



The Cascade.

ABGALIS

Seven Domains. One Counsel.

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SEVEN DOMAINS · ONE COUNSEL

What the model is standing on.

A damage function withdrawn from under a supervisory scenario family. The three European Supervisory Authorities writing that Solvency II's capital requirements "capture core risks but not all". Four catastrophe houses measuring one half-year and disagreeing by \$42bn on what was lost. And two instruments, dated either side of the turn of the month, that change inputs without changing rules. The framings are ours, not the regulators'.

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MASTHEAD

The Cascade.

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THIS ISSUE AT A GLANCE

The executive read, then five sections: a number withdrawn from under a scenario family; a dependency read from the other end; four measurements of one half-year; a safety net specified; and two dated inputs.

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Three signals this month.

BY ABGALIS RESEARCH

OCTOBER 2026

Theme: what the model is standing on. Every number a board acts on rests on something — a damage function, a capital charge, an estimate of economic loss, a row in a tariff schedule. Four of those foundations have been disturbed in public — one of them as long ago as December 2025, and not yet absorbed — and in each case the interesting part is not the number but what it was standing on. The framings are ours, not the regulators’.

One.

The academic paper behind the chronic physical-risk damage function in Phase V of the NGFS long-term scenarios was retracted from *Nature* on 3 December 2025. The NGFS said so the same day, said the short-term scenarios and the Phase IV acute estimates are unaffected, and said a replacement methodology is due at the end of 2026. This brief carries it now because the year in between is the year most firms are running on. On 21 September 2026 the same network published a 2026 Guide for Supervisors on climate and nature-related financial risks.

Two.

On 23 September the Joint Committee of the ESAs wrote, of Solvency II, that “Capital requirements capture core risks but not all (e.g. credit & issuer concentration risk)”. The same report puts “c. 28% of ceded risks” with non-EEA counterparties, “highly concentrated in the UK, Bermuda and Switzerland”. Read from London, that concentration is into us.

Three.

Four catastrophe houses have now measured the first half of 2026. They agree within **\$5bn** on what was insured and disagree by **\$42bn** on what was lost; one named event is put at \$20bn by one house and \$37bn by another. Verisk’s modelled benchmark rose \$19bn in a year, to **\$171bn**.

And two instruments.

EIOPA’s technical advice on minimum common standards for insurance guarantee schemes, published on 1 September, puts a figure on the losses such schemes exist to stop. Two UK statutory instruments taking effect on 30 September and 1 October change inputs — the identity of the data-protection supervisor, and the tariff motor and liability insurers pay on settled injury claims — without changing a rule.

— Abgalis Research, London · the October edition

N° 02 · CLIMATE & MODEL RISK

The number that was withdrawn.

The damage function behind Phase V's chronic physical-risk estimates rests on a paper Nature retracted on 3 December 2025. The NGFS said so the same day, and said its replacement is due at the end of 2026. That leaves a year in which every firm using Phase V chronic estimates is using a withdrawn number.

The NGFS used the Kotz et al. (2024) damage function in Phase V of its long-term scenarios. On **3 December 2025** the paper — *The economic commitment of climate change* — was retracted from *Nature*. Per the retraction note, “the results were found to be sensitive to the removal of one country, Uzbekistan, where inaccuracies were noted in the underlying economic data for the period 1995–1999”, and “spatial auto-correlation was argued to be relevant for the uncertainty ranges”. Correcting for both moved the mid-century damage estimate to “an increased uncertainty range (from **11–29% to 6–31%**) and a lower probability of damages diverging across emission scenarios by 2050 (from **99% to 90%**)”. “The authors acknowledge that these changes are too substantial for a correction”.

