

Expert Judgement

by the Institute and Faculty of Actuaries'
Solvency & Capital Management Working Party

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Expert Judgement

IAA Colloquium
10 June 2015
Oslo

Roger Austin & Stephen Makin
on behalf of the Solvency and
Capital Management Working Party



Agenda

- Introduction and background
- Framework
- Process
- Conclusion
- Discussion





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Introduction and background



Background

- Expert judgement is nothing new
- ...but it is becoming an increasing area of focus for regulators, particularly with Solvency II
- Challenging area for many insurers
- Approach needs to be proportionate

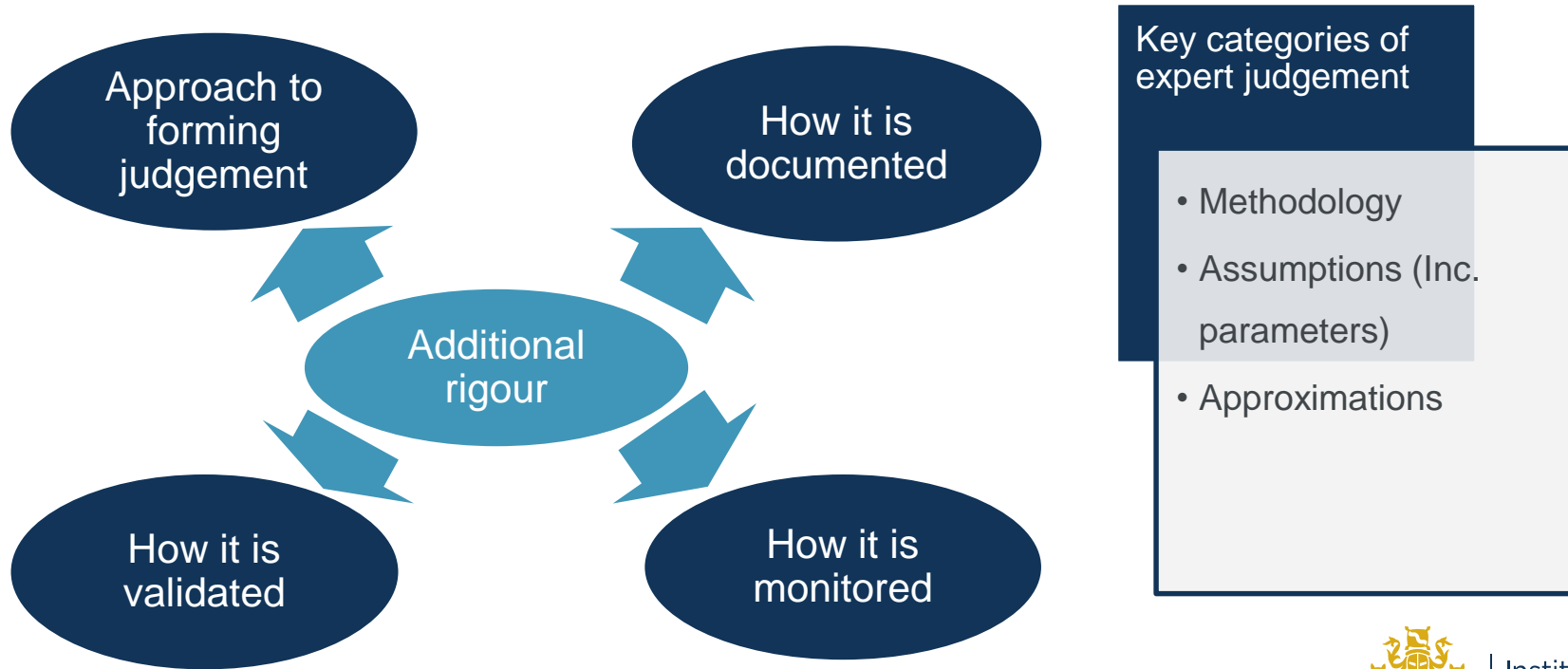


Expert judgement versus judgement



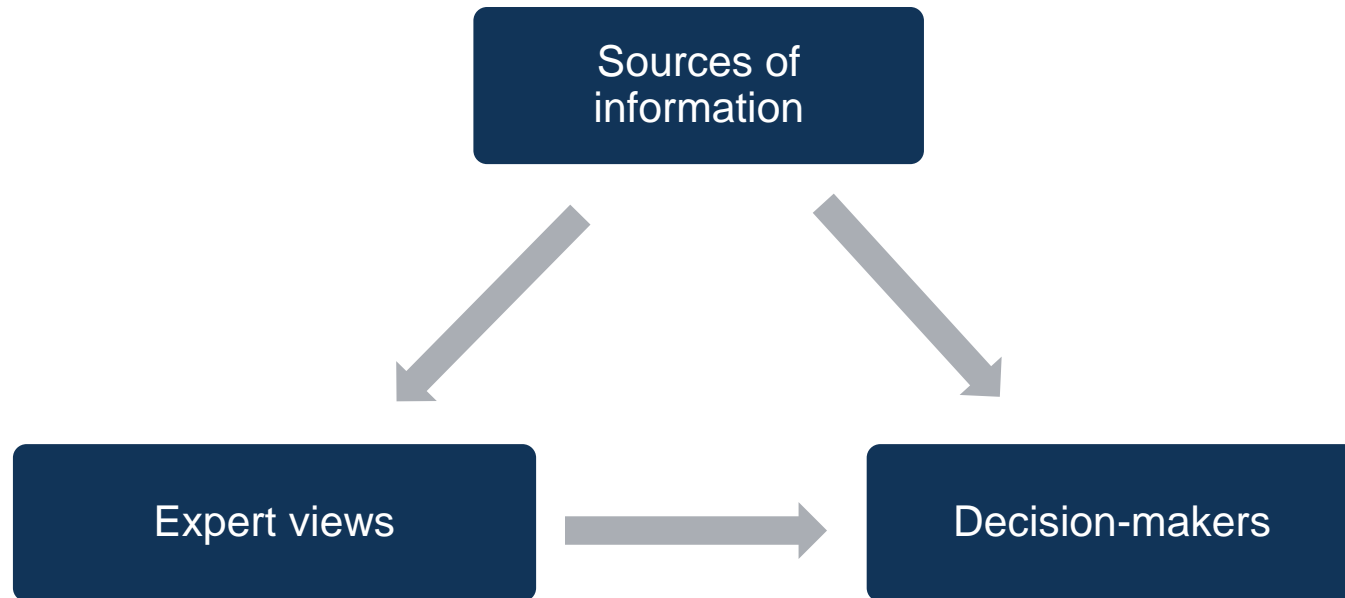
Implications and scope

- So what is the consequence of something being considered expert judgement rather than judgement?



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Formation of judgement



- Good process is essential, and needs to be tailored and proportionate in line with materiality
- In certain circumstances, the experts may also be the decision-makers





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Framework



Framework

- Expert judgement policy
- Governance structure
- Strong process
- Documentation
- Appropriate validation



