

# MEMORANDUM

**To:** ODOE Energy Facility Siting Council

**From:** David Skidmore, Chief Audit Executive

**Date:** August 27, 2023

**Re:** CNA Surety –Financial Assurance Services – Risk Assessment Review

The Siting division requested ODOE’s Chief Audit Executive complete a consultative risk assessment of CNA Financial as a potential provider of financial assurance surety bond coverage for the Boardman to Hemingway Transmission Line. The total bonding requirements will be \$140 million and bonding requirements will start at 1/16 of the established project cost and incrementally increase to until projection completion.

We completed our risk assessment using publicly available financial information, including independent credit rating service risk assessments. Our services were limited to provide risk information to the Energy Facility Siting Council to allow them to make an informed decision on any addition to the list of approved providers.

## Background

CNA Financial provides a range of surety and fidelity bonds products through its various subsidiaries and has been in business for over 100 years. They develop, markets and underwrite commercial and contract surety bonds, as well as offers brokerage and claim services. CNA has a worldwide customer footprint that covers many industry segments.

## Credit Rating

We reviewed the 3 major credit rating agency scores for CNA Financial. Credit ratings at the higher end of the rating schedule (AAA, AA, A) typically point to companies that have stable and strong financial characteristics that reflect their ability to effectively manage economic volatility and remain solvent. Credit rating agency reports consider company’s overall financial situation, including the company’s debt load, its capital structure and strength, its payment history on debt obligations, its revenues, and its enterprise risk management practices.

Long Term Financial Strength			
Rating Agency	Rating as of	Rating Date	Long Term Outlook
Standard & Poor’s	A+	December 2, 2022	Stable
Fitch Ratings	A+	August 8, 2023	Stable
A.M. Best Company <sup>1</sup>	A	August 17, 2023	Stable

<sup>1</sup> AM Best is a leader in providing risk insights on insurance companies.

Conclusion

Based on the results of 3 credit rating agencies and CNA financials as of Q2.23, we conclude that CNA has a strong balance sheet and income statement and retains strong capital levels. Its rating performance impacted by the strength of its enterprise risk management practices.

cc: Todd Cornett, Assistant Director, Siting Division

Attachment: Credit Ratings (AM Best, Fitch, S&P)



# AM Best Affirms Credit Ratings of CNA Financial Corporation and Its Subsidiaries<sup>1</sup>

August 17, 2023 03:28 PM (EDT)

The ratings of CNA, which is considered the lead rating unit in the CNAF enterprise, reflect its balance sheet strength, which AM Best assesses as very strong, as well as its adequate operating performance, favorable business profile and appropriate enterprise risk management (ERM).

The ratings also acknowledge the historical financial support provided by CNA's diversified 91.7%-shareholder ultimate parent, Loews Corporation.

AM Best has affirmed the following:

- Financial Strength Rating (FSR) of A (Excellent)
- the Long-Term Issuer Credit Ratings (Long-Term ICR) of “a+” (Excellent) of the property/casualty (P/C) subsidiaries of CNA Financial Corporation (CNAF) [NYSE: CNA], collectively known as CNA Insurance Companies (CNA).
- Currently, AM Best has affirmed the Long-Term ICR of “bbb+” (Good) and all existing Long-Term Issue Credit Ratings (Long-Term IR) of CNAF.
- AM Best has affirmed the FSR of A (Excellent) and the Long-Term ICRs of “a+” (Excellent) of the members of Western Surety Group.
- The outlook of these Credit Ratings (ratings) is stable. All above named companies are headquartered in Chicago, IL
- In addition, AM Best has also extended CNAF's Long-Term IR of “bbb+” (Good) with a stable outlook to the company's recently issued \$100 million senior unsecured notes due 2033. The terms of this note are identical to the note issued on May 16, 2023.