WHAT THE NGFS SAYS IS AFFECTED, AND WHAT IS NOT

The statement is precise on scope. “Users should be aware of the retraction of the Kotz et al. (2024) paper when interpreting and applying Phase V results, alongside the broader limitations of physical risk estimates already detailed in NGFS documentation.” Unaffected: “the scenario outputs which do not incorporate physical loss estimates from Kotz et al. (2024)” — the transition-risk variables, except the REMIND-MAGPIE “integrated run”; the acute physical-risk estimates, “which are Phase IV results that were not updated in Phase V”; and the short-term scenarios, which “do not rely on the Kotz et al. (2024) paper”. Affected: the chronic physical-risk limb of Phase V. The NGFS says “an updated methodology will be used for the next iteration of long-term scenarios, to be published **end of 2026**”, and that for those iterations it “will benefit from the expertise of a newly established independent scientific advisory committee”.

THE SAME NETWORK, ON 21 SEPTEMBER

On **21 September 2026** the NGFS published its 2026 Guide for Supervisors on climate and nature-related financial risks. It draws on “a survey of supervisory authorities, representing 70% of NGFS member jurisdictions”, discusses nature-related financial risks “in greater depth”, and “reflects the increasing use of scenarios and stress tests to assess vulnerabilities and resilience under different physical and transition risk pathways”. “Supervisors have been trailblazers in the financial ecosystem in terms of taking climate and nature considerations on board,” said Olaf Sleijpen, NGFS Chair. The untainted NGFS anchor for acute risk is its 19 May 2026 report for the French G7 Presidency: **31 case studies across 28 countries**, 2015–2025, in which “estimated annual GDP impacts range from 0.03% to 57%” and inflationary effects reach “up to 17 percentage points in some cases”.

THE CASCADE READ

Climate & ESG — a supervisory scenario family’s chronic physical-risk limb is provisional until the end-2026 re-issue; the acute limb and the short-term scenarios are not. **Operational** — a scenario set is a model input with a vintage, and its provider has changed that vintage’s status; a model inventory that records the family but not the vintage cannot show the change. **Strategic** — our July 2026 inaugural edition set out a scenario library built on the NGFS Orderly, Disorderly and Hot-house families. The chronic physical-risk element of those families’ Phase V outputs is the part now flagged; the structure of the library is not. Ours, not the NGFS’.

THE CALIBRATED ACTION

Record the scenario vintage, not only the family, in the model inventory. Where Phase V chronic physical-risk outputs feed an ORSA, a risk-appetite statement or a disclosure, state that the underlying damage function was retracted on 3 December 2025 and that the NGFS re-issue is due at the end of 2026, and carry the output as provisional with a stated direction of uncertainty — which on the authors’ own revision is wider, not narrower. Use the short-term scenarios and the Phase IV acute estimates for what they cover. A scenario provider handling a retraction in public, with an independent scientific committee now in place, is a governance signal worth citing; a firm that cannot show it noticed is the opposite.

Primary sources: NGFS, “Statement regarding physical risk estimates in Phase V of NGFS long-term scenarios”, 3 Dec 2025 · Kotz, Levermann & Wenz, Retraction Note, *Nature* 648, 764 (2025), 3 Dec 2025 · NGFS press releases, 19 May 2026 and 21 Sep 2026.

CONTINUES → THE DEPENDENCY IS NOT THE EXPOSURE

N° 03 · INSURANCE & CREDIT

The dependency is not the exposure.

Europe's insurers are not heavily exposed abroad. They are heavily dependent abroad. Only one of those numbers is small — and the dependency runs into London.

On **23 September 2026** the Joint Committee of the ESAs — EBA, EIOPA and ESMA — published its Autumn 2026 Update on Risks and Vulnerabilities in the EU Financial System, document **JC 2026 29**. It is a cross-sectoral risk assessment for the Financial Stability Table of the EU's Economic and Financial Committee, presented there on 10 September. It is not a rule, not a consultation and binding on no one. Three themes: external dependencies, cyber and AI, private credit.

ASSET-DRIVEN, REINSURANCE-CONCENTRATED

“Non-EEA investments account for **c.13%** of total investments.” “Only **3.2%** of technical provisions relate to non-EEA risks.” “Non-EEA business represents **c.10%** of total gross written premiums.” The report's own conclusion is that the “insurer international footprint substantially more asset-driven than liability-driven”. Then the concentrated leg: “**c. 28%** of ceded risks are transferred to non-EEA counterparties. Exposures highly concentrated in the UK, Bermuda and Switzerland, making ceded reinsurance most important direct dependency on non-EEA markets and a potential source of counterparty and concentration risk.”

