

Loss Absorbing Capacity of Deferred Tax in Ireland



Introduction

The loss absorbing capacity of deferred taxes (“LACDT”) is one of the key elements of the Solvency II Solvency Capital Requirement (“SCR”).

LACDT provides the potential to significantly reduce the SCR by taking into account the tax relief arising out of the future losses under the SCR stresses. However, based on our analysis of insurers’ annual solvency returns in Ireland, we believe that many firms are not taking full credit for LACDT and might therefore be potentially understating their solvency coverage position.

This paper covers the background information on what deferred taxes are, how LACDT is calculated under the Solvency II regulations, and how (re)insurance firms can justify an allowance for LACDT. It further covers one of the possible options to the modelling of future taxable profits, the associated management actions, and the practical challenges in recognition of LACDT. Finally, it covers the utilisation of LACDT by Irish (re)insurance firms.

We would note that LACDT is an area of potentially immense complexity, with the European Commission stating that such an adjustment is complex and requires a high level of supervisory judgement resulting in possibly divergent practices across the member states¹.

Furthermore, this paper is intended to serve as a high-level overview of actions firms could take to support an allowance of LACDT. Recommendations for individual firms would require analysis of their individual situation, which is impacted by a number of factors such as taxation of branches, taxation of groups, historical changes to tax positions and practical challenges in modelling.

What are deferred taxes?

In general terms, under Solvency II, deferred taxes arise out of the difference between the valuation of the assets and liabilities recognised as per the Solvency II regulations and the valuation of assets and liabilities recognised for tax purposes. The difference appears since the valuation methodologies between the solvency and tax purposes differ to each other in general, as discussed below. It is important to note that there can be other reasons for the recognition of deferred taxes, however in this

paper we are primarily focussed on deferred taxes as arising under Solvency II.

The deferred taxes recognised in the Solvency II balance sheet could be either a Deferred Tax Liability (“DTL”) or a Deferred Tax Asset (“DTA”) depending upon whether the Solvency II value of net assets is higher or lower as compared to the valuation for tax purposes. It should be noted that these differences are primarily temporary in nature. The two bases converge when the assets are realised or sold, and the liabilities are settled.

A FEW OF THE SPECIFIC CASES WHICH GIVE RISE TO A DTL OR DTA ARE DISCUSSED BELOW:

- A DTL occurs when the value of assets is higher and/or the value of liabilities is lower (resulting in higher net assets) under the Solvency II basis as compared to the value ascribed for the tax purposes. This is because it would lead to higher surplus on the solvency basis compared to the surplus calculated for the tax purposes. This higher surplus will be subsequently taxed as it emerges over time on the tax basis, and hence this needs to be allowed as a deferred tax liability on the solvency basis.

For instance, if the technical provisions under the Solvency II basis are lower than the liabilities calculated under the tax basis (due to the existence of prudential margins in the estimation of liabilities for tax purposes), this would result in the delays in the recognition of surplus on the tax basis (relative to the Solvency II basis) and hence the tax payments on those profits. This would lead to recognition of DTL on the Solvency II balance sheet.

- A DTA occurs when the value of assets is lower and/or the value of liabilities is higher on the Solvency II basis (resulting in lower net assets) as compared to the value ascribed for the tax purposes. This is because it would lead to lower surplus on the solvency basis compared to the surplus calculated for the tax purposes. This can lead to a deferred tax asset being recognised on the Solvency II balance sheet as the surplus not yet recognised here has already been taxed under the tax regulations.

¹ EIOPA’s first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation - [consultation paper](#).

There could be other scenarios where the DTA is recognised. If carried forward losses, or unused tax credits from prior years could be set off against future taxable profits, then these could potentially be recognised as DTA on the Solvency II and tax basis balance sheets.

If the DTL on the opening balance sheet is higher than the DTA then it can be said to have “net DTL”. Similarly, if the DTA on the opening balance sheet is higher than the DTL then it can be called “net DTA”.

It should be noted that there are further rules and guidelines associated with offsetting DTA with DTL and recognition of DTA in the base Solvency II balance sheet².

What is LACDT under Solvency II?

Article 207(1) of the Solvency II Delegated Regulation states that:

“The adjustment for the loss-absorbing capacity of deferred taxes shall be equal to the change in the value of deferred taxes of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that is equal to the sum of the following:

(a) the Basic Solvency Capital Requirement referred to in Article 103(a) of Directive 2009/138/EC;

(b) the adjustment for the loss-absorbing capacity of technical provisions referred to in Article 206 of this Regulation;

(c) the capital requirement for operational risk referred to in Article 103(b) of Directive 2009/138/EC.”

