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Prudential Regulation Authority Consults on Matching Adjustment Investment Accelerator to Facilitate Investment by Insurers

Melanie James, Kirsty Maclean, and Alexander Cibulskis*

In this article, the authors discuss a proposal that would incentivise greater investment by insurers into assets such as infrastructure and real estate and that would free up capital for other investments to be made.

The Prudential Regulation Authority (PRA) published a Consultation Paper (CP)[1] on its proposal to introduce a "Matching Adjustment Investment Accelerator" (MAIA) as part of its reforms to the Matching Adjustment (MA) regime under Solvency UK. The proposal aims to facilitate investment by insurers who use the MA regime in assets that would be MA eligible but fall outside their existing MA permission, by allowing them to benefit from MA treatment on those assets in reliance on their self-assessment of MA eligibility for up to 24 months before seeking approval from the PRA.

The proposals form part of the government and regulator's efforts to reform the Solvency II regime following the UK's exit from the European Union. Their aims include streamlining regulatory burdens, incentivising investment by insurers in UK productive assets, and enhancing the competitiveness of the UK insurance industry. The MAIA may support these aims by stimulating investment by UK long-term insurers (who have significant assets under management) that may previously have been prevented by the need to seek PRA approval to vary a firm's MA permissions. The PRA expects the proposals to stimulate up to £10 billion of investments across the annuity sector if the MAIA permissions are fully utilised. However, firms may remain cautious to avoid investment decisions which may later be deemed MA ineligible, and therefore be removed from the MA portfolio.

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Subject to the responses received to the CP, the PRA anticipates implementing the proposals by Q4 2025, with the exception of proposed changes to Matching Adjustment Assets and Liability Information Return which would commence from 31 December 2026.

Background

MA is a feature within Solvency UK that allows insurers of long-term risks to reduce the measure of the best estimate of future liabilities (and, therefore, the assets required to support it) by applying a more favourable discount rate than the "risk free" rate ordinarily required where the cash flow of assets held against those liabilities is suitably matched to them. The rationale for the MA is that, where an insurer's asset cashflows are matched to its liabilities, it will not be forced to sell those assets before maturity and is therefore not subject to the asset's liquidity risk. The more favourable discount rate the insurer can apply is intended to reflect that a portion of compensation above the risk free rate that the asset delivers represents that liquidity risk, and the MA allows the insurer to treat that portion as if it was also "risk free."

In order to ensure that the rationale for the MA benefit applies, insurers wishing to apply the MA:

- Are required to manage a separate "MA portfolio", containing only assets and liabilities to which they apply an MA benefit. These assets and liabilities must have features that satisfy a number of eligibility conditions which go to the requirement that the assets and liabilities are suitably matched—including, for example, that the assets in the MA portfolio have fixed (or, to a limited extent, highly predictable) cashflows; and
- Must first obtain permission from the PRA, which delimits the scope of assets and liabilities they are permitted to include in the MA portfolio.

Currently, to include assets with new features in the MA portfolio, an insurer must first apply to the PRA for approval to extend its MA permissions. The industry has criticised this as causing missed investment opportunities, particularly in time-sensitive investments, because of the time taken to prepare the application and for the PRA's assessment, which can take up to six months.

The MAIA would allow firms with existing MA permissions to self-assess whether an asset with features that do not fit into their existing MA permission is MA eligible, in order to include it in the MA portfolio for up to 24 months without obtaining PRA approval. The PRA also proposes safeguards to mitigate the risk that assets the firm self-assesses as MA eligible are not ultimately MA eligible.

MAIA Permission

Firms holding an existing MA permission would be able to further apply for a MAIA permission. If granted, this would allow a firm to include an asset it self-assesses to be MA eligible in its MA portfolio, in advance of obtaining PRA approval. Firms are otherwise not permitted to include asset(s) with features outside their existing MA permission without first applying to the PRA to vary that permission—a process which can take up to 6 months.

