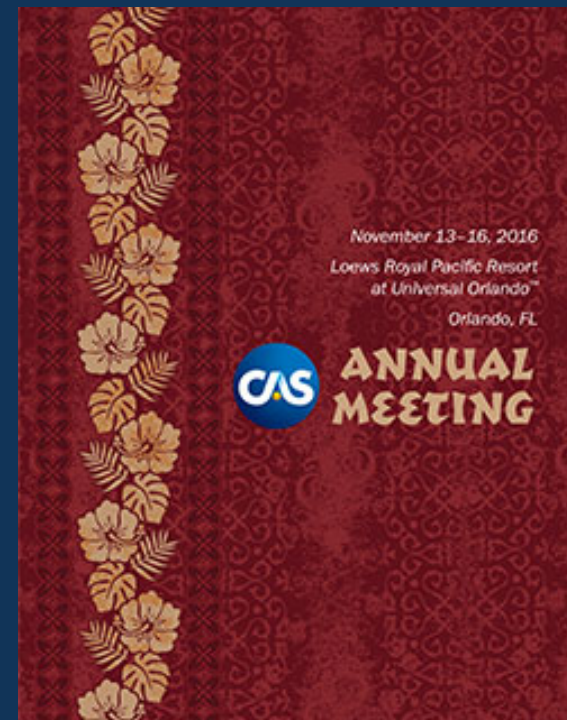


GIROC: SRCH

Sensing and Responding to Change (Holistically)

Christopher Smerald -AIG



THE PICTURE SO FAR

- Problems:
 - Due For A Correction
 - Others May Be Better
 - Stuck In A Cave Not In The Real World
 - Statistics May Be Part Of The Problem
- Solutions:
 - Be Fearful And Curious
 - Tap Into Broader Experience
 - Better Appreciate Uncertainty
 - Use Story And Think From Other's Point Of View

SRCH PARTY TO THE RESCUE

Problems:

- Reserving Cycles Can't be Mastered With The Sort of Thinking Which Created Them

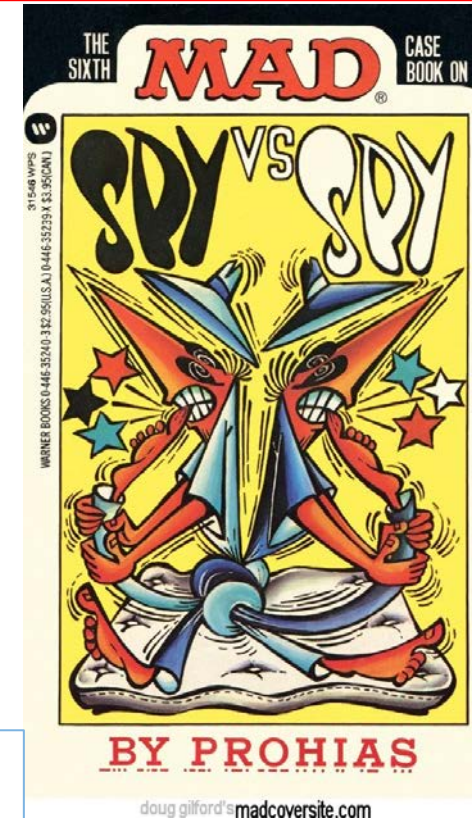
- We Are Dealing With Complex Social Systems. Action and Reaction



(A. E. Einstein)

Solutions:

- Use Those Big Ears Better
- Don't Take Yourself Too Seriously
- Systematically Challenge Everything

