



PARMA Conference 2019

LESSONS FROM A BLACK SWAN & OTHER ODD DUCKS

presented by

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Alliant Insurance Services



PURPOSE

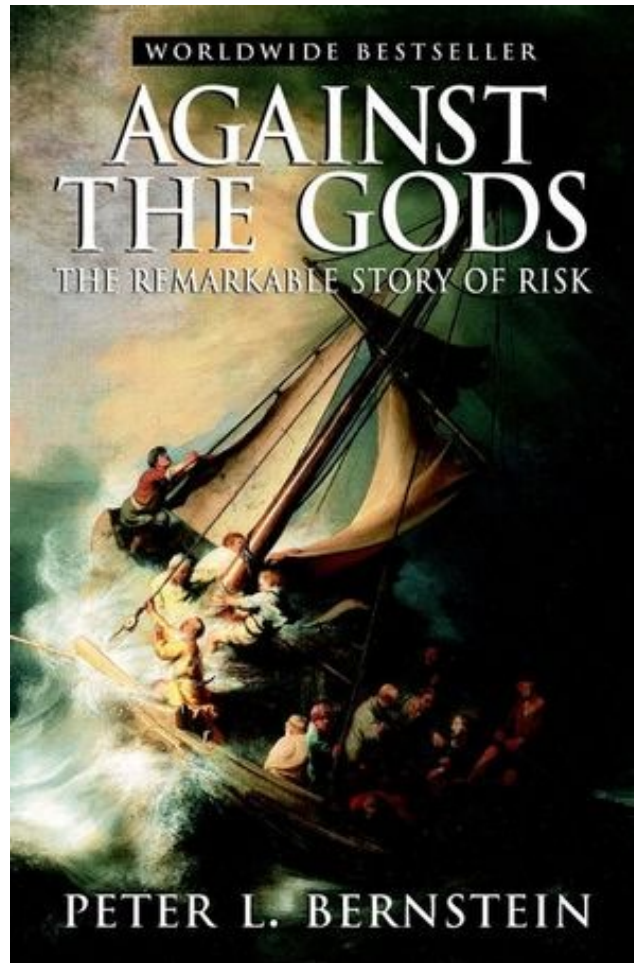
Provide an overview of several influential risk management books and thinkers, to share some concepts that will help you be a more effective risk manager.



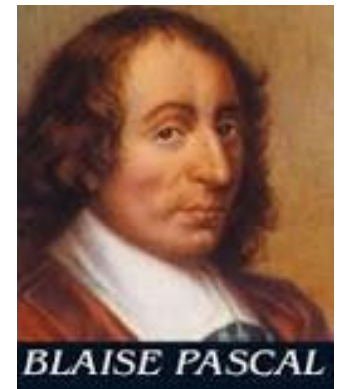
OUTLINE

- **Against the Gods**
- **Freakonomics**
 - Peter Sandman
- **Traffic**
- **The Black Swan**
- **Careful**





WHAT ARE THE ODDS?



Without probability there is no “modern” risk management!



