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## EDITORIAL

# An Editor in Search of the Best Practice

By Grant Hemphill

I sometimes see methods described as actuarial Best Practices. It seems these are usually the most computer and data intensive ways of getting an answer. It made me wonder who decides what is an actuarial Best Practice. Who is the judge? Of course, I googled it. Some thoughts about Best Practices and references follow:

“A **best practice** is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark.”

One academic author described how to establish a Best Practice [the best practice for setting a Best Practice?] 1. Find examples of smart practices. 2. Compare their outcomes in a range of contexts. The author had six other steps but there is much to be gleaned from these two.

His first point acknowledges that there are other good methods besides the one that might eventually be judged the Best Practice. Another author recommended the use of the more modest term “Smart Practice.” This term does not imply that the method has been compared with all others and been found superior in all cases. Similarly, I found that the IT field has a “[Standard of Good Practice](#)” for security.

One article described [contextual best practices](#) as those that were found to be best in certain situations. This again leads to using another term like smart practice. The actuary should decide which smart practice is right in his situation.

[An interesting article](#) on how USDOT establishes Best Practices said that the only way to judge something as the Best Practice is by consensus. The various stakeholders in a procedure or its outcomes must agree for it to be considered a Best Practice.

The academic research on Best Practice was mostly from the public management arena.

Each of these references implies that the Best Practice is not the latest thing. It takes time for a procedure to be used and judged most successful in a variety of circumstances. One definition of Best Practice just said it has become a [business buzzword](#) with no clear meaning. If someone is advocating a new procedure or method as a Best Practice he is probably using this definition.

I found little of direct application to small company actuaries. There is overlap with the IT standards. If the IT officer

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is responsible for using Best (or Good) Practices in information and systems, those would include actuarial systems. There are some articles on this. There is a best practice for [auditing actuarial work](#). This is provided by the Government Financial Officers Association and is applied to public pension work. Closest to our field was a [CAS paper](#) trying to establish the Best Practice for developing the “best estimate” reserve. The NAIC wanted a best estimate and there was no standard or definition for one. This concerned the P/C LAE or IBNR reserve. The paper acknowledged that there are many methods and developed a process for choosing a reserve in the range of results from the different methods. This was somewhat outdated (1998). I hope they gave it some time and experience before it is crowned Best Practice, if it ever was.

I wrote most of this without considering the parallels with my March *Small Talk* editorial. That was about the relative advantages of decision-making with modeling and heuristics. Modelers, of course, think of modeling as the Best Practice. Advocates of heuristics would admit that modeling is sometimes best in certain situations. As noted above, that doesn't make it a Best Practice.

For small company actuaries, having a choice of methods to use for a particular job is important. A specialist will tend to use his particular skill in any situation. (Ask a prostate surgeon what to do about a prostate problem.) I recall early in my career being with the Chief Actuary who was asked how long it would take to get an estimate of a particular reserve projected a few years forward. He said he could do it in three minutes, or three hours, or three days. Which estimate did they want? I still like that example of involving the stakeholders in the choice of method.

If this rambling deserves a conclusion, it might be that I find no actuarial Best Practice. Our work is so varied that no particular tool is best for all situations in all companies. ■



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