Institute and Faculty of Actuaries

Group Think: a public interest issue for actuaries?

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Introduction

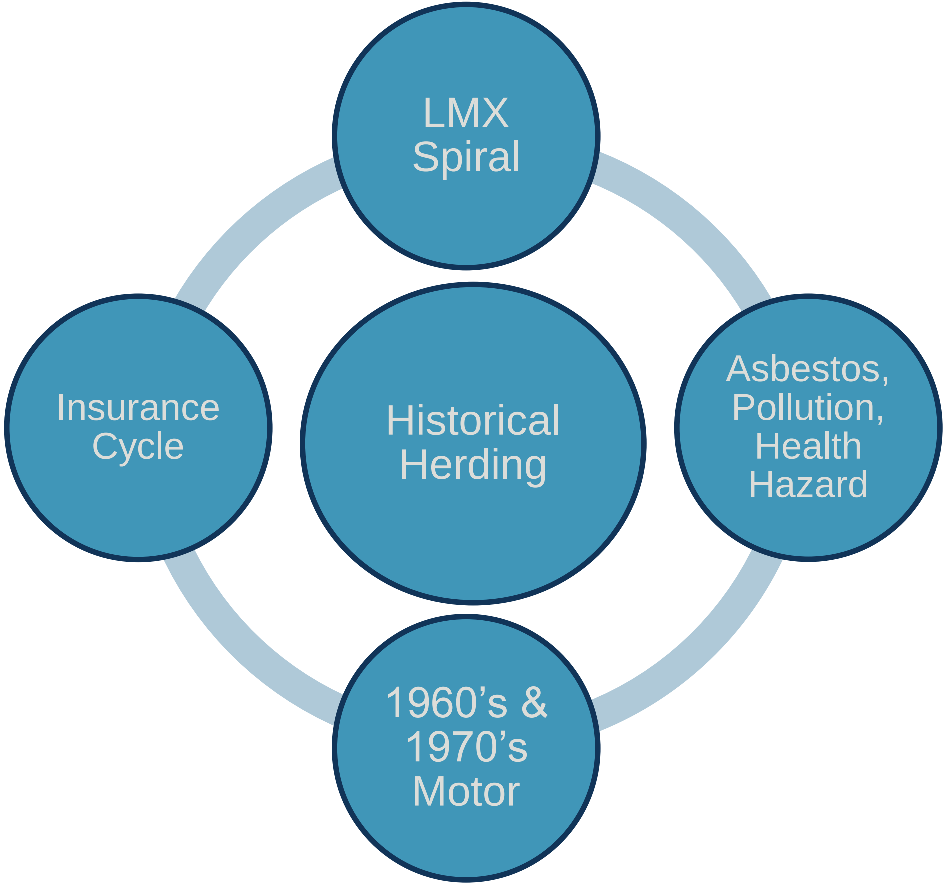
- Defining “group think”
- Sources and origins: our findings
- Is group think occurring in your practice area right now?
- How to manage the issue

Defining Group Think

“the tendency for one’s own judgment to be influenced by the apparent consensus view of assumptions, methods, processes or approaches leading to a reduction in the variety of ideas in the market”.

IFoA Herd Like Behaviour Working Party definition, used in the JFAR Review of 2016

http://channel.nationalgeographic.com/wild/how-human-are-you/videos/group-think/


LMX Spiral
Insurance Cycle
Historical Herding
Asbestos, Pollution, Health Hazard
1960's & 1970's Motor

Why look at this issue now?

- IFoA regulatory “risk focused” strategy
- JFAR: pan UK regulatory group focusing on public interest risk to which actuarial work is relevant
- Working party research on Herd Like Behaviour


Assessing the risk in 2017
Reserving model
Reserving risk models
Risk distributions
Model Reliance
New Latent Claims
Bench-marking Reliance
Working Party Reliance
Solvency II

Sources and Origins

External
Regulators
Auditors
Consultants
Software Providers
Investment Analysts
Profession

Cultural
Company structure
Ability to challenge
Remuneration
How busy the teams are
Investment in skilled team
Size of teams / turnover in team
Governance structure

Situational
Greater complexity / opaqueness / riskiness of decision
Lack of data
Greater forecast horizon
Greater market volatility / crisis

Psychological
We like consistency
We like to be safe
Short termism
Looking up to senior colleagues
Some people are more likely to act in this way

Group discussion on sources of group think:

- How can you identify group think in your practice area at an early stage?
- What type of cultural environment do you work in? What influence does this have on the propensity to group think?
- To what extent do regulators, as an external force, exert influence on actuaries in this context?
- Does regulation foster common thinking among actuaries, and is this positive?
- Is it in the public interest for regulators to intervene where other sources give rise to a risk of group think?

Sources: Review Findings

- Principle based regulation reduces the propensity to group think
- Organisational culture is the most influential source
- Consultants have a strong influence on current practice, and therefore are a significant potential source
- Good practice management mitigates risk
- “common industry approach”/benchmarking

Group discussion points on assessing current risk:

- Are you aware of any examples of group think within your practice area?
- Where group think occurs, to what extent is it a good thing?
- Does the scale of group think within your practice area amount to a public interest risk?

Group discussion on managing the risk

- Who has the most significant role in managing the risk:

  (a) individuals; (b) the profession; (c) employers; (d) regulators; or (e) others?

- What effective measures have you seen to encourage best practice or the eliminate poor performance in your practice area?


Individual
Regulators
Owning the solutions
Employers
Profession

Solutions to manage the risk

- Awareness of the issue is key to addressing the risks it creates
- Culture of your workplace environment is essential – the importance of a healthy and robust internal challenge culture.
- Regulators can impact the propensity to group think by their choice to pursue rules based or principles based approaches.

Solutions to manage the risk (cont)

- There are practical tools available to improve awareness and reduce risk:
  - Effective resourcing
  - Realistic timescales
  - Accepting limits of skills sets
  - Knowledge sharing
  - Encouragement to share views
  - Structured brainstorming
  - Documenting decision making processes
  - Informed use of benchmarks
  - IFoA Quality Assurance Scheme

What next?

- Key learning points.
- Awareness raising: mud at the wall
- Practical tips
- Use QAS as a means to explore workplace culture
- Further reading: https://www.actuaries.org.uk/news-and-insights/news/jfar-review-group-think

Any questions?