That sentence is written from Frankfurt. Read from London it inverts: the concentration the ESAs describe is a concentration into the UK market. A UK reinsurer's question is not how much it cedes abroad but how much of a single European cedant population sits behind its inwards book, and what correlates it. Neither question is answered by a portfolio total. That reading is ours, not the ESAs'.

THE ADMISSION

“For Insurers, Solvency II provides tools to address risks linked to illiquidity and uncertainty”. And then: “**Capital requirements capture core risks but not all (e.g. credit & issuer concentration risk)**”. The private-credit sizing is deliberately calm — EU/EEA bank exposures to private credit funds and related asset managers “reached nearly EUR 150 bn in June 2025 (0.6% of total assets)”; EU private credit funds' assets are “relatively limited at EUR 97.1bn” — while bank exposures to non-bank financial institutions “continued to grow strongly (+10.4% YoY in 2025)”. For insurers, “limited look-through data makes the underlying asset mix harder to assess”. The recommendation asks for “robust valuation methodologies and adequate risk modelling, especially given current data limitations”.

CYBER, ON BOTH SIDES OF THE BALANCE SHEET

“Insurers: Exposure via cyber-insurance underwriting, frequent/severe AI-enabled cyberattacks could raise claims and accumulation risks” — and, in the ESAs’ own release, “though exclusion clauses could limit the impacts on the sector”. Alongside it the operational limb: “Non-EEA ICT providers: Concentrated dependence exacerbates cyber vulnerabilities”. On quantum computing: “Currently-gathered information could be decrypted in the future (‘harvest now, decrypt later’)”, and the EU NIS Cooperation Group “recommended Member States adopt a post-quantum cryptography migration strategy by the end of 2026”.

THE CASCADE READ

Insurance / Credit — ceded reinsurance is named as the sector’s “most important direct dependency” on non-EEA markets, and the named centres are the UK, Bermuda and Switzerland. **Market** — non-EEA investment is c.13% direct, and on look-through “significantly larger”, “mainly in US assets and listed equities”. **Operational** — the ICT dependency and the cyber-underwriting exposure are correlated by construction and are usually modelled apart. **Strategic** — a supervisor saying the capital charge does not capture everything is a supervisor saying the gap must be closed somewhere else; in a standard-formula firm, that is the ORSA. Ours, not the ESAs’.

THE CALIBRATED ACTION

Nothing changes in the capital requirement of a UK firm today: EU Level 2 was revoked for the UK on 31 December 2024, and the PRA Rulebook, under FSMA and the Solvency UK statutory instruments, is the binding text for a Solvency UK undertaking. What changes is the evidence standard a forward-looking assessment is read against: state ceded-reinsurance concentration by counterparty and by jurisdiction, not as a single recoverables figure, and run the named-centre shock through counterparty default rather than asserting diversification; support private-credit valuation with a stated method whose approximations are measured and bounded; model cyber accumulation on both limbs.

Primary sources: Joint Committee of the ESAs, JC 2026 29, 23 Sep 2026 (PDF) · EIOPA news article, “ESAs call for vigilance over external dependencies, cyber threats and private credit risks”, 23 Sep 2026.

CONTINUES → FOUR HOUSES, ONE HALF-YEAR

N° 04 · PHYSICAL RISK

Four houses, one half-year.

Swiss Re completed the set on 11 August. The four houses agree within \$5bn on what was insured and differ by \$42bn on what was lost. Adding a fourth measurement widened the range.

HOUSE	PUBLISHED	ECONOMIC LOSS	INSURED LOSS	\$1BN+ EVENTS
Gallagher Re	15 Jul 2026	\$142bn	\$46bn	30 economic · 11 insured
Aon	22 Jul 2026	\$111bn	\$47bn	23 economic · 13 insured
Munich Re	30 Jul 2026	nearly \$112bn	\$44bn	not stated
Swiss Re Institute	11 Aug 2026	\$100bn	\$42bn	not stated

Insured: **\$42–47bn**, a \$5bn spread. Economic: **\$100–142bn**, a \$42bn spread — 42% of the lowest estimate. That arithmetic is ours. Three houses state a gap — Munich Re “an insurance gap of 60%”, Aon “approximately 57%”, Gallagher Re “68%” — and Swiss Re states the insured share, “around 42% of first-half economic losses, above the 30-year average of 33%”. Same half-year; a gap anywhere from 57% to 68% depending on whose denominator you take. That range is ours.