WHEN YOU DON'T KNOW THE ODDS

USE A PAYOFF MATRIX

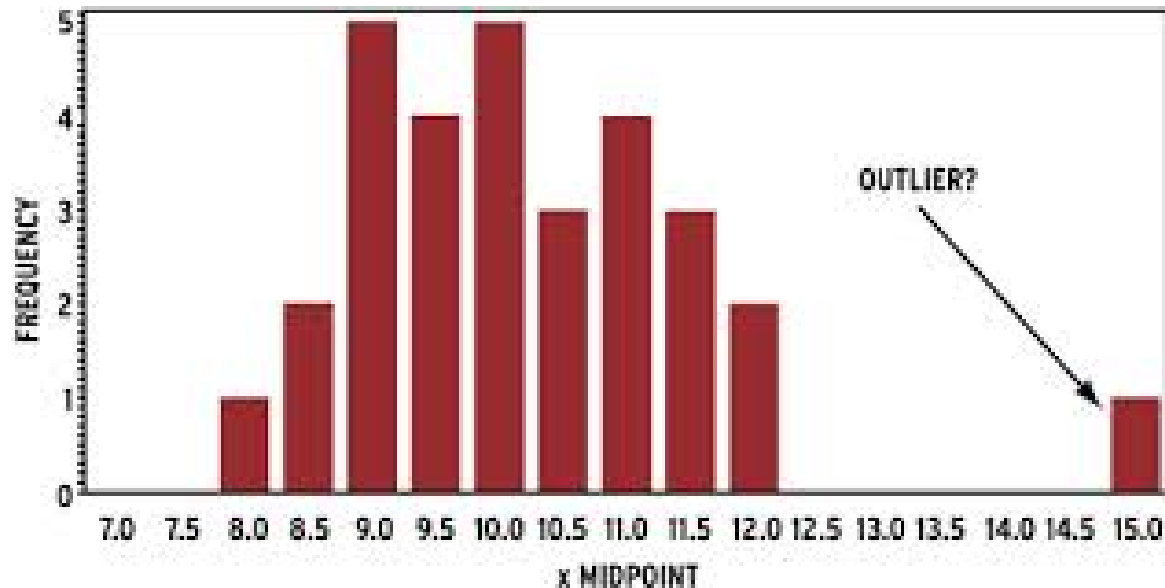
	God Exists	No God
Believe in God	<p>Heaven</p> 	<p>Virtue is its own reward?</p> 
Don't Believe	<p>HELL</p> 	<p>Party On!</p> 

“Pascal’s Wager” / The Pagan’s Dilemma
Reduce Your Downside



LAW OF LARGE NUMBERS

“Nature has established patterns originating in the
return of events ...



but only for the most part”

Gottfried Leibniz to Jacob Bernoulli, who then developed the Law, 1703



NO TIME = NO RISK



**“In the long run we’re all dead” -
John Maynard Keynes**



#1 NEW YORK TIMES BESTSELLER

FREAKONOMICS

A ROGUE ECONOMIST EXPLORES
THE HIDDEN SIDE OF EVERYTHING

"Genius... has you gasping in amazement."

