BlueOrchard Academy

Impact Private Equity
– Fostering Financial Inclusion in Emerging Markets

February 2022

About BlueOrchard Finance Ltd

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. As a pioneering impact investor, the firm is dedicated to generating lasting positive impact for communities and the environment, while aiming at providing attractive returns to investors. BlueOrchard was founded in 2001, by initiative of the UN, as the first commercial manager of microfinance debt investments worldwide. Today, the firm offers impact investment solutions across asset classes, connecting millions of entrepreneurs in emerging and frontier markets with investors with the aim to make impact investment solutions accessible to all and to advance the conscious use of capital

Being a professional investment manager and expert in innovative blended finance mandates, BlueOrchard has a sophisticated international investor base and is a trusted partner of leading global development finance institutions. To date, BlueOrchard has invested over USD 9bn across more than 90 countries. About 230 million poor and vulnerable people in emerging and frontier markets received access to financial and related services with the support of BlueOrchard as of December 2021. For additional information, please visit: www.blueorchard.com.

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Executive summary

Financial inclusion — the access to affordable and relevant financial services — is a critical lever for the empowerment and resilience of individuals and businesses. While great progress has been made over the last two decades, more remains to be done: 1.7 billion adults remain unbanked, women continue to suffer disproportionately from financial exclusion, and individuals and business alike require funding to reignite their economic activities in the aftermath of the Covid-19 crisis.

While yielding powerful impact, financial inclusion is also providing strong growth opportunities for companies active in the field. Emerging market financial services companies have been outperforming their developed market peers for most of the past two decades. The firms in BlueOrchard's portfolio have fared even better than their emerging markets peers. By tending to the underserved segments of the population and economy, they have grown their assets more than fivefold on average over the last decade.

By providing the capital needed for growth, private equity offers excellent access to these predominantly unlisted companies. Through stewardship at board level, private equity investors can be instrumental in pivoting financial institutions' activities towards underserved individuals and businesses. Through active engagement with management, private equity investors in financial inclusion can help building outreach, affordability, and relevance of financial services. Measures deployed in this pursuit tend to coincide with the growth, efficiency, and governance levers applied for financial return — offering true double impact.

To successfully capture the potential for impact and financial return offered by investing in financial inclusion, investors need to navigate the risks specific to the sector and its markets. This requires an understanding of potential risks at country, sector, and company level. It also entails a range of mitigants to carefully be deployed, from general diversification, legal stipulations, and governance arrangements to the less tangible value of local presence, network, and ability to add value.

The Covid-19 pandemic has not fundamentally altered the investment case. However, it has accelerated the need of many institutions for equity and regulatory capital, and has in many markets momentarily depressed valuations. It has divided the field of institutions active in financial inclusion into winners and losers, with factors such as product range, client segments, and regional coverage driving the differences. From an investment perspective, we consider the current environment a unique opportunity to partner with resilient, fast growing, and profitable institutions that can serve the growing markets, further drive financial inclusion, and compensate for the capacity drops of other providers. From an impact perspective, the investment case for financial inclusion has certainly been reinforced by the Covid-19 crisis, with more than 100 million people pushed into poverty.

With over 20 years of experience and an active network of over 1000 financial institutions, BlueOrchard possesses unparalleled expertise and visibility in financial inclusion. With more than USD 9 billion invested, BlueOrchard has funded the growth of over 670 institutions in more than 90 countries. A pioneer in financial inclusion, our portfolio companies provide financial and related services to about 230 million people with low income in emerging markets globally (as of December 2021).

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The case for financial inclusion

Despite its long history, financial inclusion – the access to affordable, appropriate, and relevant financial services – continues to be a highly topical impact theme. This is due to the broad range of social and economic challenges that can be addressed through financial inclusion strategies. Savings and loan products enable better financial planning and investment in economic activity, education, and health. Transaction accounts allow for greater economic participation and exchange. In addition to economic empowerment, financial inclusion also strengthens the resilience of individuals and businesses. Insurance, savings, and loans can all help to manage risks and overcome financial and economic shocks. It is due to this variability that financial inclusion contributes to the success of four of the 17 United Nations Sustainable Development Goals (SDGs) [1].

Much has been achieved in the past decade, as 1.2 billion adults have received access to an account for the first time. However, 1.7 billion adults still remain unbanked today [2]. Further, the need for financial inclusion does not stop at individuals and micro businesses. Access to finance frequently ranks as the top constraint for small and medium enterprises (SMEs) in emerging markets, with unmet funding needs equalling 1.4 times the level of current lending [3]. This matters as SMEs contribute up to 40% of gross domestic product (GDP), 60% of total employment and 80% of job creation in emerging economies [4]. Lastly, emerging economies still account for only 10% of the global insurance market while contributing close to 60% to global GDP. This leaves a vast number of livelihoods and economic activity at risk.