The ratings of CNA Insurance Companies – whose lead member is Continental Casualty Company – recognize the company maintaining its strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), the group's consistently profitable operating results, and its well-established position as a leading U.S. writer of commercial and specialty lines. Additionally, the ratings recognize CNA's favorable operating platform, which demonstrates considerable geographic and product line scope, strong service capabilities and its diversified distribution channel

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<sup>1</sup> Source:

[https://news.ambest.com/newscontent.aspx?altsrc=23&refnum=226703#:~:text=The%20ratings%20of%20CNA%20which,enterprise%20risk%20management%20\(ERM\).](https://news.ambest.com/newscontent.aspx?altsrc=23&refnum=226703#:~:text=The%20ratings%20of%20CNA%20which,enterprise%20risk%20management%20(ERM).)

with well-established agency relationships. The group's specialty insurance segment remains the primary engine of profitability and internal capital generation, but its commercial insurance operations have demonstrated steady improvement as significant underwriting and expense management initiatives have taken hold.

Partially offsetting these positive rating factors are the intermittent adverse impacts of CNA's discontinued long-term care program that serves as a drag on CNA's overall profitability and exposes its surplus and risk-adjusted capitalization to potential volatility. Additional factors affecting the group's credit profile is its moderate underwriting exposure to catastrophe losses, associated with its commercial property product lines (and notwithstanding the group's overall emphasis on commercial and specialty casualty lines), and reserve uncertainties generally affecting litigation-sensitive casualty lines – which comprise the majority of CNA's in-force business, cyber-related and other underwriting exposures.

## RATING ACTION COMMENTARY

### Fitch Affirms CNA Financial's Ratings; Outlook Stable

Tue 08 Aug, 2023 - 11:06 AM ET

#### Related Content:

[CNA Financial Corporation - Ratings Navigator](#)

[CNA Financial Corporation](#)

Fitch Ratings - Chicago - 08 Aug 2023: Fitch Ratings has affirmed CNA Financial Corporation's property/casualty (p/c) insurance subsidiaries' Insurer Financial Strength Ratings (IFS) at 'A+' (Strong). Fitch also affirmed CNA's senior unsecured debt at 'BBB+' and its Long-Term Issuer Default Rating (IDR) at 'A-'. The Rating Outlook for all of the ratings is Stable.

#### KEY RATING DRIVERS

Very Strong Capital Position: **CNA's capital position remains very strong. Traditional risk metrics, such as operating and financial leverage, are consistent with higher ratings per Fitch's guideline ratios.**

Fitch also utilizes its Prism model to assess capital with specific charges for long-term care (LTC), and CNA scored 'Very Strong' based on YE 2022 data when excluding unrealized gains/losses and 'Strong' when including all unrealized gains/losses.

Uncertainty from LTC Exposure: CNA stopped selling individual LTC policies in 2003 and group policies in 2014, and existing groups closed to new members in early 2016, accruing approximately \$14 billion in GAAP LTC reserves as of YE 2022. For the industry, LTC is a problematic product line that has been characterized by rate inadequacy, large increases in reserves and poor estimates of critical assumptions.

However, the company took several credible steps to offset risks including policy buyouts, rate increases, and unlocking of the GAAP reserve assumptions in Q3 2020. The average

age of individual block is approximately 81 years old. Risk related to the LTC exposures reduces the potential for future positive ratings actions.

**LDTI Affects Financials:** In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts. This is commonly referred to as Long-Duration Targeted Improvements (LDTI), which went into effect with 1Q23 financial statements.

This accounting method applies to CNA's runoff business. The impact of LDTI adoption on YE 2022 stockholders' equity was negative \$277 million. With the adoption of LDTI, shadow adjustment for gains on bonds backing these liabilities has been retired.

**Strong Earnings:** The overall combined ratio of 93% for full year 2022 improved 3 pp over prior year and was the lowest in over a decade and each major segment: specialty, commercial, and international improved year-over-year. The company has actively targeted reducing its expense ratio. It was 31% at YE22, an improvement from 2016's 35%. A long-term expense ratio in the high 20% to 30% range would be optimal for the company given its size of premiums written.

**Modest Inflation Impact:** The non-life book of business would be modestly impacted by a severe increase in inflation as prices are reset annually on most lines of business. The LTC product would be more exposed to inflationary trends as the process for obtaining rate often requires regulatory approval. Favorably, the inflationary environment has increased investment yields, which partially offsets increased costs, particularly in the LTC book of business given the longer liability duration.