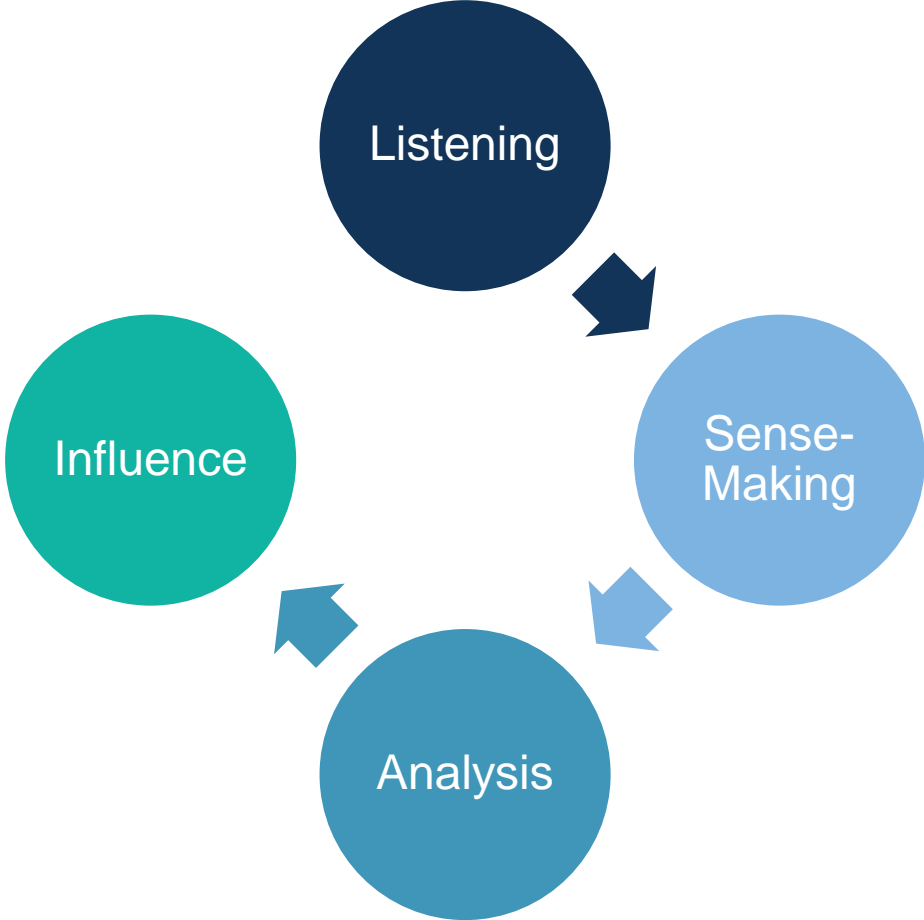


Two Level Approach:

