

# Target Market Statement

## Lifestyle Max lifetime mortgage

**This document is intended to be used by distributors and not provided to a customer. Aviva Equity Release UK Limited is the product manufacturer for this product. Full details are contained within the policy documentation.**

### Introduction and context

In July 2022, the FCA strengthened the requirements in relation to product oversight and governance following the introduction of the Consumer Duty regulations (PS22-09).

For the product oversight and governance part of these regulations, we would like to share with you an outline of the product approval process we use in Aviva and our product target market statement, which clarifies who the product is intended for (and who it is not).

### Aviva's product oversight & governance

#### Why are you telling me about this?

Under the FCA's rules, we are required to inform you we have governance processes in place to oversee the design, approval and review of our products.

#### What controls does Aviva have in place?

We have well established governance processes which:

- formalise approval of new product developments and changes to existing products
- identify target markets for each product
- test customer understanding
- consider needs of vulnerable customers
- monitor post-sales performance.

After we introduce our products to the market, we regularly review them to check whether we need to make changes to them. This includes an annual assessment of the value received by customers through our products; this is referred to as the 'Value for Money Assessment'. The Value for Money Assessment considers a range of indicators and measures which contribute to the overall value delivered to our customers. The measures include:

- **Target Market and Distribution Strategy** – Ensuring that the target market is defined at a sufficiently granular level and that the distribution approaches are appropriate
- **Costs and Charges** – Review of the costs incurred by retail customers to ensure that these are fair and appropriate taking into account the features and benefits offered through the product
- **Commission and Margin Levels** – To ensure these are appropriate for the service received by the customer
- **Complaints** – Analysis of customer complaints to identify and resolve root causes, particularly where the product fails to deliver as expected
- **Service Delivery** – To ensure service levels are in line with those we have led customers to expect
- **Communications** – To ensure customers continue to receive communications which are clear, transparent and timely.

We base our level of oversight on the type and complexity of each product, our identified target markets and the level of financial understanding.

#### What does this mean for me?

As product manufacturer, we'll monitor the performance of our products to make sure they meet the needs of customers in the identified target markets. Should you feel a product doesn't meet these customers' needs or is potentially unclear, you can help us by providing feedback through your usual communication channels.

## Target Market Statements

### Why are you telling me about this?

The rules require us to consider several points when designing our product range, including;

- specifying an identified target market
- identifying relevant risks to the target market
- making sure that the intended distribution strategy is appropriate for the identified target market
- requiring us to take reasonable steps to make sure our products are distributed in line with the target market for specified distribution channels.

### What does this mean for me?

We've developed target market statements to give you, our distributor, clarity on who the product is intended for (and who it is not) and how customers can buy the product.

Using these target market statements should help you in your consideration of:

- how the distribution strategy aligns with the target market statement
- the demands and needs of the customer
- whether any of the customers may be outside of the target market due to eligibility or exclusions
- that fees and charges are appropriate to the service being delivered for customers
- vulnerable customers and the target market focusing on whether they may require additional support in their decision-making.

### Can I sell outside of the target market?

A customer may benefit from buying the product even if they are outside of the Target Market. During the sale, you will be closest to the customer in identifying their demands and needs and your judgement will decide what is right.

### Feedback

If you have any feedback on these statements, please contact your usual Aviva representative.

## Lifestyle Max – Target Market Statement

The Lifestyle Max lifetime mortgage typically offers a higher Loan To Value (LTV) range and a shorter Fixed % Early Repayment Charge (ERC) term compared to the Lifestyle Flexible Option lifetime mortgage.

### What customer need does this product meet?

Equity release allows later life customers to borrow against the value of their home to support their financial objectives. At initial borrowing the Lifestyle Max lifetime mortgage is designed for customers who have an immediate financial need to borrow a lump sum loan amount and do not require a cash reserve facility for their longer-term planning. Additional borrowing may also be available, but this is not guaranteed. There is no expectation for repayments until the loan becomes repayable (death or long-term care), but it allows flexibility for voluntary partial repayments if customers have disposable income.

