Project **Insurance Contracts**

Topic **Follow-up on Unbundling**

Purpose of this paper

1. An insurance contract may contain insurance, investment (or financial) and service components. Furthermore, an insurance contract could also include one or more embedded derivatives. This paper discusses whether an insurer should recognise and measure those components of a contract as if they were separate contracts (unbundling).

2. The discussion is a follow-up to previous discussions the boards had on unbundling during their January 5 and February 18 meetings.[1]

Background

3. At the February 18 meeting, the boards discussed the topic of unbundling. We presented two views to the boards. For this paper, we articulate those views in the following way.

4. One staff view says that the notion of *interdependency* should be applied only to situations where the components cannot function independently, that is, only to those situations where a truly symbiotic relationship is necessary for the individual

[1] See agenda papers 7C and 7D (FASB Memoranda 32 C and 32D) for January 5 and agenda papers 14 A through D (FASB Memoranda 39 A through D) for February 18.

components to function. Under this view, embedded derivatives would be unbundled using existing bifurcation guidance.

5. The other staff view proposes that an insurer should unbundle a component of an insurance contract if that component is not significantly interdependent with other components of that contract. This principle applies to all components, including embedded derivatives.

6. Throughout this paper, we will refer to the view in paragraph 4 as view A and to the view in paragraph 5 as view B. In this paper, we further clarify the two staff views. In particular, we are focussing on:

   (a) What is the investment component? (paragraphs 9-23)

   (b) What other components need to be considered? (paragraphs 24-26)

   (c) How to deal with embedded derivatives? (paragraphs 27-32)

   (d) Should unbundling be permitted if it is not required? (paragraphs 33-36)

7. Appendix A includes a discussion on the notion of interdependence. The analysis in this paper is also supported by an unbundling example in agenda paper 45F. We note that the information in that paper is not sufficient to enable Board members to audit all the numbers. The staff can provide the underlying details on request.

8. Paragraph 20 of the unbundling example in agenda paper 2F (FASB Memorandum 45F) lists elements (charges, credits, balances and cash flows) that are found in insurance contracts. All these elements should be assigned to the insurance component, the investment or the service components and agenda paper 2F argues that it matters how they are arranged them into the three categories just described. [Some may argue that some of those elements are not charges, credits, balances and cash flows under the insurance contract, but that is not an unbundling issue; that is about deciding which elements are part of the contract in the first place].

The investment component

9. Most concerns about unbundling during the February board meeting were around the investment component that is present in, particularly, long-duration life contracts. Two questions are relevant when looking at the investment component for unbundling:

   (a) What is the 'investment component' that should be accounted for in the same manner as other financial instruments of the same nature?

   (b) How would it be measured, considering the boards' recent thinking on financial instruments?

10. For the analysis in this paper, we divided the population of insurance contracts into two groups:

   (a) **Group 1.** Contracts with a stated (explicit) policyholder account balance ('account-driven' contracts). These contracts include unit-linked, variable, index-linked and universal life contracts. This group also includes participating and nonguaranteed-premium contracts that are considered to be account-driven contracts because they have characteristics significant to account-driven contracts (this will be further discussed in paragraphs 18-21).

   (b) **Group 2.** All other contracts not included in (a), basically contracts with no characteristics significant to account-driven contracts. This includes contracts such as traditional participating contracts, whole life, term life and non-life.

Account-driven contracts

11. Account-driven contracts arguably represent the most obvious candidates for unbundling. Arguably, at least some types of account-driven contracts are very close to, or perhaps even the same as, an investment contract issued with an insurance rider that might have just enough insurance risk to make the combined contract qualify as an insurance contract. Consider for example wrapping a mutual fund in an insurance contract.

12. If account-driven contracts were to be unbundled, the most obvious way to identify the investment component is to look at the explicit policyholder account balance. If we define the investment component along the lines of the policyholder account balance, it includes the following features:

    (a) an explicit account balance.

    (b) the crediting rate is the investment performance of the underlying investments, namely a specified pool of investments for variable and unit-linked, a notional pool of investments for index-linked or a general account pool of investments for universal life.

    (c) all charges and fees charged to the account balance (like a bank account) belong to either the insurance component or something else, but are not part of the investment component.

    (d) the measurement does not reflect the risk of non-performance by the insurer. This is consistent with the boards' tentative decision that the measurement of an insurance contract should not reflect that risk.