Solvency II permits an adjustment to allow the capital relief resulting from an instantaneous shock loss calculated as per the SCR Standard Formula. This means that the instantaneous loss resulting from Standard Formula SCR stresses would enable a (re)insurance firm to allow for tax relief in respect of such losses. LACDT can also be recognised under Solvency II SCR calculations when using a partial or full internal model.

The maximum permissible LACDT can broadly be calculated as:

Maximum permissible LACDT =

$(BSCR^{\wedge} + LACTP^{\wedge\wedge} + \text{Operational Risk SCR}) * \text{Applicable Tax Rate}$

[^] BSCR is the Basic Solvency Capital Requirement which is the SCR before the inclusion of Operational Risk SCR, LACTP and LACDT

² Refer to EIOPA-BoS-15/113 guidance note issued by EIOPA in [Appendix A](#)

³ Refer to the consultation on the amendments of supervisory reporting and public disclosure documents [here](#).

^{^^} LACTP is the loss absorbing capacity of technical provisions

A (re)insurance firm needs to justify the level of credit it can take for LACDT within the SCR. How to justify an allowance for LACDT on the Solvency II balance sheet is covered in the next section.

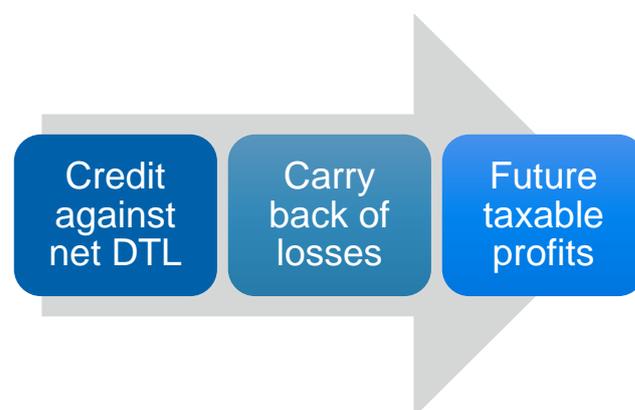
How to demonstrate the allowability of LACDT?

The allowability of LACDT discussed below is based on the Solvency II Directive, Level 2 Delegated Regulations, Level 3 guidelines on LACDT. Additional considerations have been drawn from the guidelines issues by the EIOPA, the CRO Forum and the supervisory authorities in the UK and the Netherlands. Links to these reference materials are provided in [Appendix A](#).

The final allowance could be subject to the review of the supervisory authority under which the firm operates and of its external auditors. It is worth noting that EIOPA has released a consultation paper to introduce additional quantitative reporting templates to support initial assessment by the supervisors on the adequacy of LACDT³.

Figure 1 below shows the sources to demonstrate the allowability of LACDT on the Solvency II balance sheet.

FIGURE 1: ALLOWABILITY OF LACDT



As a first step, credit for LACDT can be taken to the extent of DTL already recognised on the Solvency II balance sheet. This DTL amount can be recovered immediately as the future profits recognised in the estimation of Solvency II liabilities would no longer be expected to emerge in the stress scenarios. It should be noted that firms can take such a credit provided there is

credible evidence that the timing of tax losses sufficiently matches with the timing of the DTL after the shock loss.

Subsequently, firms can utilise the option of carry back of losses (as applicable in certain jurisdictions⁴) to previous fiscal years. However, consideration should be given on the timing and duration of the loss incurred from a stress. This is because losses from the biting scenario may not be immediate and may extend for a number of years. Tax regulations may restrict the amount of future tax losses that can be carried back.

If the maximum permissible LACDT is greater than the credit taken for DTL off sets and the carry back of losses, it may be possible to create a (notional) DTA. In order to take credit for such an increase of (notional) DTA, firms have to provide credible evidence that there are adequate expected future profits on which future tax would be payable to offset such an increase. The sources of future profits along with a summary of guidelines are included below.

TAXABLE PROFITS FROM FUTURE NEW BUSINESS

The profits from future new business can be used to demonstrate the allowance of (notional) DTA. Such profits should take into account a firm's current and future financial situation in the stressed scenario i.e. after the 1-in-200 year event has occurred. This would particularly have an impact on the new business volumes and the level of profits from these in the stressed scenario.

