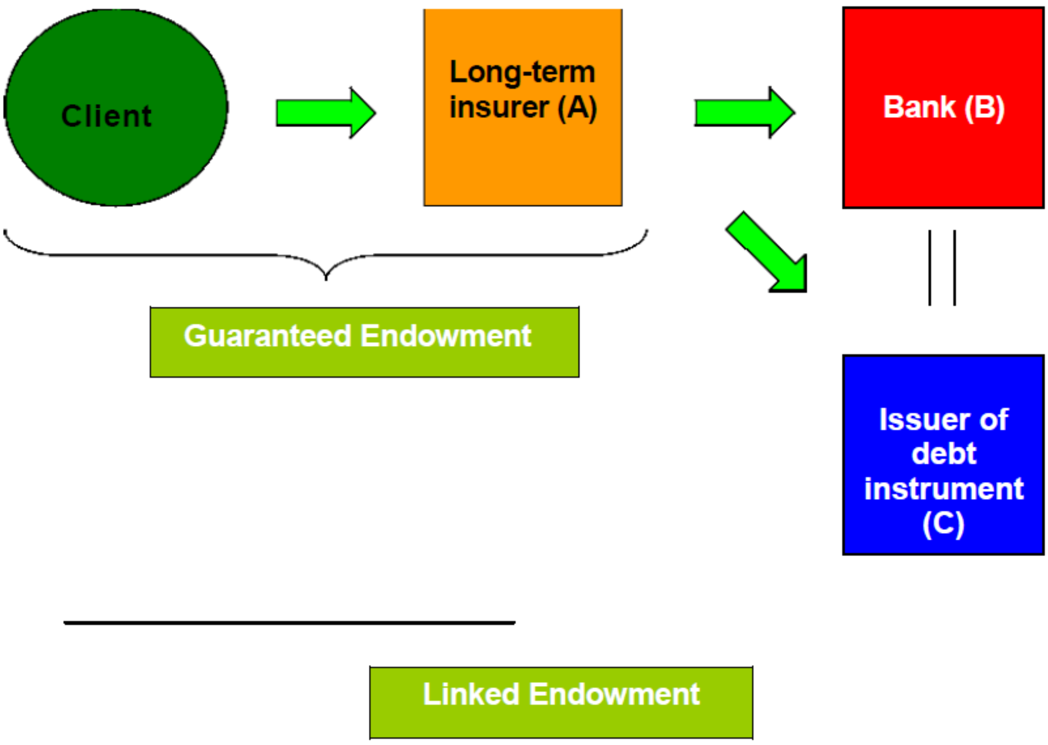
# Guaranteed vs. Linked Endowments

Conservative investors often take comfort in capital guaranteed products, like fixed deposits, money market funds, retail bonds or guaranteed endowments. All these products guarantee the security of capital, and with fixed deposits, retail bonds and guaranteed endowments, the interest on capital is also guaranteed if held to maturity.

## Linked endowments

Linked endowments are more recent additions to the secured rates market. These endowments stipulate that the quoted maturity value is not guaranteed by the issuing insurer, but rather by the underlying instruments held by the insurer. The insurer under a linked endowment therefore *introduces additional counterparty risk* to a potential investor. This means that there are *two or three counterparty risks* present in the linked endowment structure. The following diagram illustrates this point:




For guaranteed endowment, the client's exposure is limited to the long-term insurer (A).
For a linked endowment, the client is exposed to the default risk of the insurer (A), the bank sourcing the debt instruments that back the maturity value (B), and the issuer of the debt instruments (C). The insurer may also source the underlying debt instruments directly, which then eliminates the default risk from the bank (B).

The ability for each of these parties to hold up their end of the bargain is therefore of critical importance.