1.2bn adults have received access to an account for the first time in the last decade, however, **1.7bn adults still remain unbanked**

Formal SMEs contribute up to **60% of total employment** in emerging economies

Formal SMEs contribute up to **40% of national income (GDP)** in emerging economies

Most formal jobs are created by SMEs, which **create 4 out of the 5 new positions**

Emerging economies still account for only **10% of the global insurance market** while contributing close to 60% of global GDP

Gender lense

Women suffer disproportionately from financial exclusion, representing 56% of all unbanked globally, restricting their ability to fully participate in the economy [6]. Financial inclusion can help empower women, enable them to take full advantage of participating in the economy, and expand their social and economic choices, autonomy, and status. It can also help to protect women in case of adverse events, as women frequently stand to suffer most from suboptimal coping strategies. Looking for example at climate change risks, women's historic disadvantages such as restricted rights and limited access to resources and decision making processes make them highly vulnerable. According to UNDP, women account for 80% of people displaced by climate change [7].

Lastly, financial inclusion of women can improve the situation of families and communities, as women tend to spend larger portions of their income on child welfare including school fees and health care than their male counterparts do [8]. Taking a gender perspective in the design and distribution of financial products is therefore key to supporting universal financial inclusion and promoting gender equality.

The role of private equity in financial inclusion

Private equity can play an important role in driving financial inclusion and impact. Equity capital can fund growth and investments, allowing for debt capital to follow and scale activities further. This is particularly the case for businesses with regulatory capital requirements where equity provides the basis for debt funding. Equity also provides impact investors with valuable access to cash generating businesses that typically cannot be accessed through debt markets, such as insurers or fast growing technology companies, typically funded via equity.

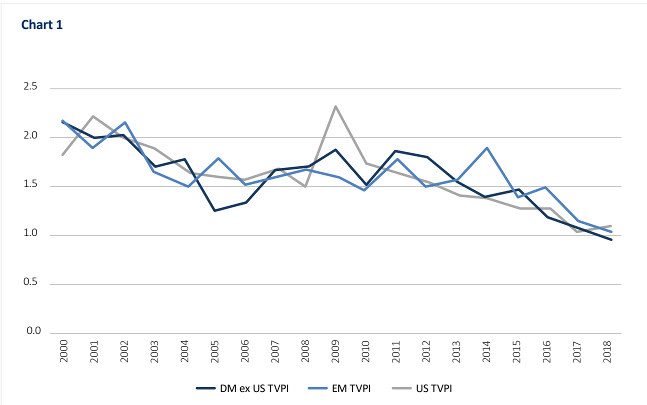
With their influence as shareholders, equity investors can enhance management and ensure sound governance practices. They can steer the strategic agenda of their portfolio companies towards inclusiveness and affordability of their services. Their expertise and network can help develop new capabilities and products and enhance the effectiveness and efficiency of operations.

Financial opportunity for investors

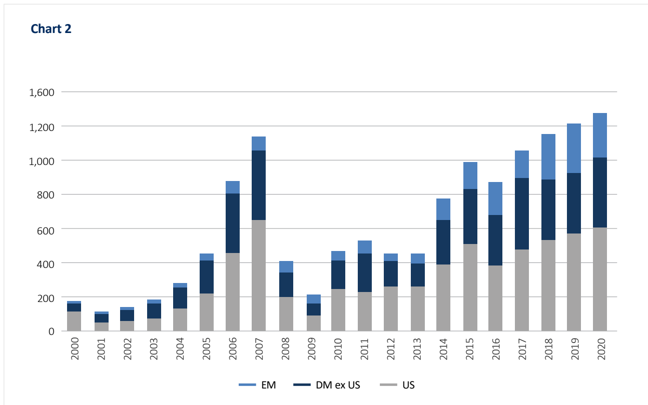
Private equity in emerging markets

Besides the potential for impact, private equity investments in emerging economies offer attractive financial opportunities to investors. Over the past two decades, private equity in emerging markets has achieved similar returns as developed markets private equity with the same level of volatility.

Private equity total value to paid in (TVPI) multiple by vintage year [10]



Private equity deal volume by year (USD bn) [9]