—The Wall Street Journal



WITH
NEW MATERIAL
INCLUDING AN
AUTHOR Q&A

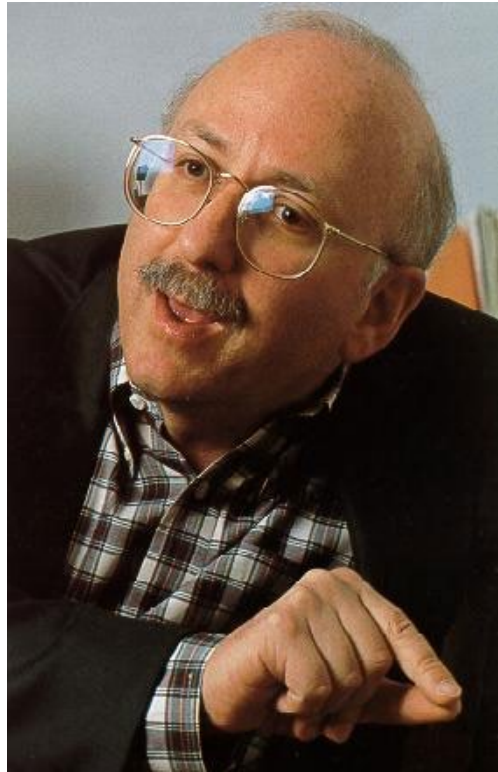
STEVEN D. STEPHEN J.
LEVITT & DUBNER

<http://www.freakonomics.com/>



PETER SANDMAN

www.petersandman.com



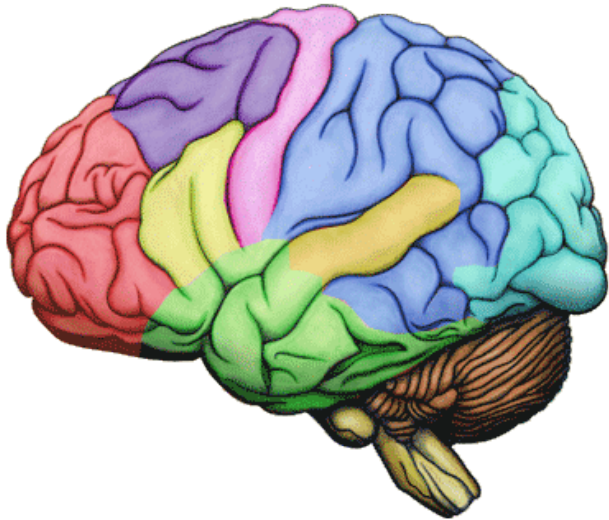
Risk Management Communication Guru



RISK

=

+



Hazard

+

Outrage



PUBLIC'S RISK RESPONSE TO RISK



Hazard

High

Low

Crisis RM

Overreact

High

Outrage

Underreact

Who Cares?

Low



OUTRAGE COMPONENTS

“Safe” - Underestimate

1. Voluntary
2. **Natural**
3. Familiar
4. Not memorable
5. Not dreaded
6. **Chronic**
7. Knowable
8. Individually controlled
9. Fair
10. Morally irrelevant
11. **Trustworthy sources**
12. Responsive process

“Risky” - Overestimate

1. Coerced
2. Industrial
3. Exotic
4. Memorable
5. **Dreaded**
6. Catastrophic
7. **Unknowable**
8. **Controlled by others**
9. Unfair
10. Morally relevant
11. Untrustworthy sources
12. **Unresponsive process**

Apathy

Interest

Advocacy

Outrage



RISK MANAGEMENT COMMUNICATION

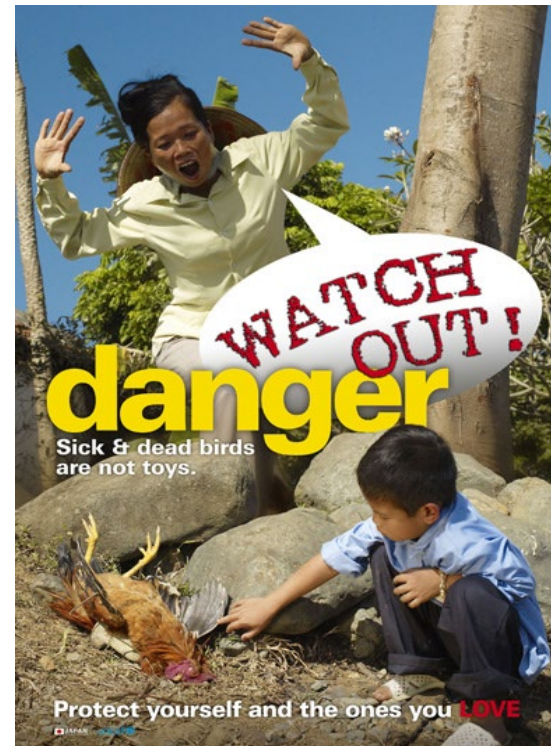
Overreact?

Don't Worry



Underreact?

Watch Out!



WATCH OUT — SLOW DOWN FOR KIDS IF NOT ME!



WATCH OUT — OTHERS DEPEND ON YOU



DON'T WORRY - THE "NEW" WELLS FARGO CARES ABOUT YOU!

WELLS FARGO

[Home](#)

[Commitment](#)

[Products and Services](#)

[Community](#)

[Contact](#)

Established 1852. Re-established 2018 with a recommitment to you.

From day one, we always came through for our customers. Today, we're renewing our commitment to you—and working to earn back your trust.

See what's new at Wells Fargo:



