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Exploring new frontiers: the potential of micro-insurance investments

Jeremy Leach, Director: BFA

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Micro-insurance investment landscape

Key characteristics of micro-insurance investments

Challenges for investors

Future outlook

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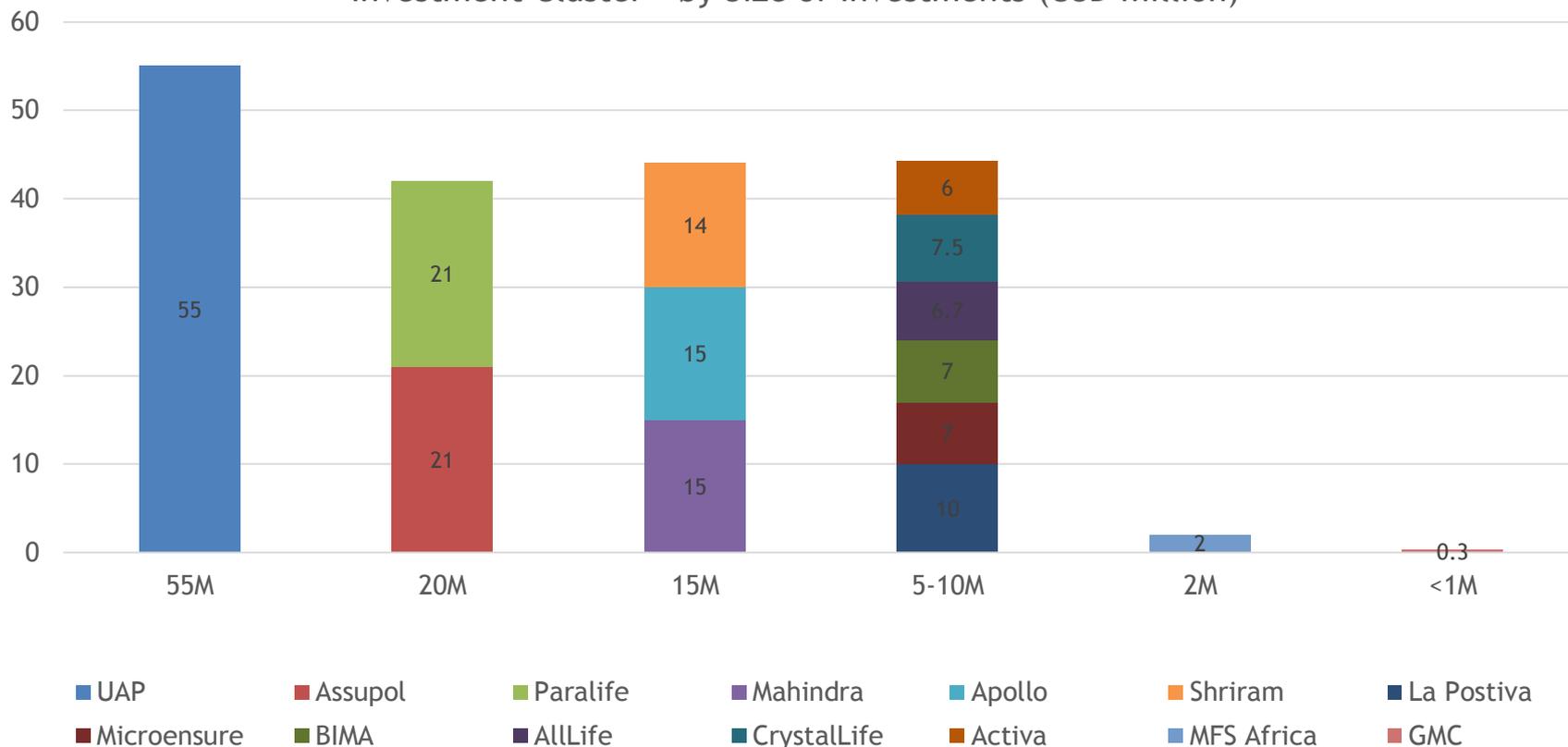
There have been 25 identified microinsurance investments from a variety of investors - principal investors were IFC, Leapfrog and AllNations