Furthermore, firms should consider:

- New business sales should not be higher than those assumed in the firm's business plan. In fact, firms should consider allowing for reductions in the expected new business volumes due to the uncertainty in the stressed scenario and as the projection horizon becomes longer.
- New business sales projection horizon should be consistent with the firm's business plan and should not exceed a maximum period of five years. Further, profits arising from new business beyond the horizon of business planning period, should allow for increased uncertainty in these projections (by applying appropriate haircuts) and a finite projection period for such profits should be defined.
- Best estimate assumptions to forecast future profits after the stress event has occurred should be considered. A starting point could be the stressed assumptions in the 1-in-200 year event allowing for any changes that could emerge following the shock⁵. Some examples are included below:
 - Investment return assumptions are recommended by the Solvency II regulations to be equal to the implicit forward rates from the stressed risk-free interest rates. There

could be exceptions where there is credible evidence of future returns in excess of these implied returns. For instance, equity returns can recover more quickly in the post-stressed scenario achieving returns higher than the implied returns and then converging to the best estimate return in a pre-stress scenario in the longer term. This should be supported by credible evidence before taking such credit.

- In general, assumptions for insurance risks should be the post-stress assumptions. There could be some exceptions, such as for mass lapse if this is the biting scenario of the lapse shocks. The mass lapse event could be considered one-off, however firms should consider whether it could have an impact on future new business volumes and an appropriate haircut could be taken to this effect.
- The impact on continued reinsurance coverage and on product pricing and profitability in the post stressed scenario should be allowed for. For instance, a firm may not be able to secure reinsurance cover post the stress event or may not get it on similar terms. Appropriate margins should be allowed for in the projections to cover material reinsurance treaties.

In terms of product pricing and profitability, the mix of products, distribution channels a firm could sell through, and the level of expenses in the stressed scenario could be altered compared to the base projections. For instance, the demand for protection business could increase in the post pandemic scenario leading to the change in the product mix.

TAXABLE PROFITS FROM IN-FORCE BUSINESS AND OTHER SOURCES

The (re)insurance firm could allow for the profits from the inforce book of business to the extent these are not already allowed for in the Solvency II balance sheet. Such profits could emerge from:

- Renewal of premiums beyond the contract boundary in the projections, where this is not included within the base case. This could generate significant profitability for the business where there are blocks of profitable business with short contract boundaries. Care should be taken to allow for the lapse experience on the renewal of the business under the stressed scenario as well as the pricing of the business beyond the contract boundary. If no re-pricing is assumed, then it should be consistent with management actions designed for such a scenario.
- Investment profits earned above the post-shock risk-free rates on the assets backing the technical provisions. It may

⁴ This includes Ireland.

⁵ Modelling of new business in post-stressed scenario is covered in a later section.

not be possible to set such returns higher than the pre-shock assumptions.

This is particularly relevant where a firm has a significant portfolio of bonds that yield higher than the risk-free rate. The expected defaults from such excess returns should be allowed for before making an allowance. The allowance for such returns should be consistent with investment philosophy that such assets would be held to maturity.

- Investment returns on investments supporting Own Funds could potentially be allowed for in the future taxable profits. Investment returns and projection horizon should allow for increased uncertainty in the post stress environment.

The allowance of such profits particularly in respect of investment returns could be subject to supervisory review.

OTHER CONSIDERATIONS

- **Carry forward of losses:** Consideration should be given to the legal or regulatory requirements in the appropriate jurisdictions on the time limit for carry forward of unused tax losses or unused tax credits.
- **Loss attribution:** Where a firm is operating in several jurisdictions with different tax rates, or where different tax rates are applied to different items of balance sheet even within one jurisdiction, it would be necessary to allocate the loss for the allowance for LACDT to the appropriate source at a sufficient level of granularity.

For instance, if a firm is subject to a different tax rate on capital gains (or losses) on investments compared to other sources of profits then this would necessitate the attribution of loss to the appropriate source.

The attribution of losses to the risks captured by different modules of SCR should be in proportion to their contribution.