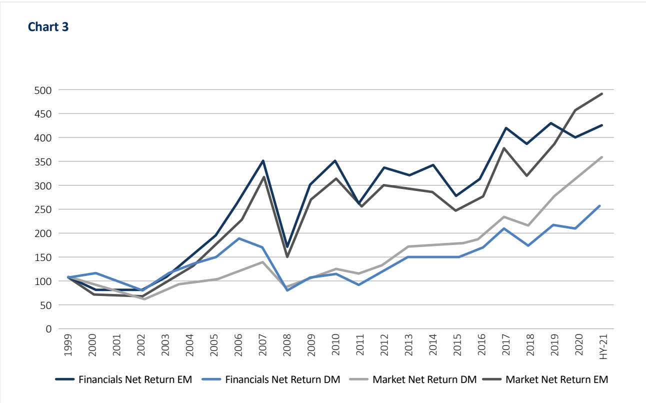


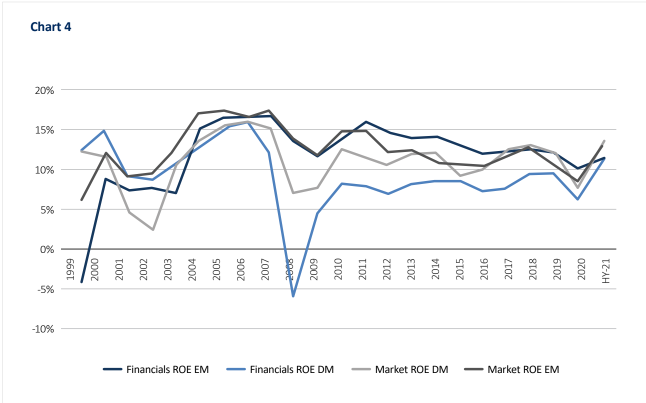
In recognition of this opportunity, the deal volume of emerging market private equity and its global share have grown significantly over the last decades. While this trend is led by emerging markets in Asia, it equally applies to other emerging market regions.

Financial sector in emerging markets

Looking at public markets, we can compare the financial sectors in emerging and developed markets specifically. We find that listed financial institutions in emerging markets have outperformed their developed market peers for most of the last two decades, driven by a higher return on equity (RoE). The convergence in RoE between emerging and frontier markets in the aftermath of the Covid-19 crisis is driven by on average greater levels of government stimuli and, in the case of the financial sector, faster reversal of provisions and a booming capital markets business.

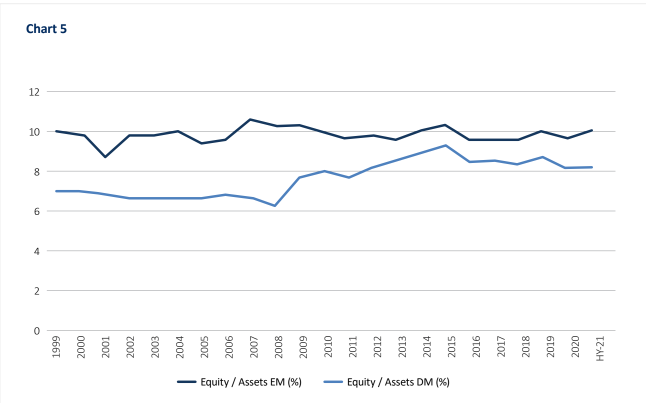
Listed financial sector USD total gross return and RoE [11]

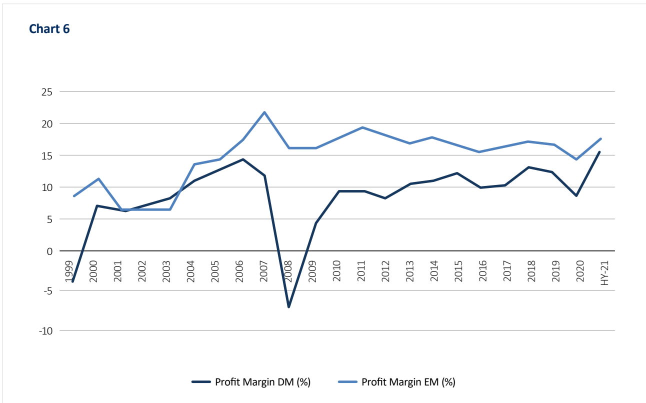




It is worth noting that the emerging market financial service firms are achieving their return on equity with higher profit margins and on more conservative levels of equity than their developed market peers, on average.

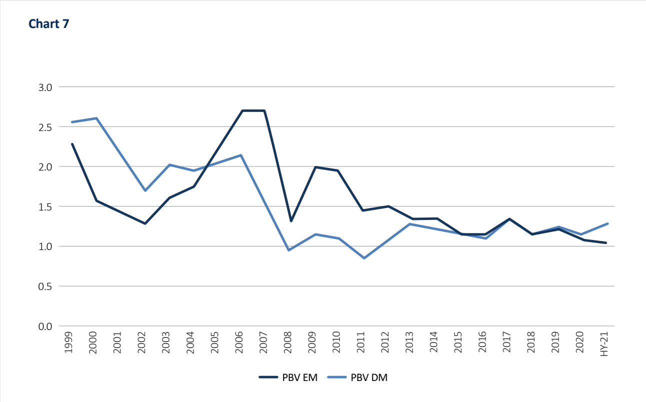
Listed financial sector equity (in % of total assets) and profit margins [12]

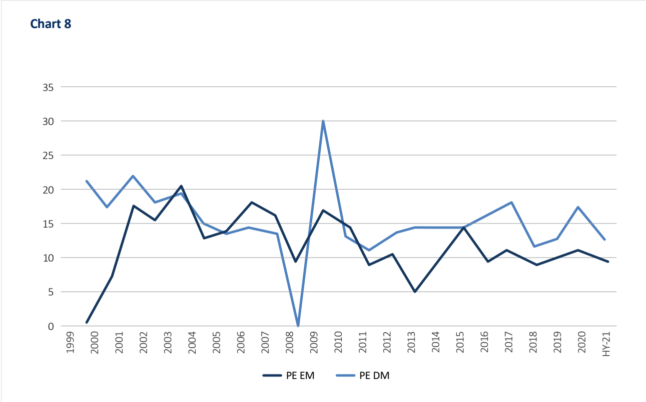




Despite positive gap in past performance and capital levels, the emerging market financial sector continues to trade at a discount to its developed market peers and to levels seen in the past.