The proposal is aimed at encouraging speedier investment in response to feedback from a Subject Expert Group set up by the PRA and Association of British Insurers that the time taken to obtain PRA approval has deterred investment, especially in cases where the investment timeline is shorter than the PRA approval period.

The PRA's assessment of MAIA permission applications would be informed by its view of the firm's ability to appropriately use a MAIA permission, including any issues in the firm's history of managing their MA portfolio and the firm's solvency or liquidity position. The PRA can also attach conditions to the MAIA permission it grants, to which the firm's self-assessment will be subject.

The PRA also proposes that firms that obtain an MAIA permission will be required to consider the implication of its use on the level of MA benefit in their calculation of their Solvency Capital Requirement.

MA Self-Assessment Regularisation

Firms that have utilised the MAIA self-assessment will be required to apply to the PRA for the regularisation of those MAIA assets within a 24-month period. If this is not granted, the relevant assets would have to be removed from the MA portfolio.

The PRA, in a speech given by Gareth Truran at the Westminster & City Bulk Annuities conference on 30 April,[2] commented that the timeframe "strikes the right balance between allowing the benefits of the accelerator to be achieved and allowing firms sufficient time to plan their pipeline of future MA applications, while also ensuring that assets do not remain in the MA portfolio without PRA approval for an overly long period." This reflects the PRA's concern that firms include assets within their MA portfolio that are not MA eligible, and consequently:

- The assets in the MA portfolio are mismatched with their MA liabilities, such that a firm may be subject to the liquidity risk of selling assets in the MA portfolio before maturity to meet liabilities (contrary to the "liquidity premium" the MA benefit is intended to give firms credit for by allowing them to discount their liabilities at a favourable discount rate);
- The firm has therefore miscalculated its MA benefit and overstated their financial resources for a period of time; and
- The need to rebalance the MA portfolio to bring it back into compliance requires the disorderly sale of MAIA assets deemed to not be MA eligible after their inclusion in an MA portfolio.

Controls on the Use of MAIA Permissions

The PRA has proposed the following additional controls to alleviate the risks of self-assessment outlined above:

- *MAIA Policy*. Firms applying for MAIA permission would be required to establish suitable procedures and controls including a MAIA policy. The MAIA policy would be expected to cover issues such as the governance and oversight that applies to its self-assessment of assets for inclusion in the MA portfolio and the contingency plans in place where a MAIA asset is later deemed to not be MA eligible, and can therefore no longer be included in the MA portfolio.
- *Liquidity Plan*. Firms will need to update their other policies, including their liquidity plan, to account for the risk that MAIA assets could later be determined by the PRA to not be MA eligible.

- *Exposure Limit*. Firms applying for MAIA permission would include an appropriate MAIA exposure limit as part of their MAIA application. The PRA proposes that an appropriate exposure limit would be the lower, on a consolidated group basis, of (1) 5 percent of the Best Estimate Liabilities of the MA portfolio (net of reinsurance), and (2) an amount proposed by the firm that is no greater than £2 billion. As MAIA assets are regularised, this would remove them from the MAIA exposure limit, thereby freeing up MAIA permission capacity for new investments.
- *MAIA and MALIR Report*. Firms utilising the MAIA framework would have to annually submit (1) an MAIA use report to outline how the firm manages its MAIA permission in accordance with its MAIA policy, and noting any breaches of the MAIA policy; and (2) an amended Matching Adjustment Assets and Liability Information Return detailing the assets in an MA portfolio using an MAIA permission, and those assets in respect of which an MA application has not been made within the required timeframe.

The PRA has also proposed that, if a firm breaches certain elements of the MAIA rules, including MA eligibility conditions, MAIA exposure limits and MAIA regularisation timescales, this would, if not rectified within two months, result in a reduction in the MA benefit that the firm can claim.

Consequential Changes

The PRA has recognised that the proposed introduction of the MAIA would have consequential impacts on the wider MA regime. It is therefore also consulting on a number of consequential changes to other existing regulation comprising the MA regime, and related application forms.