**Top-Tier Business Profile:** Fitch views CNA's business profile as very strong, and companies with similar profiles are typically rated in the 'AA' category. CNA offers commercial p/c coverage, including surety. Products are distributed through multiple channels, targeting small, medium and large businesses.

**Loews' Ownership Net Positive:** CNA is a publicly traded company that is approximately 92% owned by the Loews Corporation. Loews has provided capital support to the company in the past. Fitch believes Loews continues to have the willingness and ability to provide further support but rates CNA on a standalone basis and views a near-term need for support as unlikely. The company benefits from Loews' financial flexibility and investment expertise.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A material reduction in LTC claims exposure and maintaining capital and profitability metrics.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--If LTC reserves experience more than \$1 billion in adverse development;

--Sustained GAAP underwriting loss;

--Sustained GAAP reserve development in excess of 3% of prior year's equity;

--Sustained GAAP ROE of 6% or lower;

--A reduction in the overall assessment of capital factor to 'a+' or lower.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an

observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Transportation Insurance Company	LT IFS    A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
Columbia Casualty Company	LT IFS    A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
Continental Insurance Co. (The)	LT IFS    A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
Continental Casualty Company	LT IFS    A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
Surety Bonding Company of America	LT IFS    A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
American Casualty Company of Reading, Pennsylvania	LT IFS    A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable



CNA Financial Corporation	LT IDR	A- Rating Outlook Stable	A- Rating Outlook Stable
	Affirmed		
senior unsecured	LT	BBB+ Affirmed	BBB+
Continental Insurance Company of New Jersey	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
Western Surety Company	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism U.S. Non-Life Insurance Capital Model, v1.4.3 (1)

Reserve Adequacy and Volatility Estimator Model, v1.3.0 (1)

Third-party Model (1)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

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## **ENDORSEMENT STATUS**

American Casualty Company of Reading, Pennsylvania

CNA Financial Corporation

Columbia Casualty Company

EU Endorsed, UK Endorsed

EU Endorsed, UK Endorsed

EU Endorsed, UK Endorsed

Continental Casualty Company	EU Endorsed, UK Endorsed
Continental Insurance Co. (The)	EU Endorsed, UK Endorsed
Continental Insurance Company of New Jersey	EU Endorsed, UK Endorsed
National Fire Insurance Company of Hartford	EU Endorsed, UK Endorsed
Surety Bonding Company of America	EU Endorsed, UK Endorsed
Transportation Insurance Company	EU Endorsed, UK Endorsed
Universal Surety of America	EU Endorsed, UK Endorsed
Valley Forge Insurance Company	EU Endorsed, UK Endorsed
Western Surety Company	EU Endorsed, UK Endorsed