Listed financial sector price / earnings (PE) and price / book value (PBV) [13]





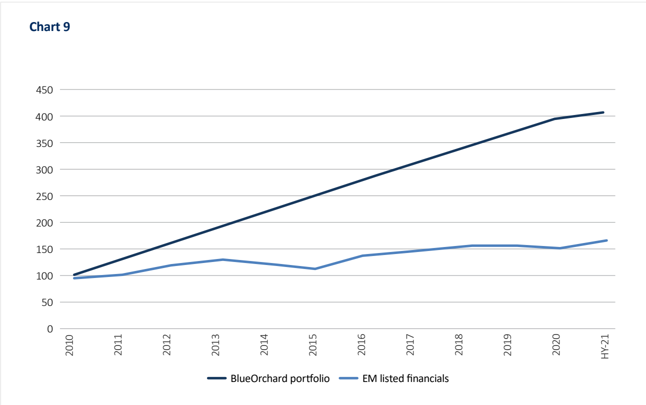
The higher level of capitalisation, higher demographic, and economic growth provide a good basis for positive relative performance once economies emerge from the Covid-19 pandemic and its economic repercussions.

Opportunities in financial inclusion

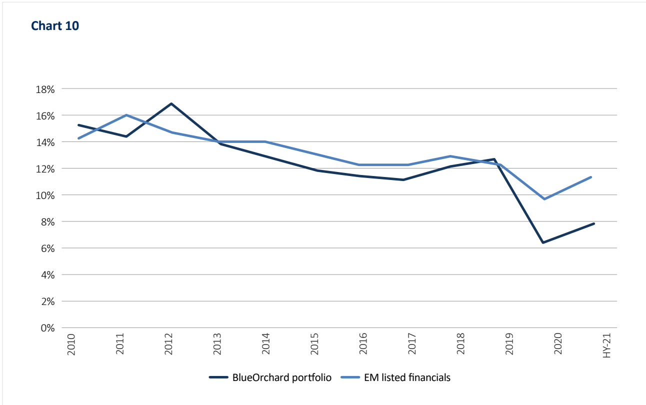
The analysis of 180 banks and non-bank financial companies (NBFCs) in the BlueOrchard client portfolio suggests that the largely non-listed universe of companies focusing on financial inclusion is growing even more strongly than their listed financial sector peers in emerging markets. Indeed, business models focussing on financial inclusion may benefit overproportionately from positive demographics, economic growth, MSME growth, the emerging middle classes, and quite simply the rapid inclusion of previously unserved and underserved clients. Accessing this growth through public markets is difficult.

BlueOrchard portfolios, listed emerging market financials – total asset growth and RoE [14]

Total assets (2010 = 100)



RoE

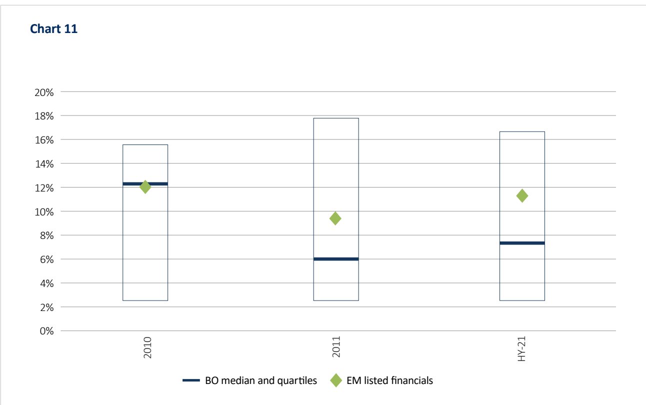


BlueOrchard's portfolio companies have grown their assets three times faster than their listed peers in emerging markets. RoE of BlueOrchard's portfolio companies was at similar levels to listed peers historically, despite significantly higher levels of capital (80% higher on average). Recently, the Covid-19 crisis has left a dent in RoE, caused by the extension of loan terms and, in some cases, the inability to contact and interact with borrowers has led to a jump in provision