- **Continued compliance with MCR and SCR:** Firms are expected to demonstrate continued compliance with MCR and SCR post the stress event before credit for future profits can be taken.
- **Avoidance of double counting:** Firms should take due care that there is no double counting in the allowance for LACDT. Double counting could occur when a particular source of profit or loss has already led to the creation of DTL or DTA in the base Solvency II balance sheet – in such

cases, an item should not be again used to demonstrate the allowability of LACDT. Any other source of double counting must also be avoided.

For instance, the release of Risk Margin should not be double counted when assessing the allowability of DTA and of LACDT⁶.

Further, the assessment of LACDT should not rely on the future taxable profits from the new business which already support the recognition of DTA in the base balance sheet. For instance, the same future taxable profits arising from new business should not support both LACDT and DTA.

In addition, there are considerations for group undertakings and transfer of profit or loss between undertakings.

The full extent of considerations is covered in applicable regulations and guidelines listed in the appendix.

Management Actions

Solvency II regulations permit (re)insurers to implement management actions in the assessment of future taxable profits provided these are consistent with Article 23 of the Solvency II Delegated Acts. Some of the possible management actions that could be considered are⁷:

- Offering new products considering market conditions and developments and reviewing profit margins of existing products.
- Sale of business through low cost channels of distribution.
- Rationalisation of the level of expenses provided there is adequate justification that such expense savings would materialise.
- Enhancement of the reinsurance cover on the existing business or new business particularly if it leads to a recognition of reinsurance assets.
- Sale of a cost intensive portfolio of business.

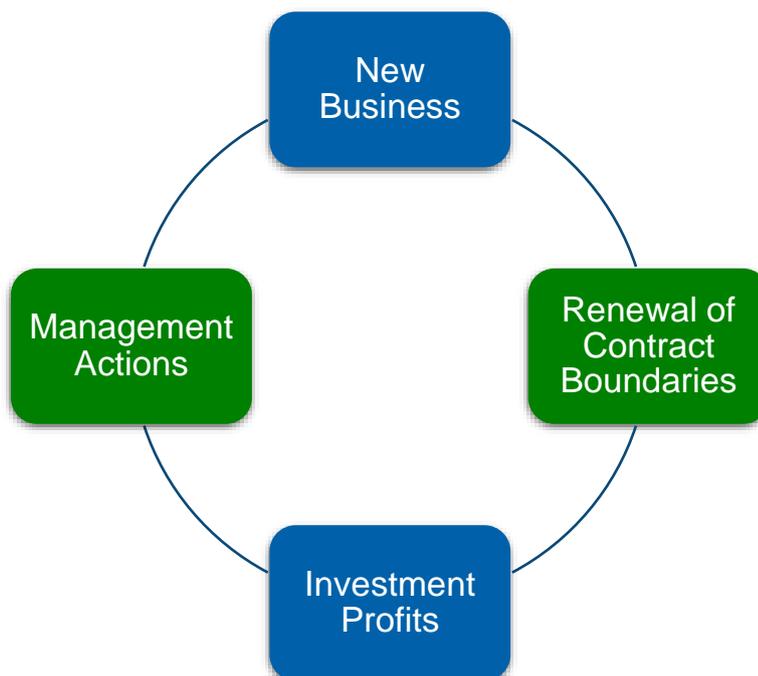
The management actions considered for the assessment of future taxable profits are meant to be implemented in the post-stress scenario. Consideration should be given that whether such actions are to be implemented in the post-stress scenario or they are well suited for a pre-stress scenario.

Figure 2 below shows the possible sources of future profits to support LACDT allowance.

⁶ Readers can refer to the guidelines issued by the Prudential Regulation Authority on the treatment of Risk Margin [here](#).

⁷ Possible management actions are based on paper released by the CRO Forum - [CRO Forum – DTA in SCR](#)

FIGURE 2: SOURCES OF FUTURE PROFITS



Modelling of future profits in the post-stress scenario

There are various approaches to modelling future new business profits and investment profits (on the assets backing the technical provisions and Own Funds) in the stressed scenario. One possible approach is to determine the SCR equivalent stressed scenario. This would involve calibration of the undiversified stress parameters to take into account the diversification benefits of the SCR. This could broadly be achieved as:

- Attribution of the diversified BSCR to each of the risk modules in proportion to their contribution to the overall BSCR (market, counterparty default, life underwriting, health, non-life underwriting and intangibles).
- Attribution of the diversified capital of each risk module to the sub-modules within each risk in proportion to their contribution to the undiversified module SCR. For instance, attribution of life underwriting SCR to mortality, morbidity, longevity, lapse, expense, revision, catastrophe risk.
- Calculation of an adjustment factor defined as diversified risk capital at sub-module level to the undiversified capital at module level.