Development Finance Institution (DFI)	IFC	MicroEnsure	
		paraLife	
		Activa	
		La Positiva, Peru	
		Assupol	
	IADB Mutilateral Investment Fund	paraLife	
	DEG	Avrist	
Private Development Investors	Omidyar	MicroEnsure	
		paraLife	
	Opportunity International	MicroEnsure	
	Accion FIG Portfolio	paraLife	
	MercyCorps	MiCRO	
Investment Funds	Aureous Africa Fund	UAP Insurance, Kenya	
	Investment Fund for Health in Africa	Hygeia	
	Kinnevik (private investment company)	BIMA	
	Leapfrog 1 (Fund 2 just launched)		BIMA
			Apollo
		Shririam	
		Express Life	
		Mahindra Insurance	
		CrystaLife	
Strategic Investors	Telenor	MicroEnsure	
	Hollard	MFS Africa (convertible debt)	
Other	AllNations	Unique Assurance, GMC Assurances, SURCO, Tajy, Çoop Seguros	

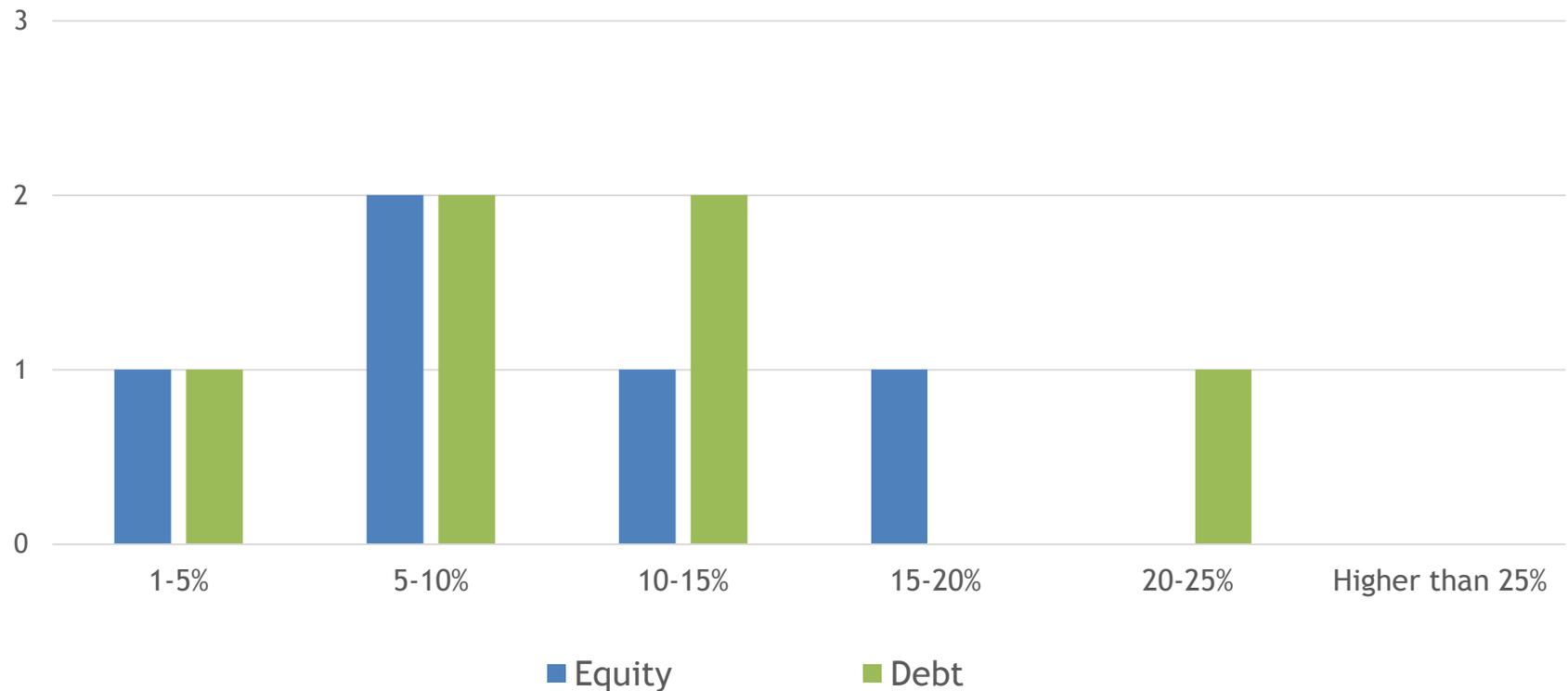
Investments were clustered around the \$8m to \$15m deal size

