CLIMATE RISK INTELLIGENCE FROM ABGALIS   ESTABLISHED 2026

The Cascade.

ABGALIS

Seven Domains. One Counsel.

VOL. 1 · NO. 2 · AUGUST 2026   SEVEN DOMAINS · ONE COUNSEL

The data underneath the capital.

Three of this month's four stories are, at bottom, about the same thing — the integrity of the inputs that capital numbers are computed from. The rules those inputs feed were rewritten; the pipes that carry them failed in both directions; and the supervisor twice re-sized the machinery to the risk. The framings are ours, not the regulators'.

PUBLISHED BY

Abgalis

Climate risk intelligence platform · Seven Domains. One Counsel.

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MASTHEAD

The Cascade.

A monthly climate-risk intelligence brief published by Abgalis. Physical risk, transition risk, regulatory disclosure, and the climate balance sheet — for insurers, reinsurers and risk-committee leaders.

PUBLICATION

The Cascade · Volume 1, Number 2 — August 2026 · Published London.

PUBLISHER & AUTHOR

Abgalis Limited — climate risk intelligence platform for insurers and reinsurers. Editorial: Abgalis Research ("we"). No individual byline. Contact: info@abgalis.com.

SOURCE REGISTER — THIS EDITION

EIOPA, Solvency II Review mandate (15 July 2026) · Bank of England / PRA news and Final Notice, HDI Global SE (20 July 2026) · NAIC Security Incident Update · PRA CP11/26 and FCA CP26/29, captive insurance (14 July 2026) · PRA CP12/26, friendly societies (22 July 2026) · FCA press release, Supercharged Sandbox (22 July 2026) · Bank of England, Letter from the Governor (23 July 2026).

THIS ISSUE AT A GLANCE

A focused edition — the executive read, then four substantive sections: the completion of the Solvency II Review mandate, a regulatory data layer that failed in both directions, proportionality calibrated twice in eight days, and supervised experimentation in AI.

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In this issue.

A focused edition — read in priority order, or pull straight to your section.

Nº 01 · THE EXECUTIVE READ

Three signals this month.

BY ABGALIS RESEARCH AUGUST 2026

Theme: the data underneath the capital. Three of this month's four stories are, at bottom, about the same thing — the integrity of the inputs that capital numbers are computed from. The rules those inputs feed were rewritten; the pipes that carry them failed in both directions; and the supervisor twice re-sized the machinery to the risk. The framings are ours, not the regulators'.

One.

Solvency II's rewrite is now fully specified, and the clock to 30 January 2027 is running. Eight sets of guidelines and draft technical standards; every legal instrument EIOPA was mandated to deliver, delivered. Risk margin, liquidity powers and the matching adjustment all move.

Two.

In one month, regulatory data failed in both directions. A firm was fined **£4,165,000** for the data it sent its regulator; and a regulator's own designation feed has been suspended since **18 June**, with a 15 August filing deadline running against a rating snapshot frozen on 17 June. Same control surface, opposite ends.

Three.

Proportionality was calibrated twice in eight days — a bespoke capital charge for captives, and a codified transfer process for friendly societies. The supervisor is sizing the machinery to the risk, in public, with figures.

— Abgalis Research, London · the August edition

N° 02 · REGULATORY

EIOPA completes the Solvency II Review mandate.

Every instrument EIOPA was mandated to deliver under the Solvency II review is delivered. The revised framework applies from 30 January 2027 — and three of the changes move real numbers.

On 15 July EIOPA published **eight sets of guidelines and draft technical standards**, completing every legal instrument it was mandated to develop under the review: one new set of Guidelines on liquidity vulnerabilities, one new RTS on the simplified calculation of the risk margin, and revisions to four further sets of Guidelines and two sets of ITS. The draft technical standards now sit with the European Commission, which decides on adoption **within three months**. The amended framework applies from **30 January 2027**.

RISK MARGIN

The review introduces an **exponential, time-dependent element — the "lambda factor"** — into the risk margin calculation, to better account for the time dependency of risks and to reduce both the amount of the risk margin for long-term liabilities and its sensitivity to interest-rate changes. A new RTS covers the simplified calculation, and the Guidelines on the valuation of technical provisions are updated to match.

LIQUIDITY BECOMES A SUPERVISORY ACTION LANE

New Guidelines set out the **form, activation and extent** of powers supervisors may exercise to strengthen undertakings' liquidity positions — and specify the **exceptional circumstances under which supervisors may temporarily suspend policyholders' redemption rights**.

MATCHING ADJUSTMENT

Undertakings using the MA may assume **full diversification** between the MA portfolio and the rest of the undertaking when calculating the SCR, **provided the best estimate of obligations does not form a ring-fenced fund**; the revised Guidelines on ring-fenced funds clarify that not all MA portfolios will be treated as ring-fenced funds.