Building a better bank



Putting service first



Upgrading our banking
features

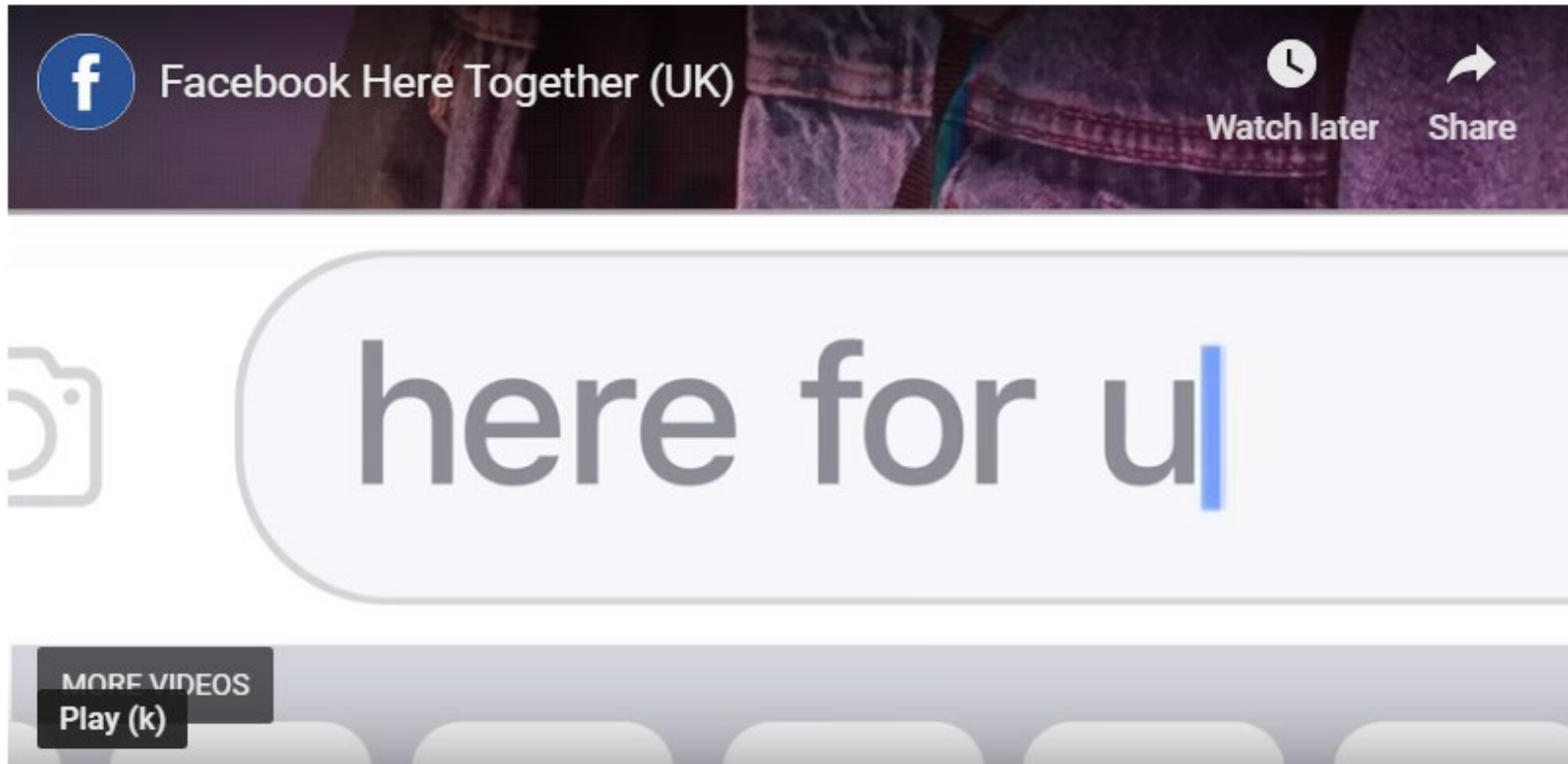


Increasing community
impact



FACEBOOK APOLOGY TOUR

“We came here for the friends .. And we found others just like us and, just like that, felt a little less alone.