13. The two potential measurement models for the investment component are:

    (a) **Fair value**. The fair value of that investment component would be equal to the account balance. This fair value is simply the product of the expected present value of the future deposit receipts, less fees and repayments to the policyholder, discounted at the current expected earnings rate on the underlying assets. For this purpose, the subtracted fees are considered to be akin to 'repayments' to the policyholder because they are simply meant to fund the charges to the policyholder under the insurance component. Those fees are reported as revenue for the insurance component.

    (b) **Amortised cost**. Under the amortised cost model proposed in the IASB's exposure draft *Financial Instruments: Amortised Cost and Impairment,* the measurement would reflect the expected present value of the future deposit receipts less fees and repayments, discounted at an effective interest rate that is

reset each period (because the interest rate is variable). Because charges, fees and transaction costs are not deemed to be part of this investment component, the effective interest rate only includes a benchmark component (expected earnings rate on the underlying assets) and no effective spread. This measurement also gives the account balance as the measurement outcome.

14. If the investment component is defined that way, it acts independently of the insurance component; this would be true under both views A and B. The investment component solely functions as a funding mechanism (a bank account) for other components of the contract and is deemed not to earn a profit for the insurer; a way of defining the investment component that is also discussed in paragraph 14 of paper 2F. All the charges and fees mentioned in paragraph 20 of paper 2F are considered to belong to the insurance component. In that case, the investment component (policyholder account balance) can exist independently from the insurance component and should be unbundled. In addition to the example in paper 2F, we give a highly simplified example to illustrate this point.

Insurer A issues 1,000 five-year unit-linked insurance contracts, with an annual premium of CU 100 paid at the beginning of the year. The premium paid by the policyholders is invested in asset pool X. The investment return on those assets is credited to the policyholder account and is assumed to be CU10 throughout the life of the contract. Upon death of the policyholder, the contract pays out the value of the policyholder account with a specified minimum (the amount of that specified minimum is not relevant for this example). At the end of the contract, the policyholder receives the value of the policyholder account. At the beginning of each period, the insurer charges the policyholder account with CU10 for the insurance coverage and maintenance expenses.

The fair value of the policyholder account balance develops as follows (amounts in CU 1000, rounding differences may exists):

	Y1	Y2	Y3	Y4	Y5
Beginning balance	-	99	208	329	459
Deposits (premium)	100	100	100	100	100
Charges	(10)	(10)	(10)	(10)	(10)
Crediting	9	19	30	42	55
Repayments	-	-	-	-	(604)
Ending balance	99	208	329	459	-

Total cash flows per year	90	90	90	90	(514)

(where the cash flows for each year are sum of the deposits, charges taken from the policyholder account and repayments).

A fair value measurement measures the investment component defined in paragraph 12 as:
1) the market-consistent cash flows (as specified above)
2) at a market-consistent discount rate of 10%
3) with no margin.

At inception, the fair value of the investment component would be equal to the account balance (nil) [$90 + 90/1.10 + 90/1.10^2 + 90/1.10^3 + 90/1.10^4 + 604/1.10^5$].
At the end of year 1, the fair value of the investment component would again be equal the account balance; at that point CU99 [$90 + 90/1.10 + 90/1.10^2 + 90/1.10^3 + 604/1.10^4$].

In case of a change in the fact pattern, for example an increase or decrease of the charges, a change in the investment return or an early repayment, a fair value measurement of the investment component as specified in paragraph xx will still result in the account balance.

The account balance shown above does not include the guarantee of the minimum return. The issuer would need to include the fair value of that guarantee either separately (if the boards adopt view A for embedded derivatibes) or as part of the overall measurement of the liability (if the boards adopt view B for embedded derivatives).

15. Further, it is important to note that, because the investment component simply functions as a funding mechanism, there will be no difference in profit or loss between:

    (a) unbundling the investment component as specified in paragraph 12 from the insurance component and accounting for it under the financial instruments requirements, and

    (b) measuring the whole contract under the proposed measurement for insurance contracts and, at each reporting date, pulling out the policyholder account balance for classification as the investment component.

16. Both approaches (a) [unbundling the investment component] and (b) [measuring the whole contract under the proposed measurement for insurance contracts then

pulling out the policyholder account balance] could very well lead to a similar income statement presentation. If the expanded margin approach is developed to reflect as revenue only the premium that the policyholder pays for services under the contract, both approaches would treat (i) the premium payments by the policyholder as deposit amounts and (ii) benefits other than death benefits as repayments to the policyholder. The presentation in the statement of financial position would also be the same, with the account balance presented as a financial liability.