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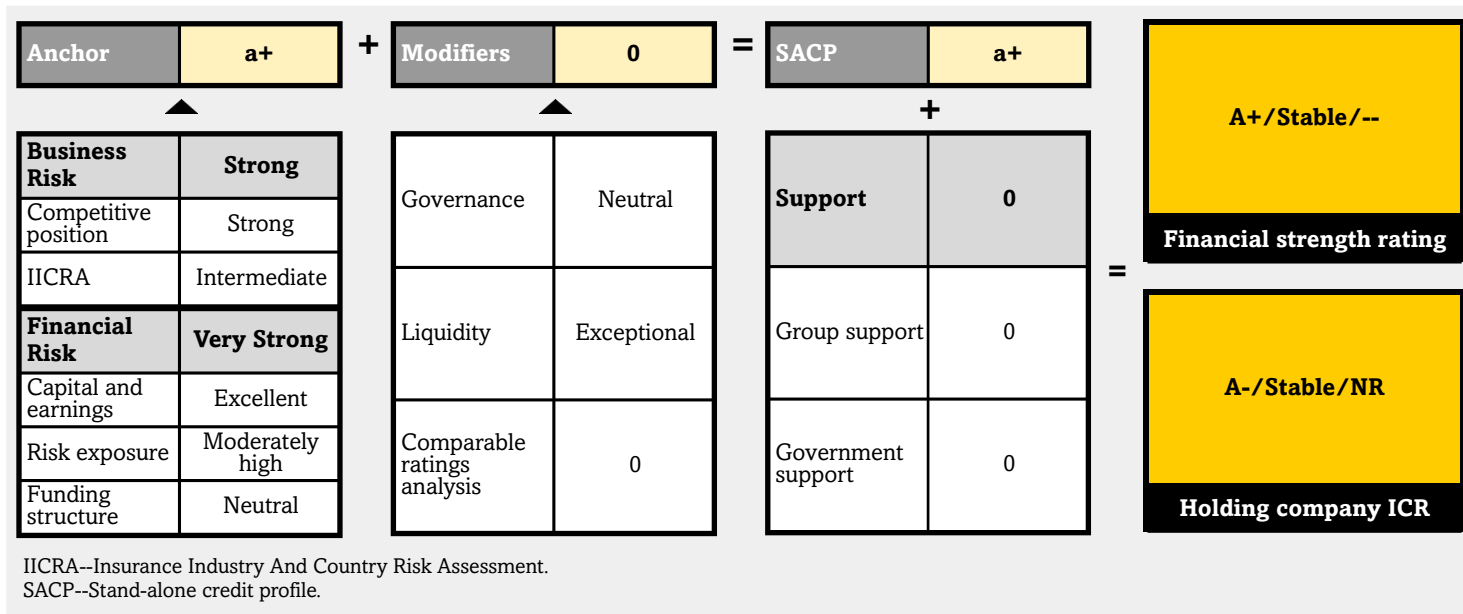
Business Risk Profile

Financial Risk Profile

Other Credit Considerations

Related Criteria

# CNA Financial Corp.



## Credit Highlights

Overview	
Key strengths	Key risks
Strong position in commercial insurance in the U.S., Canada, and Europe with diverse product offerings and a mix of standard and specialty lines	Sizable long-term care reserves with inherent volatility amid changes in assumptions and mortality trends
Improving underwriting performance benefiting from remediation efforts mainly for the commercial and international segments and favorable market pricing	Modest exposure to claims and social inflation because of long-tail casualty liability reserves
Excellent capital adequacy with conservative balance sheet management	Modest exposure to catastrophe losses and potential volatility to earnings and capital partly offset by effective reinsurance utilization

**CNA holds a strong position in the commercial insurance market, with business in the U.S. and internationally, and has a diversified product mix and a heavier focus on casualty lines.** CNA Financial Corp. and its core operating subsidiaries (CNA) are one of the largest commercial and professional liability insurers in the U.S. S&P Global Ratings believes the company's strong underwriting capabilities and effective use of reinsurance will support growth while better containing earnings volatility. We think the company's commitment to further improve expenses and use advanced technology will improve underlying underwriting profitability.

**Robust capitalization is a strength to the rating.** At year-end 2021, CNA's capitalization was redundant at the 'AAA' level. The company manages volatility through strong global underwriting governance, combined with a clear target for risk-adjusted returns and effective use of reinsurance. Despite the decline in shareholders' equity through the first nine months of 2022 and subsequent drop in capital to 'AA' (from mark-to-market losses on bonds due to higher interest rates), we expect CNA will rebuild capital to the 'AAA' level by 2024. Better underwriting, increasing investment income, and recovery of bond values as they amortize to par are likely to support capital recovery.



*Our capital and earnings assessment assumes CNA will continue capital returns to its parent, Loews Corp., as long as they do not impair creditworthiness.* Over the past few years, CNA has returned capital to the parent in the form of both special and ordinary dividends. In our view, special dividends are paid based on excess capital to support credit fundamentals and utilization opportunities for the business.

## Outlook: Stable

The stable outlook reflects CNA's earnings stability from improved underwriting performance, robust capital, and market-leading positions in commercial insurance, including professional lines. This translates to a combined ratio of 93-96% annually, outperforming the industry by at least 3-4 points.