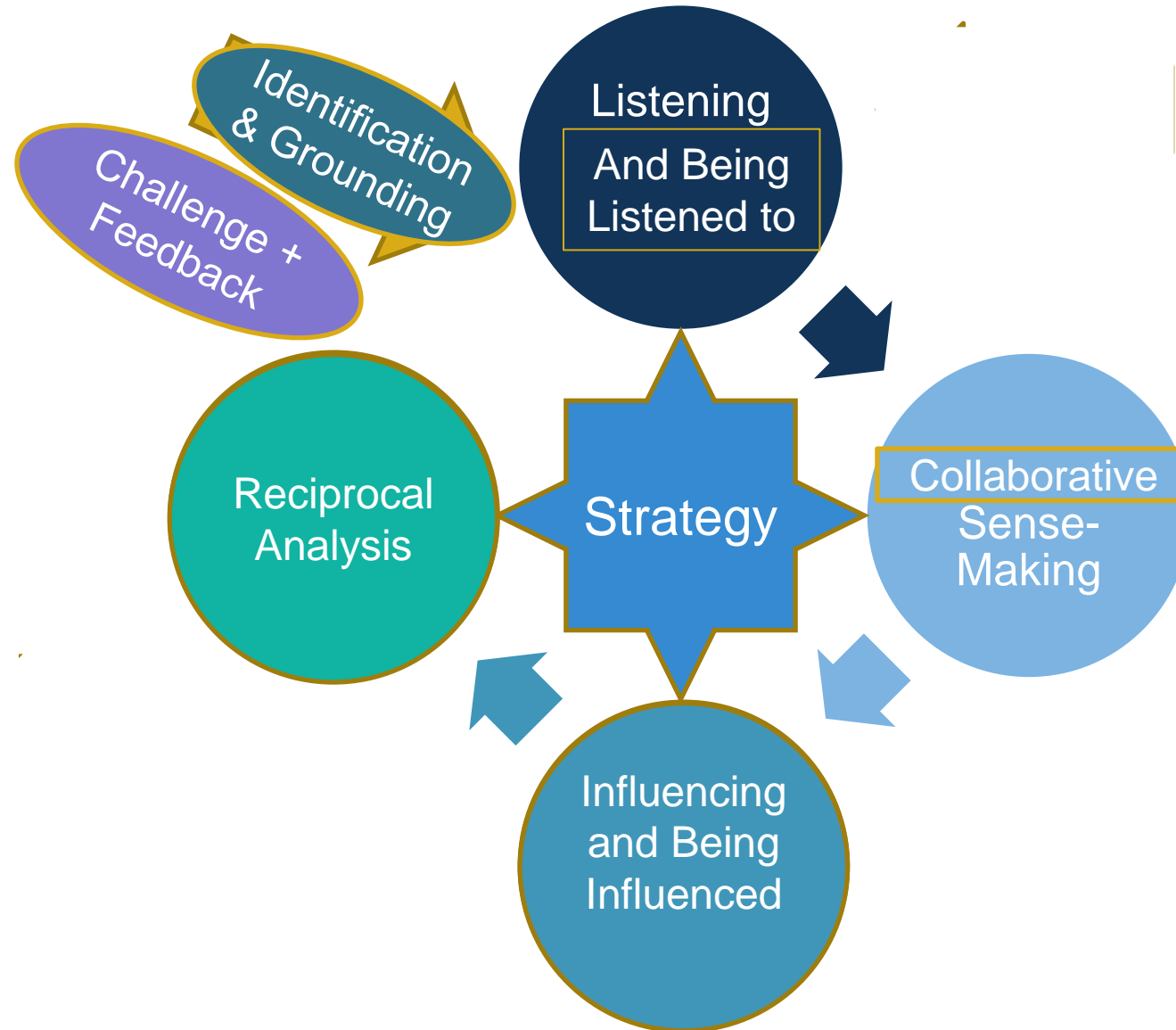
A. Group Change Process

B. Model Risk Management Thinking

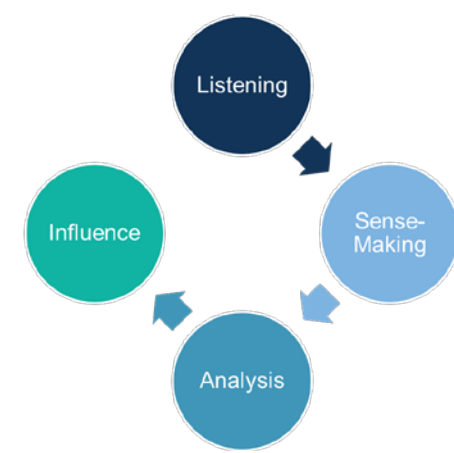
Group Change Process



Learning From Failure: Brexit



Group Change Process



Strategy

- Shortlist Issue(s)
- Identify Allies, Agents, Stakeholders



Be Prepared: Issue Identification and Grounding

- Keep Close to Your Allies' (Underwriting, Claims, Management, R&D, Risk + Reg., Regulator, etc.):
 - Worries
 - Goals
 - Constraints
- Invest time in key emerging topics
- Have a network to tap into



Strategic Listening

Successful if You can represent *their* voice,
(emotion, facts, goals, and mental model)
AND They can represent *yours*.

Practicalities:

- Plan Who You Should Approach
- Think About Your Value to Them
- Map the Conversation in Advance
- Take Good Notes
 - Pause or Recap if Needed
 - Record Emotion



Sense-Making: SRCH Needs a Story

1. Sketch the Root Issue's Timeline + Milestones
2. Think About Key Stakeholders (Govt., Claimants, UW, etc.)
 - How Is Their World Affected?
 - What Might They Do?
3. 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
- Too Late Once Analysis is Done



Model Risk Management Analytic Thinking

Models are:

- Everywhere in
 - Processes or
 - Interactions
- Unique
- Subject To Similar Uncertainties
- Challenge Worthy if Benchmarked



Modelling Uncertainty Sources:

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

Underwriting Cycle Example:

Uncertainty Category	Relative Risk Heat
Strategic (model) Error	High
Statistical Fluctuation	Normal
Reference Data Bias	High
Shocks	Normal
Trends / Cycles / Step Changes	High
Business Process Change	High
Operational Error (“Oops”)	Normal
Ambiguity (“New”, Repeat Offender, Complexity, etc.)	High
Other?	Low