17. Some staff point out that their conclusion that the investment component is independent would change if the specification of the investment component is modified, for example to include some charges and fees. In that case, it would no longer be limited to being a funding mechanism. As a result, the measurement outcome under the financial instrument guidance may very well differ from the policyholder account balance. Furthermore, interdependency issues would come up. Which charges and fees belong to which component? And how should charges and fees that relate to both components be split? If the expected future cash flows for one component change, what impact does that have on the expected future cash flow for the other (and vice versa)? Because of those interdependencies, the sum of the individual parts would differ from the measurement of combined instrument. The insurer would probably not be able to identify an objective factor for deciding which parts of the measurement should be allocated to each of the components without any arbitrariness.

What if there is no explicit account balance

18. We included participating and nonguaranteed-premium contracts that have characteristics significant to account-driven contracts in the same group as the account-driven contracts. One way to define those characteristics is to specify them consistently with ASC Topic 944-20-15-29 (previously paragraphs 12 and 13 of Statement 97). Examples of these characteristics are:

(a) the contract has a stated account balance that is credited with policyholder premiums and interest and against which assessments are made for contract

administration, mortality coverage, initiation, or surrender, and any of the amounts assessed or credited are not fixed and guaranteed, or

(b) the insurer expects that changes in any contract element will be based primarily on changes in interest rates or other market conditions rather than on the experience of a group of similar contracts or the enterprise as a whole.

19. Some of those contracts, as suggested by paragraph 18(a), have an explicit account balance. As we discussed earlier in this paper, that account balance should be unbundled.

20. However, other contracts may not have an explicit account balance. Although such contracts have different mechanics than 'pure' account-driven contracts, some staff members see no compelling argument to treat those differently from contracts with an explicit account balance. For that purpose, a notional account balance should be identified for such contracts. Issues in identifying the notional account balance (if any) do not outweigh the benefits of accounting in the same way for the investment component of an insurance contract as the issuer of a separate, but otherwise identical, financial instrument (eg one issued by a bank or a fund manager).

21. Other staff members would not separate the investment component for contracts that do not have an explicit account balance. They argue that for such contracts the explicit charges and credits of an account-driven contract would have to be invented and a notional account balance would have to be created. They therefore conclude that creating a notional account balance might be an artificial and burdensome exercise, and the result may have little meaning. And because unbundling of the account balance is not supposed to have any impact on profit or loss (see paragraph), those staff members conclude that the cost of unbundling the account balance of contracts without an explicit account balance would exceed the benefits.

Other insurance contracts

22. Under both views A and B, the investment component of insurance contracts that have no characteristics significant to account-driven contracts would usually not be separated. These contracts have no explicit account balance, nor do they share the

fundamental characteristics of account-driven contracts. The investment and the insurance component are interdependent to a significant extent; their existence is symbiotic.

23. However, if such contracts were to include two or more components for reasons other than economic, those components would be unbundled because they function independently (ie would not be significantly interdependent).

Other components of an insurance contract

24. Insurance contracts may also contain a service component or perhaps even a component relating to the delivery of goods. Both view A and view B would apply the notion of interdependence for determining whether these components should be unbundled. For example, if goods and services included in the contract are unrelated to the insurance coverage, they would be unbundled.

25. If goods and services included in an insurance contract were accounted for separately, they would be subject to the allocated transaction price model proposed in the boards' project on revenue recognition.

26. A fundamental difference between the insurance model and the revenue recognition model is direct liability measurement (insurance contracts) versus allocation (revenue recognition). This may cause a significant difference in measurement outcome. However, the proposed insurance model also includes an allocation element for the deferred day-one difference (residual margin or composite margin); that bridges the gap between a pure direct liability measurement and an allocation approach somewhat.

Embedded derivatives

27. The two views described at the beginning of this paper differ in their approach to embedded derivatives.

(a) View A applies an unbundling trigger based on existing requirements for bifurcation.

(b) View B applies an unbundling trigger based on interdependence, the same trigger proposed for all other components.