ONE EVENT, FOUR NUMBERS

Swiss Re: “the earthquake sequence in Venezuela caused an estimated USD 20 billion in economic losses”, with no reliable insured estimate yet. Munich Re: “total losses are expected to be in the region of US\$ 30bn, including insured losses of less than US\$ 1bn”. Aon: “preliminary \$20-30 billion economic loss”. Gallagher Re: “USD37 billion” economic, citing a UNDRR preliminary assessment, and “~1.0 billion” insured, its own estimate. Same event, same half-year, and the highest figure is nearly double the lowest.

WHY THE TALLIES ARE LOW, IN THE HOUSES’ OWN WORDS

Swiss Re: severe convective storms “remained the biggest insured-loss driver at an estimated USD 28 billion, below long-term trend”, because “relatively few of the highest-impact events affected Texas, the Southern Plains and the Southeast”; “insured losses depend not only on the severity of events, but also on where they strike”. Gallagher Re: “the absence of a major catastrophe generating more than USD10 billion in insured losses extended a streak of five consecutive quarters without such an event”. Aon: US severe convective storm insured losses of “approximately \$27 billion”, “significantly below the \$40 billion-plus recorded in H1 of years 2023-2025”, even as Illinois and Indiana “established new annual tornado records”.

THE BENCHMARK MOVED THE OTHER WAY

Verisk's 2026 Global Modeled Catastrophe Losses Report, 1 September: a global insured average annual loss of **\$171bn**, "up \$19 billion from a year ago, and the highest estimate Verisk has reported to date" — and "not a prediction of losses in 2026 or in any other individual year". The US is \$117bn of it, 68 per cent. By peril: severe thunderstorm 40 per cent, tropical cyclone 27, earthquake 10, winter storm 9, flood 7, wildfire 6. At the 100-year return period modelled aggregate insured losses "reach \$477 billion"; at 250 years, "\$606 billion" — modelled scenarios, not forecasts. Exposure in the countries Verisk models "has grown roughly 7 percent annually since 2021"; US residential reconstruction costs "about 5 percent annually since 2021". Protection gap: "only about 38 percent of economic losses from natural catastrophes are insured", against a modelled economic AAL "of more than \$450 billion"; in Europe, "of the region's \$110 billion in expected annual economic catastrophe losses, only about \$24 billion (22 percent) is currently insured". And, in England: "7.1 percent of single-family homes already sit in the 100-year flood plain, and one in nine new homes built between 2022 and 2024 was built in a flood-risk area — a share Verisk's models project could rise to one in seven new homes by 2050."

THE CASCADE READ

Insurance — a benign half is a location outcome, not a hazard outcome; each house says so in its own words. **Climate & ESG** — Munich Re records 41.8°C at Möckern, "0.6°C above the country's previous high", and calls heatwaves "the natural hazard that claims the most lives", noting they "do not usually result in any direct damage to property"; Aon's press release counts "17 European countries exceeded their all-time June temperature records". **Strategic** — a protection gap is a ratio whose numerator is measured and whose denominator is modelled; a fourth estimator widened the denominator's range from \$31bn to \$42bn. Quoting the gap to the percentage point implies a precision the denominator does not have. Ours, not the houses'.

THE CALIBRATED ACTION

Second half: Swiss Re — "the second half of the year accounts for an average of 58% of global insured natural catastrophe losses", and El Niño "does not eliminate landfall risk: 22% of US hurricane landfalls since 1950 occurred during El Niño conditions"; Gallagher Re's 15 July release cites NOAA's "at least a 63% chance of 'very strong' intensity by year-end"; Munich Re's Chief Climate Scientist says "the world is also heading for a Super El Niño". When the Q3 tallies land, state which house's denominator your protection-gap figure uses, and why. A modelled average annual loss and a half-year tally are different objects; do not net one against the other.

