reported growth in its income levels during FY2017. The company's operating income increased by 13.5% to US\$1,471 million in FY2017 from US\$1,296 million in FY2016. The net income of the company grew by 4.7% to US\$899 million in FY2017 from US\$859 million in FY2016. Increase in its income levels was due to decrease in other operating expenses by 1.5% in FY2017. Its operating and net margins increased from 13.7% and 9.1% in FY2016, respectively, to 15.4% and 9.4% in FY2017, respectively. Furthermore, its return on equity and return on assets increased from 7.2% and 1.5% in

FY2016, respectively, to 7.3% and 1.6% in FY2017, respectively.

Business Performance: Commercial

CNA's Commercial segment reported strong business performance during FY2017. It was the major contributor to its net written premiums. In FY2017, it accounted for 40.8% of the total net written premiums, excluding eliminations, and reported a year-on-year growth of 1.4%. The improvement was driven by strong retention, increase in new business within middle markets, and positive renewal premium change. The segment's core income grew by 9.6% to US\$341 million in FY2017 from US\$311 million in FY2016. The growth in core income was due to favorable net prior year loss reserve development and improved non-catastrophe current accident year underwriting results.

Weakness

Core Income: International

The International segment reported decline in core income during FY2017, which is an area of concern. The core income of International segment decreased by 61.9% to US\$8 million in FY2017 from US\$21 million in FY2016. The decline in core income was due to higher net catastrophe losses and lower net prior year loss reserve development.

Opportunity

Positive Outlook for Construction Industry in the US

CNA is likely to benefit from growth in the US construction industry. The US construction industry is expected to grow at a CAGR of 3.5% during 2017-2021 reaching a value of US\$1.8 trillion in 2021. It is expected to be driven by government and private sector investments to support infrastructure and energy projects during the forecast period. The residential construction market is expected to grow at a CAGR of 5.4% and value US\$745 billion in 2021. This market is expected to be supported by growing population and urbanization in the country. In addition, the market is expected to grow due to the government initiatives to build houses for middle and low income groups. The commercial construction market is expected to grow by investing in office and the retail industries. It is estimated to grow at a CAGR of 5.1% and value US\$298.5 billion in 2021. The infrastructure construction market is anticipated to grow at a CAGR of 2.6% and value US\$186 billion in 2021. This market is estimated to grow by the government investments to improve the deteriorating infrastructure of the country. The industrial and institutional construction markets are expected to grow at CAGR's of 2.1% and 2.7% and reach US\$67.4 billion and US\$193.3 billion in 2021, respectively. These markets are estimated to grow by several government initiated programs including Manufacturing Extension Partnership (MEP), Investing in Manufacturing Communities Partnership (IMCP), The Advanced Manufacturing Technology Consortia (AMTech) and Materials Genome Initiative (MGI), which are aimed at driving the competitiveness in the advanced manufacturing sector, and improving the healthcare and education sectors.

Expanding Non-Life Insurance Segment in the US

The expanding non-life insurance segment in the US may increase the demand for CNA's insurance products. According to in-house research, the non-life segment's gross written premium in the US is expected to reach US\$736.9 billion in 2020. The gross written premium of marine, aviation and transit insurance, liability insurance, property insurance and motor insurance categories are expected to value US\$30.3 million, US\$150.4 million, US\$245.9 million and US\$247.7 million in FY2020, respectively. The growth is expected to be driven by growing construction industry, increasing population, rising car sales, increasing traffic accident rates, growing demand for cyber risk insurance, emerging technologies, and rising imports and exports.

Strategic Initiatives

The company is taking various strategic initiatives to drive its business further. For instance, in November 2017, the company introduced 'get a quote' feature at www.cna.com/quote for small businesses. This will simplify the small business owners access to independent agents for insurance needs, as well as get premium indication for workers' compensation and CNA connect business owner policies online. Also, this will improve the digital customer experience. In August 2017, the company partnered with Aon Affinity to offer enhanced professional liability insurance program for dental practices. Through this partnership, the company will capitalize on underwriting, distribution, marketing, claims, and risk control expertise to benefit its clients.

Threat

Fluctuations in Interest Rates

Fluctuations in interest rates may have an adverse effect on the company's profitability. The company's investment portfolio contains interest rate-sensitive investments, such as municipal and corporate bonds. Interest rates are highly sensitive to monetary policies of government, domestic and international economic and political conditions, and other factors beyond the company's control. Such volatile interest rates may impact the company's operating performance, as its income and investment returns depend on the level of interest rates.

Intense Competition

CNA operates in an intensely competitive the US insurance market, which may adversely affect its market share and profits. The company competes with various insurance companies based on the factors such as premiums charged and other terms and conditions offered, products and services provided, financial ratings assigned by independent rating agencies, speed of claims payment, reputation, selling effort, perceived financial strength and the experience of the insurer or reinsurer in the line of insurance or reinsurance to be written. Some of the major competitors of the company include Allstate Corporation, Chubb Corporation, Liberty Mutual Holding Company Inc, The Travelers Companies Inc, and State Farm Insurance Companies.

Changing Regulations

The company's businesses are regulated by various governmental and regulatory authorities. Changes in government policy, legislation or regulatory interpretation may adversely affect the company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. The key changes made in the insurance regulatory framework in March 2017 include reintroduction of the Flood Insurance Market Parity and Modernization Act; the establishment of Innovation and Technology (EX) Task Force to inform insurance regulators about the key developments in the industry; and withdrawal of the American Health Care Act, a proposed legislation to replace and repeal the Affordable Care Act (ACA). In May 2016, the Department of Health and Human Services (HHS) issued new rules to cover transgender-related treatments under the Affordable Care Act (ACA). In addition, the Financial Services Committee approved the amended Transparent Insurance Standards Act in June 2016. Thus, the changes in government policies and regulations may have a negative impact on the company's growth and expansion strategies.

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