

## Preamble to the "Never Happen" Lists

The insurance, pension, and mutual fund industries all protect individuals from adverse financial consequences of unlikely but possible events through pooling of individuals' risks and investable funds. This protection is meaningful only as long as the enterprises in these industries are able to pay out benefits as promised. The models used by these enterprises to guide business decisions can be quite complex, yet rarely do they contemplate a truly disastrous event. The Extreme Value Modeling subgroup of the Risk Management Task Force has assembled the attached list of extreme events to help identify those risks that could potentially lead to insolvencies in the insurance, pension, and mutual fund industries.

The list has two parts. The first part is a list of [actual historic events](#) that were considered almost unimaginable before they happened. The second part is a list of [hypothetical events](#) that have never happened and seem unlikely, but are possible. For each of these events, we should attempt to answer to following questions:

- What consequences did this historic event (or would this hypothetical event) have for financial markets and financial services enterprises?
- How did (or would) counterparty risk change in the wake of this event?
- How can an enterprise construct strategies to respond to such an event?
- Is there a simple way to manage the risk of such an event? Can an enterprise purchase a hedge against such an event? Can the risk of such an event be transferred to the financial markets or to reinsurers?
- Can the risk of such an event be managed by setting up reserves and releasing them as appropriate? How would these reserves and reserve changes be viewed by shareholders, beneficiaries and policyholders, regulators, rating agencies, and tax authorities?
- How can an enterprise restructure its asset positions efficiently when such an event occurs? How does the risk of such an event affect the asset and liability management of an enterprise?
- What type of monitoring system could be set up within an enterprise or within the financial services industries to help recognize and understand the risk of such an event?