

An Inconvenient Uncertainty

The day after tomorrow I will be dead....
or
aged 40

Why different approaches ?

- Fear of miscommunication (being sued)
- What do the board or client really want?
- Techniques do not exist yet

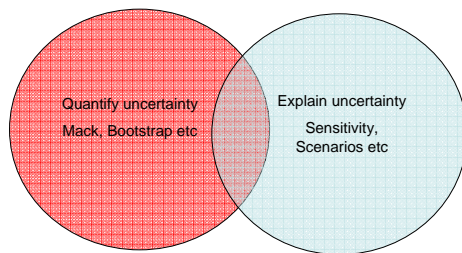
Offset by

- What are other actuaries doing?

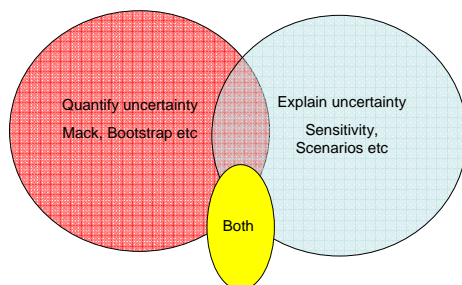
Question :

Who does not want to know what others are up to?

Lloyd's feedback indicates two broad approaches?



A favour – On the next job you work on....



Lawrence Jones

David Ibeson

An inconvenient uncertainty

- "Variance in claim reserving" (presented to GIRO at Hinckley in 1993)
- What does an executive want?

An inconvenient uncertainty

"Plan"

- Two types of "Actuarial uncertainty"
 - From different actuaries
 - Around an individual actuary's estimate
- What should you do?
- What you shouldn't do?
- What would I want?

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"From different actuaries"

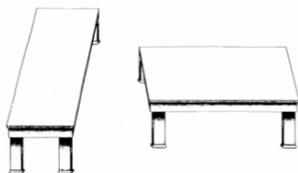
- Three highly professional actuaries with wildly differing views.
- Who is right?
- What are the issues?

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"Around an individual actuary's estimate"

- What is uncertainty? Something that is not certain!



- Uncertainty exists everywhere! But...
- "The creation of certainty seems to be a fundamental tendency of human minds". [Reckoning with Risk "Gerd Gigerenzer"]

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"What should you do?"

Uncertainty exists everywhere!

- Good
 - Actuaries can help.
 - I believe it is reasonable to have differences.
 - The desire for certainty facilitates decision making.
- Bad
 - It is not easy to convince "others" that differences are ok.
 - It might not be easy to communicate uncertainty without creating mayhem?
- The skill/art is that of **communication** not estimation. (The ability to do the calculation is a given)

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"What should you do?"

The client should:

- understand the analysis.
- understand how to use the information appropriately.
- be positioned to make the best decision based on information available.
- **This is not easy!**

[Studies have shown (for a normal person) it can take up to 26 times for a message to sink in!] (Centre for creative leadership "back in the late 90's")

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"What should you do?"

You should understand:

- the analysis, the limitations and interpretation of the conclusions.
- the clients requirements and their "circumstances".
- the clients level of numeracy and be able to explain appropriately!
- what decisions are likely or need to be made.

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"What shouldn't be done?"

A personal example:

Bad points:

- lacked timing
- understanding of the clients position,
- potentially made things worse

Good points?:

- Information was given
- Understanding was achieved ?
- It was ok so no issue

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"What would I want?"

- Tell me what I need to hear not what you think I want to hear.
- Take a step back and try and look at the analysis top down rather than bottom up.
- Act as if you are part of the team! Be prepared to tell me what you would do.
- Make sure that you know the relevance/context.
- Be prepared to push back if you think I haven't fully understood.

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"Summary"

- The limit of an actuary's ability to contribute is directly proportional to his ability to communicate.
- This should not be a limiting factor!

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Rebecca Driver

Conclusions

- Agree the approach to uncertainty before you start the work
- Explaining uncertainty to non-execs is a true test of our profession
- Dead dogs