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Developing Actuarial Judgement

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● Agenda

- What is Actuarial Judgement?
- How do you develop Actuarial Judgement?
- Demonstrating good Actuarial Judgment?

WORD CLOUD

What word(s)
come to mind
when you think of
Actuarial
Judgement?



● What is Actuarial Judgment?

Expert Judgment

Training/Knowledge

Experience

Expertise

Code of Conduct

Professional Judgment

● When do we use Actuarial Judgement?

- The **choice of data** for an assignment
- How to deal with **missing or inappropriate data**
- The **selection/usage of the methodology/models**
- The setting of key **assumptions**
- **Testing** model outcomes for **reasonableness**
- The **interpretation of the model outcome**
- **Selecting** among **results** from multiple reasonable models
- When dealing with **constraints** on time and money

Exercising Actuarial Judgment

Do I have the knowledge and experience?

Do I have access to other knowledgeable experts?

Can I devote the appropriate time and resources?

Does this conflict with my ethical/moral principles?

Did I adhere to regulations and professional standards?

Did I avoid undue pressure and conflicts of interest?

Can I keep professional skepticism towards data and other pieces of information?

Do I feel confident I can explain & communicate results?



How did you develop
Actuarial Judgment?

Developing Actuarial Judgment

- Education and Qualifications
- Continued Learning
- **Understanding of Business**
- **Practical Experience**
- **Critical Thinking**
- **Mentorship**
- Ethics
- Communication Skills





Life and Health perspectives

- Understanding of Business
- Experience Analysis
 - Credibility of Historic Experience Data & Future Expectations
- Operating & economic assumptions
 - Mortality rates & improvement
 - Mortality Spikes – Covid-19
 - Disability Rates
 - Incidence Rates
 - Termination Rates
 - Persistency
 - Lapse & Surrender Rates
 - Medical Trends & inflation
 - Expenses
 - Expense Trends & Inflation
 - Investment & Other Income
 - Corporate & Policy Taxation
 - Uncertainty/Risk
 - Regulation
 - Climate Change
 - Correlations (in tail)



P&C perspectives

- Understanding of Business
- Experience Analysis
 - Claim count and Loss Development Patterns, Frequencies, Severities
- Considerations
 - Intended Measure
 - Data Organization
 - Type of year
 - Segmentation
 - Exposure Bases
 - Risk Classification
 - Mix of Business
 - Underwriting Quality
 - Limits/Deductible
 - Reinsurance
 - Policy Terms
 - New Coverages/Exposures
 - Expenses
 - Profit & Contingency Provisions



P&C perspectives

- Considerations (cont'd)
 - Adjustments to Premium
 - Rate level adjustments
 - Adjustment to Losses
 - Judicial or legislative
 - Operational changes
 - Case reserving practices
 - Definitional changes
 - Trends
 - Credibility/Complement of Credibility
 - Treatment of Catastrophes
 - Infrequent Events
- Additional Funding Sources
- Pools & Associations
- International Considerations
- Accounting Changes
- Climate Change
- Contagion
- Bias



Developing Actuarial Judgment

Practical Experience

1

Know your data

2

Review
diagnostics

3

Know strengths
and weaknesses
of your methods

4

Perform
sensitivity tests

5

Check your work
/ have it peer
reviewed

● Developing Actuarial Judgment

- **Critical Thinking**

- These are insights that you have learned over time
 - Insights
 - Truism
 - Illumination
 - Realization
 - An “aha” moment





Developing Actuarial Judgment

Mentorship

- **A seasoned actuary or professional**
- **Peer review**
 - Learn how others think
 - Vary between someone familiar and someone unfamiliar
 - Unfamiliar feedback examples
 - Does mortgage guaranty have contagion risk?
 - What about hurricanes that make secondary landfall?
 - Will policy limits cap payouts?



Indications of good Actuarial Judgment?

