



Institute
and Faculty
of Actuaries

GIRO Conference 2022

21-23 November, ACC Liverpool

#GiroConf22





Institute
and Faculty
of Actuaries

Actuaries are human too!

Managing behavioural risks in expert judgement

Ed Harrison, LCP
Zoe Burdo, LCP

#GiroConf22



Focus of today

Our aim: To highlight the “behavioural biases” that impact our work

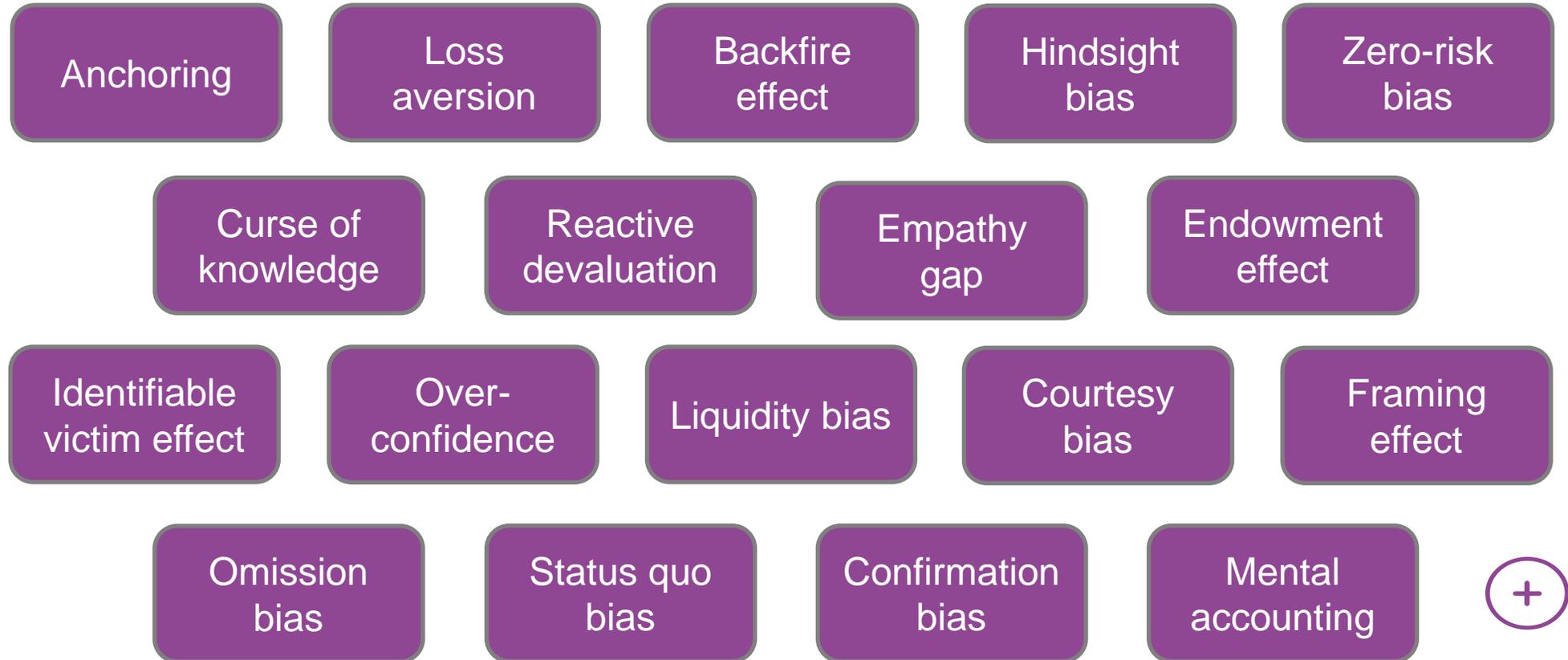
Look at these in the context of expert judgement