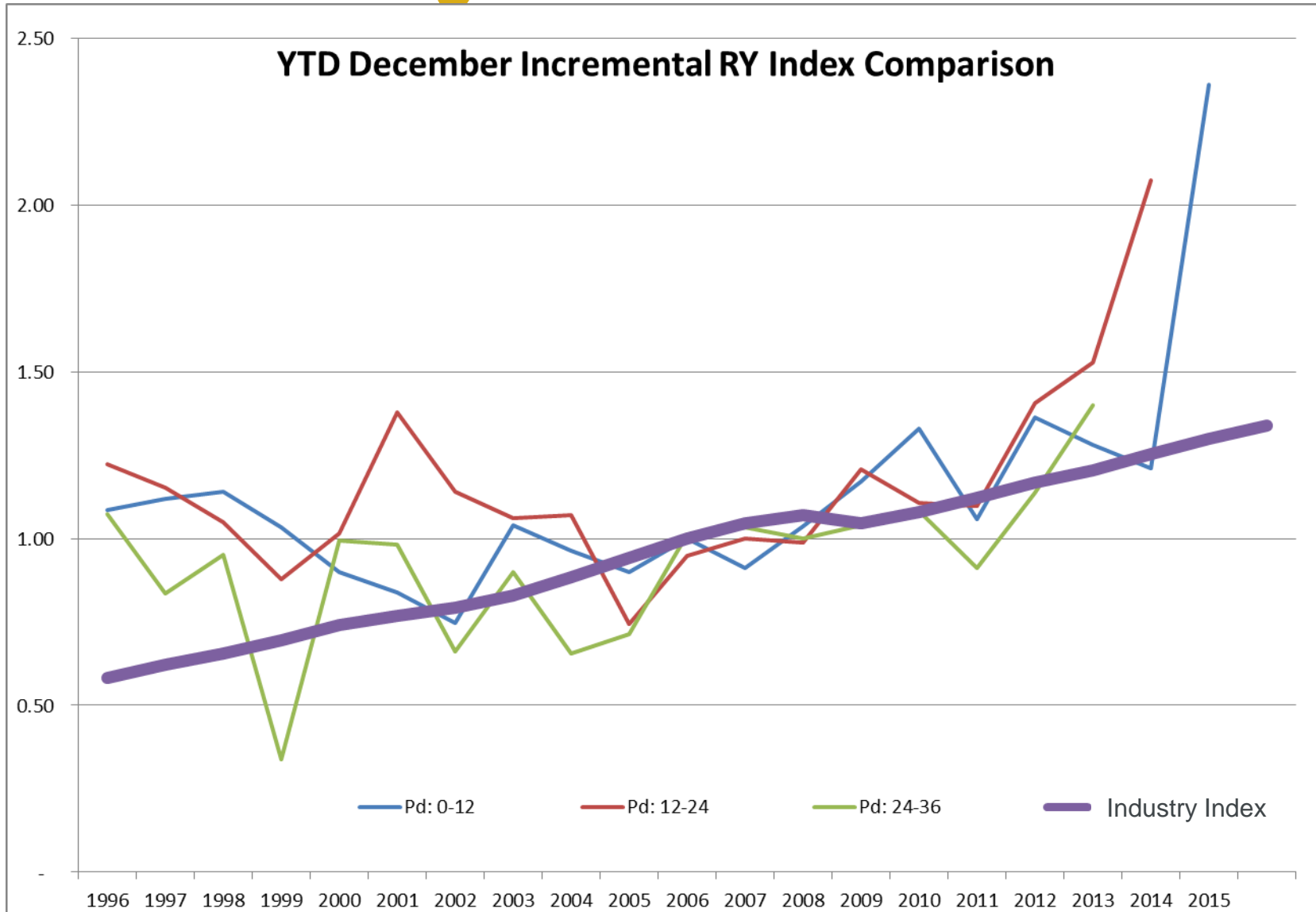
Tactical Uncertainty Analysis

Uncertainty Category	Relative Risk Heat	Examples	How Can You Help Them?	How Does It Impact You?
Strategic (model) Error	High	-Indiv. Risk Selection -Terms and Conditions -Portfolio Balancing -Negotiation Strategy	-Sense check -Help Monitor	-Reference Data
Reference Data Bias	High	-Acceptable Deal St'd -Benchmark Factors	-Sense check -Help Monitor	-Reference Data
Trends / Cycles / Step Changes	High	-Trend Shift -Market Behaviour	-Analysis -Ind. Benchmarks	-Trends/etc.
Business Process Change	High	-Remediation Strategy -Reorg -Pricing Model Change	-Validation -Gather Stats -Back-testing	-Reference Data
Ambiguity ("New", Repeat Offender, Complexity, etc.)	High	-Winner's Curse -Checklist Fiasco	-Back-testing -Challenge (they might not like...)	-Ambiguity etc.