Consistent Decision-Making

Confidence from Others

Ability to Anticipate Outcomes

Critical Thinking Skills

Ability to Learn from Mistakes

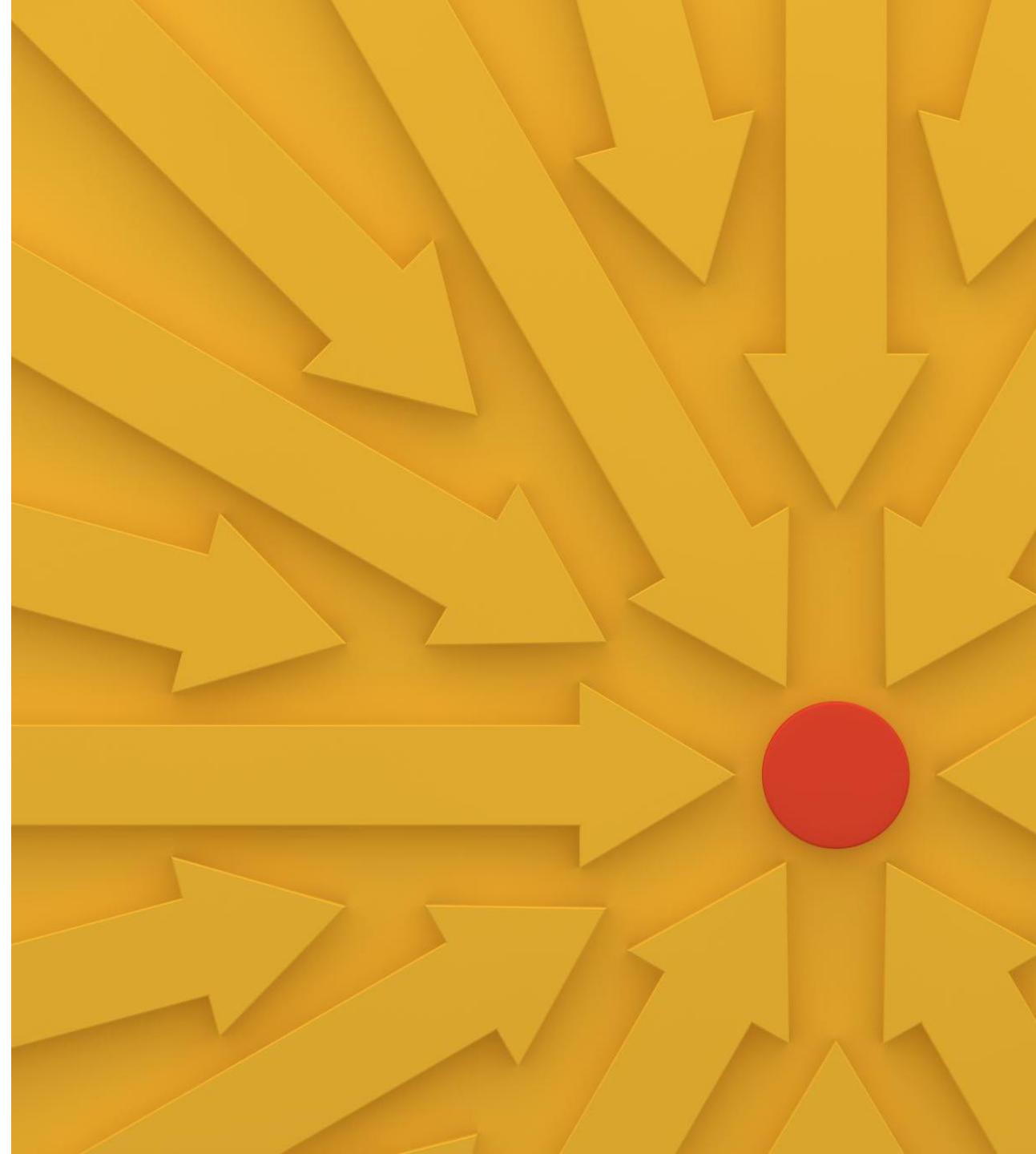
Ethical Decision-Making

Flexibility

Peer Review

● Maintaining good Actuarial Judgment under pressure

- Adherence to Professional Standards
- Transparent Communication
- Critical Thinking
- Ethical Decision-Making
- Seeking Advice
- Continuing Education
- Documentation





Other thoughts?