

**Title of Exposure Draft: ASOP No. 39 Treatment of Catastrophe or Extreme Event Losses in Future Cost Estimates for Property/Casualty Risk Transfer and Risk Retention**

**Comment Deadline: June 1, 2025**

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to [comments@actuary.org](mailto:comments@actuary.org) and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

**I. Identification:**

Shawna Ackerman, MAAA, FCAS

**II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.**

Question No.	Commentator Response
1	The draft could be clearer on adjustments to catastrophe model output. See the 2 <sup>nd</sup> comment on Section 3.4.3 below. Also consider blending with scenario results. See 2 <sup>nd</sup> comment on 3.4 below.
2	See comments below on Sections 3.6 and 3.7
3	Looking back at the prior (current) ASOP 39, this is similar language. Nevertheless, I have offered a slight alternative for your consideration.

**III. Specific Recommendations:**

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
2.X - Definitions	Demand Surge—A sudden and usually temporary increase in the cost of materials, services, and labor due to the increased demand for them following a catastrophe or extreme event.	This definition exists in the current ASOP 39. Suggest keeping it or expanding it to post-event loss amplification to capture additional elements impacting costs post event.
3.4	Move the second sentence to the end of Section 3.4.1 "When using historical insurance data, <u>the actuary should refer to ASOP No. 13, Trending Procedures and No. 23 Data Quality and</u> should follow the guidance below."	The stem is for all types of data – the second sentence addresses historical data.
3.4.1.3 & 3.4.1.5	Suggest moving the second paragraph of 3.4.1.5 and placing it a 3.4.1.3.h "other relevant factors such as indices from non-insurance sources such as the US <u>bureaus of Economic Analysis, Labor Statistics, and Census.</u> "	The data sources are relevant factors to adjust data and seem better placed in 3.4.1.3. Note this suggestion also applies to the second comment on 3.4.3 below, i.e., the federal data may also be helpful in adjusting cat model output.
3.4.2	Delete the 2 <sup>nd</sup> sentence and change 3 <sup>rd</sup> sentence Use of Non-Insurance Data—Various organizations publish data relevant to <b>catastrophes</b> and <b>extreme events</b> . For example, <del>the federal government publishes census and other data related to inflation, changes in exposure, population shifts, or other data relevant to assessing changes in exposure to catastrophes and extreme events</del> losses. Additional data is also collected on economic losses from <b>catastrophes</b> or <b>extreme events</b> or historical patterns of cyber data breaches. When using non-insurance data, the actuary should follow the	The data in the current 2 <sup>nd</sup> sentence described is non-insurance data but has already been identified as data that could be used to adjust historical insurance data. Notwithstanding the "if applicable" it seems circular to direct the actuary to follow the guidance for historical insurance data.

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	guidance for historical insurance data in section 3.4.1, as applicable.	
3.4.3	Fix references to sections 3.3.1 and 3.3.2	Those sections do not exist in the copy I read.
3.4.3	Suggest adding a similar sentence as the one that completes Section 3.4.2, i.e., "When using catastrophe model output, the actuary should consider adjusting the catastrophe model output to reflect the environment expected to exist in the period for which the actuary is estimating costs taking into account the considerations in 3.4.1.3 a-h, as applicable."	While there is reference to ASOP 38 and ASOP 38, Section 3.6 discusses adjustments to catastrophe model output, the considerations listed 3.4.1.3 are more specific and are relevant considerations in adjusting catastrophe model output.
3.4.4	Consider an example that is limited to catastrophe / extreme event. "For example, the actuary may use historical insurance data for losses attributed to perils that are not modeled and catastrophe model output for those that are."	I find this example confusing. This ASOP is looking at the future cost estimate for the catastrophe or extreme event portion. The example brings in the notion of the full estimate - - basic and excess.
3.4.4	Consider moving this section to later in the document and allow for blending of any of historical insurance data, cat model output and scenario analysis.	Section 3.1 implies that a "combination thereof" (any or all) is permissible whereas 3.4.4 seems to limit blending to historical data and cat model output.
3.6 (suggest it be 3.7)	"...the actuary may use methods other than those described in section 3.3" should be Section 3.4?	
3.7 (suggest a new 3.6)	<p><u>3.6 Scenario Analysis</u> --- When historical data is insufficient or a reliable catastrophe model is unavailable, the actuary should consider using a deterministic scenario analysis to get better insight into possible future outcomes.</p> <p>The actuary may review and discuss the scenarios and results of blending various approaches with experience professionals in relevant areas to gain additional insight.</p>	Switch 3.6 and 3.7. The appropriate use of catastrophe models and catastrophe model output is covered in ASOP 38, Section 3.6 and allows for adjustments. ASOP 39, 3.7's considerations would already fall under ASOP 38 as the actuary determines if the model output is appropriate for its intended purpose. As such the section seems unnecessary except to bring in the possibility of using scenario analysis beyond casualty and allowing for (reminding) the actuary to consult experienced professionals in relevant areas. The proposed language attempts to bring in that more expansive use and by switching the order and also intends to clarify that "consulting with experienced professionals" is desirable for both casualty and other coverages.
3.10	Impact of Broader <u>Social</u> and Economic Forces – the actuary should consider whether future costs for catastrophes or extreme events might be affected by broader <u>social</u> or economic forces such as demand surge.	Consideration of social inflation may be needed, particularly for casualty; eliminated description of demand surge (See comment 2.X)
3.11	"The actuary should be satisfied that the future cost estimates reasonably reflect the potential frequency and severity of catastrophe or extreme events."	Suggested alternate language

**IV. General Recommendations (If Any):**

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Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

**V. Signature:**

Commentator Signature	Date
Shawna Ackerman	4/22/25