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10 years of Solvency II equivalence: Europe can be open without lowering its standards

Apostolos Thomadakis

As Europe explores new avenues for enhancing its competitiveness without compromising the regulatory standards it has built up over the past two decades, the debate over financial services risks being narrowed down to a choice between upholding high regulatory standards and embracing greater regulatory openness.

Ten years of Solvency II equivalence indicate otherwise.

The insurance sector is a fairly successful but underappreciated example of an alternative approach that could become increasingly relevant in other areas of financial regulation. The EU can maintain its own prudential objectives while acknowledging that another jurisdiction can achieve comparable outcomes through different rules, institutions and supervisory practices.

Solvency II equivalence puts this principle into practice. It doesn't give third-country insurers a passport into the Single Market. Instead, it allows the EU to rely on another jurisdiction's regulatory and supervisory framework where comparable outcomes exist.

After 10 years, Solvency II equivalence has functioned well. It gives a basis that avoids duplicating regulations and facilitates supervisory reliance without requiring third countries to replicate the EU's rulebook. Bermuda and Switzerland have full equivalence across the three areas covered by Solvency II (reinsurance, group solvency, and group supervision), while several other jurisdictions have been recognised for particular purposes or through provisional arrangements.

Apostolos Thomadakis is Head of Research at ECMI, and Senior Research Fellow and Head of the Financial Markets and Institutions Unit at CEPS. This ECMI Commentary summarises the key findings of a longer report which you can find here.

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European Capital Markets Institute, Place du Congrès 1, 1000 Brussels, Belgium
www.ecmi.eu, ecmi@ceps.eu

Solvency II's relatively limited geographical coverage shouldn't be seen as a failure. Equivalence was designed as a targeted prudential instrument rather than a general market access mechanism.

This distinction also helps to explain why Solvency II equivalence has operated smoothly compared to other equivalence mechanisms in other areas of EU financial services. In some sectors, recognition is more closely connected to third-country market access and has thus become more politically salient. Solvency II equivalence is narrower and more technically grounded, addressing defined prudential and supervisory issues rather than providing general access to the Single Market. This has helped keep regulatory recognition separate from the broader political debate over third-country access to the EU financial market.

But the more important question isn't whether Solvency II equivalence has passed its first 10-year test, it's what this experience can tell us about the next decade of European financial regulation.

Openness matters more when risks are harder to insure

The insurance sector illustrates the economic case for regulatory openness quite clearly.

The risks may be local, but the capacity to cover them doesn't have to remain within the same jurisdictional boundaries. Climate-related disasters, cyber and large industrial risks, among others, require large and diversified pools of capital.

Reinsurance works precisely because risks can be spread across companies, investors and locations rather than remain concentrated on single balance sheets. This international dimension is substantial: around 38 % of reinsurance transactions in the European Economic Area involve counterparties in third countries, including around 21 % with jurisdictions recognised as equivalent under Solvency II.

Thus, Europe benefits from access to international insurance and reinsurance capacity. The evidence showcased in a recent CEPS In-depth Analysis report shows what this international risk sharing actually means. Between 2016-25, commercial insurers and reinsurers in Bermuda alone incurred around EUR 80 billion in gross claims in the EU. When risks insured in the EU materialise, part of the resulting losses is therefore absorbed by internationally diversified balance sheets. International providers also broaden the pool of counterparties, capital and expertise available to European insurers.

Equivalence doesn't produce this capacity and claims payments, prices, investments and employment can't be caused directly by an equivalence decision. Yet, the commercial success of an insurer depends on many other factors.

The key question here is simple – once the EU establishes that another jurisdiction ensures sufficiently comparable prudential outcomes, what purpose does it serve to keep unnecessary regulatory duplicity for protecting policyholders' interests?

Increased regulatory costs won't necessarily improve the financial system's safety. Where they don't add any prudential value, they can only make it more expensive to access internationally diversified capacity.