Investment Cluster - by Size of Investments (USD million)



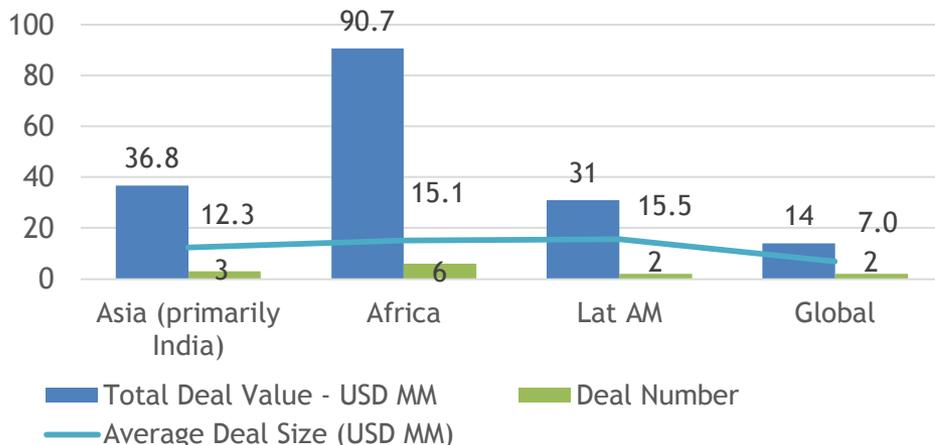
Whilst expected returns on investment were low for private equity, which may relate to the limited number of private investors in the survey

Expected ROI



Africa leads on the number of investments but with smaller ticket sizes and there is a growing number of global deals

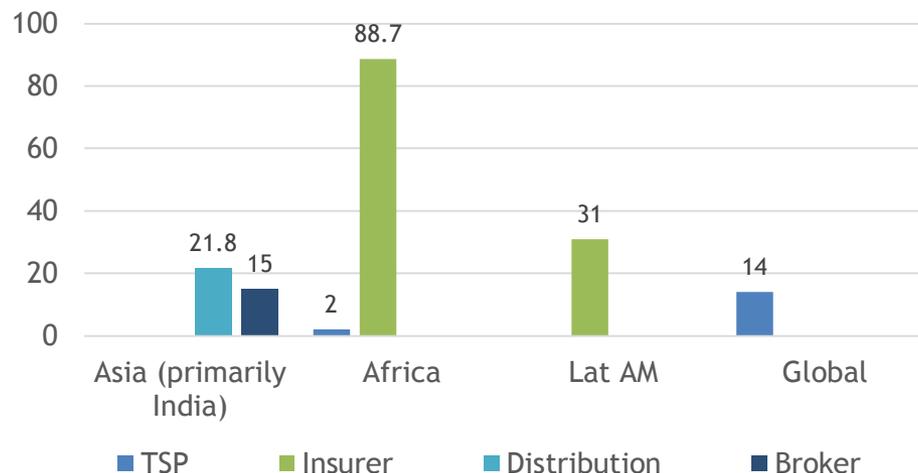
Geographic Mapping of Micro-insurance deals