28. Proponents of view A argue that existing requirements should be used for bifurcating embedded derivatives for the following reasons:

(a) embedded derivatives that would be separated under existing requirements would be measured at fair value. Fair value is the only appropriate measure for derivatives and all derivatives should be measured using a consistent measurement attribute.

(b) significant pressure will be placed on the definition of an **insurance contract** and entities will have an incentive to meet the definition to avoid accounting for derivatives at fair value.

(c) the guidance for bifurcation is already present in current practice. No new guidance would have to be developed; accounting for embedded derivatives would simply be a continuation of existing practice. Expanding the proposed insurance contracts measurement to embedded derivatives is problematic because it not only increases the population of instruments (in this case embedded in an insurance contract) subject to a unique measurement, but also increases complexity by introducing a bifurcation guidance that differs from the bifurcation guidance for all other embedded derivatives.

(d) Some entities use hedging in their risk management strategies. In the case of insurance, the asset used to hedge the liability arising from the embedded derivative would be a derivative measured at fair value through profit or loss. Therefore, not measuring at fair value the liability arising from the embedded derivative creates a mismatch because the proposed insurance measurement does not include the entity's own credit risk and is not based on an objective that reflects a market participant's view.

29. Proponents of view B conclude that the notion of interdependence should be used for bifurcation of embedded derivatives for the following reasons:

    (a) bifurcation of embedded derivatives is one form of unbundling. Applying the same principle would result in one consistent unbundling principle for all components of the contract and all the existing guidance, for example the detailed implementation guidance for IFRS 4 *Insurance Contracts*, would become redundant;

    (b) arguably many embedded derivatives would be interdependent with other parts of the insurance contract; the value of embedded derivatives such as cancellation options and interest guarantees depends on other components but also affects other components. Some of these derivatives are intertwined with the host insurance contract in a way that would make separate measurement arbitrary. Moreover, some insurance contracts have multiple embedded derivatives. Interaction between these derivatives within a single contract could make bifurcation complex and arbitrary.

    (c) the proposed insurance model requires that financial market variables should be consistent with observable market information. Often, embedded derivatives that would be bifurcated under existing requirements rely heavily on market inputs (eg guaranteed return on an equity index). The proposed insurance contracts measurement therefore achieves the main benefits that fair value measurement achieves. If there would be some difference, it arguably is not worth putting effort in trying to resolve those differences because the outcome of the proposed measurement for insurance contracts would be close enough to fair value.[2] Eliminating any remaining differences would not provide users with significant additional benefits and not pass a cost-benefit test.

[2] Paragraphs 7-10 of agenda paper 7C (FASB Memorandum 32C) issued for the December joint meeting discuss the differences between a fair value measurement and the measurement proposed for insurance contracts.

(d) The existing criteria for bifurcation are complex and rules-based. Some embedded derivatives must be bifurcated and others, that arguably create quite similar risk exposures, must not be bifurcated.

30. Existing US GAAP guidance is provided by ASC Topic 815-15 and does not require unbundling if the embedded derivative is "clearly and closely related" to the host contract. Under IFRSs, IAS 39 *Financial Instruments: Recognition and Measurement* uses the notion of "closely related".

31. Arguably, that guidance is not significantly different from US GAAP. However, IAS 39 scopes out an embedded derivative that meets the definition of an insurance contract itself; those derivatives are accounted for under IFRS 4. For example, an embedded guarantee of minimum equity returns on surrender or maturity would not be considered closely related to the host insurance contract. But if that embedded derivative is contingent on the life of the policyholder to a significant extent, it would meet the definition of an insurance contract itself and therefore remain within the scope of IFRS 4. In contrast, ASC 944-815-25, by reference to Topic 815-15, requires that such an embedded derivative should be bifurcated because it is not considered to be clearly and closely related to the host insurance contract.

32. If the boards decide that existing bifurcation should be used for unbundling of embedded derivatives, staff will deal with deal with differences in existing bifurcation guidance when drafting the exposure draft. If necessary, we will bring this back to the boards.

Permit unbundling if it is not required?

33. So far the paper talked about when unbundling is required. A follow-up question is whether an insurer is permitted to unbundle if it is not required.

34. Respondents to the discussion paper *Preliminary Views on Insurance Contracts* have repeatedly emphasised the difficulties of unbundling. This was reaffirmed in the targeted field test that was conducted recently. It therefore seems unlikely that insurers will opt for unbundling if it is not required.

