

Too Good to Be True?

Don't lose your H.E.A.D. when hearing about seemingly good risk or claim news.

I don't dance, and neither do other smart people in the insurance industry.

I'm not talking about weddings and bar mitzvahs. (Though, to be candid, I'm not much of a dancer there either.) I'm talking about responding to certain news in the industry.

When some people hear good news about risks and claims, they feel the beat, move their feet and soon they're doing a happy dance. They embrace the good news completely. They endorse what they want to hear.

Not the smart folks; they ask hard questions first. Instead of using their feet, smart decision-makers use their H.E.A.D.—Heroes, Evidence, Assumptions and Data.

Beware of **Heroes**: Some consultants will offer an opposing view and assure you the consensus of bad news is wrong.

A scientific consensus can be wrong; there are many historical examples of the scientific community endorsing principles that are ultimately disproven. But you need to be wary about rejecting a consensus. Harvard Professor Naomi Oreskes has offered interesting presentations, including a TED Talk, about the significance of these kinds of scientific agreements.

In your personal life, you rely on scientific consensus every day. You make health decisions based upon scientific consensus. You resist smoking (or hopefully, you're trying to quit). Why would you go against a scientific consensus in your professional life?

So, ask whether the happy-news consultant's view is backed by any recognized standard. Is the view consistent with guidelines used in peer-reviewed journals? Is it consistent with the scientific consensus on the issue?

While it's possible your consultant is smarter than the crowd, that's not the way to bet. Before concluding



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Demand Evidence: Consultants' theories are almost always logical. They tell compelling stories. But before embracing the happy narrative, get the evidence—because sounding right is not good enough.

Make sure each step in the consultant's explanation is supported by evidence you can see. More than once, I have heard consultants present happy stories, only to find they simply could not support their views. I don't like discrediting my own expert. But if my consultant is going to be challenged, it's best I do it in the privacy of my office—as opposed to another lawyer discrediting my guy when he is testifying.

Uncover Assumptions: Many problems can be assumed away. A consultant's analysis will seemingly make perfect sense, until the assumptions are revealed. Are the consultant's assumptions consistent with your circumstances? Are they realistic? Or, has your consultant assumed the problem away? Hidden assumptions—bad assumptions—may undermine the

consultant's whole theory.

Review Data: Bad judgments often trace back to bad data.

It's said that one reason many consultants incorrectly predicted the recent presidential election is that they relied on algorithms instead of data. Underwriters and claims people should insist on adequate data before embracing happy news.

To be fair, in some circumstances adequate data may not exist. This will often be the case when underwriting a new type of risk or facing a new claim. Lack of history may be a problem for all of the options and positions. In this situation, you probably need to recognize that all paths will involve uncertainty and act accordingly.

So, next time you're at a party, by all means get up and do the Mashed Potato. Do the Twist. When you're facing a dance floor, use your feet. But when you're facing insurance decisions, use your H.E.A.D.

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