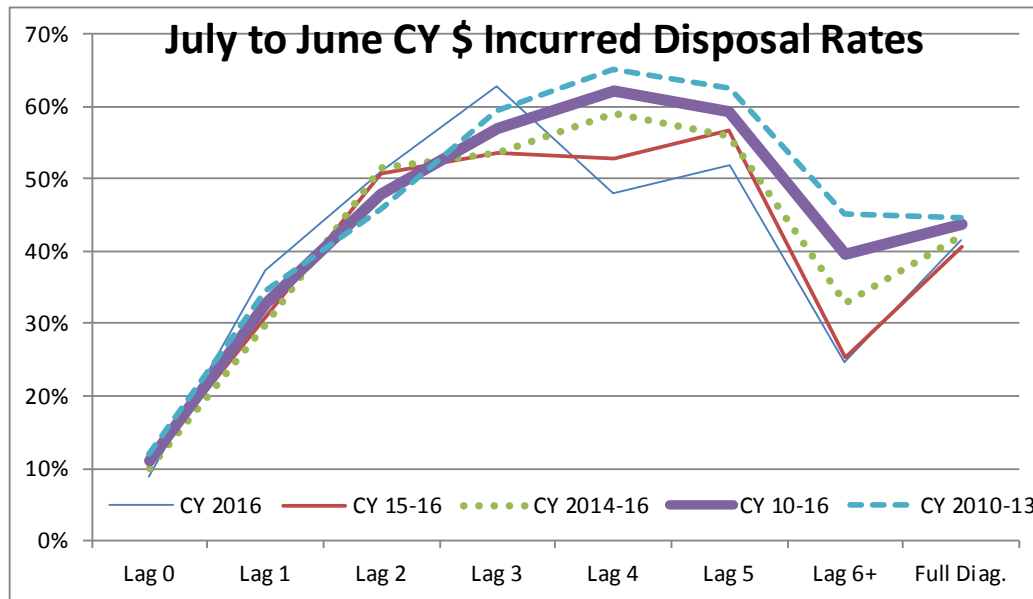
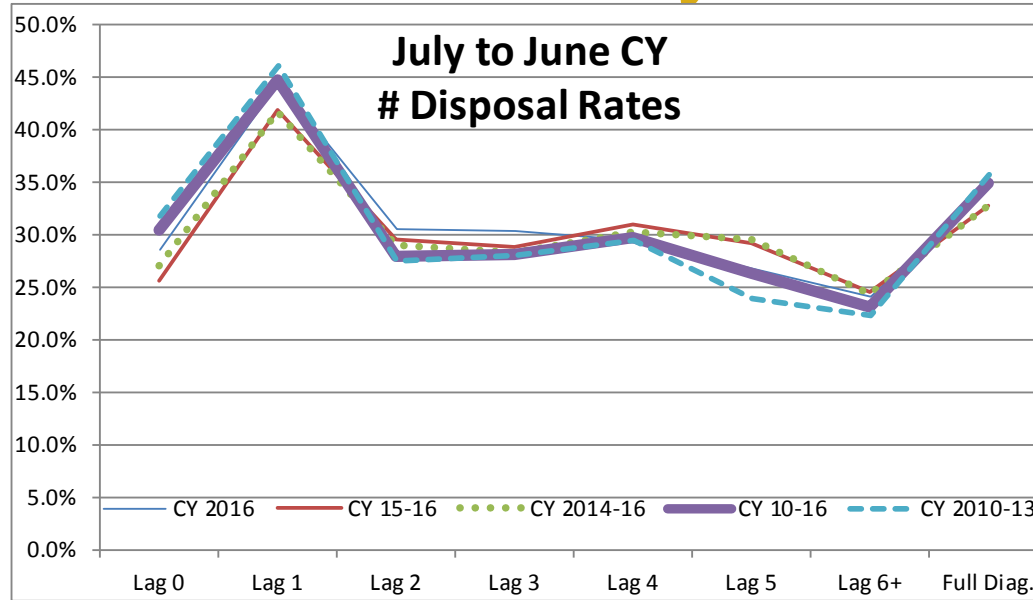
Challenge And Feedback

- Quid Quo Pro
- Your Analysis Should Challenge Its Own Story
- Feeds Into the Next Cycle Iteration

Tactical: Diagnostics Need a Baseline



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



Cal. Period Variance

Correlation \$ Paid With # Closed:

Age	7 Yrs	10 Yrs	Next 10	20 Yrs
Lag 0	-12%	47%	-33%	31%
Lag 1	88%	87%	-8%	44%
Lag 2	20%	28%	8%	17%
Lag 3	-9%	40%	42%	37%
Lag 4	-4%	55%	25%	35%
Lag 5	36%	-24%	26%	-13%
Lag 6+	-5%	14%	-10%	7%
Full Diag.	67%	5%	-12%	0%

Development Lag Variance

**End Thought:
Change is Just The Beginning of
More Change**

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