What does a CEO want from an Actuary?

- More bottom line profit!
  
- Or same profits but better quality!

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
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.

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

Good communication!

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

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

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
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”)

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.

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
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.

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.

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.