THE CASCADE READ

Insurance — technical provisions, risk margin and SCR all re-baseline. **Liquidity** — a supervisory action lane now exists where previously there was monitoring; redemption suspension is a policyholder-facing power with conduct consequences. **Market** — the lambda factor changes long-dated liability sensitivity to rates, which changes ALM. **Strategic** — MA diversification is a capital-efficiency lever with a ring-fenced-fund test attached.

THE CALIBRATED ACTION

Every ORSA cycle starting now should run revised-framework-aware. Re-baseline technical provisions, risk margin and SCR before 30 January 2027 — not after the Commission adopts, because the adoption window is three months and the implementation runway is what remains.

Primary source: EIOPA, 15 July 2026 — eiopa.europa.eu/eiopa-completes-solvency-ii-review-mandate-final-guidelines-and-draft-technical-standards-revised-2026-07-15_en

CONTINUES → THE REGULATORY DATA LAYER

N° 03 · OPERATIONAL

The regulatory data layer failed in both directions.

A £4.17m fine for the data a firm sent its regulator, and a suspension — running since 18 June — in the data a regulator sends firms. Both land inside the same quarter's reporting cycle.

3A · PRA FINES HDI GLOBAL SE £4,165,000

The PRA fined HDI Global SE **£4,165,000** for submitting incorrect FSCS Liabilities and FSCS Fee Tariff data on multiple occasions between **August 2021 and August 2024** — including errors in data provided in purported remediation of previously incorrect submissions. HDI qualified for a **30% settlement reduction**; the penalty would otherwise have been **£5,950,000**.

These were **Fundamental Rules breaches — FR2** (due skill, care and diligence) **and FR6** (organising and controlling affairs responsibly and effectively) — not a technical reporting rule. Prior to summer 2023 the firm did not check the PRA Rulebook or guidance for the calculation methodology, had no effective written processes to ensure the calculations were carried out to any reliable standard, and lacked clear accountability, internal oversight and challenge. Participation in the **Early Account Scheme** earned explicit credit: a detailed account of how the breaches arose materially assisted the investigation.

The point that matters. Remediation itself failed. Resubmission without a validated data pipeline compounds a breach rather than curing it.

3B · NAIC DESIGNATION SUSPENSION — STILL UNRESOLVED

Suspended since 18 June — and, as at 9 August, still suspended. After the incident the NAIC identified **on or about 11 June 2026** via an **Oracle PeopleSoft zero-day**, certain credit rating providers paused their rating symbol data feeds. From **18 June 2026** the NAIC **temporarily suspended assigning NAIC Designations** to insurer investments derived from CRP ratings — the filing exempt / private letter rating (FE/PLR) process — within **AVS+**. Designations assigned by the Securities Valuation Office or Structured Securities Group are **not** impacted. The NAIC's incident page still carries no restoration announcement; its latest update remains dated **8 July**.

The workaround is time-boxed to a date, not an event. For Q2 reporting — period ending 30 June 2026, **due 15 August** — the NAIC is using CRP rating symbol data **as of 17 June 2026**, the last date before suspension, and is explicit that quarterly reporting should not be delayed. A frozen snapshot means every FE/PLR-dependent position in a Q2 filing carries a rating up to two months stale by the deadline.

The blast radius is narrower than the headline. Per the NAIC's own updates: data accessed or acquired comprised publicly available statutory financial reporting information; credit rating agency data (rating symbols with security identifiers, public and private determinations — rationale reports not in scope); and some additional storage data containing routine technical information. There is **no evidence PII, banking, policyholder, producer or employee data** was accessed, and **risk-based capital data was not accessed**. This is a data-availability story, not a personal-data-breach story.

THE CASCADE READ

Operational — a supervisor's own data infrastructure is a single point of failure for an industry-wide control. **Insurance / Credit** — NAIC Designations feed statutory accounting, state investment limitation statutes and **risk-based capital**; a frozen 17 June snapshot means Q2 RBC is computed off stale ratings for every FE/PLR-dependent position. **Strategic & Emerging** — third-party concentration risk, pointed at the supervisor rather than the carrier.

THE CALIBRATED ACTION

Before 15 August, US-exposed carriers should (i) document that Q2 designations rest on the 17 June snapshot and that this is the NAIC-directed basis, (ii) identify positions where a rating action between 17 June and filing would have moved the designation, and size the RBC delta as a disclosed sensitivity rather than a silent one, and (iii) treat the supervisor's data feed as a named entry in the operational risk register — because since 18 June, it has been one. Concentration risk does not stop being concentration risk because the concentrated party is the supervisor.

Primary sources: Bank of England / PRA news, 20 July 2026, and Final Notice (HDI Global SE); NAIC Security Incident Update page, re-read 9 August 2026.