### Downside scenario

We could lower our ratings if, contrary to our expectations, capital adequacy deteriorates below the 'AAA' level, underwriting performance weakens substantially below our base-case assumptions on a sustained basis, or fixed-interest coverage consistently falls below 4x.

### Upside scenario

Although it is unlikely, we could raise our ratings in the next 24 months if the group's competitive position, including operating performance, is comparable with that of its higher-rated peers, as demonstrated by material outperformance from sustained combined ratios of 88-90%. Additionally, we could consider an upgrade if the company is able to significantly reduce long-term care risk, as indicated by a reduction in the proportion of reserves and sustained limited catastrophe exposure, measured by probable maximum losses as a percentage of equity.

## Assumptions

- Real U.S. GDP year-over-year growth of 1.6% in 2022 and 0.2% in 2023
- 10-year Treasury yield at about 2.8% in 2022 and 3.3% in 2023
- Core Consumer Price Index at about 6.2% in 2022 and 3.8% in 2023
- Unemployment rate at 3.7% in 2022 and 4.3% in 2023
- Negative sector outlook for property/casualty (P/C) insurers

Source: "Economic Outlook U.S. Q4 2022: Teeter Totter," Sept. 26, 2022

## CNA Financial Corp.--Key Metrics

(Mil. \$)	--Year ended Dec. 31--						
	2023f	2022f	2021	2020	2019	2018	2017
P/C gross premiums written	15,000-15,500	14,500-15,000	13,407	12,399	11,704	11,404	10,982
P/C net premiums written	8,700-9,200	8,200-8,700	7,921	7,566	7,134	6,822	6,534
Net combined ratio (%)	92-94	92-94	96.2	100.0	96.7	96.7	97.1
Return on revenue excluding investment gains/losses (%)	12-14	11-13	12.7	9.3	12.5	11.5	14.8
Net income	1,100-1,200	800-900	1,202	690	1,000	813	899
EBITDA fixed-charge coverage (x)	12-14	10-12	12.0	7.7	9.5	8.0	8.0
Financial leverage (%)	26-28	27-29	18.9	20.7	21.0	22.9	21.9
Return on equity (%)	13-15	7-9	9.4	5.5	8.5	6.9	7.4

f--Forecast data represent S&P Global Ratings' base case assumptions excluding investment gains/losses.

## Business Risk Profile: Strong

CNA was the seventh-largest commercial insurance writer in the U.S. in 2021, with a strong presence in larger states, including California, Texas, New York, and Florida. The group's international operations include its Lloyd's syndicate and large Canadian exposure, which provide some geographical diversification. Its core business segments are:

- Specialty insurance, about 41% of its \$7.9 billion in total P/C net written premiums in 2021;
- Commercial business, 45%; and
- International business, 14%.

**CNA distinguishes itself by its strong market position and good distribution relationships, leading to diversity both by geography and product offerings. It has a sustainable market share in commercial property and professional liability lines and is consistently ranked among the top five insurers in its core markets.**

CNA has started to reap the benefits from its reunderwriting initiatives in its London syndicate by aligning distribution partners with more specialized resources and eliminating risks that would not meet profitability targets. The company remains vigilant on underwriting standards by sustaining global underwriting governance, enabling it to achieve its target risk-adjusted return.

In addition to strengthening terms and conditions in a variety of lines across the portfolio, the company continues to lean into the hardening market to ensure written and earned rate trends above long-run loss costs. This has led to the combined ratio for the group improving to 93.0% for the first nine months of 2022, from 97.4% for the same period in 2021, with all segments improving except for specialty (which sustained highly profitable underwriting performance). The international segment's combined ratio improved to 92.8% through the first nine months of this year from 94.8% for the first nine months of 2021, while the commercial business achieved a combined ratio of 96.6%, down from 106%. We expect the improvements made over the last three years to be sustainable, and favorable pricing, in spite of elevated inflation, will allow for stable to modest improvement to underlying underwriting income.