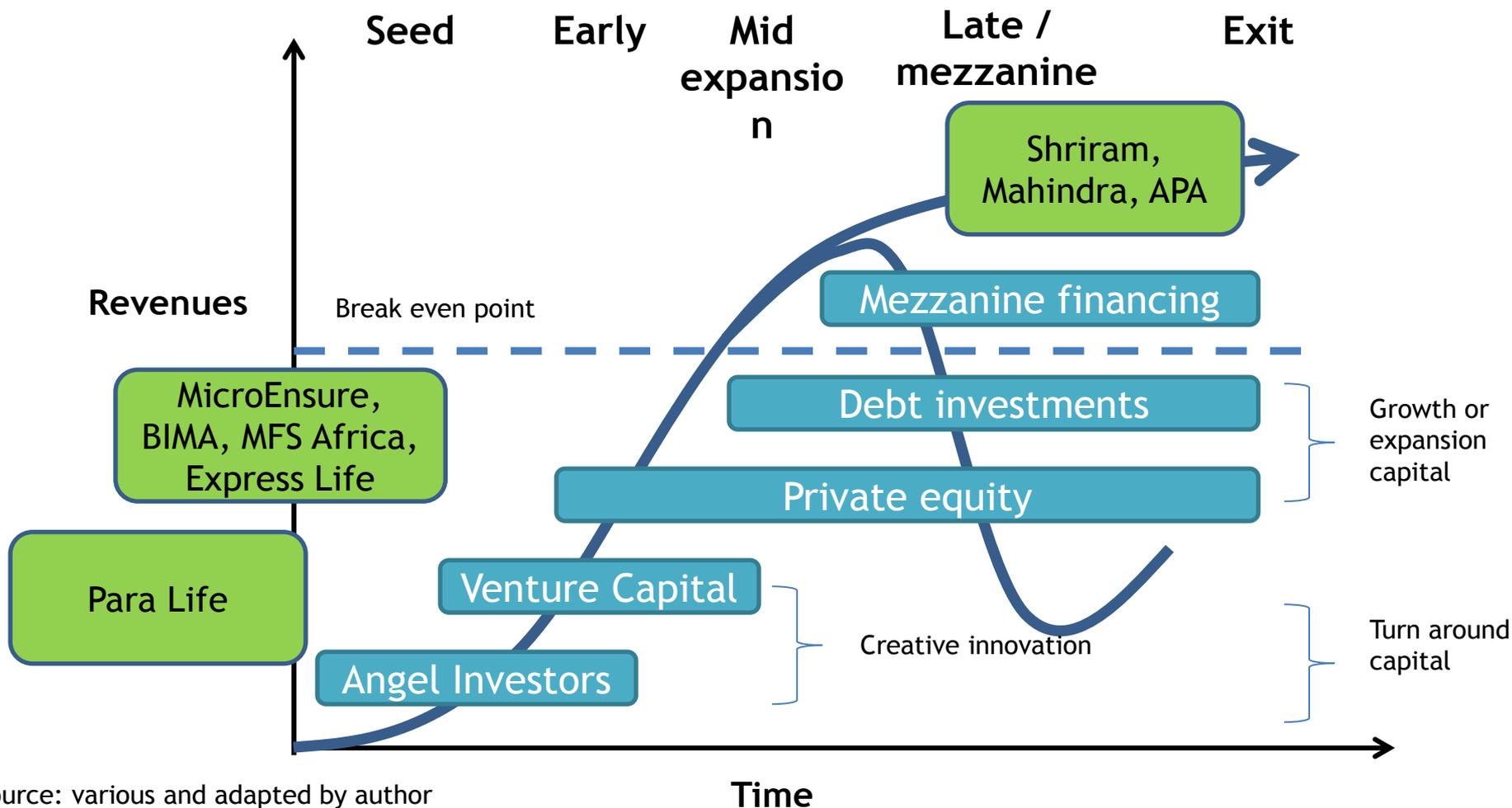
- Strong deal activity in Africa.
- Africa sees a higher number of deals - but with a smaller ticket size as compared to Lat AM or Asia apart from one large investment into UAP Insurance which skews the data

- Investments into Africa and Lat AM - sees investors backing insurers (both dedicated micro insurers and mainstream insurers going downstream).
- Investments in India seems to be typically around distribution and brokerage.
- TSP investments understandably have a wider global focus.