35. Some argue that, even though insurers are unlikely to opt for unbundling, they should be permitted to do so. Some insurers might find it easier to account for certain components embedded in insurance contracts under the relevant guidance for similar stand-alone contracts.

36. Others argue that permitting unbundling in cases where it is not required (because components are interdependent and may be difficult to separate) would be inconsistent with the reasoning for not requiring it in the first place; it seems odd to permit something that would not be decision-useful. It could also undermine comparability.

Summary of the views and question for the boards

37. Based on our analysis in the paper, the staff recommends the following principle for unbundling:

> **A component of an insurance contract should be unbundled if it functions independently from other components of that contract. A component functions independently if it is not significantly interdependent with other components of that contract.**

Question 1 for the boards
Do you agree with the principle for unbundling in this paragraph?

38. On account driven contracts:

(a) Some staff recommend that an account balance should be regarded as representing independently functioning investment components that should be accounted for under the relevant financial instrument requirements. This includes account balances of contracts that have characteristics significant to account-driven contracts, consistent with the characteristics specified in ASC Topic 944-20-15-29 [a excerpt of this section is included in appendix B to this paper]. For this purpose, it does not matter whether an account balance is explicit (ie stated) or not.

(b) Other staff recommend that an explicit (ie stated) account balance should be regarded as representing an independently functioning investment component that should be accounted for under the relevant financial instrument guidance. Account balances that are not explicit are not considered to be an independently functioning component and should therefore not be separated.

Question 2 for the boards

Which staff recommendation do the boards agree with for unbundling a policyholder account balance of an account-driven contract:
(a) unbundle all account balances, including those that are not explicit;
(b) unbundle only those account balances that are explicit.

39. On embedded derivatives:

(a) Some staff recommend to separate embedded derivatives using existing bifurcation requirements, consistent with what is described as view A in paragraph 4.

(b) Other staff recommend using the unbundling principle that is proposed for all other components of an insurance contract (is a component functioning independently), provided that the forthcoming exposure draft on insurance contracts requires that financial market inputs should be market consistent (as currently proposed under the boards' tentative decisions). This is consistent with what is described as view B in paragraph 5.

Question 3 for the boards

Which staff recommendation do the boards agree with for unbundling embedded derivatives:
(a) unbundle embedded derivates using existing bifurcation requirements
(b) unbundle embedded derivatives using the unbundling principle that is proposed for all other components of an insurance contract.

40. On permitting unbundling in cases where an insurer is not required to unbundle:

(a) Some staff recommend that an insurer should be permitted to unbundle.

(b) Other staff recommend that an insurer should not be permitted to unbundle.

Question 3 for the boards

Which staff recommendation do the boards agree with in cases where unbundling would not be required:
(a) permit an insurer to unbundled;
(b) do not permit an insurer to unbundle.

Appendix A Interdependence

A1. When the boards last discussed unbundling, the notion of interdependence (what does it mean, how does it work) was at the centre of the debate. Interdependence comes up in various projects and in various forms.

A2. One form is interdependence between the pricing of segments of a contract with a customer. This can be described as price interdependence between components of a contract and is relevant to the allocated transaction model proposed in the revenue recognition project. The goods or services are priced as a package and prices need to be allocated at inception to the components (referred to as segments in the revenue recognition material) of the contract. This allocation is done on the basis of stand-alone selling prices. After inception, each of the segments follows its distinct allocation pattern and does not depend what happens within any other segment. Because the measurement model for insurance contracts is not an allocation model, this form of interdependence is not our direct concern and will not be discussed any further in this paper.

A3. Another form is interdependence between future cash flows of components (or cash flow interdependence). Consider for example a convertible debt with more than one embedded derivative. The future cash flows that belong to each of the components do not exist in solitude, both at inception and subsequently. That is, the cash flows of one component react to changes in cash flows of the other components in a path-dependent ('scenario-dependent') way. Because the basis of the insurance contracts model is a direct liability measurement of future cash flows, this form of interdependence is relevant to insurance.

A4. Significant interdependence would exist if components are so interdependent that they cannot be measured separately. In determining whether interdependence exists, the insurer would consider the facts and circumstances. Indicators of significant interdependence might be:

(a) for some or all elements that need to be considered when separating the components, the insurer cannot identify evidence to decide what to allocate to each of the components; the allocation would require an arbitrary split.

(b) The component does not have its own observable market (that is, it cannot be sold separately).

