AFFILIATED STOCKS
XR002–XR004

This part of the formula only needs to be completed if the reporting entity has ownership in any affiliates within their holding company group. The risk-based capital for insurers, Managed Care Organizations and investment subsidiaries is calculated on a “see through” basis (multiplied by the percent of ownership). This requires “looking through” all holding and subsidiary companies to the lowest level of ownership for each affiliated stock investment. The advantage of this approach is that where there is a choice of whether to have ownership of an asset in either the parent or the subsidiary, RBC results are unlikely to affect that decision.

There are 10 categories of subsidiary and affiliated investments that are subject to a RBC requirement for common stock and preferred stock. Those ten categories are:

1. Directly Owned Insurer Subject To RBC
2. Indirectly Owned Insurer Subject To RBC
3. Directly Owned MCO Subject To RBC
4. Indirectly Owned MCO Subject To RBC
5. Investment Subsidiary
6. Holding Company Value in Excess of Indirectly Owned Subsidiaries
7. Directly Owned Alien Insurance Subsidiaries
8. Indirectly Owned Alien Insurance Subsidiaries
9. Investments in Upstream Affiliates (Parents)
10. Other Affiliated Investments

Codes (1 through 10) will appear in Column (2) of the Affiliated Companies Risk page. The program will automatically calculate the RBC charge for each affiliate. When the data is uploaded to the NAIC database, it will be cross-checked. The company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The RBC report will display the number of subsidiaries and affiliates. These numbers should be reviewed to ensure that all subsidiaries and affiliates are appropriately reported.

Line 11 – Fair Value Excess Affiliate Common Stock equals the total of type codes 1 through 5 of the Affiliated Companies Risk – Details Page. The program will automatically calculate this figure.

Affiliates that are Subject to RBC

The risk-based capital requirement for the reporting company for those subsidiaries that are subject to a risk-based capital requirement is based on the Total Risk-Based Capital After Covariance of the subsidiary, prorated for the percent of ownership of that subsidiary. The risk-based capital for those subsidiaries must be calculated prior to completing this risk-based capital. The following rules apply except when the affiliate’s common stock is publicly traded and the reporting company carries the affiliate at fair value, after any “haircut.” If the parent owns 100 percent of a downstream affiliate MCO, then the parent’s RBC requirement for that asset is equal to the lesser of 100 percent of the MCO’s RBC After Covariance or the book/adjusted carrying value of the affiliate on the parent’s statement. If a parent owns 50 percent of a downstream life insurance company, then the parent’s RBC requirement for that asset is the lesser of half of the RBC After Covariance of its life affiliate or the book/adjusted carrying value of the life affiliate on the parent’s statement.

If the affiliate’s common stock is publicly traded and the reporting company carries the affiliate at fair value, after any “haircut,” there are generally two components to the reporting company’s RBC generated by the affiliate. The prorated portion is the percentage of ownership of total common and preferred stock, times the smaller of the prorated portion of the affiliate’s own statutory surplus or the prorated portion of its RBC After Covariance. The prorated portion is added to the H-0 component of the reporting company. In the normal case, the affiliate’s fair value of the affiliate exceeds the prorated portion of the larger of its book value, statutory surplus and its...
RBC After Covariance, both prorated by the percentage of ownership of total common and preferred stock. In this case, the addition to the H-1 component is the larger of:

a) 22.5 percent of the affiliate’s fair value less in excess of the prorated portion of the affiliate’s statutory surplus times its book value the percentage of ownership of total common and preferred stock, or, if larger, 100 percent of, or b) the percentage ownership of total and preferred stock times the prorated portion of affiliate’s RBC After Covariance, but greater than the prorated portion of its book value statutory surplus, both prorated by percentage of ownership of total common and preferred stock, 100 percent of the excess of fair value over book value in excess of the prorated portion of percentage of ownership of common and preferred stock times the affiliate’s statutory surplus is added to the reporting company’s H-1 component. If the affiliate’s fair value is less than the prorated portion of percentage of ownership of total common and preferred stock times the affiliate’s statutory surplus, there is no addition to the H-1 component.

The subsidiaries affected by this rule are:

1. Directly Owned Insurers Subject To RBC
2. Indirectly Owned Insurers Subject To RBC
3. Directly Owned MCOs Subject To RBC
4. Indirectly Owned MCOs Subject To RBC
5. Investment Subsidiaries

Directly owned insurance and MCO subsidiaries are subsidiaries in which the parent owns the stock of the affiliate. Indirectly owned insurance subsidiaries and indirectly owned MCOs are those where the parent owns stock in a holding company, and the holding company in turn owns the stock of the insurance subsidiary or MCO.