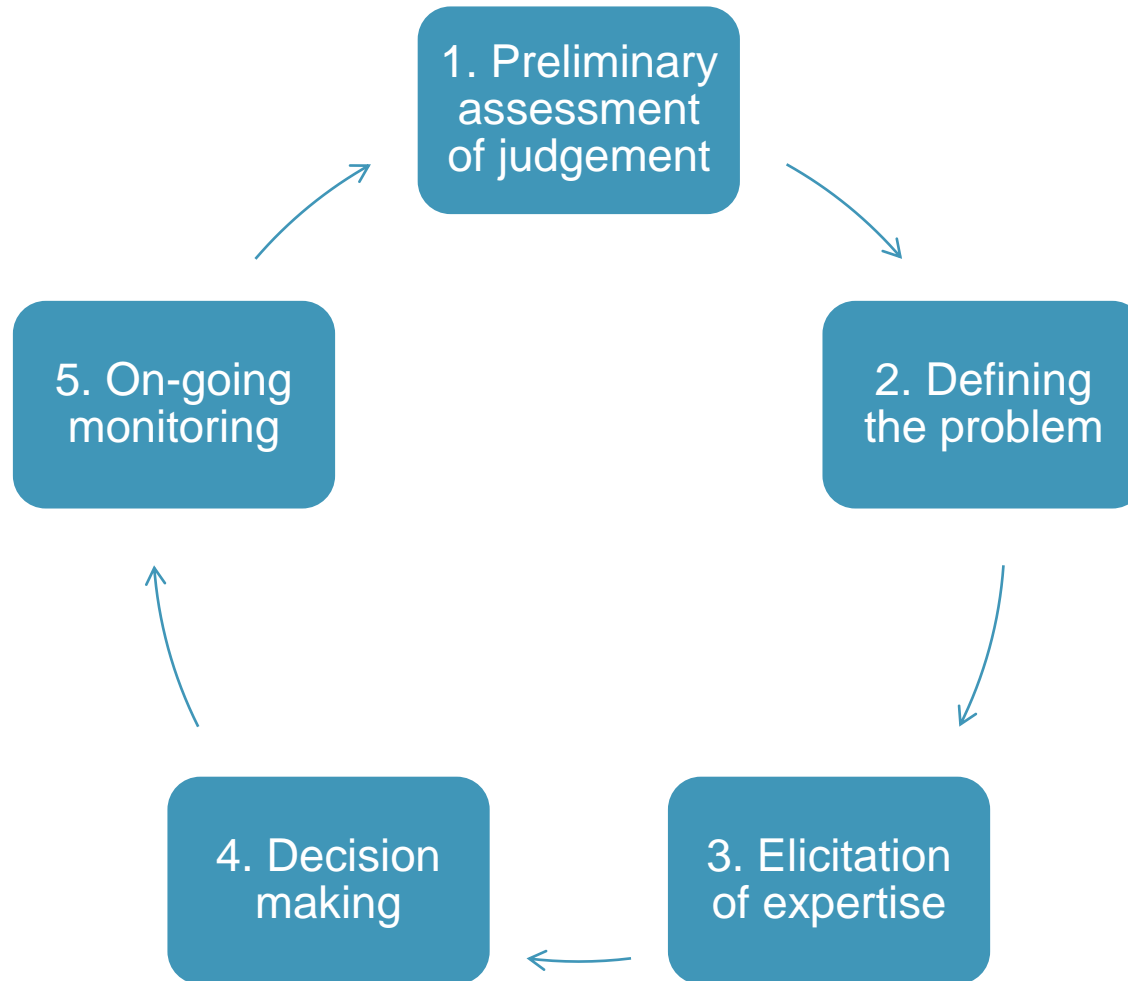


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Process

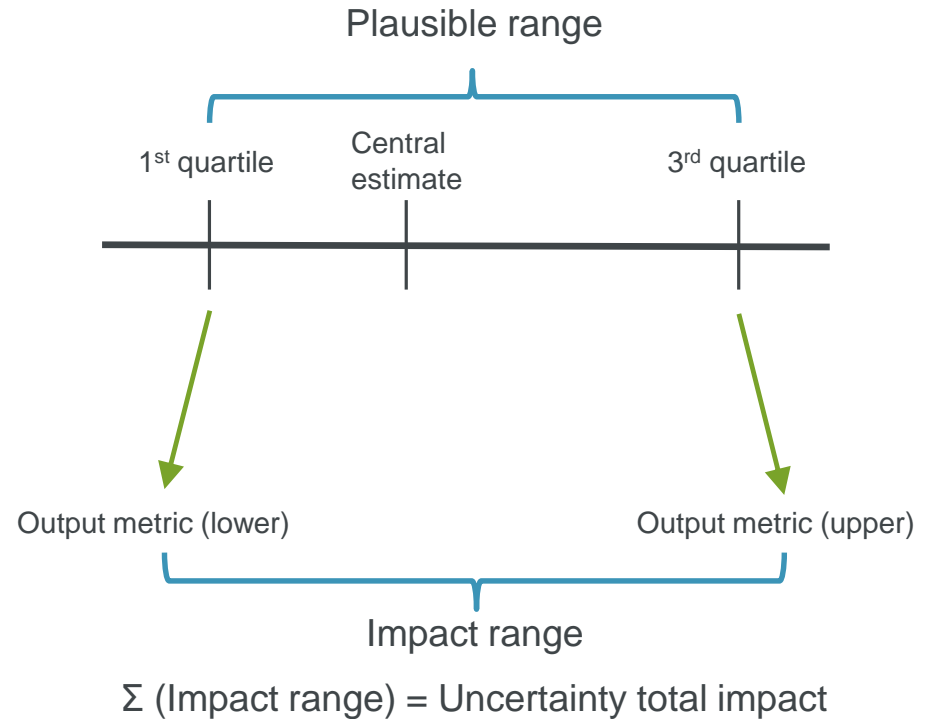


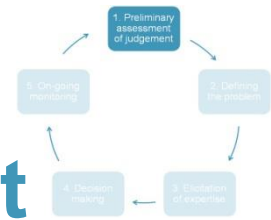
Process overview



Some useful concepts

- Plausible range
- Uncertainty total impact
- Regions of expert judgement





Preliminary assessment of judgement

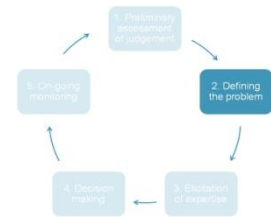
- Expert judgement process relevance:

Identify judgement

Assess if it is in scope of EJ process (materiality etc...)



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Defining the problem

- Provide clarity on:

Terminology

Articulate needs

Past practice and drivers for change

Initial plausible range

Assess potential and appetite for reducing plausible range

Identify experts

Set out brief, clarify and finalise



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Elicitation of expertise



- Expert review:

Decide on approach

Elicit views

Analyse and clarify

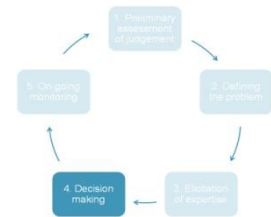
Consolidate overall view

Document

Iterate as required



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Decision Making

- Governance and challenge:

Review experts' proposals

Provide challenge (data, reasoning, alternatives, etc.)

Articulate risks of decision

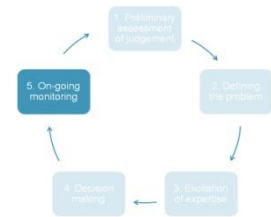
Set out thought process for decision

Ensure governance process is followed and documented

Iterate as required



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On-going monitoring

- Feedback loop:

Validation

Feedback to experts

Monitoring of triggers

Scheduled review



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Conclusion



Conclusion

- Expert judgement is inherent in models
- Solvency II emphasises the need to have transparent, evidence-based judgements
- Need a strong framework to ensure application is easy to manage
- Need a robust and well-defined process that is tailored to the firm's needs
- A proportionate approach which has regard to the materiality of the decision is critical



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

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