... And what we can do to mitigate their impact



We are constantly influenced

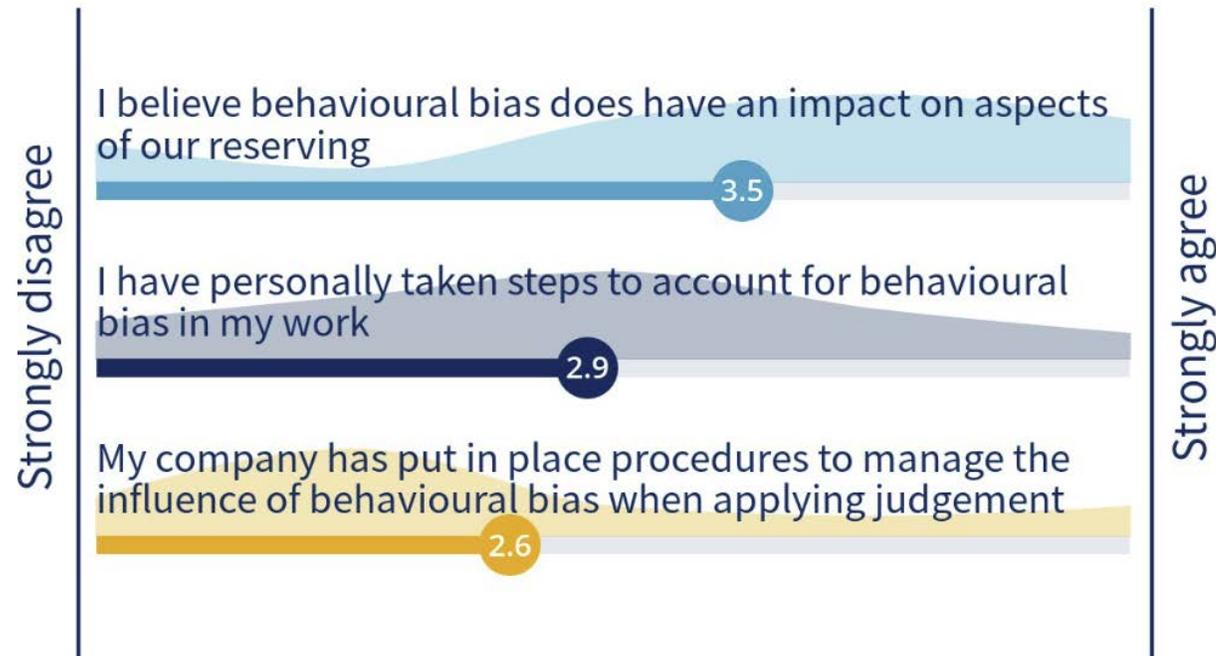
Behavioural biases shape all of our decisions



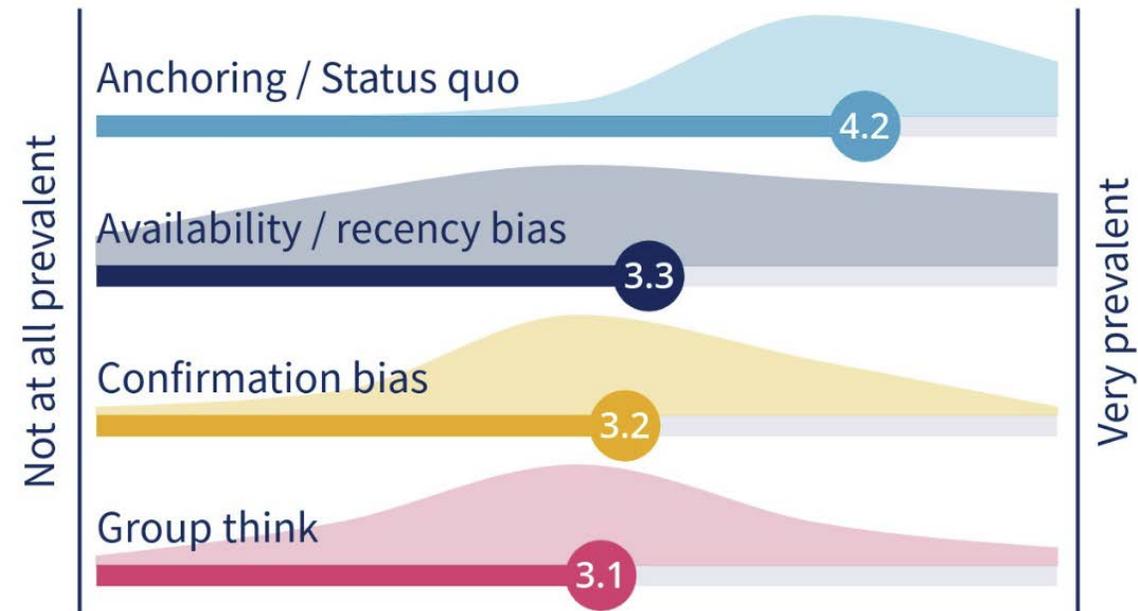
Just how human are we?

