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)?

A) An MVR is a reduction made to reflect the true value of the fund for all investors into the With-Profit Fund. We only apply a market value reduction when market conditions are, or have been extremely poor and we need to make sure that all investors receive their fair share of the returns.

We constantly monitor investment conditions and the total amount of money being taken out of the fund. We may apply an MVR at any time if we think it's necessary to protect investors. Customers may find their fund value is lower than they previously thought and could get back less than they invested if they fully cash in or move out of the fund when an MVR is in place.

We'll always tell customers if an MVR is applying when they take money out of the fund, so they will have the opportunity to change their minds.

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) If there are three investors in the With-Profit Fund, who each invest £10,000, the total fund is worth £30,000. If stock markets fall by 10% and the total fund value drops to £27,000, it would mean that if one investor withdraws their original £10,000 without a market value reduction being introduced, it would leave only £17,000 to be shared between the remaining two investors. Market value reductions are a way of ensuring that customers remaining in the fund are not disadvantaged when others leave.

Q3) Will I have an MVR applied in all circumstances?

A) MVRs may be applied if you decide to cash in units, so firstly consider whether you really need to do this. If you do decide to cash in you will still be getting your fair share of the fund, taking into consideration people staying in the fund, and the current value of your investment. 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.

Q4) 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.

Q5) Some companies are removing MVRs completely, why hasn't Aviva?

A) 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.

Q6) How does Aviva monitor MVR rates and determine when they can be reduced or removed?

A) Aviva follows a robust and comprehensive MVR review strategy and will only make adjustments when there is a significant and sustained improvement in the overall value of the fund.
This process is in place to ensure fairness to **all** customers. In order to reduce or remove MVRs we have to be confident that customers withdrawing money from the fund do not benefit at the expense of those who remain invested in the fund.

Q7) 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.

Q8) 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.

Q9) 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.