Of particular note to insurers in the pension risk transfer market will be its proposed adjustments to Supervisory Statement SS5/24, which introduced new requirements regarding insurer's use of funded reinsurance. These requirements include taking into account the risks in funded reinsurance (in particular, the risk of the insurer recapturing a sub-optimal portfolio if the arrangement terminates) in their collateral management policies, setting funded reinsurance limits, and modelling their solvency capital requirement. The PRA proposes that, when modelling a recapture of funded reinsurance assets, insurers should assume that recaptured assets for which they do not have MA permission cannot be recaptured into the MA portfolio using their MAIA permission.

Impact

The proposals complement reforms to the MA regime implemented by the PRA in 2024[3] as part of the Solvency UK reforms, including widening the eligibility of assets and liabilities that can benefit from the MA adjustment (notably, to include a small proportion of assets wish cashflows that are not fixed, but are highly predictable). The stated aim of such reforms is to incentivise greater investment by insurers into assets such as infrastructure and real estate, and freeing up capital for other investments to be made. The insurance industry estimates that, with the Solvency UK reform package, insurance firms will be able to invest at least £100 billion in UK productive assets over the next 10 years.[4]

The reforms come as, in her first Mansion House speech, the Chancellor, Rachel Reeves, announced a renewed focus on increased private sector investment and economic growth and competitiveness, with remit letters sent to the PRA and FCA encouraging the expedited adoption of their new secondary objective of facilitating international competitiveness and growth. In that vein, the PRA's MAIA reform proposals could support investment in a wider range of assets by long term insurers who benefit from the Matching Adjustment. This particularly includes insurers in the pension risk transfer market who rely on matching their long term liability cashflow in respect of pensioners insured under bulk annuity contracts against long term asset cashflows, to derive an MA benefit which materially supports their capital position. It could allow such insurers to be more agile and flexible in their investment decisions.

That said, the PRA's proposed safeguard indicate its intention to balance encouraging investment with maintaining the robustness of insurer's capital position—similar to its approach to the 2024 MA reforms, where the widening of asset eligibility was accompanied by measures to increase the sensitivity of, and firm's accountability for, the "fundamental spread" which determines the level of MA benefit derived from a given asset. Firms may therefore be cautious to include any assets that they are not confident the PRA will deem eligible upon their subsequent application to regularise their MA status. It therefore remains to be seen the extent to which the reforms might influence firm's investment strategy (beyond accelerating certain decisions they may have sought approval from the PRA for in any case).

Notes

* The authors, attorneys with Willkie Farr & Gallagher LLP, may be contacted at mjames@willkie.com, kmaclean@willkie.com, and acibulskis@willkie.com, respectively.

1. CP7/25—Matching Adjustment Investment Accelerator, https://www.bankofengland.co.uk/prudential-regulation/publication/2025/april/matching-adjustment-investment-accelerator-consultation-paper.

2. "Overseeing BPA Growth Safely," Speech by Gareth Truran Given at 22nd Westminster and City Annual Bulk Annuities Conference, https://www.bankofengland.co.uk/speech/2025/april/gareth-truran-speech-at-the-22nd-conference-on-bulk-annuities?utm_source=Bank%2Bof%2BEngland%2Bupdates&utm_campaign=cf5cc7467c-EMAIL_CAMPAIGN_2025_04_30_09_31&utm_medium=email&utm_term=0_-cf5cc7467c-113631974.

3. PS10/24—Review of Solvency II: Reform of the Matching Adjustment, https://www.bankofengland.co.uk/prudential-regulation/publication/2024/june/review-of-solvency-ii-reform-of-the-matching-adjustment-policy-statement.

4. https://www.abi.org.uk/news/news-articles/2023/7/solvency-uk-cross-sector-co-operation-to-drive-100bn-investment-into-uk-projects/.