N° 04 · PRUDENTIAL

Proportionality, calibrated twice in eight days.

A bespoke capital charge for captives on 14 July; a codified transfer process for friendly societies on 22 July. Two very different populations, one supervisory instinct.

4A · PRA CP11/26 + FCA CP26/29 — A TAILORED REGIME FOR CAPTIVE INSURANCE

The PRA and FCA opened a joint consultation on a bespoke UK captive-insurance regime — outside Solvency UK, with Consumer Duty requirements excluded. The starting point is stark: in the FCA's words, **"There are currently no captive insurers established in the UK"**. The proposed **Captive Capital Requirement** is **the higher of 10% of net insurance liabilities or 10% of net premiums, subject to a minimum of £100,000** — a floor **met by paid-in capital only**, with letters of credit and group support available above it. Authorisation is targeted at **4–6 weeks** from a complete application. Non-group ("third-party") business is capped at **10% of total business** — though owner-controlled insurance programmes are proposed to sit outside that cap. Governance still requires an **SMF1 and a mandatory non-executive director**. Stage 1 covers single-parent ("pure") captives, with a three-month consultation closing **14 October 2026** and implementation expected **mid-2027**; Stage 2 extends the regime to protected cell companies once legislation is in place.

4B · PRA CP12/26 — FRIENDLY SOCIETIES: AMALGAMATIONS AND TRANSFERS

Eight days later the PRA consulted on rewriting **Chapter 4 of SoP 3/15** — its approach to amalgamations and transfers under **Part VIII of the Friendly Societies Act 1992**. The process is codified end to end in five parts boards can track, and "Confirmation Hearing" becomes "**Confirmation Assessment Meeting(s)**". Proportionality is explicit: under **s.88** the PRA may require an independent actuary's report on a transfer's effects on long-term policyholder members — and proposes it would generally be **less likely where both participants are Category 4 firms**; member-vote dispensations would weigh the cost members bear against the value of the vote. Responses are due **22 October 2026**; roundtable sign-up closes **20 August 2026**; the policy statement is expected **before April 2027**, effective on publication.

THE CASCADE READ + CALIBRATED ACTION

Both are proportionality made numerical rather than rhetorical — a supervisor pricing a whole class of insurer off net premiums and net liabilities with a hard paid-in floor, and a supervisor scaling an independent-actuary requirement to firm category. Our reading — **ours, not the regulators'**: proportionality is a calibration choice, not a loophole.

If you are modelling group-retained risk, test whether £100,000 of paid-in capital plus letters of credit genuinely absorbs the tail, and validate the 10% non-group boundary as a live limit rather than a filing statement, noting that owner-controlled insurance programmes are proposed to fall outside it. The consultations close within eight days of each other — **14 and 22 October** — so a single response effort can cover both.

Primary sources: PRA CP11/26 and BoE news, 14 July 2026; FCA CP26/29; PRA CP12/26, 22 July 2026.

CONTINUES → EMERGING

N° 05 · EMERGING

Supervised experimentation, and the case for it.

The UK's AI-in-finance experiment moved up a gear in July — and the regulator is hosting it.

On 22 July the FCA announced the second cohort of its Supercharged Sandbox: **21 organisations** — including Scottish Widows, Money Advice Trust and TrueLayer — selected from **199 applications against 132** for the first cohort, a **51% rise**. Anthropic will support the cohort with access to Claude, alongside the existing NVIDIA compute and NayaOne platform, and the FCA has launched a **10-week Agentic Academy** delivered with CFTE.

The use-case list is telling: safer agent-led payments, fraud and economic-crime detection, AI governance and accountability, access for vulnerable and underserved consumers, and compliance automation. Governance is being tested as an engineering capability, not written as a policy annex. The FCA restated that it will avoid additional AI regulation by relying on existing frameworks.

The demand figure is the story: regulator-hosted environments are becoming the default de-risking route for AI in regulated finance. The same month, the Bank of England's Governor publicly pressed the systemic framing we carried in our July 2026 focused edition — frontier AI making attacks faster, outages more disruptive and scams more convincing, with a call for international coordination on pre-deployment testing.

THE CALIBRATED ACTION

Whatever leaves a sandbox still needs a model-inventory entry, validation evidence and drift monitoring — capital-model discipline — before it prices, reserves or reports.

Primary sources: FCA press release, 22 July 2026 — fca.org.uk/news/press-releases/anthropic-supercharged-sandbox · Bank of England, Letter from the Governor, 23 July 2026.

N° 06 · STANDING

Sources, attribution & IP.

PRIMARY SOURCES — THIS EDITION

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ATTRIBUTION

The framings “the data underneath the capital”, “failed in both directions” and “proportionality is a calibration choice, not a loophole” are Abgalis Research’s analytical readings, not regulator statements.

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N° 07 · STANDING

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