Furthermore, CNA continues to make meaningful progress in reducing expenses--the expense ratio improved by over

3 points over the last five years, benefiting from greater scale and efficiency. The company continues to expand its focus on specialty lines beyond commercial insurance while optimizing the mix of business and performance for each sector. While the focus remains on underwriting controls, actuarial analytics, and claims management, the company is investing in technology, data analytics, and innovation to enhance underwriting acumen and risk selection. These efforts have led to year-over-year improvements (as measured by underlying combined ratio) mainly in the commercial and international books of business.

The specialty book is performing well, generating an average combined ratio below 90% since 2012. CNA's use of broader distribution channels to gain access to large and national brokers, streamlining of underwriting processes to better use its scale advantage, and expansion of unique product offerings enhance its competitive presence and lower expenses, in our view. We anticipate further improvement in the business mix and strategic use of ceded reinsurance to support business growth and profitability.

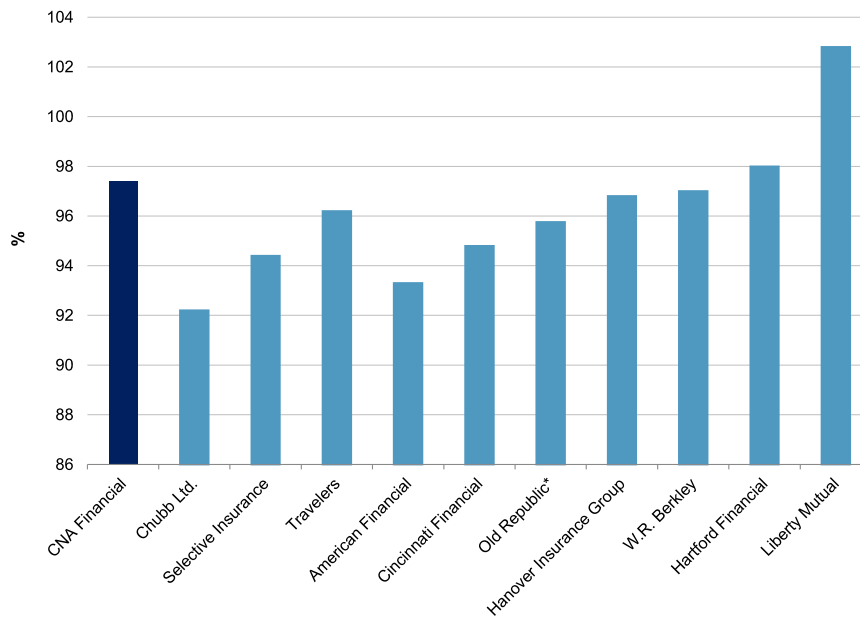
CNA's international segment contributed about \$1.1 billion to written premiums in 2021. The company has continued to benefit from significant changes to improve underlying underwriting profitability, and it has now achieved underlying profitability for the last three years and is on pace for a fourth. These changes include exiting unprofitable businesses, taking corrective action on delegated business from Lloyd's, reducing catastrophe exposure while restricting territorial appetites, and increasing sales production with selected brokers through strategic partnerships.

We expect the international business to achieve the company's return target. The Lloyd's syndicate is also an important platform, providing a global network that enables CNA to broaden its product offerings to multinational companies.

CNA continues to actively manage the run-off long-term care (LTC) book to mitigate risk to capital. While the risk associated with CNA's nearly \$13.1 billion LTC generally accepted accounting principles reserve is significant (\$13.6 billion including LTC, structured settlement, annuities, and other), we believe its proactive claim and in-force management, robust actuarial review (including a prudent margin added to the gross premium valuation reserves), and expertise can mitigate certain long-tail catastrophes.