Directly Owned Insurance Subsidiaries

Report information regarding any top-layer directly owned U.S. Property and Casualty insurance subsidiaries or U.S. Life insurance subsidiaries in the schedule. For each subsidiary, report its name, NAIC company code, affiliates Total Risk-Based Capital after Covariance, value of the common stock from Schedule D, Part 6, Section 1, Line 1199999 or Line 1299999 in Columns (1) through (7). If no value is reported in the Total Value of Affiliate’s Outstanding Common Stock column (Column (7)), the program will assume 100 percent ownership. If the reporting company does not own any of the affiliate’s common stock but does own preferred stock, the Total Value of Affiliate’s Outstanding Common Stock in Column (7) must be reported so the program can calculate the percent of ownership. Subsidiaries reported in this section will be assigned an affiliate code of “1” for directly owned insurers.

The book/adjusted carrying value of any preferred stock is reported in Column (9) and should equal the amount reported in Schedule D, Part 6, Section 1, Line 0299999 or 0399999. The total outstanding value of the affiliate’s preferred stock is reported in Column (10). The percentage of ownership will be automatically calculated in Column (11). For companies owning both preferred and common stock in the same subsidiary, the percent of ownership is calculated by summing the book/adjusted carrying values of the owned preferred and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

The risk-based capital reported for each insurance subsidiary should be obtained by using a separate copy of the Property and Casualty risk-based capital program, Health risk-based capital program or the Life risk-based capital program for each subsidiary. Title insurers, monoline financial guaranty insurers and monoline mortgage guaranty insurers are not subject to risk-based capital. Additionally, some insurers are granted exemptions from filing risk-based capital. These affiliates and other similar affiliates should be reported as Other Affiliated Investments.

Indirectly Owned Insurance Affiliates

The reporting company’s book/adjusted carrying value of the holding company should be allocated between any top-layer, indirectly owned insurance affiliates and the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The book/adjusted carrying value of the holding company should be first allocated based on
the values shown on the holding company's balance sheet. An example of the calculation is presented in the following example. The example shows a hypothetical holding company, Holder, Inc., that is 100 percent owned by Big HMO and illustrates the allocation of Holder’s book/adjusted carrying value among these categories.
Since ABC Life Insurance Company makes up one-sixth ($4,000,000 divided by $24,000,000) of the total assets for Holder, Inc., then this indirectly owned U.S. affiliate represents one-sixth of the book/adjusted carrying value of Holder, Inc. on the statement of Big HMO Company. Similarly, the indirectly owned U.S. affiliate XYZ HMO represents one-twelfth of the book/adjusted carrying value ($2,000,000 divided by $24,000,000) of Holder on Big HMO’s annual statement. Non-U.S. Casualty, which is an alien insurance affiliate, represents one-fourth of the carrying value ($6,000,000 divided by $24,000,000) of Holder on Big HMO’s annual statement. One-half of the book/adjusted carrying value of Holder, Inc. ($12,000,000 divided by $24,000,000) represents the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. If Big HMO carries Holder, Inc. on its annual statement at $30,000,000 (assume that this is the current market value of shares in Holder, which was a publicly traded corporation of which Big has just acquired 100 percent ownership), then Big HMO will allocate one-sixth of the $30,000,000 to ABC Life, one-twelfth of the $30,000,000 to XYZ HMO, one-fourth of the $30,000,000 to Non-U.S. Casualty, and one-half to Holder under the category Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC charge for the indirect ownership of common stock in ABC Life will be ABC’s Total RBC after Covariance, adjusted for percent of ownership if Holder owns less than 100 percent. If Holder owns 50 percent of ABC Life, then only 50 percent of the RBC after Covariance would be entered in Column (4). However, in our example, Holder owns all outstanding shares of ABC Life, XYZ HMO and Non-U.S. Casualty. The RBC charge for the indirect ownership of XYZ HMO and Non-U.S. Casualty would be computed in the same manner.

If Big only acquired 50 percent of the shares of Holder, then the total outstanding common stock value in Column (7) would be adjusted to reflect Big HMO’s partial ownership and a determination made as to the nature of the carrying value of Holder. If Holder’s carrying value is based on other than market value, then the allocations follow as described in (A). If the carrying value of Holder is based on its market value, then the allocations and any additional RBC due to the use of market value are described in (B).

