

Trust-Preferred Securities and Insurer Financing Decisions

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Abstract

We analyze insurance holding company (IHC) issuance of trust-preferred securities (TPS) from 1994 to 2013. We find that larger and more financially levered IHCs issued TPS in 1996 and 1997, as well as those that obtained financial strength ratings from A.M. Best. Abnormal stock price returns are positively related to financial distress costs, growth opportunities, and tax burden, but negatively related to size. Consistent with the pecking order theory, intent to use TPS proceeds to retire debt is positively related to abnormal stock returns, whereas intent to use proceeds to retire preferred equity is negatively related to abnormal stock returns.

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