I. Scope limitation

We propose the following language:

The Phase III methodology shall apply to fixed interest[1] universal life[2] insurance policies that contain secondary guarantees[3] that extend beyond the fifth policy anniversary, as defined by the following:

1. *Fixed Interest: Contracts in which all policyholder funds receive interest credits that are determined by the company, possibly subject to legal and contractual limitations.*

2. *Universal life: A life insurance policy in which the policyholder pays into a fund (or account value) from which explicit expense and mortality charges are deducted and to which explicit interest credits are added. The policy remains in force as long as the fund is sufficient to pay the periodic mortality and expense charges.*

3. *Secondary guarantee: A guarantee that a policy will remain in force even if its fund value is exhausted, subject to one or more conditions.*

Some considerations behind our proposal include the following:

- Our recommended scope *excludes* indexed and variable universal life policies with secondary guarantees. Although these policies exist in the marketplace, we believe that our proposed scope includes the significant majority of the secondary guarantee business on the books of life insurers today. Including indexed ULSG and variable ULSG contracts in the scope would introduce complications involving market risk into the calculation but would add little value.

- We decided to recommend definitions of both universal life insurance and secondary guarantees on the basis of the fund. A universal life policy is characterized by the transparency of the policy's fund, and a secondary guarantee is a guarantee that the policy will remain in force even if the fund is depleted. We also considered defining secondary guarantees on the basis of premium payments but determined that such a definition could inadvertently exclude shadow account products.

- Many existing accumulation-style UL contracts contain no lapse guarantees that prevent a policy from lapsing during an initial surrender charge period as long as a certain target premium is paid. These guarantees are conceptually similar to secondary guarantees, but a "true" ULSG contract has a long-term no-lapse guarantee and a low funding level. We concluded that the best course of action would be to define a "secondary guarantee" as one that exists beyond the 15th policy year. We believe that such a definition will exclude the vast majority of no-lapse guarantees during the surrender charge period on accumulation-style UL.

We would like to highlight one additional implication of our proposed product scope limitation. The current C3P3 proposal envisions requiring single premium life insurance to transition from the existing C-3 Phase I methodology to the new C3P3 methodology. Given the proposed scope limitation, we suggest leaving single premium life business within the existing C-3 Phase I framework.

III. Limited optionality

Our discussions of the product scope limitation and materiality test brought to the surface some practical issues that we believe would be best addressed by language that would allow companies to have the ability to apply the Phase III methodology on an optional basis under specific, limited circumstances.

We propose the following language:

The company shall have the option to apply the Phase III methodology to:

a. *Other policies or funds in the same Business Segment as the policies to which the Phase III methodology applies.*

Optional application for policies within the same Business Segment as ULSG

As we discussed the scope limitation, our member companies expressed concerns about the potential need to identify specific contracts that either satisfy or fail to satisfy the defined product scope—and then artificially dividing supporting asset portfolios for purposes of performing the modeling exercise. A variety of circumstances could bring this situation about. For instance, a company may manage its ULSG contracts along with non-secondary guarantee universal life business. Or it may manage the fixed funds on variable ULSG contracts together with other fixed ULSG contract funds. Or it may have contracts that it considers to be "secondary guarantee" contracts that fail to meet the precise product scope definition. Accordingly, we recommend allowing a company to apply the C3P3 methodology on an optional basis to policies or funds that it manages together with "in-scope" ULSG business.

In order to achieve this, we believe that it is necessary to make use of the "Business Segment" concept. The draft instructions define a Business Segment as a grouping of policies and assets that "will generally follow the company's asset segmentation plan, investment strategies, or approach used to allocate investment income for statutory purposes." We propose a clause that would state that if some policies in a Business Segment are required to be modeled, companies have the option to apply the Phase III methodology to the other policies in the Business Segment.

We are cognizant of regulatory concerns about optionality relative to company "cherry picking," and we intend for our language to preclude such a possibility to the greatest extent possible.