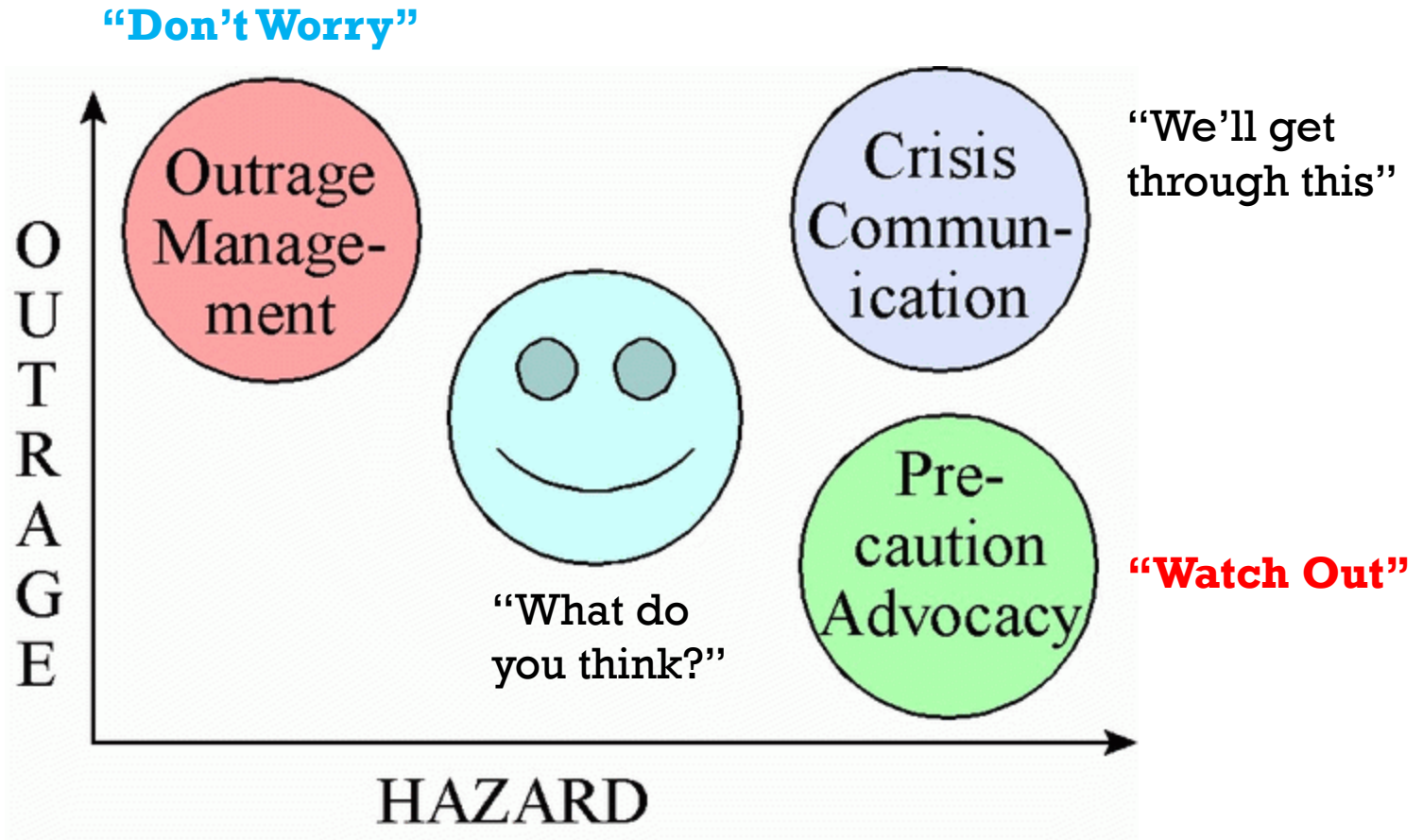


But then something happened. We had to deal with spam, clickbait, fake news, and data misuse. But that’s going to change.”

<https://www.youtube.com/watch?v=Q4zd7X98eOs>



RISK MANAGEMENT COMMUNICATION



REDUCING OUTRAGE



- Stake out the middle, not the extreme
- **Acknowledge** prior misbehavior
- Acknowledge current problems
- Discuss achievements with humility
- Share **control** & be accountable
- **Pay attention** to unvoiced concerns and underlying motives



REDUCING OUTRAGE

- **Don't keep secrets.** Be honest, forthright, and prompt in providing risk information to affected publics.
- **Listen to people's concerns.** Don't assume you know what they are, and don't assume it doesn't matter what they are.
- **Share power.** Set up community advisory boards and other vehicles for giving affected communities increased control over the risk.
- **Don't expect to be trusted.** Instead of trust, aim at accountability; prepare to be challenged, and be able to prove your claims.
- **Acknowledge errors,** whether technical or nontechnical. Apologize. Promise to do better. Keep the promise.
- **Treat adversaries with respect** (even when they are disrespectful). If they force an improvement, give them the credit rather than claiming it yourself.