- This adjustment factor can be used to adjust the Standard Formula stress parameter. For instance, if the adjustment factor of expense risk sub-module is 30% then the expense risk stress parameter can be stressed by 30% of the prescribed factor.

The calibration of such factors would determine a single equivalent SCR scenario for the projection of future profits.

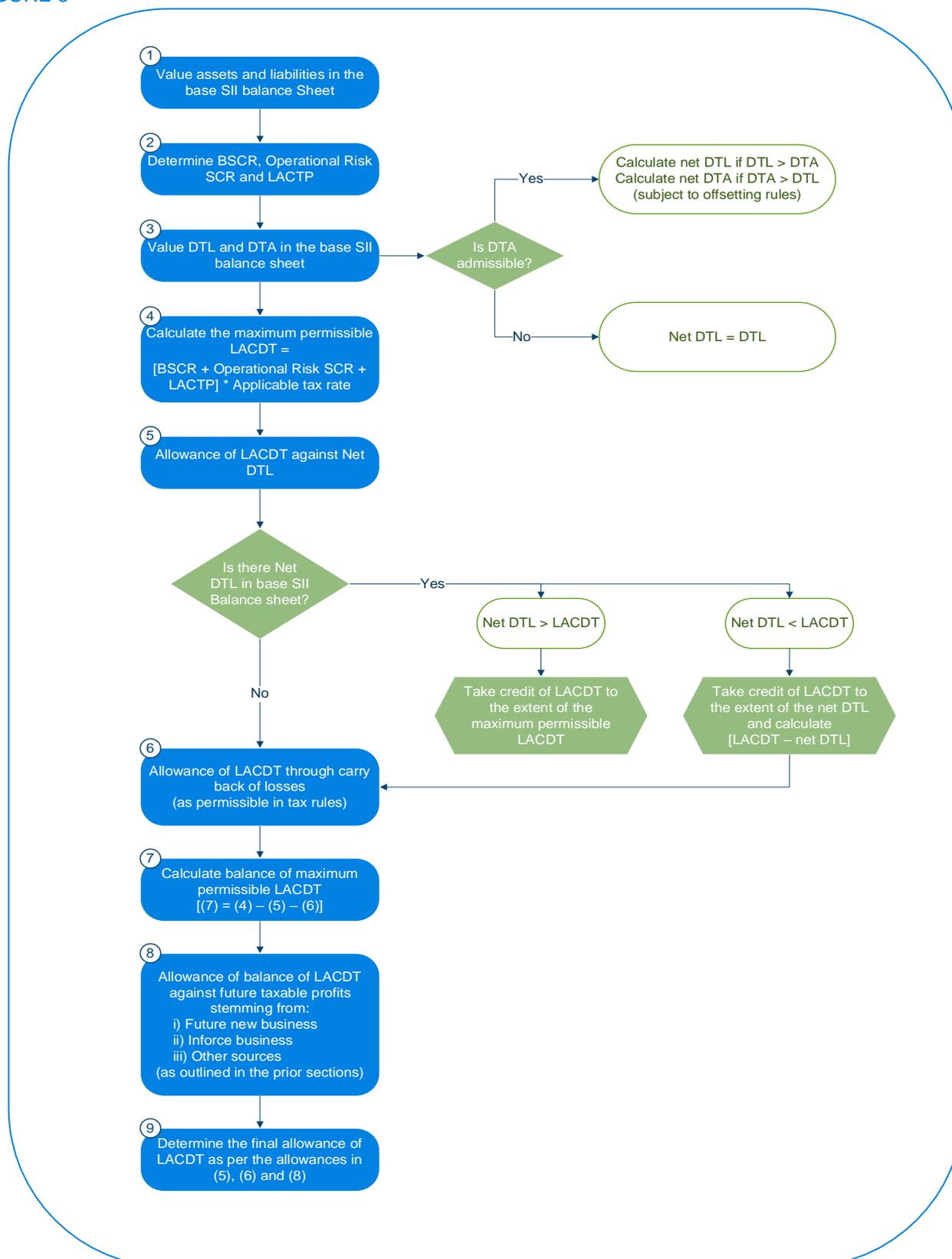
- Allowance for the factors which would alter such parameters in the post-stress scenario. For instance, mass lapse event may be a one-off event but it could alter the level of new business in the post-stress scenario.
- Allowance for the suitable management actions (as discussed in the previous section) which can be incorporated.
- Verification that the profits which have already been recognised in the base Solvency II balance sheet are not capitalised again in the projection of profits from the future new business.
- Demonstration of the continued compliance with MCR and SCR post the stress event as noted in the previous section.

