

October 28, 2016

Modeling (Third Exposure)
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

Dear Sir or Madam,

This letter documents the response of Willis Towers Watson to the Third Exposure Draft (ED) of the Proposed Actuarial Standard of Practice (“ASOP”) Modeling issued in June 2016.

Willis Towers Watson is a leading global professional services company that employs approximately 39,000 associates worldwide, over 1,100 of whom are members of U.S. actuarial bodies subject to the standards and approximately 600 of whom are enrolled actuaries. We provide actuarial and consulting services to more than 1,700 defined benefit plans in the U.S. The undersigned have prepared our company’s response with input from others in the company.

We appreciate the opportunity to comment.

General

Before focusing on the details of the exposure draft, we believe it is useful to revisit ASOP 1, which provides information about the general purpose and structure of the ASOPs.

- ASOP 1 defines “Professional Judgement” stating in section 2.9 “Actuaries bring to their assignments not only highly specialized training, but also the broader knowledge and understanding that come from experience. For example, the ASOPs frequently call upon actuaries to apply both training and experience to their professional assignments, recognizing that reasonable differences may arise when actuaries project the effect of uncertain events.”
- Section 3.1.3 states that “In all situations, the actuary should exercise professional judgment in rendering actuarial services.”

555 17th Street
Suite 2050
Denver, CO 80202

T +1 303 391 1200
F +1 303 391 1299
W willistowerswatson.com

Towers Watson Delaware Inc.

- Section 3.1.4 states “The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Generally, ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome. Rather, ASOPs provide the actuary with an analytical framework for exercising professional judgment, and identify factors that the actuary typically should consider when rendering a particular type of actuarial service.”
- And finally Section 4.1 states “ASOPs are binding upon actuaries. Failure to comply with an applicable ASOP results in a breach of the Code. Such breaches subject the actuary to the profession’s counseling and discipline processes.”

We believe that the ED would result in actuarial work that conflicts with the sections of ASOP 1 noted above. The extensive detailed processes of the ED seem to conflict directly with the excerpt above from section 3.1.4 but for terms like “should consider”, “may” or “reasonably satisfied”. In practice we believe these terms will often be ignored by those outside the profession and that the specifics in the ED would be viewed as requirements with the result being that much actuarial work will be done with a checklist approach. One of the consequences of such an approach will be a decrease in the amount of professional judgment applied, contrary to the goals of ASOP 1. Other consequences will be the creation of checklists, substantial amounts of boilerplate language, and increases to the time and cost of performing actuarial work without a commensurate increase in the value to Principals.

As we described in our comments to the previous two EDs, we continue to view the guidance and considerations in the ED as very valuable and positive for the profession. The detailed steps are an excellent framework for many complex engagements. However, in our view, they are excessive for many or perhaps most projects. As such we view the ED as containing best practices which should be delivered in a form other than an ASOP, which is binding as noted in section 4.1 of ASOP 1.

One view is that the ED adds value by addressing steps we all want to see in our work. The concern we have is that this will be seen by those outside the profession as prescribing a checklist of items to document that each possible step was appropriately considered, even when professional judgement and model complexity would result in the dismissal of many items.

We would expect reasonable deviations from the full set of items that are suggested for consideration to occur in almost every project. In fact we can envision projects where, in order to maintain a record of compliance with the standard, time spent documenting the process could rival the time and content that would otherwise have occurred for the project. It does not behoove the profession to publish a standard with the expectation that there will be widespread deviation from the standard.

For example, consider a model that will be relied upon by the Principal consisting of a small data set, and a few moderately complex formulas that is not easily predictable because of two competing but simple assumptions. Imagine that a model run could currently be performed, checked and communicated in two hours. Could all of the ED’s considerations be addressed, the disclosures drafted and the deviations from the ASOP summarized in less than half a day?

Specific

Section 1.2 and 2.12: Section 1.2 indicates that this ED applies to all models that are not simple models (along with the concepts of reliance and materiality). Section 2.12 defines a “simple model” to be a model where the results are transparent and could be predicted without a model run or readily obtained from an external source. This seems to say that a simple model is a situation where no model is needed at all and therefore we do not see this definition as being effective in excluding many projects using non-complex models from the ED. We sympathize in that it is difficult to define those models that require a full application of this ED and those that do not. We applaud the use of “professional judgement” in this definition, and agree that it will need to be relied upon for this determination. That said, there very likely will be a disparity of interpretation which, in the legal environment in which we live, will ultimately lead to an extension of the ED to apply to a far more expansive selection of projects than intended.

We believe that changing the definition of simple project from a standard of “transparent and can be predicted” to “transparent or can be predicted” would help limit the expansion of the ED to non-complex calculations and projects.


Sections 3.1-3.3: The requirements placed on actuaries when working in modelling teams and/or with models developed by others and the burdens placed on their work product in these situations are onerous, impractical and add little to no value. The requirement that each actuary identify the scope of their responsibility for a model may be interpreted in ways that lead to unnecessary and potentially extensive disclosures. The requirement for each actuary in a valuation team to have an understanding of the “underlying workings” of the valuation system and to be reasonably satisfied that the rest of the team (including the builders of the valuation system who they may not even know) selected, built, modified, developed, reviewed, evaluated or used the model in accordance with the ED seem incredible, impractical and will be used as a checklist against the profession in any situation where a problem arises. Note that for many actuaries, working with models developed by others is a universal circumstance of their employment.

We are certainly not suggesting that models built by or used by others should be relied upon without an understanding of the model and thorough checking of the results. However, the criteria in the ED are much too extensive and unreasonable.

Section 4: We request further clarification of the disclosure requirements of the ED in section 4, and other referenced sections.

- If, based upon materiality or professional judgement, an actuary deviates from any of the myriad of steps outlined in the ED, this must be disclosed if it is material. If an actuary does not test against historical results because this does not appear practicable or reasonable in the context of an assignment, it is still a deviation from a recommended step (which is a yes or no choice). Must that be disclosed as a deviation? This could result in extensive work being performed on very small projects in order to avoid onerous disclosures. We would like the ED to clarify that deviations for reasons of practicability and professional judgement purposes need not be disclosed.
- If working on a valuation team, the signing actuary has ultimate responsibility for the results, but one team member took the lead in validating data, another performed the model integrity validation, and another reviewed final output for reasonability, must the report disclose all on the team and identify the role each took toward the development of final results? We would like clarification that the word “responsibility” is being interpreted broadly in the context of this disclosure.

Please let us know if you have any questions. We would be happy to meet with you to further discuss this.



Michael F. Pollack, FSA, EA
Senior Consultant, North America Retirement Actuarial Leadership
mike.pollack@willistowerswatson.com
(203) 326-5469



John (Jay) Toslosky, FSA, EA, MAAA
Senior Consulting Actuary
jay.toslosky@willistowerswatson.com
(303) 391-1386