

Human

Lack of Knowledge

What are the limits of my knowledge?

- Have you 'looked out of the window' to see what is going on?
- Is the model, and data captured, a fair representation of what is really happening?
- Can you explain what you are seeing in the data with what you know of the real world?
- When introducing new models or adapting existing ones, do you have enough knowledge to understand if it is an improvement or just a change?
- How do you know if you sufficiently understand a problem to make sure its modelled appropriately?
- Can you do more to expand your knowledge of the real life processes?

Behaviour

The risk that the actuaries exhibit biases or behaviours which mean that the reserving valuation process will not provide an independent and appropriate estimate

Examples are:

- Anchor Bias - Valuations are overly influenced by reference to prior year valuation exercises
- Reserving results overly influenced by the likely effect on financial results and variation to plans
- Overly optimistic or pessimistic treatment of historical events as being likely or unlikely to re-occur
- Herd Mentality - Actuaries wishing to be "in the pack" of their peers in use of methods or treatment of claim types (CL versus individual claims reserving, valuation of PPOs)
- Loss Aversion - Actuaries may view estimates asymmetrically (unconsciously being "prudent")
- Pressure to allow for claims improvements when there is little or no evidence. Ignoring this is too prudent, but can it all go in without understanding it?
- Impact of risk tolerance limits.

Expert Opinion

Expert judgement may be used where little data is available.

Examples are:

- Is it clear where expert judgement has been made?
- Is the judgement well documented and easy to follow, including updates to it?
- Were the questions framed appropriately to the experts?
- Has the expert judgement been used and interpreted correctly by the analyst using it?
- Could the judgement be wrong? Is the uncertainty around the judgement sufficiently understood? Can this be captured?
- Who made the judgement – do they have the appropriate expertise? What are the limits of their knowledge? Is there anyone else now available? Are alternative and additional sources of expert judgement needed?
- How do we get "good" expert opinion; talking to the right people at the right time, wisdom of crowds, recognising framing issues when asking questions of experts and any biases they may have and so on.
- Is there a risk of herd mentality? Is there a risk of bias?
- How do the results compare to high level sense checks?
- Is an independent review of the expert judgement needed?
- When was the judgement last made or updated?
- Is data now available? Are alternative sources of data now available? What improvements to data could be made in the future?
- What is the expert judgement policy (identifying items that are or need expert judgement and how these have been arrived at), - recognising own limitations and when additional expertise is required?