(A) The book/adjusted carrying value (not based on market value) on Big HMO’s annual statement is $15,000,000 which is allocated as $2,500,000 to ABC Life (one-sixth of $15,000,000), $1,250,000 to XYZ HMO (one-twelfth of $15,000,000), $3,750,000 to Non-U.S. Casualty (one-fourth of $15,000,000) as Indirectly Owned Alien Insurance Affiliate, and 7,500,000 to Holder as the Holding Company Value in Excess of Indirectly Owned Affiliates. The total outstanding value for the common stock of ABC Life, Column (7), would be $5,000,000 ($2,500,000 divided by 0.50) and the total outstanding value of common stock for XYZ HMO would be $2,500,000 ($1,250,000 divided by .50). The total outstanding value of common stock for Non-U.S. Casualty would be $7,500,000 ($3,750,000 divided by 0.50). The total outstanding value of common stock for Holder would be $15,000,000 ($7,500,000 divided by 0.50).
In this example the book/adjusted carrying value (based on market value) on Big HMO’s annual statement is $18,000,000, which will be allocated in the same manner described in (A) above. However, one additional step is added regarding the indirectly* owned Insurers and MCOs subject to RBC. For example, the amount of Holder applicable to ABC Life, $3,000,000 (1/6 of $18,000,000) will also have subtracted from it, its statutory surplus** (prorated 50 percent for its partial ownership) and if a positive amount results, then that amount will receive a RBC charge of 22.5 percent and reported as a component of such stock in the formula. The same will apply to XYZ HMO.

The allocation of the RBC of the indirectly owned affiliates will be automatically adjusted to reflect the fact that Big only owns 50 percent of the affiliates because Column (11) will divide Column (5) by Column (7) before allocating the RBC. Therefore, only half of the RBC after Covariance for these indirectly owned affiliates would accrue to Big HMO.

The full amount of the RBC after Covariance should be entered in Column (4) except where the holding company owns only a portion of the indirectly owned insurers. When that happens, the RBC for the indirectly owned insurers should be prorated for the holding company’s percentage of ownership. If the holding company owns 50 percent of the indirectly held insurer or MCO, then enter half of the indirectly owned insurer’s RBC in Column (4). If the holding company owns all of the insurer or MCO, enter the entire amount of RBC after Covariance.

The information for all top-layer, indirectly owned insurance affiliates is reported in the appropriate columns within the Affiliated Companies Risk page. For each affiliate report its name, NAIC company code and the pro-rated share of risk-based capital along with all other information required in Columns (1) through (10). Subsidiaries reported in this section will be assigned an affiliate code of “2” for indirectly owned insurers. If the amount in Column (5) is based on fair value, then place an “F” in Column (6) and the affiliate’s statutory capital and surplus (adjusted for ownership) in Column (8). The RBC charge (if any) will be calculated by the formula with the result appearing in Columns (12) and (13).

* This step also applies to directly owned Insurers and MCOs subject to RBC.
** The amount of total statutory surplus appearing on its filed annual statement as shown on Page 3, Line 33, Column 3.

Directly Owned Managed Care Organizations

Report information regarding any top-layer directly owned MCO subsidiaries in the schedule. For each subsidiary, report its name, NAIC company code, affiliates Total Risk-Based Capital After Covariance, value of the common stock included in Schedule D, Part 6, Section 1, Line 1399999 in Columns (1) through (7). If no value is reported in the Total Value of Affiliate’s Common Stock Column (Column (7)), the program will assume 100 percent ownership. If the reporting company does not own any of the affiliate’s common stock but does own preferred stock, the Total Value of Affiliate’s Common Stock in Column (7) must be reported so the program can calculate the percent of ownership. Subsidiaries reported in this section will be assigned an affiliate code of “3” for directly owned MCOs.

The book/adjusted carrying value of any preferred stock is reported in Column (9) and should equal the amount reported in Schedule D, Part 6, Section 1, Line 0499999. The total outstanding value of the affiliate’s preferred stock is reported in Column (10). The percentage of ownership will be automatically calculated in Column (11). For companies owning both preferred and common stock in the same subsidiary, the percent of ownership is calculated by summing the book/adjusted carrying values of the owned preferred and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

The risk-based capital to be reported for each insurance subsidiary should be obtained by using a separate copy of the Managed Care Organization risk-based capital program for each subsidiary.
Indirectly Owned Managed Care Organizations

Indirectly owned MCO affiliates are treated in a manner similar to indirectly owned insurance affiliates. Note that the MCO affiliate must be subject to risk-based capital and file a risk-based capital report to be included in this section. Otherwise, the affiliate’s value will be included in the Holding Company Value in Excess of Insurance Affiliates section. Subsidiaries reported in this section will be assigned an affiliate code of “4” for indirectly owned insurers.