Other suitable approaches in modelling of future profits may also be acceptable.

One possible process to estimate the LACDT using this single equivalent scenario is covered in the flowchart in the next section.

Possible process to estimate the LACDT⁸

FIGURE 3



Note: Allowance of LACDT as per (5), (6) and (8) should be to the extent of the maximum permissible LACDT calculated in (4).

⁸ The calculation of DTAs and DTLs and the credit taken for LACDT should be taken in conjunction with professional tax advice.

Practical Challenges

The recognition of LACDT requires significant judgement and leads to complexity in modelling of profits in the post-stressed scenario. Some of the practical challenges that could arise are:

- The operation of a firm in different jurisdictions and different tax rates and rules would require attribution of losses to each source and jurisdiction which becomes complex as the level of granularity increases.
- Expected changes in tax rules might need to be allowed for in the calculation of LACDT.
- Projection of new business volumes in the post-stressed scenario becomes difficult particularly as the time horizon becomes longer.
- The assumptions used in the post-stressed scenario requires expert judgement. Deviation of assumptions from the stressed assumptions would be difficult to justify given the lack of credible historical data to support this.
- The firms need to consider the implications for the interest rates in the post-stressed scenario such as whether to shock the negative interest rates and whether to allow for lower ultimate forward rate (UFR) in the projections.
- The projection of future profits under the Solvency II basis and admissibility of such profits for tax purposes would involve conversion of profits from the solvency basis to the tax basis in the projection period.
- The recognition of LACDT should be to the satisfaction of the supervisory authorities and the auditors. They may not allow firms to take a credit if sufficient credible evidence and justification is not provided.

LACDT allowance in the Irish (re)insurance industry

We have performed an analysis of LACDT allowance by Irish (re)insurance firms based on the SFCR disclosures as at year-end 2019⁹. Looking at figures 4 to 6 below, it appears that the (re)insurance firms in Ireland may not be utilising the benefit provided by LACDT to the maximum extent possible. The industry is utilising LACDT benefit of approximately 9% of SCR*¹⁰.

⁹ Refer to [Appendix B](#) for a brief methodology in respect of the data used in this analysis.

¹⁰ SCR* is defined as SCR plus LACDT.

If the firms were able to get the maximum potential benefit then we would expect this ratio to be approximately 12.5% which is the Irish corporation tax rate.

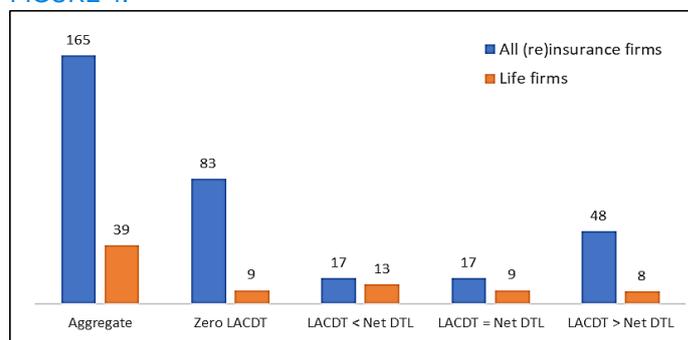
It is also important to bear in mind that some firms have branches in other countries and that profits from the branches will be taxed in those other countries, so that the aggregate tax rate for a firm might be different to 12.5%. Given this, the maximum benefit provided by LACDT could even be higher than 12.5% since some firms have branches in countries where the corporation tax rate is higher than this and thus provides incentive for firms to use this source as a capital relief.

We have subdivided the (re)insurance industry into the below groups for the purpose of this analysis:

- Zero LACDT (or unreported LACDT¹¹)
- LACDT less than net DTL
- LACDT equal to net DTL
- LACDT greater than net DTL

Figure 4 shows the spread of Irish (re)insurance firms as a whole and life insurance firms in particular in these four groups.

FIGURE 4:



Figures 5 and 6 show the LACDT position compared to SCR* and net DTL for Irish (re)insurance and life insurance firms as at year-end 2019.