Type of Micro-insurance Investees



Overall, micro-insurance deals thus far tend to be bifurcated between early stage and late stage funding with little in between



Source: various and adapted by author

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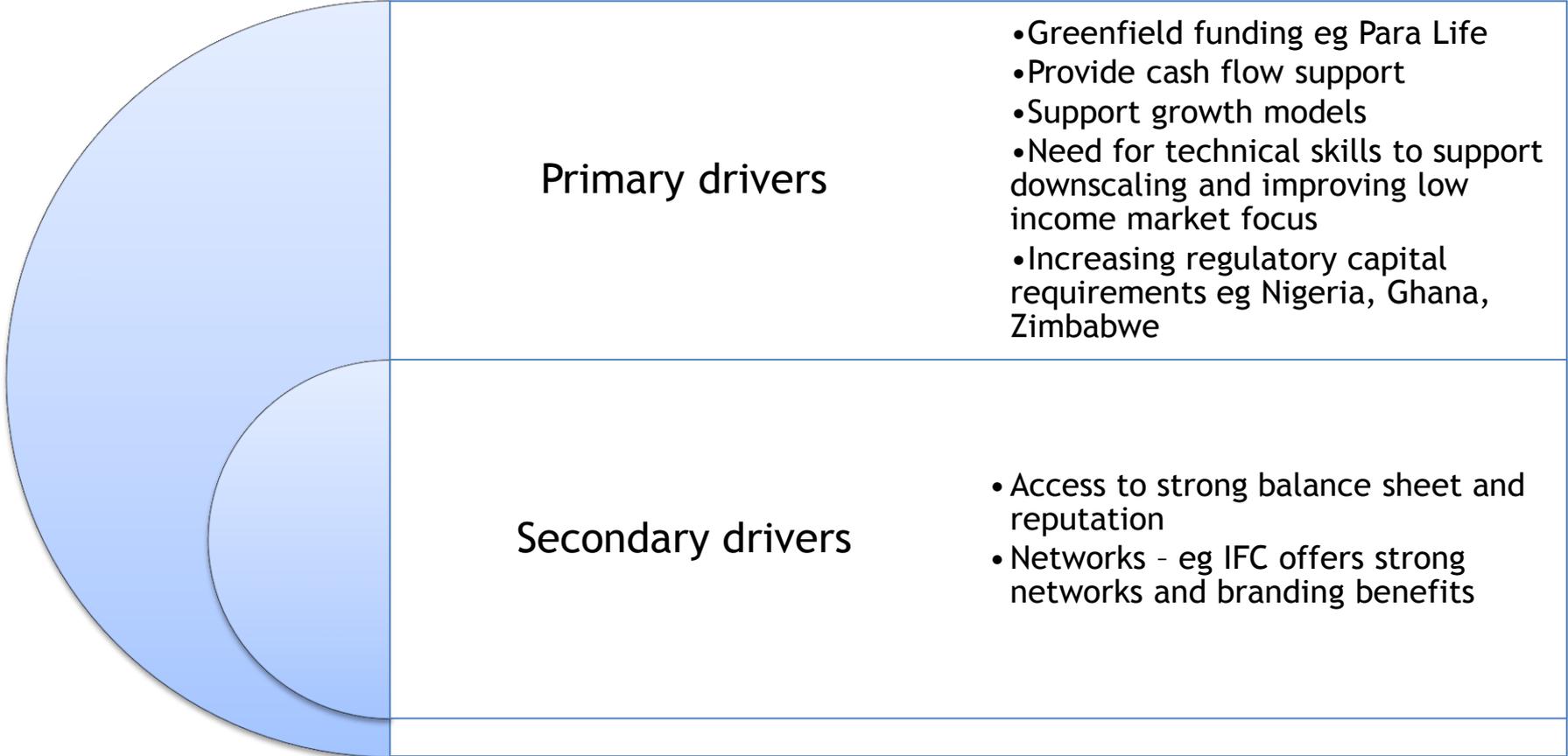
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Drivers of micro-insurance investment..

