

Risk Intelligence

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Actuarial Teachers and Researchers Conference

Oxford University

July 15th 2011



Background

About 50 years of research in the general area

“Risk Intelligence” coined in 2006

Little correlation between IQ and successful risk takers

Field has emerged from the study of successful risk takers

My background – successful practitioner turned researcher



Risk Intelligence (RQ)

Risk Intelligence (RQ) is a measure of how well a person can assess their self knowledge in order to accurately estimate probabilities.

People with high risk intelligence tend to make better estimates than those with low RQ.

Examples



Risk Intelligence (RQ)

Other definitions of Risk Intelligence

“The ability to estimate probabilities accurately”

Dylan Evans

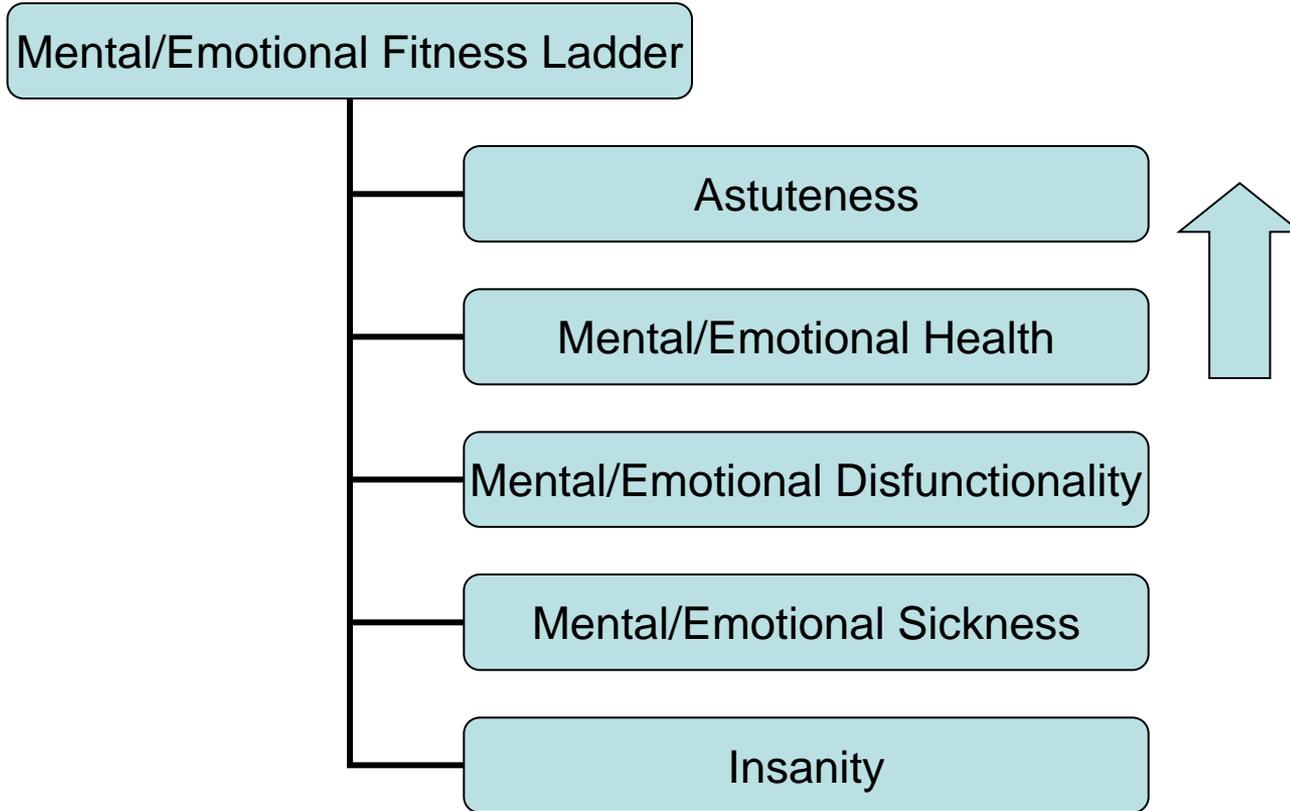
“That experience – any and all experience, past and future, that can help us solve problems requiring an understanding of risk”

David Apgar

Broader Definition: How well does somebody know him/herself!

He who knows others is wise; He who knows himself is enlightened. Lao-tzu

Risk Intelligence (RQ)



Risk Intelligence (RQ)

So what are the psychology traits that helps make somebody a good risk taker?

What had great minds to say on this topic?

Keats

*“At once it struck me, what quality went to form a Man of Achievement especially in literature & which **Shakespeare** possessed so enormously - I mean **Negative Capability**, that is when man is capable of being in uncertainties, mysteries, doubts without any irritable reaching after fact & reason”*

This "*being in uncertainty*" is a place between the mundane, ready reality and the multiple potentials of a more fully understood existence.

