Matching Adjustment Investment Accelerator (MAIA) – PS17/25

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Key changes in final MAIA policy – PS17/25

Overall, we view the final policy changes as positive for the industry and the PRA have taken on board a lot of the key points of feedback that had concerned the industry as part of the consultation.

Improved Investment flexibility	*The removal of a list of asset types that were proposed to be explicitly excluding, create more investment opportunities and flexibilities to use MAIA for firms.*
Eligibility risk assessment	*Firms can apply a risk-based approach to assessing asset eligibility but means that firms need to take a "more in-depth" assessment where greater judgement is required. This will likely lead to firms considering a 2-tier process.*
Liquidity risk considerations	*A subtle change that the liquidity risks resulting from MAIA assets needing to be removed can be considered as part of their liquidity risk management arrangements, and not necessarily a focus on firms' liquidity ratios.*
Short-dated assets	*Short-dated assets are no longer restricted via MAIA, subject to some sensible policy requirements.*
Contingency Plans	*Improved flexibility in contingency plans. Firms need to plan for arrangements that do not rely on the 'immediate sale' of the asset but no longer have to the assume the asset cannot be sold in the short or medium term.*

Opportunities & Challenges

The MAIA adds another regulator change opportunity that firms will need to plan for and leverage as part of their investment plans to optimise their MA Portfolio.

Opportunities

1 Additional lever

The MAIA gives firms an additional lever upon which they can use to optimise their MAP investment strategy. In addition to the recent SUK changes around HP cashflow assets and Sub-IG, firms will be reassessing their medium-term Strategic Asset Allocation and how MAIA can be leveraged to deliver and optimise that target allocation.

3 New nimbleness

Insurance CIOs will be able to react quickly to new (MA eligible) investment opportunities as they arise. This will align insurers with other credit market participants who can act quickly when markets move, or when new short-term opportunities present themselves.

5 Which assets first ?

Firms be able to assess the opportunity set to determine which assets are most beneficial to them to triage through the Accelerator first. With HP cashflow assets are permitted via MAIA, should these be first to drive new opportunities or deferred until PRA's expectations of HP are better understood?

Challenges

2 Prioritisation

Firms will likely need to consider prioritisation and resources across both 'Highly Predictable' and MAIA initiative to support both opportunities in the next 12/24 months, and the wider resources these subsequently require (e.g. capital modelling developments/applications).

4 Cost/Benefit

Firms will need to be mindful to a build up of one-off or smaller investment opportunities which are MA eligible but still result in a large application/approvals effort per each asset type.

6 Managing eligibility risk

With firms relying on their own internal assessments of MA eligibility Boards/Committees will likely want to understand the level of confidence, or risk, to the deferred PRA approval. The approval outcome could result in having to initiate the contingency plan for the asset(s), result in less beneficial MA/capital than expected, or the asset could unexpectedly have to utilise the firms limited 10% HP cashflow flexibility.

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