Reserving actuaries' views on behavioural bias

Reserving actuaries reflecting on behavioural bias



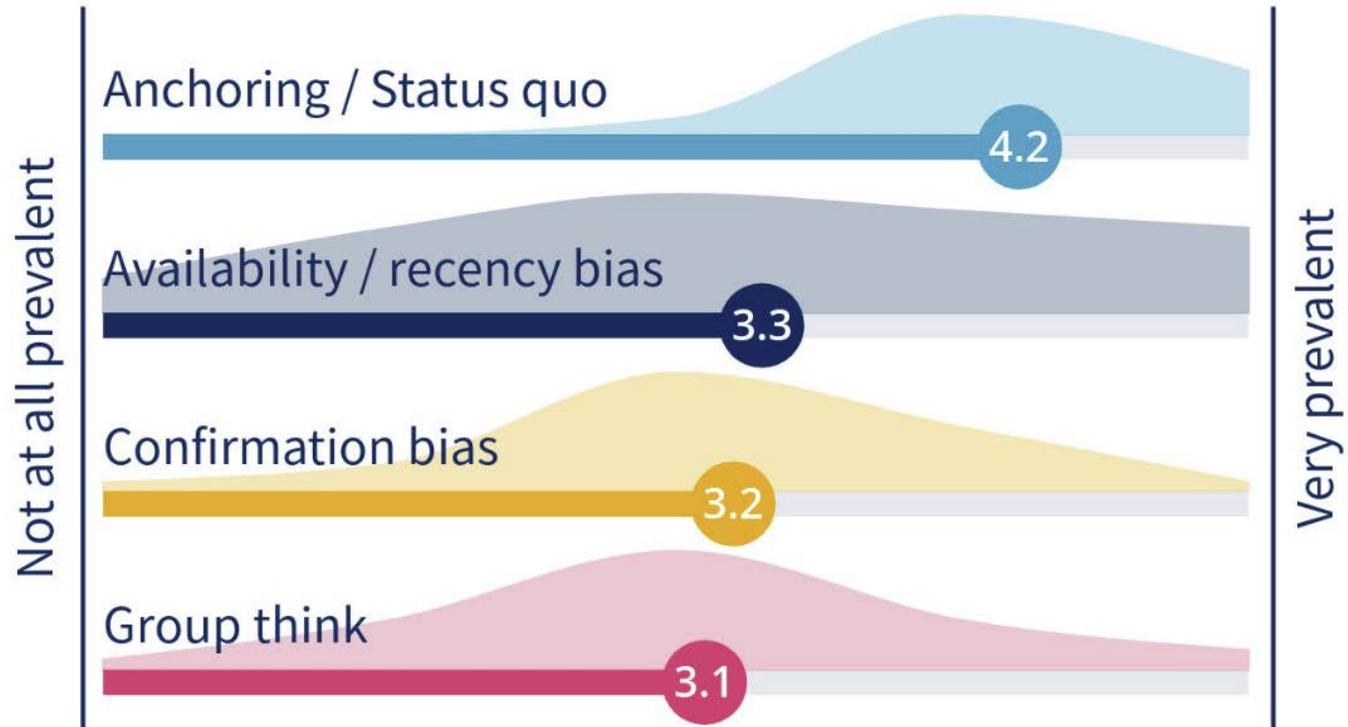
How prevalent are some example biases in reserving?