...split between primary needs around capital and secondary needs, often around networks and business development



Primary drivers

- Greenfield funding eg Para Life
- Provide cash flow support
- Support growth models
- Need for technical skills to support downscaling and improving low income market focus
- Increasing regulatory capital requirements eg Nigeria, Ghana, Zimbabwe

Secondary drivers

- Access to strong balance sheet and reputation
- Networks - eg IFC offers strong networks and branding benefits

As there are a limited number of insurers with large micro-insurance portfolios, there are 5 primary deal options for investors



Option	Dedicated micro - insurer	Technical Service Providers	Broker / intermediary	Distribution business eg retailer, MFI, Mobile operator	Mainstream insurer - going downstream
Risks / concerns	Business case still broadly unproven for mono-line business	Thin margins and often exposed part of the value chain/ Risk of being crowded out	Value add in the case of low advice / no advice models may be limited	Insurance may not be a core priority Limited to the size of the client base.	Lack of interest in micro-insurance - keen on own comfort zone
Examples of investment deals	Para Life? (Various) Covision South Africa (Hollard)	BIMA (LeapFrog) MicroEnsure (Various) MFS Africa (Angel investor)	Mahindra (Leapfrog)	FINO (IFC) Shiriam (Leapfrog)	Crystal Life (LeapFrog) APA (Leapfrog)

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There remain considerable challenges which investors will need to navigate

Challenges in making an investment

Insurance is already a challenging model for private equity - high liquidity, high regulatory requirements, low opportunities for leverage and move to profitability is typically slow and long term.

Despite strong growth, profitable models will take longer to appear than originally expected:

True commercial viability not proven on a large scale across multiple products and geographies; isolated pockets of success often due to unique in-country circumstances

FDI limits and country risk limits the investment opportunity and increases cost of leverage

..Compounded by the challenge of exiting

Weak illiquid stock markets limit the opportunity for IPOs

Limited capacity of local insurers to buy available stake

FDI limits opportunity of trade sales to international insurers

Local management teams may not have capacity or credibility to drive management buy outs

Investors response to the challenge of investing in micro-insurance



Strengthening advisory models:

Return to the origin of private equity - a recognition that building the business is the issue - it is not just about financing engineering.

“Foreign investors must be engaged owners, not just sleeping partners” (CGAP study)

Courting distribution businesses.

The potential to leverage off existing investments in non-insurers provides a way to generate new businesses.

Overcoming the small ticket size of many investments as one can either re-allocate existing commitments or top up the investment.

Insurance as an enabler.

Aim to use insurance as an enabler for ones existing core business - whether as a risk mitigant or to reward loyalty.

The growth of m-insurance models is partly due to the impact that insurance has had on the MNOs or Bank's core business in terms of reducing churn or improving loyalty or average revenue per user (ARPU)

Leapfrog Labs shifting from an administrator of donor funds to a donor-supported internal consulting unit - With the appointment of Niclas Thelander an ex-strategy consultant and financial services executive, Leapfrog Labs has re-positioned itself to provide leading technical support to their investees recruiting key technical staff to ensure value add.

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Opportunities around investments in micro-insurance...

Promulgation of micro-insurance legislation creating class of micro-insurers.

- Micro-insurance regulation may allow for the development of a separate class of micro-insurance operators or micro-insurers with lower prudential and market conduct compliance requirements and a need for investment to support the capitalisation of the new micro-insurers.

Increasing capital requirements.

- In contrast to the above, a number of countries are increasing their capital requirements for insurers which creates opportunities for investors to support the capital raising.

Downscaling models.

- Downscaling typically requires insurers to tailor conventional processes and operations to cater to the needs of the low-income market - technical assistance and capital from investors can support these models

Leverage existing financial inclusion investments and efforts:

- Investors could potentially leverage existing financial inclusion investments including those in microfinance. The microfinance sector accounts for the bulk of impact investments and investors could leverage these to invest in micro-insurance.

Opportunities for investments in publicly funded and privately operated entities.

- The potential to invest in the private arm of PPP models where there is a guaranteed subsidy offers tremendous opportunity.
- Of course PPPs bring their own challenges and risks but many of the scale models have been based on subsidy - whether life, health or index insurance.

What's needed to support investors?

Addressing small ticket size investments in micro-insurance.

Supporting the development of advisory capacity to support investors in micro-insurance.

Adopting principles or standards guiding investments in micro-insurance.

Developing the necessary infrastructure to support investments in micro-insurance.

Identifying gaps in micro-insurance for investor focus.



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Jeremy Leach

Director: BFA

jleach@bankablefrontier.com