Willis Towers Watson

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Actuarial Standards Board
1850 M Suite NW, Suite 300
Washington, DC 20036

This letter is the response of Willis Towers Watson to the Exposure Draft ("ED") of the proposed actuarial standard of practice titled *Capital Adequacy Assessment for Insurers*. Willis Towers Watson is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. Willis Towers Watson has approximately 39,000 employees on a worldwide basis, over 1,100 of whom are members of U.S. actuarial bodies subject to the standard. The undersigned have prepared our company's response with input from others in the Company.
We address the questions posed in the Exposure Draft.

1. *Does the exposure draft provide sufficient guidance for an actuary designing, performing, or reviewing a capital adequacy assessment for life, property/casualty, and health insurers?*

   Yes, but we suggest that the definition 2.3 Capital Adequacy Assessment be revised to make it clear that such an assessment is a comparison of projected held (or available) capital to a projected (or current) capital requirement. Perhaps something like:

   - "An assessment of projected available capital of the insurer relative to its projected risk capital target or projected risk capital threshold, or
   - An assessment of current available capital of the insurer relative to its current risk capital target or current risk capital threshold."

2. *Does this exposure draft give sufficient context for users of the actuarial work product to understand and rely upon actuarial work prepared under this guidance?*

   Yes

3. *Does this exposure draft provide enough guidance for actuaries addressing complex insurance organizations such as holding companies with multiple subsidiaries and jurisdictions?*

   Yes, but we note that the definition of "complex insurance organizations" appears to include insurance groups with entities domiciled in different US states. Many of these are not really that "complex". Additionally, we recommend revising 3.8.3 to read as follows: "expected regulatory changes in some ~~countries~~ jurisdictions."

4. *Are there areas where the exposure draft is too restrictive or too prescriptive?*

   The definition of Adverse Capital Event in 2.1 is too restrictive. It should also include material reductions to available capital, even if available capital does not become "significantly less" than the Risk Capital Target. Such events still provide meaningful insight into the insurer's capital position and are consistent with the concept of different levels of adversity promoted in 3.6.2.

We also suggest revising the phrase "any conflicts between the risk profile and the risk appetite and" in 3.2.b. to "the relationship between the risk profile and the risk appetite and".

Furthermore, 3.6.1 Types of Tests appears to exclude stochastic scenario tests and stress tests. This seems inappropriate to us.

5. *Are the scope of this standard and the definition of a capital adequacy assessment appropriate to where this standard should apply?*

   Yes, but as noted above, we suggest that the definition 2.3 Capital Adequacy Assessment be revised to make it clear that such an assessment is a comparison of projected held or available capital to a projected capital requirement. Perhaps something like "An assessment of projected available capital of the insurer relative to its projected risk capital target or projected risk capital threshold.

6. *Are the disclosures appropriate?*

   We suggest that 4.2.c be revised as follows "If the actuary had a role in the design of or reviewed the risk capital targets or risk capital thresholds, the actuary should consider disclosing his or her role and the rationale underlying the design or the results of his or her review (see sections 3.4 and 3.5)." It seems onerous to us to *require* such a disclosure when it may be irrelevant in some contexts (e.g. a capital adequacy assessment intended solely for internal use, or as an element of due diligence for a proposed transaction).

We also share the following observations or suggestions:

- In 3.3 d. we suggest removing the word "unique";
- In 3.6.1 b. we suggest replacing "unique" with "specific";
- Capital Adequacy Assessments may rely on Data or Other Information Supplied by Others beyond the types currently referenced in ASOPs 23, 38, or 41, as indicated by the reference in 3.10 to "projections or supporting analysis supplied by others". It seems to us that deeming such projections or supporting analysis as data – as the current wording of 3.10 suggests - is an admirable attempt at dealing with this issue, but could lead to some odd implications. After reviewing the relevant ASOPs it seems to us that this is a broader issue that goes beyond this Exposure Draft. We recommend that the ASB examine this issue more thoroughly. Where in the Standards is an actuary required to obtain comfort regarding the qualifications of those providing "projections or supporting analysis" upon which the actuary has relied? Do the Standards appropriately address an actuary's need to evaluate the quality of data provided by others and / or the expertise of those whose analysis is relied upon? Perhaps this could be addressed in ASOPs 1 or ASOP 41, and then the Capital Adequacy Assessment ASOP could refer to the relevant section of the revised ASOP 1 or ASOP 41.

Thank you for this opportunity to comment on the ED. If you have any questions concerning our comments, please contact either of us directly.

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