Source: LCP reserving roundtable, 13 October 2022

Just how human are we?

Reserving actuaries' views on behavioural bias



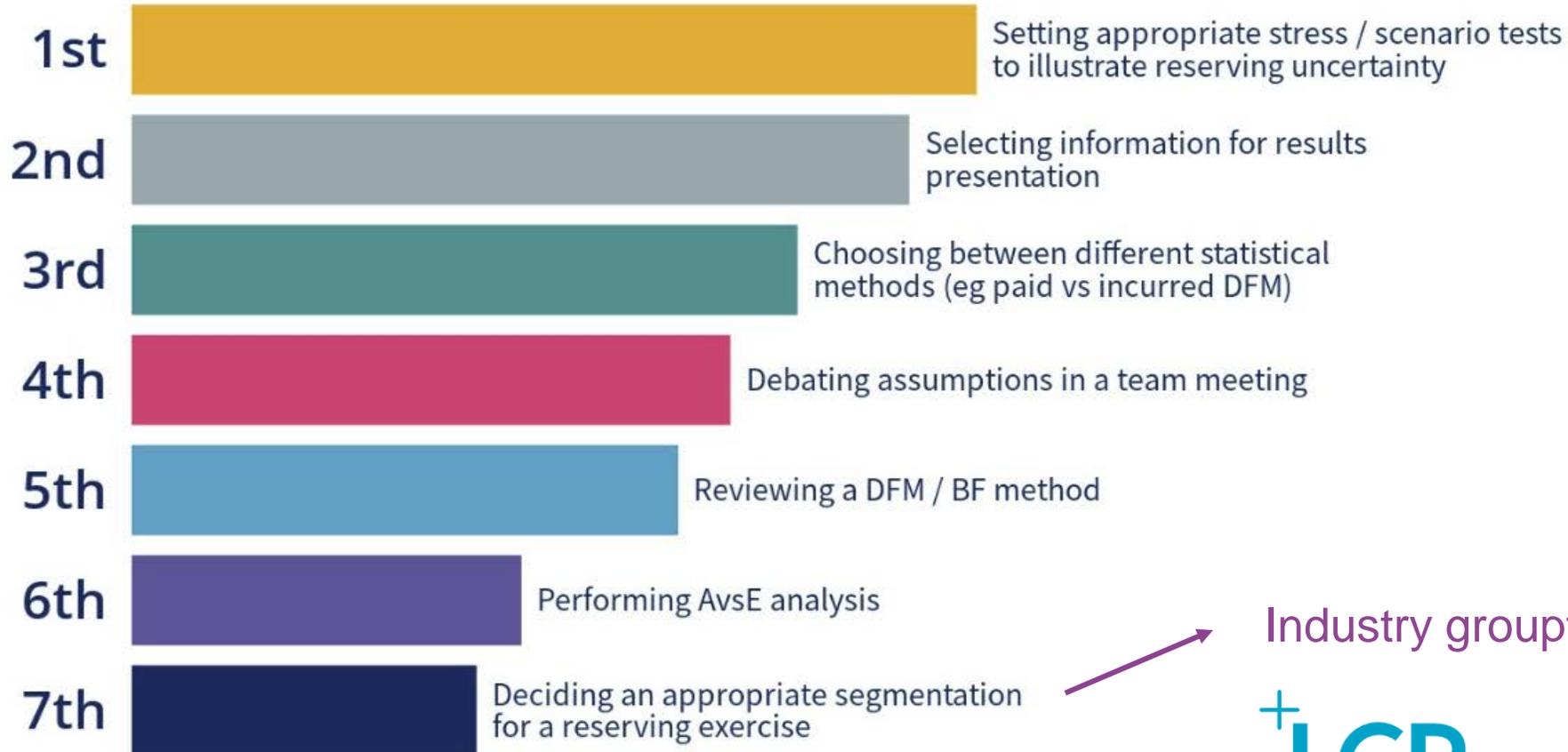
More self aware of estimation biases?

Possibly less aware of weaknesses in decision making?

