

**Title of Exposure Draft: Treatment of Catastrophe or Extreme Event Losses in Future Cost Estimates for Property/Casualty Risk Transfer and Risk Retention (ASOP 39)**

**Comment Deadline: June 1, 2025**

**I. Identification:**

Name of Commentator / Company
Daniel Lyons, MAAA, FCAS / Retired / I am submitting these comments on my own behalf.

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

Question No.	Commentator Response
1. Does this exposure draft overlook any significant approaches to estimating future costs of catastrophes or extreme events? If so, please explain.	No.
2. Is the guidance regarding scenario analysis clear and sufficient? If not, please explain.	Yes.
3. Is the guidance regarding reasonableness clear and sufficient? If not, please explain.	No. Please see my comments below on §3.11.

**III. Specific Recommendations:**

Section #	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	... and estimating various risk metrics, such as average annual losses, <del>risk loads</del> , and return period loss estimates.	I don't consider a risk load a risk metric.
2.1	[PLEASE SEE MY COMMENTS IN THE GENERAL RECOMMENDATIONS SECTION] Catastrophe— <del>An extreme event that exceeds a predetermined threshold specified by an individual insurer/reinsurer or by an industry organization (e.g., Property Claims Services, also known as PCS) such as total economic loss, total insured loss, number of casualties, or losses from an event commencing over a stated number of consecutive hours. A low-frequency event with high-severity or widespread potential effects. A catastrophe may exhibit contagion, which is a lack of independence between the occurrence of losses among different entities or coverages.</del>	The only difference between the catastrophe and extreme event definitions is that there is some size requirement for a catastrophe, but not for an extreme event. I don't think this difference is so vital that it requires separate definitions because after the definitions are stated, the remainder of the document only refers to "catastrophe and extreme event". In no instance is "extreme event" used without "catastrophe". In addition, by using a size requirement, there might be definitional problems with aggregate loss covers – say, aggregate tornado losses in a season.
2.4	[NOTE – I THINK THIS DEFINITION SHOULD BE DELETED, BUT IF IT IS USED I SUGGEST THE FOLLOWING CHANGE.] Extreme Event—A low-frequency event with high-severity or widespread potential effects that causes unusually large aggregate losses <del>and that could distort the historical experience.</del> An extreme event may exhibit contagion, which is a lack of independence between the occurrence of losses among different entities.	I think of distort as meaning "to give a false, perverted, or disproportionate meaning to; to misrepresent". It can certainly be true that a catastrophe loss is out of pattern with other experience, but a catastrophe loss does not "distort" the experience – it is the experience.

**Title of Exposure Draft: Treatment of Catastrophe or Extreme Event Losses in Future Cost Estimates for Property/Casualty Risk Transfer and Risk Retention (ASOP 39)**

**Comment Deadline: June 1, 2025**

Section #	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.2	<p>Identification of Potential Catastrophes <del>or Extreme Events</del>—The actuary should take reasonable steps to identify the perils or events that may produce catastrophe <del>or extreme event</del> losses.</p> <p>The terms “catastrophe” and “<del>extreme event</del>” may have different meanings in different contexts and may be dictated or imposed by an outside entity. <u>Catastrophe losses may exceed a predetermined threshold specified by an individual insurer/reinsurer or by an industry organization (e.g., Property Claims Services, also known as PCS) and the loss trigger may vary such as total economic loss, total insured loss, number of casualties, or losses from an event commencing over a stated number of consecutive hours.</u> The actuary should use terms and meanings that are appropriate for the actuary’s assignment.</p>	The inserted language primarily comes from the items listed in §2.1, the draft’s catastrophe definition.
3.6	Additional Considerations for Casualty Coverages ... the actuary may use methods other than those described in section 3.4 <del>3</del> ,	Section 3.3 does not appear to describe methods. I think the Drafting Committee meant section 3.4.
3.11	Reasonableness— <u>If the actuary’s work product permits such a decomposition</u> <del>¶</del> the actuary should be satisfied that the future cost estimates reflect a reasonable frequency and severity distribution of catastrophes <del>and extreme events</del> .	I don’t know if it is possible to specify frequency and severity distributions of the catastrophe future cost estimate if it is based on a blending of historical data and models (§3.4.4) or if it is based on scenario analysis (§3.6).
4.1	Required Disclosures in an Actuarial Report ... the actuary should refer to ASOP Nos. 13, 23, 25, <u>30</u> , 38, 41, 53, and 56.	It might be the case that the actuary’s catastrophe future cost estimate is presented as a contingency provision.

**Title of Exposure Draft: Treatment of Catastrophe or Extreme Event Losses in Future Cost Estimates for Property/Casualty Risk Transfer and Risk Retention (ASOP 39)**

**Comment Deadline: June 1, 2025**

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

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Use of “catastrophe or extreme event” throughout ASOP 39	<p>Please see my comments in the Specific Recommendations section on §2.1, §2.4, and §3.2. This draft of ASOP 39 introduces the definition of Extreme Event in section 2.4, and then the phrase “catastrophe or extreme event” is used throughout the remainder of the document. I suggest changing §2.1 (definition of catastrophe), deleting §2.4 (definition of extreme event), modifying §3.2, and changing all instances of “catastrophe or extreme event” to “catastrophe”. This proposal retains most of the content of the draft ASOP 39 definitions, but rearranges them.</p> <p>This draft ASOP 39 uses the exact definition of “Catastrophe Model” as ASOP 38, and I suggest retaining this definition. The first sentence of the definition starts with “A model of ...”, suggesting very convincingly that the definition of “catastrophe” should merely be what follows “A model of”. My proposed definition is based on this, and I add a portion of the draft ASOP 39 definition of “Extreme Event” related to contagion. I moved the portion of the draft ASOP 39 definition of “Catastrophe” discussing PCS, total insured loss, the hours clause, etc., to §3.2 because these concepts are better handled in this section.</p> <p>Having two closely related definitions (§2.1 and §2.4) may lead to confusion or raise more questions. “Catastrophe” as used in the draft ASOP 39 definition is slightly different from that inferred from ASOP 38 §2.2 (definition of Catastrophe Model). A practitioner may look at the guidance concerning “catastrophe models” and wonder if there should be a standard related to “extreme event models”. (See §3.4.3.) In addition, ASOP 38 uses “extreme event” in §1.2 to describe events not subject to ASOP 38, such as hyper-inflation or a stock market collapse.</p>
Compound Events (sections 2.3 and 3.9)	It would be helpful to the practitioner if the Drafting Committee could provide an example of Compound Events.

**V. Signature:**

Commentator Signature	Date
	5-29-2025