



Institute  
and Faculty  
of Actuaries

## Herd Like Behaviour Working Party

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21 April 2015

# Welcome

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## Introduction

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

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## 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



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## Madness of Crowds

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



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## 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?

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## 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

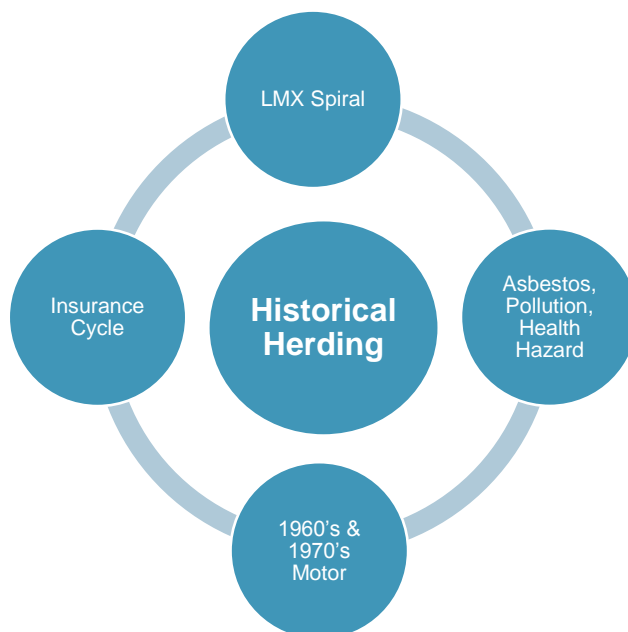
## Our working definition

"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*

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## 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

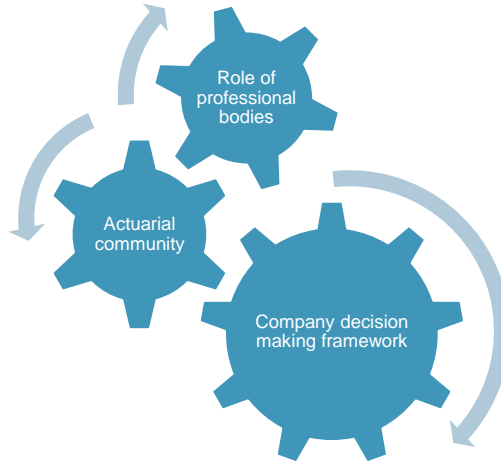
### Psychological

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

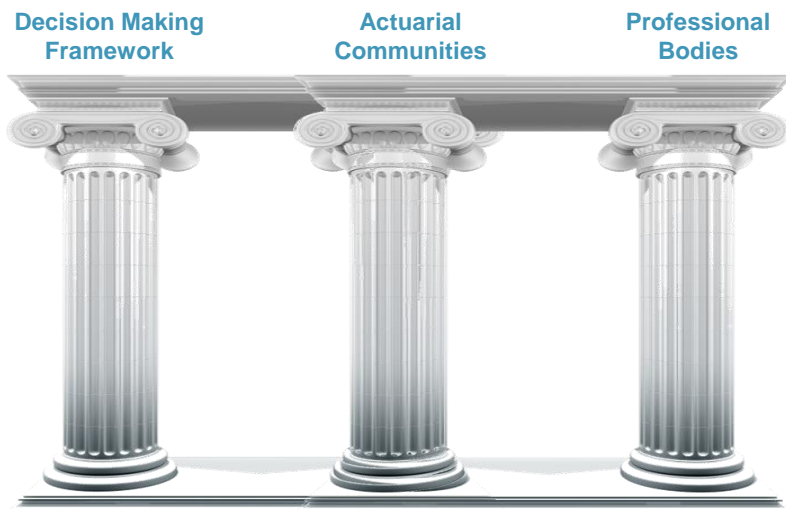
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## Disperse the herd



## Disperse the herd





## Discussion

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

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## 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](mailto:avni.gohil@kpmg.co.uk)

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## A parting thought

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

*John Maynard Keynes, 1935*

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