Investment Affiliates

An investment affiliate is an affiliate that exists only to invest the funds of the parent company. The term “investment affiliate” is strictly defined in the NAIC’s Annual Statement Instructions as any affiliate, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment affiliate shall not include any broker, dealer, or a money management fund managing funds other than those of the parent company. The risk-based capital charge for the ownership of an investment affiliate is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the reporting entity held the assets directly.

NOTE: A subsidiary that owns other MCOs or insurance companies is not an investment subsidiary; it is a holding company.

Report information regarding any investment affiliates. Subsidiaries reported in this section will be assigned an affiliate code of “5” for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.

Affiliates that are not Subject to Risk-Based Capital

This category includes the last five categories of affiliated investments:

6. Holding Company Value in Excess of Indirectly Owned Subsidiaries
7. Directly Owned Alien Insurance Subsidiaries
8. Indirectly Owned Alien Insurance Subsidiaries
9. Investments in Upstream Affiliates (Parents)
10. Other Affiliated Investments

Insurance affiliates that are not subject to risk-based capital, such as title insurers, monoline financial guaranty insurers, and monoline mortgage guaranty insurers are classified as Other Affiliated Investments.

The risk-based capital charge for these investments is calculated by multiplying a factor times the book/adjusted carrying value of the common and preferred stock of those affiliates. The risk-based capital factor for Alien Insurance Affiliates is 100 percent; the factor for Holding Company Value in Excess of Indirectly Owned Affiliates, Investments in Upstream Affiliates (Parents), and Other Affiliated Investments is 30 percent of the book/adjusted carrying value of the common and preferred stock of those affiliates.
Holding Company Value in Excess of Indirectly Owned Affiliates

The risk-based capital charge for the parent insurer preparing the calculation is a 30 percent charge against the holding company value in excess of the indirectly owned insurance affiliates as calculated in the prior example.

Report information in the appropriate columns of the Affiliated Companies Risk page, omitting those columns that do not apply (Column (3) – NAIC Company Code or Alien ID Number and Column (4) affiliate’s risk-based capital).

The total of Indirectly Owned Insurers, Indirectly Owned MCOs, Indirectly Owned Alien Insurers, and the amount of Holding Company Value in Excess of Indirectly Owned Insurance Affiliates should equal Schedule D, Part 6, Section 1, Line 0699999 for the reporting of preferred stock and Schedule D, Part 6, Section 1, Line 1599999 for common stock.

Directly Owned Alien Insurance Affiliates

For purposes of this formula, the risk-based capital of each directly owned alien insurance affiliate is the annual statement carrying value of the reporting company’s interest in the affiliate multiplied by 100 percent. Report information for any non-U.S. insurance affiliate, both Life and Property and Casualty.

For each affiliate, report the name, Alien Insurer Identification Number, the book/adjusted carrying value of common and preferred stock, and the total outstanding value of common and preferred stock. Companies reported in this section will be assigned an affiliate code of “7” for alien insurers.

The total of Alien Insurance Affiliates should equal the amounts reported in Schedule D, Part 6, Section 1, Line 0599999 and Line 1499999.

Indirectly Owned Alien Insurance Affiliates

The risk-based capital of each indirectly owned alien insurance affiliate is the carrying value of the holding company’s interest in the affiliate multiplied by 100 percent, and adjusted to reflect the reporting company’s ownership on the holding company. Subsidiaries reported in this section will be assigned an affiliate code of “8” for indirectly owned insurers.

Investment in Upstream Affiliate (Parent)

The risk-based capital for an investment in an upstream parent is 30 percent of the book/adjusted carrying value of the common and preferred stock regardless of whether that upstream parent is subject to risk-based capital or not. Report the appropriate information from Schedule D, Part 6, Section 1, Lines 0199999 and 1099999 in Columns (1) through (10). The affiliate code for an upstream parent is “9.”

Other Affiliated Investments

The risk-based capital for an investment in an Other Affiliated Investment is 30 percent of the book/adjusted carrying value of the common and preferred stock. All insurance affiliates that do not otherwise qualify for another section of this report, such as title insurance companies, or a Life insurance affiliate that has been exempted from the risk-based capital system are to be included in these categories. The affiliate code for Other Affiliated Investments is “10.” Reported amounts use Schedule D, Part 6, Section 1, Line 0899999 and Line 1799999 as the basis of reporting and additionally include any Life and Property and Casualty insurers not subject to risk-based capital (as discussed earlier).