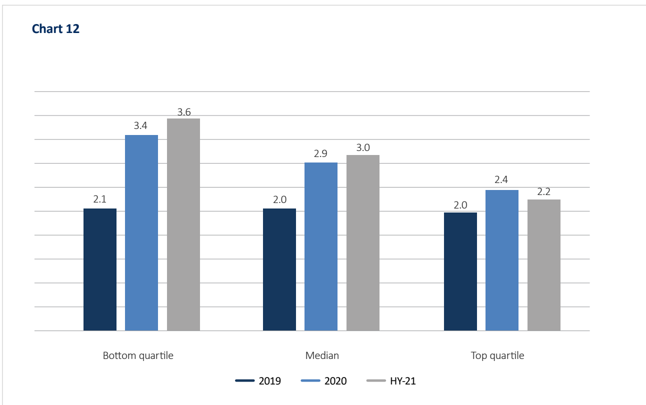
Looking one level deeper, however, we can see that top quartile institutions have indeed benefitted from the Covid-19 crisis, keeping provisions low, increasing their RoE and growing at the expense of their weaker peers.

BlueOrchard portfolio

RoE quartiles over time (basis 2019)



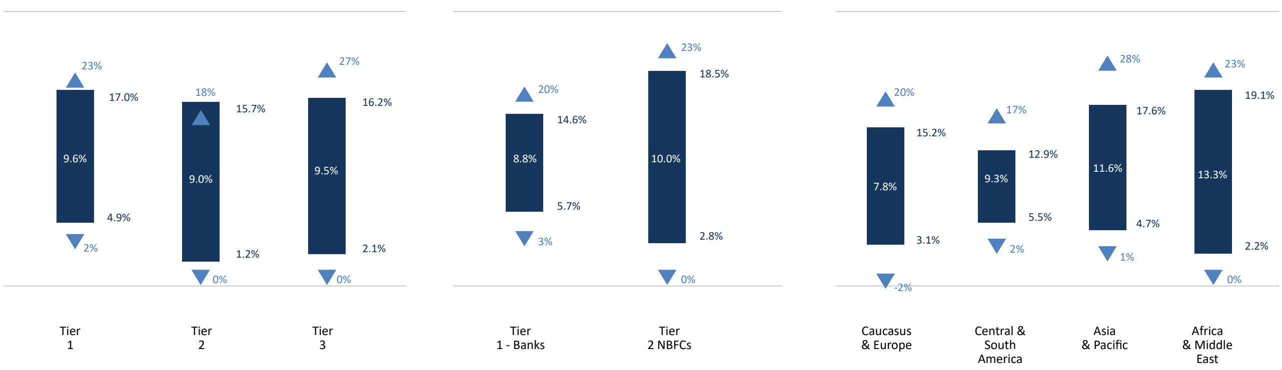
Provisions by RoE quartile (basis 2019, as % of total assets)



Similarly, further classification of the BlueOrchard portfolio reveals that some regions and segments display significantly stronger performance than the broader universe of financial inclusion peers or listed financial services companies.

BlueOrchard universe RoE by segments and quartile [15]

Chart 13



For example, top quartile institutions in Asia & Pacific and Africa & Middle East attained RoEs of 28% and 23% on average. Furthermore, relying on commercial funding, Tier 1 NBFCs achieve higher RoEs compared to banks despite significantly higher funding costs and capital levels required by their lenders and financial regulators.

Similar to lenders, insurers in emerging markets are experiencing strong growth driven by the diversification from commercial lines towards retail (middle class), micro (low income population), and SME insurance. This growth, combined with increasing regulatory capital requirements, is providing entry opportunities for private equity investors. Digitization and innovation such as parametric insurance offer both growth and profitability improvements.

Looking at the above from an investor's perspective, value can be captured through several levers:

Growth: Investing in financial inclusion is providing access to fast growing segments in some of the most dynamic markets globally. While rapid economic and population growth provides a strong backdrop, reaching previously underserved or unserved clients with affordable and relevant solutions can be truly disruptive. Where markets are created, growth does not rely on taking market share and is limited only by the number of potential clients and value provided. Effective use of technology is, of course, an important enabler of access, affordability, and relevance of financial solutions – and hence growth.

Profit margin: As on the growth side, technology is an important enabler of profitability. Emerging markets financial institutions are currently adopting technological solutions to increase efficiency. Further, a reduction in interest costs can have a strong impact on a lender's profit margin. A switch from wholesale funding to deposits can derisk an institution and reduce funding costs, depending on the maturity of the institution, market, and regulation.

Leverage: Emerging market companies need to operate with lower leverage given the generally more volatile nature of their markets and funding conditions. As a consequence, leverage is not typically a primary driver of return for private equity investors. However, enhancing the sophistication in assessing and managing risk can allow to grow earnings faster than capital without taking greater risks. Similarly, improved use of reinsurance for insurers and a move away from wholesale funding with its higher demands for capital can reduce effective capital requirements and help equity go further.