A5. Examples of interdependence are:

(a) Surrender options. Often, cancelling the deposit component requires cancelling the insurance component as well. The value paid out on surrender (surrender value) is i) a repayment of the deposit component (if any) plus ii) the compensation for forfeiting the right to future insurance coverage less iii) surrender charges (if any). In principle, the deposit component does not include the part of the surrender value needed to compensate the policyholder for forfeiting the right to future insurance coverage. However, it may not be straightforward to identify that part.

(b) Guaranteed minimum death benefit and a surrender option. At maturity, the policyholder receives the account value (ie the policyholder's proportionate share of the fair value of the assets). If the policyholder dies before the end of the contract, the policyholder receives a guaranteed minimum or, if this is higher, the account value. The insurance component depends on the investment component: when the account value of a deposit component is low, it is more likely that this benefit will be payable and it is also more likely that that benefit will be higher (and vice versa). But the deposit component also depends on the insurance component: the higher the insurance benefit is, the higher the part of the surrender value for forfeiting the insurance coverage and the lower the part of the surrender value for the deposit component.

(c) Participating features and lapse rates. Lapse rates depend on participating features: if an insurer pays lower dividends to policyholders, more policyholders are likely to cancel their contracts. But policyholder dividends also depend on lapse rates: the more lapses, arguably the lower future distributable surpluses may be available (but the more policyholder surpluses may be available for each remaining policyholder).

(d) Dual trigger contract. The contract requires a payment that is contingent on i) an insured event and ii) a specified level of an index; the contingent

payment is made only if both triggering events occur. The cash flows of the insurance component depend on the financial component; the insurance component will pay out only if the specified index is above the specified level, even if the insured event happened. However, the financial component (a payment based on a specified index) also depends on the insurance component (ie whether the insured event happens or not). The value of the financial component changes in response to the underlying financial variable and also to changes in the likelihood of the insured event. Similarly, the value of the insurance component changes in response to changes in the likelihood of the insured event and also to changes in the underlying financial variable.

Appendix B Characteristics significant to account-driven contracts

B1. This appendix includes an excerpt form ASC Topic 944-20-15. Paragraph 15-26 describes the features of universal life-type contracts under US GAAP. Paragraph 15-29 gives for participating contracts the characteristics that results in those contracts considered to be universal life-type contracts. Paragraph 15-30 does the same for nonguaranteed premium contracts, by referring to the characteristics in paragraph 15-29.

15-26 For purposes of the scope application of the Long-Duration Subsections of this Subtopic, universal life-type contracts include contracts that provide either death or annuity benefits and are characterized by any of the following features:

- a. One or more of the amounts assessed by the insurer against the policyholder—including amounts assessed for mortality coverage, contract administration, initiation, or surrender—are not fixed and guaranteed by the terms of the contract.

- b. Amounts that accrue to the benefit of the policyholder—including interest accrued to policyholder balances—are not fixed and guaranteed by the terms of the contract.

- c. Premiums may be varied by the policyholder within contract limits and without consent of the insurer.

15-27 A participating or nonguaranteed-premium contract is within the scope of the Long-Duration Subsections of this Subtopic if the terms of the contract suggest that it is, in substance, a universal life-type contract. The determination that a contract is in substance a universal life-type contract requires judgment and a careful examination of all contract terms.

15-28 The following two paragraphs describe some circumstances in which a participating or nonguaranteed-premium contract shall be accounted for as a universal life-type contract. The provisions of the following two paragraphs are not intended to be either all-inclusive or limiting. Limited-payment participating and limited-payment nonguaranteed-premium contracts that are not, in substance, universal life-type contracts are limited-payment contracts because they are not conventional forms of participating or nonguaranteed-premium contracts.

15-29 A participating contract that includes any of the following features shall be considered a universal life-type contract:

- a. The policyholder may vary premium payments within contract limits and without consent of the insurer.

- b. The contract has a stated account balance that is credited with policyholder premiums and interest and against which assessments are made for contract administration, mortality coverage, initiation, or surrender, and any of the amounts assessed or credited are not fixed and guaranteed.

- c. The insurer expects that changes in any contract element will be based primarily on changes in interest rates or other market conditions rather than on the experience of a group of similar contracts or the entity as a whole.

15-30 A nonguaranteed-premium contract that includes either of the features (b) or (c) in the preceding paragraph shall be considered a universal life-type contract.