



Field
Update



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Aviva Addresses Misconceptions on Annuity Products

As volatility and uncertainty continue to plague the capital markets, there has been much media speculation around the financial services industry and the products they provide to consumers, including several recent misconceptions.

As a result, Aviva USA would like to provide a few clarifications:

- Traditional fixed annuities are not tied to the performance of a securities index. These products have explicit declared interest rates and guarantee policyowners minimum surrender values and payment levels upon maturity.
- Fixed indexed annuities (FIAs) are like traditional fixed annuities except that the credited interest is tied to a specific securities index. Absent early withdrawal, FIAs provide a guaranteed principal protection and minimum rate of return, which accumulates over time. These returns may be higher depending on the performance of a specified index.
- FIAs are insurance products backed by the high quality general account assets of the insurer. The investment risk is placed firmly on the issuer, but we are not exposed to equity risk since hedges are purchased to match the crediting formula from only the yield on those assets. The FIA design does not create losses to the company when equity markets decline. Policyholders can look forward to fixed payments upon maturity. The policyholder may get more, but is guaranteed minimum surrender values.
- The implications that have surfaced in the press recently regarding insurance companies facing the same investment risk as those companies selling variable annuities product are not true. Our investment risk with FIAs is different and much lower than companies that sell variable annuities.
 - o As is the case with traditional fixed annuities, FIA premiums are invested in a portfolio of high quality bonds.
 - o We buy the bonds and keep enough of the yield to cover guarantees, expenses and other policy benefits.
 - o We then take a portion of the bond yield to buy options that match the index crediting formula. About 95 percent of our liabilities are hedged either with over-the-counter instruments or futures and exactly match the index crediting formula.
- We have no long-term hedge that suffers from poor market performance and creates pressure on us to satisfy guarantees we cannot cover. Companies that provide variable annuities with guarantees *do* have to use long-term hedges to satisfy those guarantees in times of poor market performance.
 - o Variable annuity writers have long-term guarantees based on overall performance of the equity markets and are now significantly underwater with market declines, which may take years to recover.

Today's volatile markets underscore the growing demand for products like fixed indexed annuities. While many Americans lost a significant portion of their retirement savings during the recent market downturn, none of Aviva's FIA policyowners have lost any principal or credited interest due to market fluctuations.

As we have previously reported, Aviva has had minimal exposure to the issues affecting other financial services firms, and we remain confident in our ability to meet all obligations to our policyowners. We have significant resources and financial strength, which is reflected in our credit ratings: AA/AA- ("very strong") with a stable outlook from Standard & Poor's, Aa3 ("excellent") with a stable outlook from Moody's and A+ ("superior") with a stable outlook from AM Best.

Thanks to our distribution partners' hard work and commitment, Aviva continues to experience strong sales of these products, which have become a growth driver for our company and a contributor to our financial strength.

We are committed to supporting you and ensuring clear market understanding of the value our products provide to consumers. Thank you for your support—we look forward to continued success.