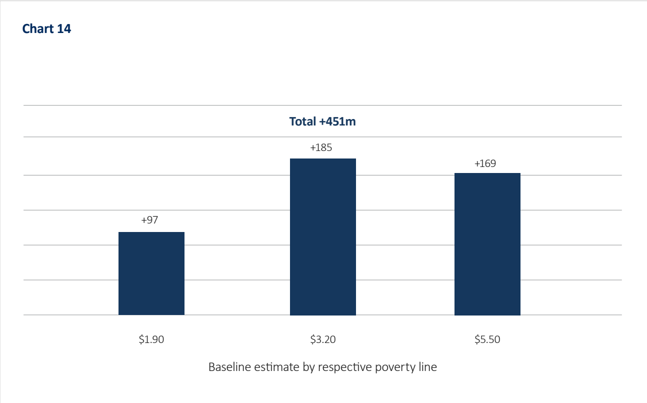
Multiple expansion: To create value, successful private equity investors will exercise pricing discipline on entry and exit the business at higher prices. Demand and supply of equity capital in emerging markets is more cyclical than in developed markets. This creates opportunities for private equity investors with their prolonged time horizon and flexibility, particular those with a global remit. The brand of the investor and effective governance enhancements can aid multiple expansion at exit. Most importantly, building a well diversified and growing financial inclusion business can truly drive multiples.

Identifying the most promising markets and companies well positioned to apply the above levers offers good potential for impact and financial return.

The Covid-19 pandemic

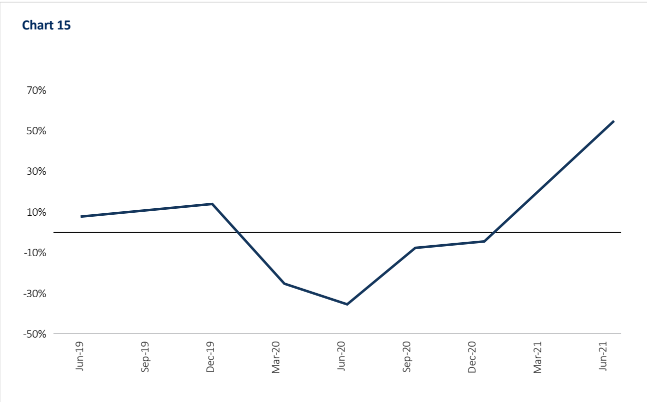
The Covid-19 crisis is the rare and powerful occurrence of a risk that affects emerging markets globally and simultaneously. The World Bank estimates that more than 400 million people may fall back into poverty as a consequence of the Covid-19 crisis, driving up poverty levels and countering progress made in poverty reduction during the past years.

Covid-19 induced poor (million) [16]

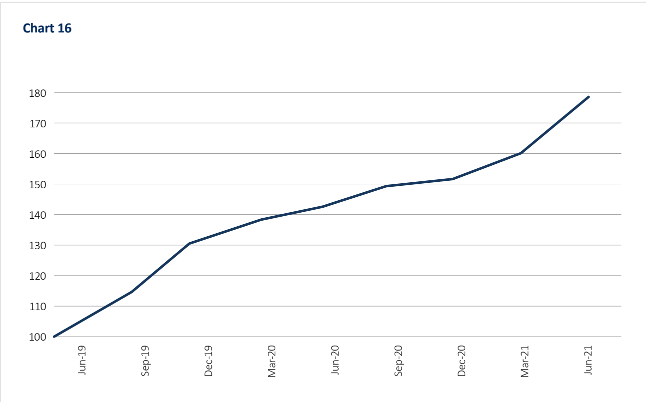


Looking at the BlueOrchard portfolio, we can see that the Covid-19 crisis had a strong effect on loan disbursements. However, loan books resumed their growth quickly, bearing testimony to the strong fundamentals of the sector.

Year-on-year (YoY) monthly disbursements [17]



Portfolio growth (H1/19 = 100) [18]



Looking one level deeper, the picture is more differentiated. The impact of the Covid-19 crisis differs significantly between countries due to different economic profiles and policies taken. Within countries, differences in institutions size, business models, geographies, and client segments served are driving pronounced differences in financial institutions' performance, as the examples below illustrate.

Case study – Indian lenders [19]

Institution A obtained quick access to government liquidity schemes which, channelled through banks, accrued mainly to larger and well rated institutions. Active in areas with primarily smaller competitors without access to the scheme, the institution was able to resume disbursements more quickly, fund MSMEs and businesses in need, and is gaining significant market share.

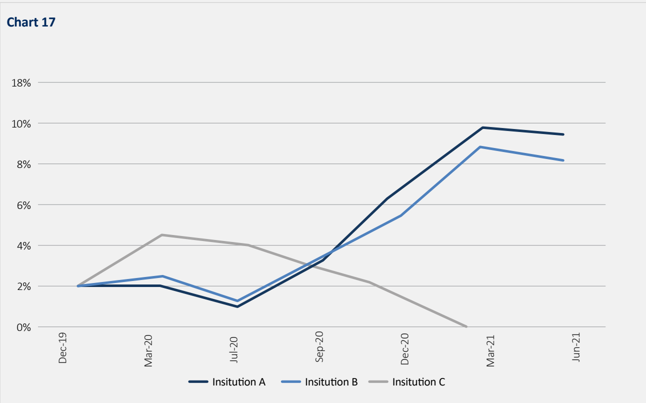
Institution B operates a distinct and indirect business model that enabled precise selection of risks and uninterrupted contact with borrowers throughout the crisis. This risk control enabled the firm to widen cooperation with the stronger institutions and grow in the aftermath of the Covid-19 crisis.