Primary sources: Swiss Re Institute press release, 11 Aug 2026 · Munich Re media release, 30 Jul 2026 · Aon press release, 22 Jul 2026, and *Global Catastrophe Recap: First Half of 2026* · Gallagher Re, 15 Jul 2026 · Verisk press release, 1 Sep 2026.

CONTINUES → THE SAFETY NET, SPECIFIED

N° 05 · PRUDENTIAL

The safety net, specified.

On 1 September EIOPA published its technical advice on minimum common standards for insurance guarantee schemes — a preliminary step before a legislative proposal, and one that puts a number on the losses such schemes exist to stop.

Under **Article 98** of the Insurance Recovery and Resolution Directive the European Commission must, after consulting EIOPA, report to the Parliament and the Council on the suitability of minimum common standards for insurance guarantee schemes. **EIOPA-BoS-26/176** answers that call. Its starting point: “Insurance remains the only major retail financial sector without a comparable minimum harmonisation for guarantee scheme in the EU”, and “Insurance is not, and cannot be, a zero-failure sector.”

THE SIZE OF THE PROBLEM, ON EIOPA’S NUMBERS

With loss-given-default “assumed to be 15% of insurance liabilities, as per a Joint Research Centre study”, estimated policyholder losses “were approximately **EUR 0.51 billion per year** - on total assets of 10 trillion euros”. Cross-border failure is the fault line. In the FWU case, “although liquidation is still ongoing and policyholders may recover the policy value, consumers have already been raising concerns and questions” — and on whether the scheme where a policyholder lives covers a policy bought from an insurer domiciled elsewhere, the advice is blunt: “This is not the case.” EIOPA “suggests introducing simple disclosure requirements indicating whether, and to what extent, policies are covered by an IGS”.

THE PREFERRED OPTIONS

Trigger: activation “at the latest when an insurance or reinsurance undertaking is failing or likely to fail and there is no reasonable prospect of this failure being prevented within a reasonable time”. **Payout:** “a maximum timeline for payouts to policyholders, while leaving to Member States the possibility to define a faster one”. **Ranking:** “rank IGS at the same level as insurance claims according to the option that each Member State decided to follow under article 275(1) of Solvency II”. **Funding:** “sufficient ex-ante funding or operational buffer as safeguard measure, without specifying the percentage for ex-ante funding”.

THE CASCADE READ + CALIBRATED ACTION

This is EU policy material and binds no one yet: “This Advice is a preliminary step before the legislative proposal, the development of which is in the mandate of the European Commission.” For a UK firm the read is comparative: ranking with insurance claims, a maximum payout clock and an ex-ante buffer are the shape a cross-border cedant or branch network will be measured against; for an EEA insurer selling across borders, coverage is now a disclosure question, and EIOPA says as much. Ours, not EIOPA’s.

N° 06 · OPERATIONAL — UK

Two instruments, either side of the month's turn.

One took effect on 30 September; the other takes effect on 1 October. Neither dated change alters a rule an insurer must follow. Both change an input an insurer must use.

30 SEPTEMBER 2026 — THE OFFICE OF INFORMATION COMMISSIONER IS ABOLISHED

S.I. 2026/1015 (C. 83), made 10 September 2026, brings into force on **30 September 2026** “section 118 (abolition of the office of Information Commissioner)” and “section 119 (transfer of functions to the Information Commission)” of the Data (Use and Access) Act 2025. Regulation 3 provides continuity: anything done, or in the process of being done, “by or in relation to the Information Commissioner, is to be treated as an act, omission or thing done or in the process of being done, and capable of being continued, by or in relation to the Information Commission.” The consequence is documentary: every privacy notice, impact assessment, processing agreement and complaints route that names the Information Commissioner as the UK supervisory authority names, from that date, an office that no longer exists. That reading is ours.

