Regulatory Capital Planning and Deferred Tax Assets in a Post-Financial Crisis Environment

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Research Questions:

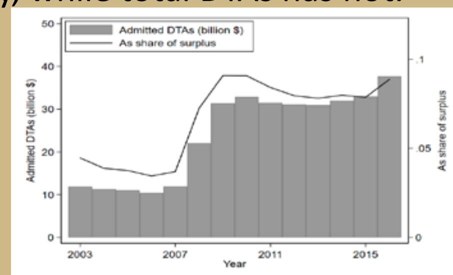
(1) Do insurers increase admitted DTAs following the relaxation of admissibility rules?

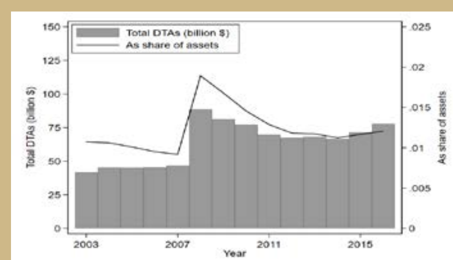
(2) What are the implications of higher levels of DTAs?

Motivation

- Insurance regulators relaxed rules relating to DTA inclusion in regulatory capital
- DTAs are relatively illiquid compared to other assets
- Insurers represent a major part of the economy – monitoring solvency is important

- Share of DTAs attributable to regulatory capital has been increasing over time for the life insurance industry, while total DTAs has not.





- Firms with relatively low regulatory capital tend to have a greater share of their regulatory capital composed of DTAs, suggesting that firms manipulate DTAs to appear financially healthier.
- The likelihood of insolvency increases with increased inclusion of DTAs in regulatory capital.
- Ratings agencies do not appear to discount high levels of reported DTAs.

Contribution

Our findings have important implications for regulators monitoring solvency in the insurance industry and those considering changes to capital standards for other financial institutions.

We appreciate valuable comments from:

- 2020 ATA Midyear Meeting & Mike Mayberry
- 2020 WRIEC
- 2020 AAA Annual Meeting
- Texas A&M Tax Readings Group
- The NAIC
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