Source: LCP reserving roundtable, 13 October 2022

What do reserving actuaries think?

Rank the following items in order of how likely they are to be influenced by behavioural bias



Industry groupthink?

Source: LCP reserving roundtable, 13 October 2022



Institute and Faculty of Actuaries

What can we do?

Achieving more robust expert judgement

Acknowledge biases /
open minded
approach

Tools and techniques

Reduce pressure and
emotion

Use logical principles

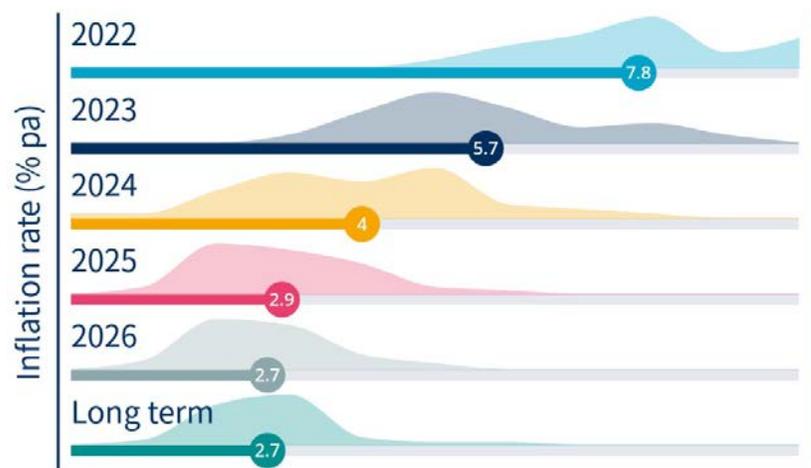
Avoid “rules of thumb”

Using logical principles

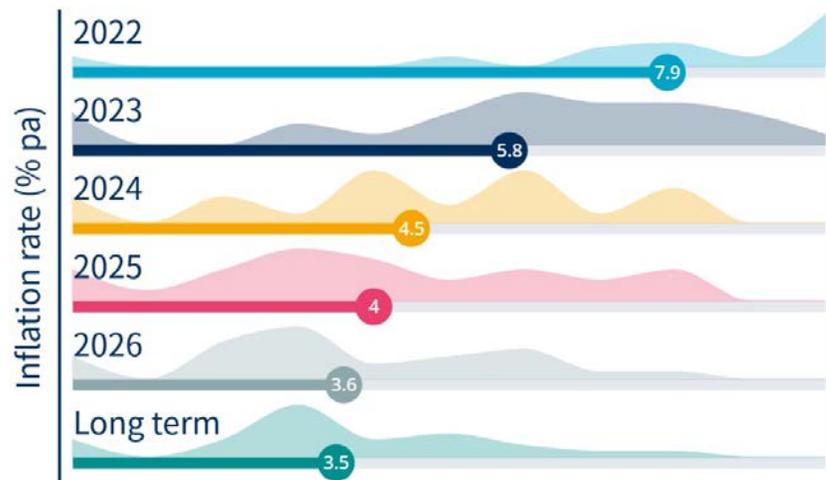
Even experts fall foul

In May 2022 we asked circa 100 actuaries about their predictions of CPI inflation and claims inflation for some common insurance classes...

UK CPI prediction (May 2022)



UK motor damage prediction (May 2022)



Implied excess inflation
(*Excess = motor – CPI*)

- 0.1%
- 0.1%
- 0.5%
- 1.1%
- 1.2%
- 1.8%

The implied excess inflation is MUCH lower than historically observed excess inflation on UK motor damage!

Source: LCP reserving seminar, May 2022

How can we mitigate bias in peer-review?

Achieving more robust expert judgement

Constructive challenge
(two way)

Independence

Diverse perspectives,
experience...
and risk profile

How can we improve decisions in teams?

Leveraging diverse personalities



Neutral facilitation



Contingency plans



Test assumptions



Delphi method



Group idea generation

How can we improve decisions in teams?