Institution C is active in a state which suffered political disturbance prior to the Covid-19 crisis and was subject to a prolonged and strict lockdown subsequently. Impact on their portfolio was intense as a large share of the state's economy relies on travel to conduct business. Starting out with low levels of liquidity, disbursements had to be strongly reduced as a consequence, despite the institution's significant size. With further waves of Covid-19 crisis and social and economic restrictions, visibility on portfolio quality remains low.

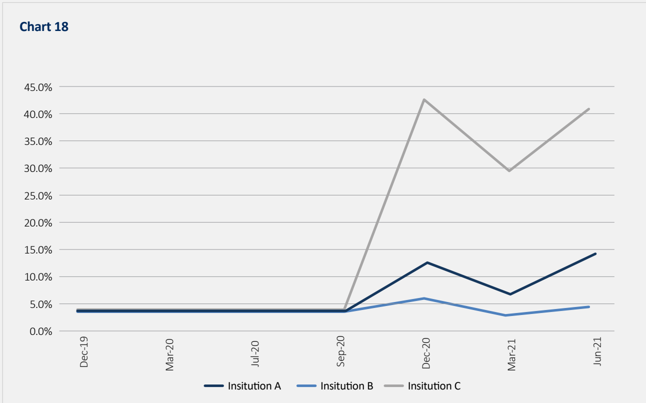
As illustrated by the above example, an unequal recovery is unfolding below the surface, with some institutions returning to growth quickly and being able to win market share. Others are seeing their ability to fund themselves – and in some instances their capitalisation – impaired, potentially putting them on a slow track permanently. This is similarly the case for emerging market insurers. As pandemics are not typically covered by insurance policies, the effects of the Covid-19 crisis come to bear predominantly through clients' economic woes and distribution challenges – and hence renewals – as opposed to claims. Insurers with digital channels or activities in less affected regions and sectors are largely unscathed.

This development has rendered the task of investing in financial inclusion more challenging than before. From an impact perspective, it is highly desirable that a sharp contraction of credit and its harmful effects on livelihoods and viable businesses vis prevented.

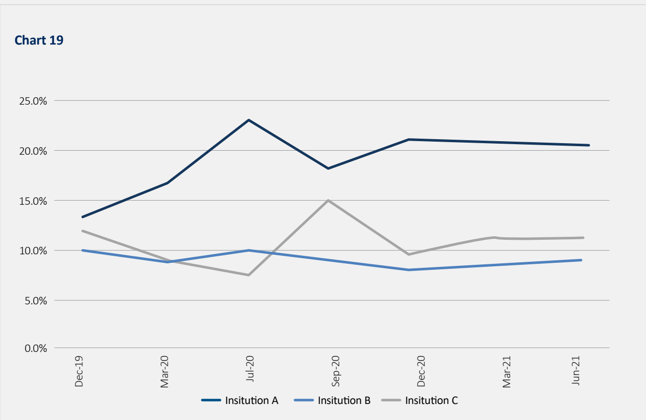
Indexed GLP [20] growth



Portfolio at Risk (30 days)



Liquidity ratio



Against this backdrop, it is clear that investors need to thoroughly assess the economic impact of the pandemic and the sustainability and trajectory of debt levels both at corporate and country level. To successfully create impact in the aftermath of the Covid-19 crisis and to capture the financial opportunity, the following guiding principles seem relevant:

Partner with strong firms: Firms with comparatively strong management, systems, and data are better able to assess the effects on revenues, portfolio, provisions, liquidity, and capital amidst a plethora of lockdown measures, moratoria, supervisory measures, and economic stimuli.

Require remote capabilities: Firms that operate remote channels and have demonstrated their ability to scale the use thereof will find it easier to manage the effects of the Covid-19 crisis, capture market share, and acquire weaker players.

Ensure sustainable policies: Firms with responsible policies towards their clients, particularly in the lending sector, are likely to have lower risk in their portfolio (e. g. lending limits).

Avoid sector concentrations: Concentrated sector exposure poses a risk at any time – even if the underlying exposures within a sector are well diversified.

Overall, we believe that market continuity and availability of financial services may best be upheld by investing in resilient institutions that can take market share, consolidate, and invest to serve the growing needs for financial services. Naturally, a portfolio invested with the above criteria in mind should also prove more resilient in crises to come.

