



Market Value Reduction (MVR) Frequently Asked Questions

Despite recent improvements, the stock market continues to remain below previous levels. This means that MVRs are still in place on our unitised with-profits investments.

The aim of this document is to answer some of the key questions you may have.

Q1) What is a Market Value Reduction (MVR)?

MVR stands for Market Value Reduction. It is a reduction we may apply when you take money out of the With-Profit Fund. This is to ensure investors receive a fair payout, based on the fund's performance for the time their money has been invested.

An MVR is designed to make sure customers who stay in the fund are not disadvantaged when others move out of the fund, or make a withdrawal.

MVRs only apply to unitised with-profits policies and will only be deducted when money is being moved out of the fund, either by switching to another fund or withdrawing the money.

Depending on your policy an MVR may also be known as an 'MVA' (Market Value Adjustment) or 'MVAF' (Market Value Adjustment Factor)

Q2) Can you give me an example to show why MVRs are being applied?

A)

- Suppose we have three investors in our With-Profit Fund who each invest £10,000 at the same time, so the total With-Profit Fund is worth £30,000.
- Now suppose the value of the fund falls by 20%, so the total With-Profit Fund value drops to £24,000.
- If one investor then withdraws his original £10,000 without us applying an MVR, only £14,000 would be left in the fund to be shared between the remaining two investors, which would be unfair.

In this example we would apply an MVR to make sure each member of the fund can receive a fair share of the fund value.

Q3) How will I know if an MVR is being applied to my policy?

A) You can see if we are applying an MVR to your policy on your yearly statement. You can also view whether an MVR is being applied by visiting www.aviva.co.uk/existing-customers and using the online valuation service. Alternatively, you can call our Policyholder Contact Centre on 0800 068 6800.

Q4) Will an MVR always apply to my policy?

A) No. We only introduce an MVR after a large or sustained fall in the markets, or when investment returns are below what we'd expect.

Q5) Will I have an MVR applied in all circumstances?

A) Not necessarily as your policy may have guarantee points where no MVR is applied. This will depend on the policy you have but may include maturity date, specific anniversaries, existing regular withdrawals and death. Your policy documents will tell you if you have any MVR-free points.

Q6) Will MVRs affect the special bonus payments ?

A) If Market Value Reductions (MVRs) are applying to investments made on the following special bonus qualification dates: 1 January 2008, 1 January 2009 or 1 January 2010, then an MVR will apply to the relevant special bonus payment.

Q7) How does Aviva monitor MVR rates and determine when they can be reduced or removed?

A) We review MVR rates regularly and look to reduce or remove MVRs as soon as it is possible to do so while ensuring fairness to all customers. We will only make adjustments when there is a significant and sustained improvement in investment markets. In order to reduce Market Value Reductions we have to be confident that customers withdrawing from the fund do not benefit at the expense of those who remain invested.

Q8) How are MVR levels determined?

A) We calculate MVR levels by comparing unit values (including Final Bonus) of the plans in force with the actual value of the underlying assets.

An MVR is the reduction in the value of the units, which will make any payout to a customer fair and consistent with the value of the underlying assets. We keep MVR levels under constant review. We change them in line with our MVR review strategy depending on market conditions.

Q9) Do other companies apply MVRs?

A) MVRs are used throughout the insurance industry as a response to adverse market conditions. They only apply to unitised with-profits funds.

Other insurance companies currently have MVRs in place.

Q10) Some companies are removing MVRs completely, why hasn't Aviva?

A) We're confident that our MVR review process protects the interests of the With-Profits policyholders and will not amend MVR rates to match competitor activity when this may be detrimental to the fund.

We continue to keep MVR levels under constant review with a view to removing them completely once we feel the markets and economic outlook have improved sufficiently.

Q11) Why does Aviva invest the with-profits funds in equities during volatile periods? Why don't you switch the with-profits funds out of equities during these periods?

A) Although equities can be volatile in the short term, they have the potential to outperform other assets such as property, cash and bonds over the longer term.

We may change the proportion of funds invested in equities at any time as part of the ongoing management of the fund and to reflect market conditions.