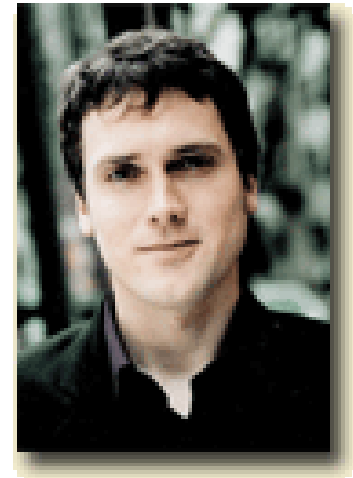


TRAFFIC

WHY WE DRIVE THE WAY WE DO

(and What It Says About Us)

TOM VANDERBILT



<http://tomvanderbilt.com/traffic/>



ARE YOU A LATE MERGER?



...or an Early Merger?



THE STARE-AHEAD



RECIPROCAL FAIRNESS

Powerful tool for good or bad
Let others in v. tailgate or “road rage”



DEFINED

RULE OF RECIPROCITY:

A conditioned response where people are compelled to return the kindness of a gift, even if they really don't want to.



WHY DOES THE OTHER LANE ALWAYS MOVE FASTER?



QUEUE LOGIC

Moves Slower

- Unoccupied time
- Uncertain
- *Anxiety*
- **Unfair**
- Solo Waiting
- **Explained**



Moves Faster

- *Occupied Time*
- Certain
- Calm
- **Fair**
- Group Waiting
- **Unexplained**



LOOK IN YOUR REAR-VIEW MORE OFTEN



SECOND EDITION

WITH A NEW SECTION: "ON ROBUSTNESS & FRAGILITY"

NEW YORK TIMES BESTSELLER

THE
BLACK SWAN



The Impact of the
HIGHLY IMPROBABLE

"The most prophetic voice of all."
—GQ

Nassim Nicholas Taleb



DON'T BE A TURKEY ...



YOU'RE A TURKEY



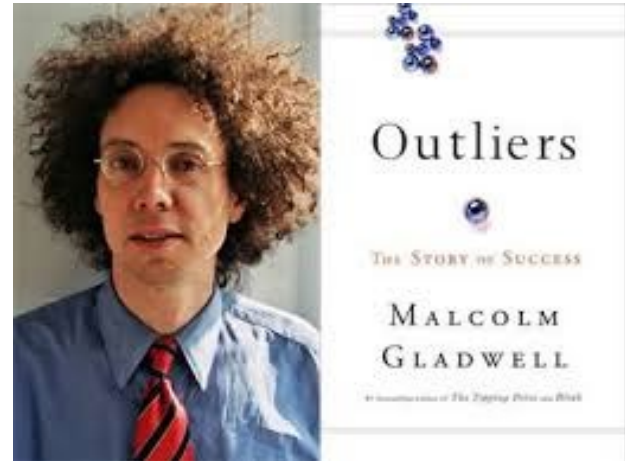
If the same hand that feeds you
can also ring your neck!



BLACK SWAN



1. Outlier
2. Extreme Impact
3. Retrospective Predictability



“THE MOTHER OF ALL PROBLEMS”

The Problem of Induction

Moving from the specific to the general



Absence of evidence is not evidence of absence

And correlation is not causation!