This issue should receive more attention as part of Europe's competitiveness debate. Financial regulation's competitiveness shouldn't involve any weakening of prudential standards. Equivalence should remain conditional on comparable prudential and supervisory outcomes. It should also imply asking whether any specific regulatory burden is really necessary for attaining the regulatory aim.

Different doesn't automatically mean inadequate

Determining when regulatory differences matter for prudential outcomes will become more difficult over the next decade.

International insurance regulation is both converging and diverging. Standards are advancing, especially thanks to ComFrame and the Insurance Capital Standard. At the same time, major jurisdictions continue implementing common prudential objectives by different means. The US Aggregation Method is the best example. Brexit serves as another one – the UK starts from Solvency II but progressively adapts its regime to its market.

Thus, the EU will have to get used to the idea that regulatory divergence doesn't necessarily mean regulatory insufficiency. An outcomes-based approach should assess whether differences in rules, supervisory practices and institutional arrangements materially affect the prudential objectives relevant to equivalence, rather than whether the third-country framework replicates Solvency II. It should also distinguish between differences that weaken policyholder protection or effective supervision and those that represent another way of achieving sufficiently comparable prudential outcomes.

Such an approach requires regulatory confidence. With increasing regulatory divergence, insisting on replicating EU rules will only create unnecessary barriers. By focusing on the relevant prudential and supervisory objectives, rather than on the underlying rules, the EU could retain openness while still addressing any genuine prudential differences.

Solvency II equivalence already provides the EU with the foundations of this approach.

The EU should use equivalence more confidently, but not casually

Using equivalence more confidently doesn't mean issuing more equivalence decisions or lowering these decisions' standards. Credibility stems precisely from the fact that a third-country regime must demonstrate sufficiently comparable prudential outcomes. Equivalence isn't a guarantee that individual firms won't fail, nor does it transfer responsibility for third-country supervision to EU authorities. Rather, it determines whether the third-country framework provides adequate safeguards for the specific prudential purposes for which recognition is granted.

What can be improved is the process surrounding recognition. Assessments could be more predictable in terms of which jurisdictions are prioritised, how long the process is expected to take and how existing determinations are reviewed as regulatory regimes evolve. Equivalence shouldn't be treated as a one-off decision that permanently establishes comparability, but as an ongoing regulatory relationship supported by supervisory cooperation and monitoring. This would help identify emerging differences early and distinguish changes that do materially affect prudential outcomes from those that don't. Where the basis for recognition is no longer satisfied, equivalence should be reassessed.

Full equivalence shouldn't be the only measure of successful regulatory cooperation. Provisional equivalence, supervisory determinations, bilateral frameworks, such as the EU-US Covered Agreement, and international cooperation in supervising internationally active insurance groups can all play a role where full equivalence is neither necessary nor appropriate.

Thus, the EU's objective shouldn't be more equivalence decisions but fewer unnecessary regulatory frictions where prudential outcomes are sufficiently comparable.

A useful lesson for Europe's competitiveness debate

Here lies the significance of the first decade of Solvency II equivalence beyond insurance regulation, which may seem to be highly specialised.

Europe requires international capital. It requires international risk-sharing capacity. Financial institutions operating in the EU will face increasingly different regulatory regimes as they enter markets outside the jurisdiction.

The general message isn't that every credible international partner should have to replicate the EU's rulebook. But Europe shouldn't respond to the competitiveness challenge by lowering its prudential standards either.

There's a third way – to be demanding about the prudential outcomes that must be achieved, while allowing flexibility in the regulatory means used to achieve them.

Ten years on, this principle seems even more relevant than before. As regulatory regimes continue to evolve and Europe's need for international capital and risk-sharing capacity grows, the ability to accommodate different regulatory approaches without compromising prudential safeguards will become increasingly important.

For the EU to face the challenge of reconciling competitiveness with regulatory autonomy, this is the most important lesson of Solvency II equivalence: regulatory openness doesn't mean lowering standards. High standards simply don't have to be implemented through identical rules.