**Chart 1**

**CNA Financial--P/C Combined Ratio Peer Comparison Average (2017-2021)**

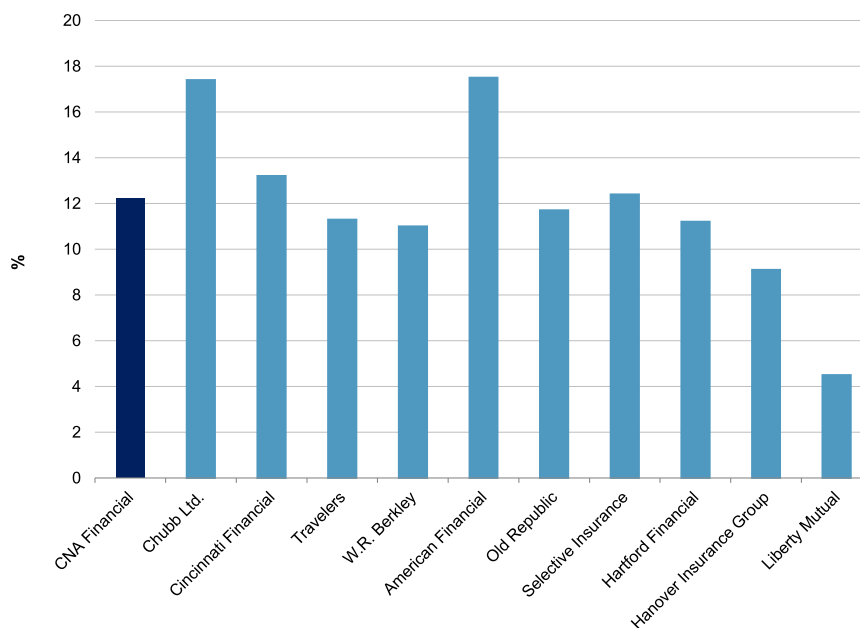


\*Excludes title business.

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**Chart 2**

**CNA Financial--Return On Revenue Average (2017-2021)**



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## Financial Risk Profile: Very Strong

CNA's capitalization at year-end 2021 remained redundant at 'AAA', as per our risk-based capital model. However, shareholders' equity for the first nine months of 2022 declined to \$8.1 billion from \$12.8 billion as of Sept. 30, 2022, owing to fair value losses on the fixed-income portfolio and lower retained earnings from dividends to the parent.

Partly offsetting the AOCI drop was the shadow adjustment, which caused a decline in the reserve for LTC to the extent of the fair value losses of the life bonds. While the drop in shareholders' equity was meaningful at approximately 36%, we believe it is mostly interest rate driven not impairment in credit risk driven. And given the higher levels of casualty business and strong cash flow generation, with closely monitored asset liability management, a majority of the bonds will recover to par over time. A few benefits from the pace of rate increases are:

- The company is expecting negligible impact from the implementation of the new accounting treatment for long-durations contracts, and
- Prospective net investment income will be favorable as new money is invested and the portfolio turns over.

We expect that the company will rebuild its capital to the 'AAA' level, since it dropped to 'AA' as of Sept. 30, 2022, by 2024 on better underwriting performance, improved investment income, recovery of bond values as they amortize to par, and prudent levels of capital returned to the parent. As a result, we expect the company will earn net income of at least \$800 million in 2022 and \$1.2 billion in 2023-2024, with the shareholder dividend of at least \$900 million annually.

CNA's risk exposure mainly reflects the company's long-tail reserve risks from LTC and casualty liability and, to a lesser extent, P/C catastrophe losses, which could contribute to earnings and/or capital pressure and volatility. This is partially offset, in our view, by CNA's effective risk controls, prudent reserving philosophy, strategy to reduce LTC risk, capital strength, and well-diversified investment portfolio. The company maintains a liquid and high-quality investment portfolio. As of Sept. 30, 2022, invested assets consisted of fixed-income securities (87.4%), equities and limited partnerships (6.5%), cash and short-term investments (3.7%), and mortgage loans and others (2.4%). The fixed-income portfolio is of high credit quality, with an 'A' average credit rating. Lastly, the company has adequate reinsurance treaties with additional protections added last year for both frequency and severity of events.

CNA has demonstrated broad access to capital markets and a record of raising capital. It also benefits from Loews' support, as demonstrated in 2003 and 2008. At year-end 2021, its financial leverage was about 18.9% and fixed-charge coverage (excluding investment gains and losses) was 12x. However, we expect financial leverage in 2022 to weaken to around 27%-29%, mainly because of the reduction in shareholders' equity, but improve over the next two years (2023-2024) to below 25%. We expect the coverage ratio to remain at least 8x over the same period, supported by the strong earnings.