YOUR ACTUARY WILL BE WRONG



- “It Never Happened Before”
- Big events don’t have big parents.
- Subjective Probability (outrage)
- Provide a map of where we get hurt by what we don’t know

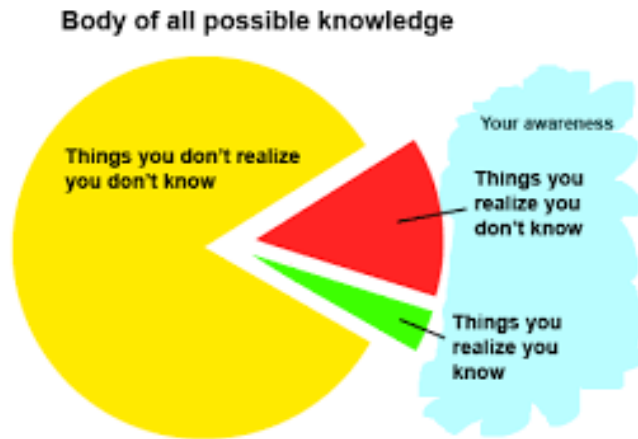


DON'T CONFUSE THE **MAP** WITH THE **TERRITORY**

A Map of the Known World Before 1492



WHAT YOU DON'T KNOW IS FAR MORE RELEVANT THAN WHAT YOU KNOW

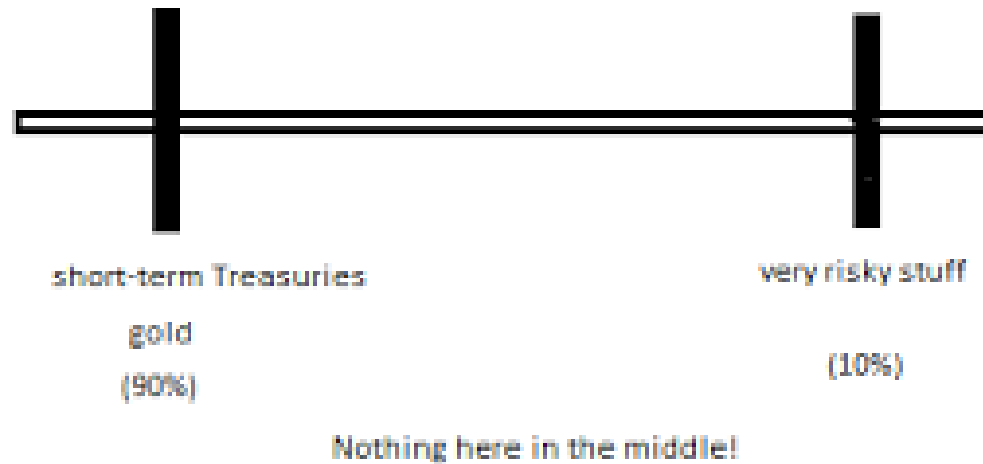


“As we know,
There are **known knowns**.
There are things we know we know.
We also know
There are **known unknowns**.
That is to say
We know there are some things
We do not know.
But there are also **unknown unknowns**,
The ones we don't know we don't know.”

- Donald Rumsfeld



WHAT TO DO ABOUT BLACK SWANS? BARBELL STRATEGY



otherwise ...



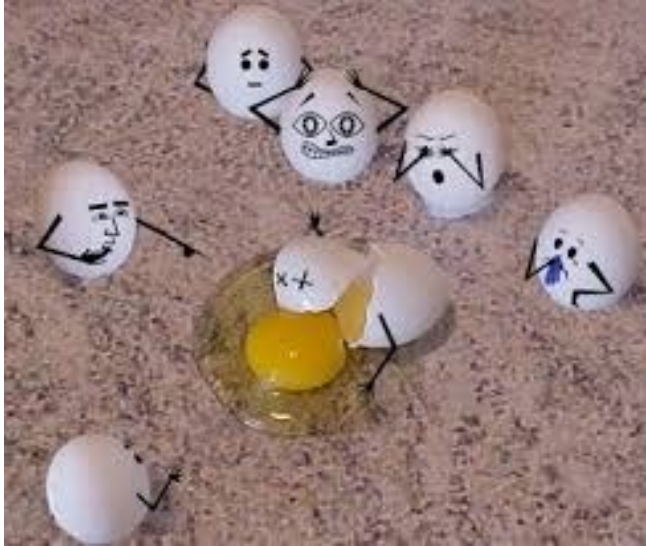
BLACK SWAN STRATEGIES



- Respect time and intuition
- Avoid optimization; learn to love redundancy
- Beware the “atypicality” of remote events
- **Beware moral hazard with bonus payments**
- Avoid some risk metrics
- **Don’t confuse absence of volatility with absence of risk**



