Herd Like Behaviour Working Party

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Welcome
Introduction

• How the working party came to be
• The aim of the working party
• Our approach

Herd-Like Behaviour

• How do groups act in concert without centralised direction
• Herd-behaviour
  – physical groups – e.g. Herds, flocks, shoals, crowds
• Herd-like behaviour
  – Distributed groups of people sharing similar actions / ideas
Madness of Crowds

- Manias
  - Tulip mania
  - Witch hunts
  - South Sea bubble
  - Railway mania
- The French Revolution

Imitation and Innovation

- 1890 - Gabriel Tarde – “The Laws of Imitation”
- All forms of human society, social or professional, characterised by imitation
- Role of the Elite?
Modern Studies

- Behavioural Finance
  - Economics + individual / group psychology

- Informational Herding
  - Quantitative studies in many areas of finance
  - Assuming Bayesian inference
  - Uses publicly available market data
  - Proxy measures include LSV –
    - excess of concentration of trades by particular classes on one side of the market or the other

Assessing herding – without data

- For actuarial decision making, no equivalent public data

- How to measure when decisions and actions are private?
  - Anecdotal evidence of shared assumptions
  - Historical analysis after the fact
Our working definition

"Herd-Like Behaviour (HLB) is the tendency for one's own judgement to be influenced by the apparent consensus view of assumptions, methods, processes or approaches leading to a reduction in the variety of ideas in the market."

IFoA Herd Like Behaviour Working Party, 2015
Influencers

**External**
- Regulators
- Auditors
- Consultants
- Software providers
- Investment Analysts
- Profession

**Cultural**
- Company structure
- Ability to challenge
- Remuneration
- How busy the teams are
- Investment in skilled team
- Size of teams / turnover in team
- Governance structure

**Situational**
- Greater complexity / opaqueness / riskiness of decision
- Lack of data
- Greater forecast horizon
- Greater market volatility / crisis

**Psychological**
- We like consistency
- We like to be safe
- Short termism
- Looking up to senior colleagues
- Some people are more likely to act in this way
Disperse the herd

Role of professional bodies

Actuarial community

Company decision making framework

Disperse the herd

Decision Making Framework

Actuarial Communities

Professional Bodies
Discussion

• Where have you seen herding?
• What are the influences?
• How can we encourage good behaviours and discourage bad behaviours?
• Feedback

Next steps

• Continue our work
• Produce a report
• Present at other conferences
• How you can help
  – Interview industry experts
  – Become a member
• Contact us at avni.gohil@kpmg.co.uk
A parting thought

“Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally”

John Maynard Keynes, 1935