## Other Credit Considerations

### Governance

CNA has a seasoned, highly performing management team with significant knowledge and experience in pricing, reserving, underwriting, and claims. Management's communication of goals is clear, with strong emphasis on cross-function collaboration. The group's risk governance and culture, supported by advanced data analytics and reporting tools, provide strong independent oversight and accountability. We have not identified any governance deficiencies in our assessment.

### Liquidity

We expect liquidity to remain exceptional based on operating cash flow generation and consolidated marketable securities. As of Sept. 30, 2022, the parent company held about \$557 million in cash and short-term equivalents with \$250 million available under a credit facility. For the fiscal year ending Dec. 31, 2022, CNA's U.S. subsidiaries may pay about \$1.2 billion in ordinary dividends to the holding company without prior regulatory approval.

### Factors specific to the holding company

The holding company rating is two notches below the operating company ratings, which is nonstandard notching for U.S.-based holding companies. This reflects our view that CNA is moderately strategic to Loews Corp., an investment holding company (IHC) and the ultimate parent of CNA. Our ratings on moderately strategic subsidiaries receive one notch of support but are generally capped at one notch below the ultimate parent's group credit profile. Under our group rating methodology, IHC investee companies cannot be classified any higher than moderately strategic. Yet CNA's holding company still depends on dividends from its insurance subsidiaries, which are subject to regulatory guidelines and restrictions.

### Environmental, social, and governance

#### ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- Physical risks					N/A					N/A				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

In line with the broad insurance sector, our analysis of CNA's environmental risk takes into consideration its moderate property catastrophe exposure (as measured by its net probable maximum loss relative to total available capital and reinsurance utilization). While the company is susceptible to heightened health-related claims due to its legacy asbestos and environmental exposure, we believe the company's adverse development coverage partially mitigate the potential losses. The additional cost of health-related claims could heighten morbidity risk given the company's substantial long-term care run-off reserves, which have reached nearly \$13 billion at year-end 2021. We, however,

believe the company's proactive claims and active management, robust actuarial review (including a prudent margin added to the carried reserves), and sizable capital buffer somewhat mitigate the potential impact of future reserve volatility.

We regard the management team as highly effective and seasoned. Management communication of goals and targets are clear, with strong emphasis on cross-function collaboration. CNA, 90% owned by Loews Corp., contributes more than 70% of Loews' reported value.

### Enterprise risk management

CNA's insurance risks (reserving, underwriting, and, to some extent, catastrophe risk) dominate the risk profile and contribute to our consideration of enterprise risk management as highly important to the rating. The company writes a complex and diverse set of risks that include long- and short-tailed businesses. CNA's emphasis on risk learning, exposure management, team collaboration, and governance, combined with its modeling capability, support our view of the company's effective risk management.

### Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of December 2, 2022)\*

**CNA Financial Corp.**

Issuer Credit Rating

*Local Currency*

A-/Stable/NR

Senior Unsecured

A-

**Related Entities****American Casualty Co. of Reading PA**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**CNA Insurance Co. (Europe) SA**

Financial Strength Rating

*Local Currency*

A+/Stable/--

**CNA Insurance Co. Ltd.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

**Columbia Casualty Co.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Continental Casualty Co.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Continental Corp.**

Issuer Credit Rating

*Local Currency*

A-/Stable/--

**Continental Insurance Co. of NJ (The)**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Continental Insurance Co. (The)**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**National Fire Insurance Co. of Hartford**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--



## Ratings Detail (As Of December 2, 2022)\*(cont.)

**Surety Bonding Co. of America**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Transportation Insurance Co.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Universal Surety of America**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Valley Forge Insurance Co.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Western Surety Co.**

Financial Strength Rating

*Local Currency*

A+/Stable/--

Issuer Credit Rating

*Local Currency*

A+/Stable/--

**Domicile**

Illinois

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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