### Financial considerations

The following financial considerations must be carefully thought through before recommending the Lifestyle Max lifetime mortgage:

- **Financial resilience** - Where customers have limited assets or are using their last available asset to secure this loan, consideration should be given to their financial resilience and the impacts of future financial strain later in life. Customers who are not financially resilient in later life may have limited options when it comes to moving property, change of circumstances, obtaining additional borrowing and maintaining their property in accordance with terms and conditions. Failure to maintain the property could result in the risk of repossession
- **Cost of Borrowing** - The Lifestyle Max carries a higher interest rate compared to the Lifestyle Flexible Option so the total cost of borrowing over time will be higher. Interest is calculated on a compound basis which quickly increases the amount that is owed reducing the available equity in the property for future additional borrowing. The cost of borrowing on a lifetime mortgage may not be a good customer outcome where alternative borrowing solutions are more suitable and more cost effective
- **Long Term Planning** - The Lifestyle Max provides a lump sum to meet the customer's immediate financial need, borrowing to put in deposit could create a poor customer outcome. The Lifestyle Max is not designed to support customers longer term financial needs and does not have a cash reserve facility
- **Negative Equity:** The No Negative Equity Guarantee ensures that when the lifetime mortgage is repaid the customer, or their estate will never be asked to pay back more than the amount received from the sale of the property, even if the amount owed is higher. This is providing that it is sold for the best price reasonably obtainable. Borrowing at a high interest rate with a high LTV significantly increases the risk of negative equity during the customers' expected lifetime. Consideration must be given to the customers' future financial resilience and the impact negative equity might have on their financial options and ability to maintain or raise income in later life. Customers who are not financially resilient in later life may have limited options when it comes to moving property, change of circumstances, obtaining additional borrowing and maintaining their property in accordance with terms and conditions. Failure to maintain the property could result in the risk of repossession
- **Voluntary Partial Repayments:** The maximum amount a customer can repay each policy year is 10% of the initial loan including any additional borrowing, excluding any accrued interest. Making voluntary partial repayments helps to reduce the growth of the outstanding balance over time. When recommending repayments to the customer, consideration must be given to the longer-term impacts of negative equity and any voluntary partial repayments that are made are not refundable

### Who is the Lifestyle Max designed for?

The Lifestyle Max is designed for customers aged 55 and over, who own their own home and have an immediate financial need for a one-off lump sum loan amount to pay off an outstanding debt where they cannot continue to repay their existing financial obligations but have a plan in place to maintain their standard of living and future financial needs.

**The above financial considerations must be strongly considered before recommending this product.**

**The following list describes examples of outstanding debt which are considered to be suitable reasons for borrowing within our Target Market:**

- Repay a residential mortgage\*
- Repay an existing lifetime mortgage\*
- Personal debt consolidation - repaying secured & unsecured debt (where other more suitable debt management/consolidation can't be arranged)\*

## Lifestyle Max – Target Market Statement (Continued)

**Other reasons for borrowing are acceptable however due to the financial considerations, careful consideration is required before recommending:**

- Home improvements including white goods and home furnishings
- Inheritance Tax Planning [advice received through a qualified wealth adviser]\*
- Lifestyle/Income [£35,000 trigger]\*
- Care in the home [£50,000 trigger]\*
- Emergency Funds/Savings [£35,000 trigger]\*
- Gifting to family and/or friends (including intergenerational lending)\*
- Holiday
- Car purchase
- Second home for applicants personal use

The reasons for loan marked with an\* could pose a higher risk of a poor customer outcome. In some circumstances, your recommendation may require an amount higher than the trigger in which case it will fall outside of our Target Market. For all of these reasons for loan, we ask that during the online application you attest that considerations have formed your advice recommendation, as outlined in the table below under 'Attestation' column:

Reason for loan	Attestation
Debt consolidation - repaying secured & unsecured debt	<ul style="list-style-type: none"> <li>• You have agreed the amount requested meets the customer needs</li> <li>• The customer understands the impact of interest roll up on money taken upfront</li> <li>• You have carried out income and expenditure checks and seen appropriate evidence to establish that the existing debt is no longer affordable</li> <li>• Other forms of debt consolidation or repaying the debt have been considered</li> <li>• Where the customer requires a debt management plan an appropriately qualified adviser has provided advice</li> </ul>
Repay a residential mortgage	<ul style="list-style-type: none"> <li>• You have agreed the amount requested meets the customer needs</li> <li>• the customer understands the impact of interest roll up on money taken upfront</li> <li>• You have carried out income and expenditure checks and seen appropriate evidence to establish that the existing debt is no longer affordable</li> <li>• Other forms of debt consolidation or repaying the debt have been considered</li> <li>• Where the customer requires a debt management plan an appropriately qualified adviser has provided advice</li> <li>• The customer has explored and exhausted all options with the existing mortgage lender to restructure their existing residential mortgage</li> <li>• Other ways of repaying the mortgage have been considered including other conventional mortgage lenders</li> </ul>
Repay an existing lifetime mortgage	<ul style="list-style-type: none"> <li>• You have carried out an assessment to ensure that this is in the customer's best interests</li> </ul>
Gifting to family and/or friends (including intergenerational lending)	<ul style="list-style-type: none"> <li>• You have agreed the amount requested meets the customer needs</li> <li>• The customer understands the impact of interest roll up on money taken upfront</li> <li>• You have checked and can evidence that the reason for the gift is legitimate and there have been no signs of coercion, fraud or any type of financial crime</li> <li>• The customers future financial needs have been considered</li> </ul>
Lifestyle/Income [£35,000 trigger]	<ul style="list-style-type: none"> <li>• You have agreed the amount requested meets the customer needs</li> <li>• The customer understands the impact of interest roll up on money taken upfront</li> <li>• Setting up a cash reserve facility has been considered</li> </ul>

