The SRCH: Sensing and Responding to Change (Holistically) Working Party

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Dhinesh Kumar

And thanks to James Orr for his insightful support
Goal

I want you to walk out of here:

• Eager to try strategic listening,
• Empowered to set up a change process, and
• More systematic in your reserving / other actuarial method.
Three Level Approach:

A. Listening and Mental Models

B. Change Process

C. Tactical Analysis
A. Strategic Listening

• Have a Purpose for Both
• Anticipate the Conversation
• Take good notes
  – Pause or Recap if Needed
  – Record Emotion

You have listened well if

• You can now represent *their* voice, emotion, and facts
• *They* can represent yours.
Listening: Mental Models

• “Voice” Follows From Mental Models

• Mental Models are the root of actuarial method:
  – We understand the business and use methods which mirror our understanding alongside statistics. This lets us GO BEYOND THE NUMBERS.

• Good listening Improves Our Mental Models
B. Original BeSeRC Framework

- Listening
- Sense-Making
- Influence
- Analysis
We Failed When Brexit Came

- Researching
- Reacting
- No Influence
- No Strategy
Change Process: SRCH Model

Listening & Being Listened to

Identification & Grounding

Challenge & Feedback

Influencing & Being Influenced

Sensemaking & Strategy

Analysis

Listening

Influence

Analysis
Stakeholders are Diverse

- Insureds
- R&D or Claims
- Management + Investments
- Underwriting
- Risk + Reg.
- Actuarial
- Regulator / Govt.
- Public
- Etc.
Sense-Making: SRCH Needs a Story

1. Sketch the Issue’s Timeline + Milestones
2. Identify Key Stakeholders (Govt, Claimants, UW, etc.)
3. How Is Their World Affected?
4. What Might They Do?
5. How Might This Impact You (and you them?)

Now You Are Ready...
Influencing And Being Influenced

- Requires Strategy
- Built on Listening
- Aid and Expand Their Cares
- Ask For Help with Yours
C: Tactical Analytics - Things That Lead To Reserve Changes* (MUQ Friendly):

1. Model Error
2. Statistical fluctuation
3. Reference Data Bias
4. Shocks
5. Trends / Cycles / Step Changes
6. Business Process Change
7. Operational Error (“Oops”)
8. Ambiguity (“New”, Repeat Offender, Complexity, etc.)
9. Other?
## C. Tactical Analysis: Diagnostic Grid

<table>
<thead>
<tr>
<th>Sphere</th>
<th>Category</th>
<th>Example</th>
<th>Internal (Qual + Quant)</th>
<th>Ult. Based</th>
<th>External (Qual. + Quant.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss (Reserving)</td>
<td>Model Risk</td>
<td>Use too long of an average</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reference Data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ambiguity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exposure (UW)</td>
<td>Model Risk</td>
<td>Logic error in Pricing Models</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Etc.</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>ERM</td>
<td>Model Risk</td>
<td>Inappropriate variability model</td>
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</tr>
</tbody>
</table>
Tactical: Diagnostics Need a Baseline

YTD December Incremental RY Index Comparison

- Pd: 0-12
- Pd: 12-24
- Pd: 24-36
- OthLiabOcc

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Baseline in a Different Direction – Is Disposal Correlated With Payment?

July to June CY # Disposal Rates

July to June CY $ Incurred Disposal Rates

Correlation $ Paid With # Closed:

<table>
<thead>
<tr>
<th>Age</th>
<th>7 Yrs</th>
<th>10 Yrs</th>
<th>Next 10</th>
<th>20 Yrs</th>
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<tbody>
<tr>
<td>Lag 0</td>
<td>-12%</td>
<td>47%</td>
<td>-33%</td>
<td>31%</td>
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<tr>
<td>Lag 1</td>
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<td>87%</td>
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<tr>
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<td>42%</td>
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<tr>
<td>Lag 4</td>
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<td>55%</td>
<td>25%</td>
<td>35%</td>
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<tr>
<td>Lag 5</td>
<td>36%</td>
<td>-24%</td>
<td>26%</td>
<td>-13%</td>
</tr>
<tr>
<td>Lag 6+</td>
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<td>14%</td>
<td>-10%</td>
<td>7%</td>
</tr>
<tr>
<td>Full Dia.</td>
<td>67%</td>
<td>5%</td>
<td>-12%</td>
<td>0%</td>
</tr>
</tbody>
</table>
End Thought:
Change is Just The Beginning of More Change