¹¹ Unreported LACDT refers to the cases where no LACDT is included in the source database but where we cannot rule out the possibility that the firms in question do actually take credit for LACDT.

FIGURE 5:

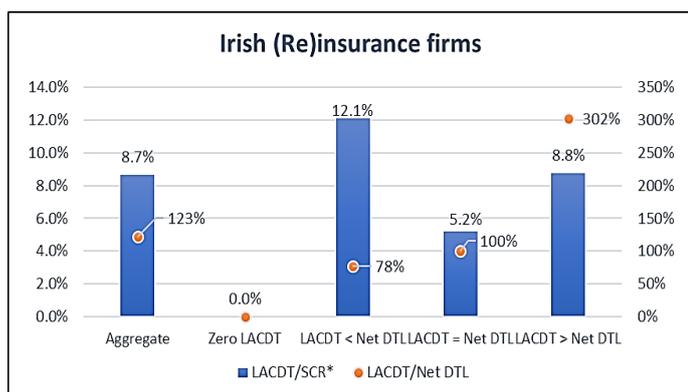
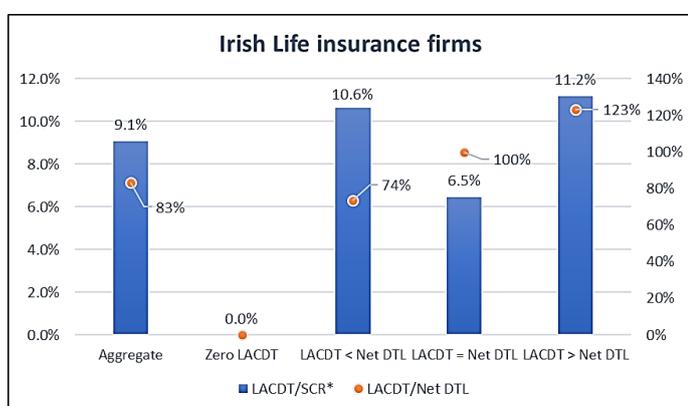


FIGURE 6:



The maximum benefit calculated as LACDT as a % of SCR* is approximately 8.7% for the Irish (re)insurance industry (and 9.1% for the life insurance industry) as at year-end 2019 which is significantly less than 12.5%.

ZERO LACDT

There are 83 (re)insurance firms in our analysis which have reported zero LACDT (or where LACDT is unreported or unavailable in our source data). Out of these 83 firms, 25 firms have DTA greater than DTL on the Solvency II balance sheet. This indicates these 25 firms might already be utilising future taxable profits to justify recognition of the DTA and hence may not have sufficient remaining future profits to support LACDT.

However, for the remaining 58 firms, there may be potential to allow for LACDT in the SCR through various approaches

mentioned in this paper particularly if recognition through future taxable profits hasn't been explored in full.

Within life insurance firms, 9 firms (out of a total of 39) have reported zero LACDT (or is unreported) and one among this group has DTA greater than DTL.

LACDT < NET DTL

17 (re)insurance firms have reported LACDT less than the net DTL. The LACDT benefit utilized by such firms is 12.1% of SCR*.

Within the life insurance firms, 13 firms have LACDT less than net DTL and relief taken in respect of this is approximately 10.6% of SCR*.

Many of these (re)insurance firms appear to be utilising the significant benefit of the maximum permissible LACDT. It is possible that these firms are using some of the alternative sources other than the net DTL to demonstrate allowance of LACDT (if net DTL is not fully allowable for this purpose).

It is also possible that these firms can further maximise this benefit particularly if these firms have branches in countries where the tax rate is higher than 12.5%.

LACDT = NET DTL

17 (re)insurance firms in Ireland and 9 life insurance firms out of these have capped the LACDT capital relief to the net DTL. This group of firms is utilising less than the maximum available capital relief. Irish (re)insurance firms are utilising 5.2% of SCR* while life insurance firms are utilising approximately 6.5% of SCR* within this group. It appears that these firms have decided that they cannot justify loss absorbing capacity from sources other than the net DTL and have therefore chosen not to include any additional benefit in relation to LACDT. It is possible that these firms might be further able to maximise the benefit by looking at sources of future taxable income.

LACDT > NET DTL

48 (re)insurance firms and 8 life insurance firms in Ireland have reported their LACDT to be higher than net DTL indicating these firms are reliant on tax liability arising from other sources. These firms are taking credit of 8.8% and 11.2% of SCR* respectively.

