Financial Condition

Investments

Regarding our fixed maturity security portfolio, the current economic conditions have increased volatility in the capital markets and have caused significant pressure on the profitability of many companies. The sharp decline in oil prices experienced earlier in the year and decrease in demand due to COVID-19, which began in the first quarter of 2020, also caused pressure on the profitability of companies in the energy sector. We recorded credit losses during the first quarter of 2020 primarily related to fixed maturity securities issued by companies in the energy sector, but recorded minimal credit losses related to energy securities in the remainder of 2020 primarily as a result of the improvement in oil prices. Our exposure to consumer cyclicals which have been stressed due to COVID-19 related shutdowns is a small portion of our portfolio and our exposure to other stressed industries such as airlines and restaurants is minimal. We continue to monitor capital market activity on a regular basis and to the extent that there are continued volatility and ratings downgrades related to the issuers of our fixed maturity securities, we could experience further credit losses, an increase in defaults, and the need for additional capital in our insurance subsidiaries. However, we remain confident in the overall strength and credit quality of our investment portfolio.

Other

If we continue to experience unfavorable trends in the above areas of focus, we may also experience certain additional, correlated impacts such as an increase in the amortization of deferred acquisition costs if we have a decline in persistency. We may also be required to write-off or impair certain intangible/long-lived assets such as value of business acquired and goodwill if we experience declines in the overall profitability of our businesses. Furthermore, if the profitability of our businesses declines, we may also be required to establish a valuation allowance regarding the realization of our deferred tax assets.

Liquidity and Capital Resources

We have strengthened our liquidity position through actions such as maintaining a higher level of short-term investments and posting additional collateral from certain of our U.S. insurance subsidiaries to the regional Federal Home Loan Banks (FHLB). As a result, we believe we have the appropriate liquidity and access to capital to avoid significant disruption to our operations. We have not yet experienced a significant impact to our liquidity as a result of the collection of premiums and submitted claims activity; however, we continually monitor the developments of these items.

As of December 31, 2020, we have borrowed $312.2 million of funds through our memberships with the regional FHLBs and those funds are used for the purpose of investing in either short-term investments or fixed maturity securities. Although we did increase FHLB borrowings at December 31, 2020, we have additional borrowing capacity of approximately $1,093 million that can be utilized for liquidity if the need arises. Additionally, we have access to two unsecured revolving credit facilities under separate syndicates of lenders that allow us to borrow up to a total of $600 million. There are currently no outstanding borrowings on these facilities but we remain in compliance with required covenants should we choose to borrow in the future. In May 2020, we issued $500.0 million of 4.500% senior notes due 2025 which strengthened our liquidity and demonstrated our ability to raise capital in a strained economic environment.

Following the maturity of our $400.0 million aggregate principal amount of 5.625% unsecured notes in the third quarter of 2020, which was funded through an issuance of debt during the second quarter of 2019, we have no significant upcoming debt maturities until 2024. We continue to meet the financial covenants contained in our current debt agreements and credit facilities, and we expect that we will continue to meet those covenants in subsequent periods.

To the extent that we begin to experience a significant impact to our liquidity, we would likely sell highly liquid invested assets or borrow funds on our credit facilities to meet operational cash flow requirements.

Business Operations

Other than disruption to sales processes in certain of our product lines, we have not experienced a significant disruption to our operational processes as we have been able to successfully implement our business continuation plans to accommodate remote work arrangements for the safety of our employees and customers. We also have not experienced significant disruption to our financial reporting systems or internal control over financial reporting and disclosure controls and procedures as a result of COVID-19. We have implemented travel restrictions for the safety of our employees and customers, but do not expect those restrictions to significantly disrupt our operations.