## Lifestyle Max – Target Market Statement (Continued)

Reason for loan	Attestation
Emergency Funds/ Savings [£35,000 trigger]	<ul style="list-style-type: none"> <li>You have agreed the amount requested meets the customer needs</li> <li>The customer understands the impact of interest roll up on money taken upfront</li> <li>Setting up a cash reserve facility has been considered</li> </ul>
Care in the home [£50,000 trigger]	<ul style="list-style-type: none"> <li>You have agreed the amount requested meets the customer needs</li> <li>The customer understands the impact of interest roll up on money taken upfront</li> <li>Setting up a cash reserve facility has been considered</li> </ul>
Inheritance Tax Planning	<ul style="list-style-type: none"> <li>You have agreed the amount requested meets the customer needs</li> <li>The customer understands the impact of interest roll up on money taken upfront</li> <li>Setting up a cash reserve facility has been considered</li> <li>You have ensured that the customer has received advice from a qualified wealth adviser.</li> </ul>

### Who is the Lifestyle Max not designed to support?

A lifetime mortgage is designed to last until the plan holder either passes away or permanently leaves the property due to the need for long-term care. It is not designed:

- For customers who have no prospects of income recovery and no financial plan to either meet their financial needs in later life or to maintain their standard of living and their property, in accordance with the terms and conditions
- For customers who want or need a cash reserve facility which allows regular drawdowns for longer term financial planning
- To be used for short term lending and could incur an early repayment charge if repaid voluntarily
- To support customers who have other more suitable means of meeting their financial objectives or customers who wish to leave the full value of their property as inheritance
- For released funds to be invested to generate wealth or income with the exception being investment for the purpose of Inheritance Tax Planning

### The following list describes the reasons for borrowing which we consider unsuitable and fall outside of our Target Market:

- Money to be held in deposit with no foreseeable or planned immediate need
- Investments (except for Inheritance Tax Planning). Examples include:
  - Business investment/business venture where the applicant holds an interest in the business (direct or otherwise)
  - Investment to generate wealth or income
  - Investment Properties including Buy to Let Properties and Property Investment Club (PIC)
- Timeshare purchases
- Currency speculation
- Illegal, speculative, or gambling purposes
- Providing a 'repayable' loan to an unrelated 3rd party
- Where the use of the money will result in the property not meeting our property lending criteria e.g. spray foam insulation
- Customer(s) student loans
- The loan is expected to be repaid early and will incur an Early Repayment Charge

### Can I sell the Lifestyle Max without advice?

A lifetime mortgage can only be sold by an equity release adviser who is qualified to offer advice on equity release.

## Lifestyle Max – Target Market Statement (Continued)

### How can I sell the Lifestyle Max?

To offer advice on equity release you will need the following qualifications obtainable through either the Chartered Insurance Institute (CII) or London Institute for banking and Finance (LIBF).

Awarding Body	Required Module Blocks	Qualifications
Chartered Insurance Institute (CII)	RO1 Regulation and Ethics <u>OR</u> CF1 UK Financial Services Regulation and Ethics <u>PLUS</u> CF6 Mortgage Advice <u>AND</u> ER1 Equity Release	Certificate in Equity Release
London Institute of Banking and Finance (LIBF)	Certificate in Mortgage Advice and Practice <u>PLUS</u> Certificate in Regulated Equity Release Units 1 and 2	Certificate in Regulated Equity Release (CeRER)

As well as the above formal qualifications, you should also find out about any restrictions of licensing requirements insisted on by your own firm or network.

## Need this in a different format?

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## How to contact us

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