

Abstract

This paper aims to study fund-linked savings products with capital guarantee - one of the fastest growing financial products in Europe during the past decade. We distinguish four popular approaches:

- CPPI funds with a ratchet-style guarantee
- Dynamic Hybrids (two-layer CPPI)
- Individualised Constant Proportion Portfolio Insurance (I-CPPI)
- Variable Annuities

The study focuses on the relative effectiveness, the economic costs, the risk/return profile and the cash-out risk of each strategy in different market scenarios. To evaluate and compare the strategies we use simulated and historical data for different market scenarios to calculate statistical measures that provide insight about absolute as well as probabilistic estimates. The investigation takes a producer as well as consumer perspective.

Keywords: Constant Proportion Portfolio Insurance, Dynamic Hybrids, Variable Annuities, Guaranteed fund-linked savings Products

Title: Guaranteed saving plans: An analysis of alternative fund-linked strategies

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