1 OCTOBER 2026 — THE INJURY COST RECOVERY TARIFF MOVES

S.I. 2026/962, made 1 September and laid before Parliament 3 September 2026, substitutes the table in Schedule 1 to the Personal Injuries (NHS Charges) (Amounts) Regulations 2015. For injuries on or after **1 October 2026**: ambulance £267 to £272; out-patient £883 to £901; in-patient £1,085 to £1,107 a day; per-claim maximum **£64,856 to £66,173**. These are charges under the injury cost recovery scheme in Part 3 of the Health and Social Care (Community Health and Standards) Act 2003, payable by the compensator — in practice, motor and liability insurers. England and Wales. The Explanatory Note: “A full impact assessment has not been produced for this instrument as no, or no significant, impact on the private, voluntary or public sector is foreseen.” From 6 April 2027, regulation 2 requires the injured person's NHS number, “where known”.

Our arithmetic: the maximum rises 2.0 per cent. Across the 22 rows of the substituted table, from 29 January 2007 to 1 October 2026, it has risen from £37,100 to £66,173 — 78 per cent, close to 3 per cent a year compounded. The charge follows the date of injury, so an open liability book carries a mix of vintages.

THE CASCADE READ + CALIBRATED ACTION

Insurance — small, dated and knowable: it belongs in case estimates and IBNR, and a long-tail input compounding at about 3 per cent a year for two decades is not a rounding item. **Operational** — the NHS-number field from April 2027 is a claims-data obligation; the Information Commission is a document-hygiene obligation. Both are the kind of change that fails silently: no rule was broken, an input went stale. Ours.

Primary sources: legislation.gov.uk — S.I. 2026/962 (as made) · S.I. 2026/1015 (as made).

N° 07 · STANDING

Sources, attribution & IP.

PRIMARY SOURCES — THIS EDITION

NGFS, “Statement regarding physical risk estimates in Phase V of NGFS long-term scenarios”, 3 Dec 2025 · Kotz, M., Levermann, A. & Wenz, L., “Retraction Note: The economic commitment of climate change”, *Nature* 648, 764 (2025), 3 Dec 2025 · NGFS, “NGFS publishes 2026 Guide for Supervisors on climate and nature-related financial risks”, 21 Sep 2026 · NGFS, “NGFS publishes a report on the macroeconomic and financial impact of extreme weather events”, 19 May 2026 · Joint Committee of the ESAs, “Joint Committee Update on Risks and Vulnerabilities in the EU Financial System – Autumn 2026”, JC 2026 29, 23 Sep 2026, and EIOPA news article of the same date · Swiss Re Institute, “Rising heat, growing exposure, changing hazards: benign first half of 2026 masks rising natural catastrophe risk, finds Swiss Re Institute”, 11 Aug 2026 · Munich Re, “Lower losses, growing risks: the natural disaster review for the first half of 2026”, 30 Jul 2026 · Aon, “Aon Report Finds Below-Average Global Catastrophe Losses Masked Significant Regional Impacts in H1 2026”, 22 Jul 2026, and *Global Catastrophe Recap: First Half of 2026* · Gallagher Re, “H1 2026 Gallagher Re Natural Catastrophe and Climate Report”, 15 Jul 2026 · Verisk, “Global Insured Catastrophe Losses Now Expected to Average \$171 Billion Annually, Verisk Finds”, 1 Sep 2026 · EIOPA, “EIOPA publishes its technical advice on minimum common standards for insurance guarantee schemes across the EU”, 1 Sep 2026, and EIOPA-BoS-26/176 · The Personal Injuries (NHS Charges) (Information Provision and Amounts) (Amendment) Regulations 2026, S.I. 2026/962 · The Data (Use and Access) Act 2025 (Commencement No. 9 and Transitional and Saving Provisions) Regulations 2026, S.I. 2026/1015.

ATTRIBUTION

The framings “what the model is standing on”, “the number that was withdrawn”, “the dependency is not the exposure”, “four houses, one half-year”, “the safety net, specified” and “two instruments, either side of the month’s turn” are Abgalis Research’s analytical readings, not regulator or publisher statements. All spread and growth-rate arithmetic on published figures is ours and is labelled as such in the section where it is derived.

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