BLACK SWAN SOCIETY PRINCIPLES



- *What is fragile should break early, while it's still small*
- **No socialization of losses & privatization of gains**
- People who were driving a school bus blindfolded (and crashed it) should never be given a new bus
- Don't give children dynamite sticks, even if they come with a warning label.
- Make an omelet with the broken eggs



"Equally vital for companies and countries, *The Gray Rhino* serves as a critical reorientation of crisis management strategy and policymaking."
—IAN BREMMER, PRESIDENT, EURASIA GROUP

THE GRAY RHINO



HOW TO RECOGNIZE
AND ACT ON THE OBVIOUS
DANGERS WE IGNORE

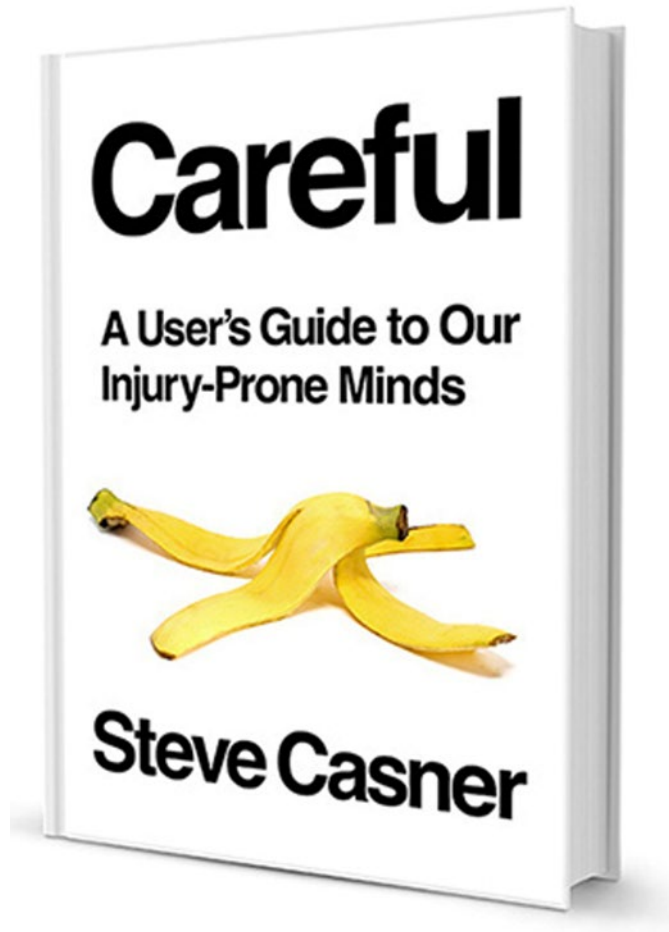
MICHELE WUCKER

HONORABLE MENTION

What's next - Pink Flamingos?



CAREFUL



The psychological traps that prevent us from being more careful.

Or

Why do we keep doing stupid things?



OUR VULNERABILITIES



- **Paying Attention**
- Making Errors
- Taking Risks
- **Thinking Ahead**
- Taking and Giving Advice
- **Looking Out for One Another**



PAYING ATTENTION



There's no such thing
as multi-tasking!

It's called
task-switching

And it's very inefficient

Leaves "Attention Residue"



THINKING AHEAD



System 1 – auto pilot

- Fast, effortless, fun, preferred

System 2 – doesn't jump to conclusions

- Deliberative, contemplative, *weighs risks*

Knowing when to switch from System 1 to System 2 is critical!



LOOKING OUT FOR ONE ANOTHER



Under duress our world shrinks –
biological reaction

- Hostility aggression, competitiveness
- **We have to do it together, whether we want to or not.**
- I need others to look out for me when I'm crossing the street!

So, when in doubt ...



BE KIND TO EVERYONE ...



You Never Know When You May See Them Again!



*Hope to see you again
at many more
PARMA conferences!*



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