Keats

“It's like a state of non-being, removing all ego from the mind and accepting experiences without asserting one's own claims”

It was a reaction to his 'egotistical sublime' view of Wordsworth

“**Coleridge**, for instance, would let go by a fine isolated verisimilitude caught from the Penetralium of mystery, from being incapable of remaining content with half knowledge.”

Gelassenheit

George Spencer Brown

*“To arrive at the simplest truth, as **Newton** knew and practiced, requires years of contemplation. Not activity. Not reasoning. Not calculating. Not busy behaviour of any kind. Not reading. Not talking. Not making an effort. Not thinking. Simply bearing in mind what one needs to know...”*

Locke

- The four degrees of accent of human knowledge
 - Intuition
 - Historical knowledge
 - **Probability**..... (Actuarial Space)
 - Fact

from “An Essay Concerning Human Understanding”

Locke

Ruled by emotion and enthusiasm rather than reason

“...enthusiasm: which, laying by reason, would set up revelation without it. Whereby in effect it takes away both reason and revelation, and substitutes in the room of them the ungrounded fancies of a man's own brain, and assumes them for a foundation both of opinion and conduct”

Eliot

"However certain our expectation, the moment foreseen may be unexpected when it arrives" **T. S. Eliot**

Risk Intelligence is about how to live with uncertainty

The Actuarial Profession is about making financial sense of the (uncertain) future

Risk Intelligence seems to be a natural area for Actuaries.

Alexander Pope

“a love to parts.”

Importance of seeing the big picture

“launch not beyond your depth”

Overconfidence

Why RQ ?

- Actuaries are traditionally seen as highly skilled in relation to the
 - logical and rational sides to managing risk.
- Risk Intelligence relates to the
 - emotional, irrational and psychological sides to managing risk
- Opportunity to broaden the skill base of the Profession

Why RQ ?

Risk Intelligence testing aims to improve the management of risk and to improve the risk efficiency by:

- Assessing and highlighting psychological, emotional, and irrational biases of risk takers to improve their self awareness, e.g. in relation to overconfidence and other more complex biases.
- Based on the findings, teaching risk takers to avoid and overcome these psychological traps in their risk management activities.

IQ

No correlation between RQ and IQ

Intelligence and long training can lead to overconfidence which suppresses doubt

Emotional Intelligence

Risk Intelligence (RQ) is related to Emotional Intelligence.
Personality traits correlate with different levels of RQ

Part of current research

Kipling

If you can keep your head when all about you
Are losing theirs and blaming it on you;
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;....
If you can talk with crowds and keep your virtue,
Or walk with kings - nor lose the common touch;

RQ Testing – How ?

Risk intelligence can be measured by with psychometric approach and calibration testing. This involves collecting many probability estimates of statements whose correct answer is known or will shortly be known to the tester, and plotting the proportion of correct answers against the subjective estimates.

Another school of thought advocates testing probability estimates against objective statistics.

www.projectionpoint.com

Current / Future Research

Examining the attributes of astute risk taking decision making

Developing, broadening and expanding on the underlying psychological concept and testing procedures

Relating it to personality/psychological traits
Theoretically/Empirically

Elimination of Gaming from Tests

"He that leaveth nothing to Chance will do few things ill, but he will do very few things" **George Savile, Lord Halifax**

Current / Future Research

The K- Factor (Dylan Evans)

Examining alternatives to, and evolving the concept of the K-Factor to take into account other elements to Risk Intelligence

Current factors accessed in Dylan Evan's latest RQ test

Outgoingness

Machiavellianism

Blirtatiousness

Subjective numeracy

Risk Appetite

Other Factors... for example the L, B, P etc Factors

Current / Future Research

Relating RQ to Freudian Analysis

in particular relating RQ to character disorders and other disorders related to an unbalanced ego

Future tests likely to be considerably longer and more involved
likely to be a greater crossover with EQ testing

Other Research

TOP SECRET



Competitive Advantage

No irritable reaction to dealing with mortality statistics

Key competitive advantage for Actuaries

Implicit aim of research in this area is to improve the RQ of the Profession

To build on the existing strengths of Actuaries to develop new competencies and expertise

Applications

Risk Intelligence testing procedures would have the following applications:

To aid the identification and development of risk intelligence in the key decision makers in an organization

To aid the identification of skilled investment managers by Actuarial Investment Consultants

To expand the concept of Risk Appetite so that the 'healthiness' or otherwise of an organization's Risk Appetite can be determined.

To aid in the recruitment process of actuaries and other professionals

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