The Actuarial Profession
making financial sense of the future

General insurance reserving seminar
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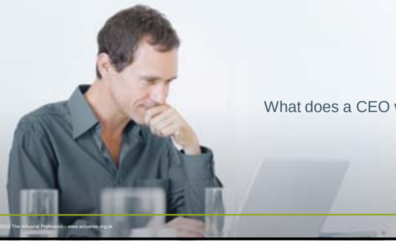

What does a CEO want from an Actuary?

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- More bottom line profit!

- Or same profits but better quality!

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What does a CEO want from an Actuary?

- Help to get the “right” answer
- Good communication
- No accounting or regulatory noise
- A value added team member.

* Technical expertise is taken as given

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The ”right” answer?

- Prudence (future releases and no deficits)
- No surprises in any classes
- Realistic best estimates
- Feedback into rating without destroying profits or competitiveness.

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The “right” answer – Achievable?

- Outcome is a point estimate despite uncertainty (judgement, data, underlying)
- Requirements can be conflicting
- Risk appetite/interpretation is not constant
- The skill/art is that of communication not estimation
  - Ability to do the calculation is a given
  - Actuaries have a major role to play

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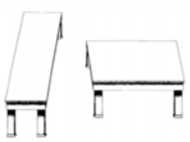
Good communication!

- Know your facts and how they will be interpreted
- The same?



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Good communication! - Know your audience

- Risk appetite/interpretation is personal
- Lloyd's emerging risks report "Behaviour, Bear, Bull or Lemming"
  - Perception of risks drives behaviour
  - Emotion is a driver of behaviour
  - Personality affects perception of risk
  - Some groups perceive risk differently to others

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Good communication! - Know your audience

- Lloyd's emerging risks report "Behaviour, Bear, Bull or Lemming"
  - Human beings often misjudge risk
    - Representation bias
    - Availability bias
    - Anchoring
    - Hindsight Bias
    - Cognitive dissonance
    - Confirmation bias

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Good communication! - Know your audience

- Lloyd's emerging risks report "Behaviour, Bear, Bull or Lemming"
  - Attitudes to risk depend on how it is presented
  - Communication of risk is challenging
    - Technical communication is a relatively weak tool
  - Groups tend to make more extreme decisions than individuals

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Good communication! - Summary

The CEO 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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Good communication! - Summary

You should understand:

- The analysis, the limitations and interpretation of the conclusions
- The CEO's requirements and their "circumstances"
- The CEO's level of numeracy and explain appropriately!
- What decisions are likely or need to be made.

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Good Communication "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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No accounting noise – underwriting and GAAP

- Underwriting year of account
- Projections on accident and underwriting year
- Accounts on an earned basis (IFRS, US GAAP)
- Earning patterns are not always owned
- Materiality measures different for different projects
- Translation from GAAP to U/W is key but difficult
  - E.g. cat provisions or recessionary loads
- Actuaries can help with this.

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No accounting noise – Solvency 2

- Transfer of obligations
- Explicit risk margins
- Discounted
- Weighted averages
- Business contracted
- All expenses allocated
- Actuaries can help with this as well.

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What does a CEO want from an Actuary?

- 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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