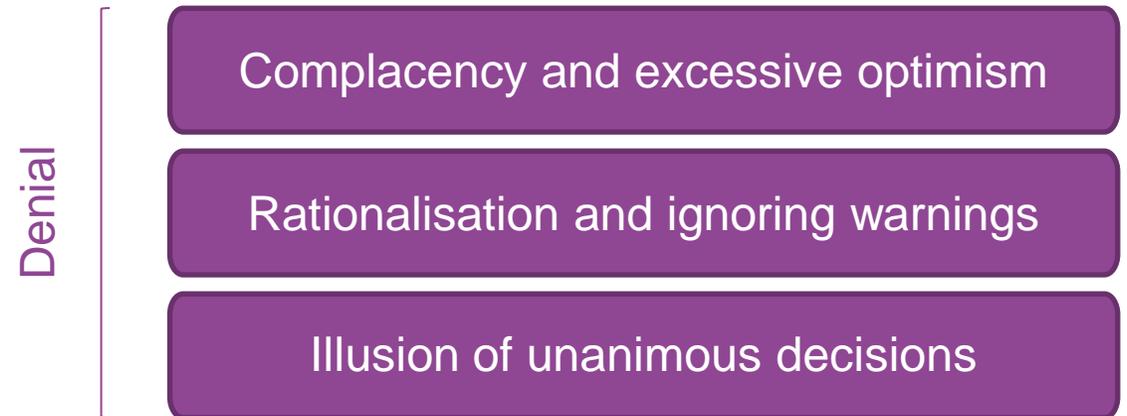
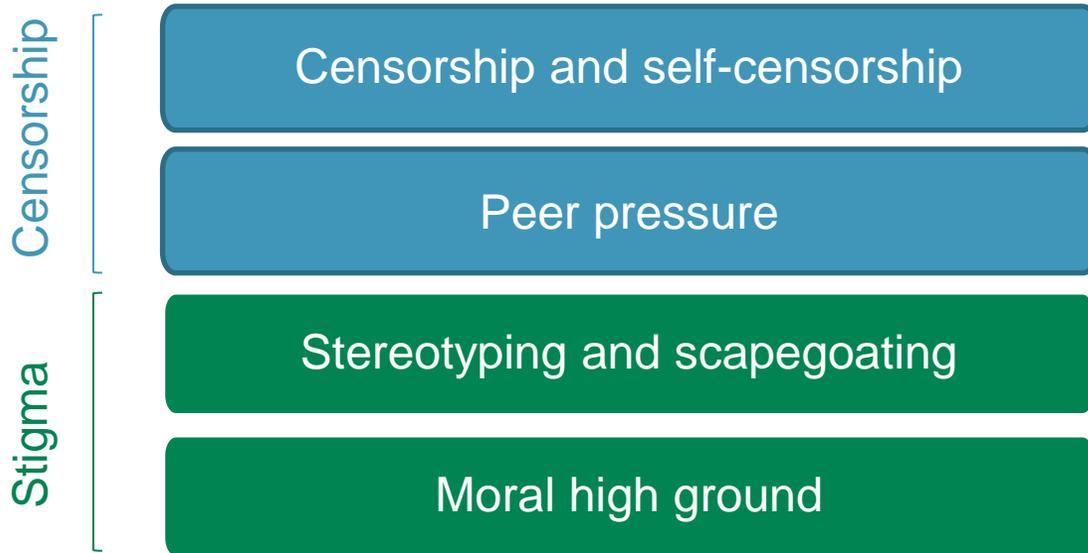
Six Thinking Hats



Source: Adapted from *Six Thinking Hats*, Edward de Bono

How can you identify groupthink?

More robust and effective teams



Why does risk profile matter?

We all interpret and respond to risk differently

- Risk tolerance
- Emotional response
- Risk behaviour and perception of risk
- Ability to identify and mitigate risks/opportunities
- Detail vs big picture
- Proportionality
- Ability to respond quickly and dynamically

Positive risk management



Institute
and Faculty
of Actuaries

So what?

Where do you go from here?

Remove the emotion where you can

There are tools that can help

Peer review should help challenge biases, not reinforce them



Institute
and Faculty
of Actuaries

Thank you

#GiroConf22