Conclusion

It is clear that the LACDT provides a significant potential to reduce the SCR by taking account of tax relief arising out of future losses under the SCR stresses and that there is a potential for (re)insurance firms in Ireland to maximise the utilization of the capital relief since many firms have zero LACDT or are either capping it to net DTL or reporting a LACDT that is less than net DTL. Whilst we acknowledge that firms may not have credible sources of future taxable income to take such a credit beyond net DTL, it is possible that some firms may not have explored all the avenues in full due to the potential complexity and a significant level of judgement involved in this.

Apart from the option of carry back of losses, the primary source of future taxable income can arise from writing profitable future new business while some profits can also emerge from existing in-force business, which could be significant if a firm has a sizeable amount of business with short contract boundaries. Further, there are strategic management actions which can be planned to be adopted to enhance the support provided by this source. There are a number of regulations and guidelines which firms should take into account in order to demonstrate the allowance of LACDT.

Furthermore, there could be a variety of approaches to model future taxable income. One of the approaches is explained in this paper. It is worth noting that there are a number of practical challenges in the allowance of LACDT such as existence of operations of firms in a number of tax jurisdictions, expert judgements involved in areas such as assumptions in post-stressed scenario, projection of new business volumes in post-stressed scenario, projection of profits on the solvency basis and tax basis.

While this is a complex area with a number of practical challenges, firms may still gain substantially by conducting a study to justify the greater use of LACDT.

How Milliman can help

Our Milliman consultants have extensive experience with Solvency II. We undertake a range of work for clients across all three pillars of Solvency II. In relation to LACDT in particular, this includes:

- Assessment of maximum potential LACDT benefit for a firm
- Modelling of LACDT and future taxable income
- Modelling projected balance sheets, technical provisions, and SCR calculations
- Setting suitable assumptions and expert judgements
- Assistance in devising suitable management actions
- Compliance with applicable regulations and guidelines

In addition, our [Solvency II Compliance Assessment Tool](#) can help you to stay abreast of regulatory change and to monitor and assess compliance across all the three pillars of Solvency II.

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Appendix A – Applicable regulations and guidelines

Solvency II regulations and guidelines in respect of LACDT:

- Solvency II Directive (particularly Articles 103 and 108) ([link](#))
- Solvency II Level 2 Delegated Regulation (particularly Articles 205 and 207) ([link](#))
- EIOPA Level 3 Report and Guidelines on LACDT:
 - EIOPA-BoS-14/177: Final Report on Public Consultation No. 14/036 on Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes (Guidelines 6 to 14, 15 and 22) ([link](#))
 - EIOPA-BoS-15/113: Final Report on Public Consultation No. 14/065 on Guidelines on recognition and valuation of assets and liabilities other than technical provisions (Guidelines 9, 10 and 11) ([link](#))

Other useful documents:

- EIOPA's final report on first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation (Section 8 of EIOPA-BoS-17/280) ([link](#))
- Supervisory statement on recognition of deferred taxes in Solvency II issued by Prudential Regulation Authority ([link](#))
- Q&A and good practices on the role of deferred taxes in Solvency II issued by De Nederlandsche Bank ([link](#))
- Paper on DTA in SCR issued by the CRO forum ([link](#))

Appendix B – Methodology of LACDT data analysis

The analysis of LACDT allowance by the Irish (re)insurance industry is based on the SFCR disclosures as at year-end 2019 published by the Central Bank of Ireland (source: [SFCR data repository for 2019](#)). It is important to note the below points:

- The analysis is conducted only for firms which have disclosed results for year-ends occurring in December 2019. Further, this analysis includes firms which report SCR based on either Standard Formula, or Partial or Full Internal models.
- The SCR, DTA, DTL and LACDT is collected from the relevant Quantitative Reporting Templates of the above data source.
- The firms were categorised in one of the appropriate groups (Zero LACDT, LACDT < net DTL among others) and subsequent analysis was carried out.

- LACDT for four firms was reported as a positive amount. This appears to be a presentational issue. The LACDT for such firms is taken as capital relief for the purpose of this analysis. Further, the above mentioned groupings were corrected for some of the firms due to rounding issues.
- LACDT is assumed to be zero for the firms where it is not reported in the data repository.
- Any limitations in the SFCR data repository would have a subsequent impact on this analysis.