Risk of emerging market private equity

Political and economic risks: The predictability of policies and political stability constitute the main drivers of political risk and tend to be more volatile in emerging markets than in developed markets. Economic risk is driven by sectoral composition of the economy, integration into world markets, stability of exports, as well as macroeconomic variables such as growth, inflation, debt levels, deficits, currency reserves, and the current account balance amongst others. Political and economic risks are difficult to mitigate and hence warrant careful assessment prior to investment, considering not only the current situation but past track record. Further, it is worth noting that exposure to political risk can differ widely between sectors and individual companies.

Currency risks: High costs and uncertainty with respect to the timing and level of exit proceeds limit the ability to hedge private equity investments in emerging markets. Investors therefore typically take the currency risk and reflect the expected depreciation in their investment case, based on available information such as currency swap rates. As a consequence, unexpected and pronounced spikes in depreciation typically pose the greatest risk to the portfolio. To mitigate this risk, investors tend to diversify their investments across countries, with investment amounts reflecting the relative risk of the investment. With respect to financial sector investments, it is paramount to understand the currency risk at company level, particularly in the balance sheet and client book. A lenders' clients, for example, may be exposed to currency mismatches in their balance sheets or have a significant foreign currency denominated cost base. Insurers sometimes have indirect exposure to currency risk when the insured assets are imported, an example being an increase in motor insurance loss ratio due to rising costs of imported spare parts. Targeting opportunities with a significant share of dollarized revenues and opportunities in dollarized economies provides some protection to investors in vulnerable markets.

Legal, tax, and regulatory risks: Unenforceability of contracts, expropriation, corruption, constraints on currency exchange and repatriation of funds, introduction of interest caps, weak local courts, and poor regulation are common risks in emerging markets. Several structural and governance arrangements can be envisioned to mitigate these risks (e. g. choice of governing law, position in the capital structure, board representation, information, and veto rights), the most common being partnership with a local sponsor with a track record of navigating these challenges. Having a strong regional network and working with the right partners therefore tends to be paramount, in due diligence, negotiations, and structuring, but also in owning the company. Here the operating experience and ability of the investors to add value has frequently proven to be an important lever to form a bond with co-owners and management, effectively protecting the investment and securing a fair share of the upside.

Operational and security risks: Security risks to the operations of an institution active in financial inclusion are best assessed at the firm level. Examples would include risk of political violence, unrest, terrorism, or war in areas of operations. Similarly, risk and history of corruption and other offenses by the institution or personnel need to be assessed at the firm level, considering policies, past violations, and reputation. History or exposure to such risks would typically constitute a red flag for investing. Thorough due diligence is required to assess operational risks linked to personal security, infrastructure deficiencies (power outages, internet connectivity), limited talent pool and key man risk, timeliness, and availability of data, governance, and risk management. Actions to mitigate such risks are typically included in the 100 day plan following the investment.

Other risks may be specific to a country but would be identified and mitigated at the corporate level, e. g. large stocks of sovereign debt holdings or reliance on a volatile interbank market for funding.

Our investment approach

For our private equity investments, we are looking for well run companies with sustainable competitive advantage, strong operating capabilities, and clear growth avenues. In addition to these common criteria, there are several factors that in our experience are critical to successfully invest in emerging markets for financial return and for lasting impact.

Global remit with specific expertise: BlueOrchard takes a broad perspective of financial inclusion, considering all sectors and business models that enable or provide access to affordable and relevant financial services to low income populations, the emerging middle classes, and SMEs. Together with our global remit, investing across ODA eligible [21] countries globally, this is allowing our experienced team to capture the best opportunities for financial return and impact.

Financial opportunity to sustain impact: Successfully investing for impact presupposes a shared impact vision and defined ambition between investor and company. Importantly, for the impact to outlast the investment it needs to be aligned with the company's strategy and be financially viable. Insurers and lenders in emerging markets have historically been focused on supporting large companies in traditional sectors, frequently state owned enterprises, or companies active in traditional sectors such as natural resources or utilities. Growing populations and income levels shift the strategic focus increasingly towards the retail and SME sectors, creating interest and opportunity for financial inclusion – and for investors with experience in the space.

Technology: Digital capabilities can greatly enable and improve the design and distribution of affordable financial services to the underserved. Indeed, successful business models in financial inclusion without a digital strategy, channels, and capabilities are hard to conceive in the mid term. These capabilities form an important criterion when assessing and selecting an investment. Amongst pure fintech and insurtech, B2B models frequently offer the greatest potential for impact by enabling entire industries and ecosystems for financial inclusion. Here, the ability to disrupt and scale is critical. Technology is the key driver for improving the accessability, affordability, and relevance of financial services – and in turn the scalability and profitability of their providers.

Strong partnership and additionality: The proven ability to bring particular value to a portfolio company facilitates access to the most attractive investment opportunities. It also tends to protect the minority investor in markets where strong relationships help to balance more feeble legal environments. The ability to support product innovation and outreach for relevant, affordable, and accessible solutions is hence an important capability and differentiator for the investment manager.

Effective value creation: Enhancements to a company's governance tend to form the basis of value creation in emerging markets, particularly in the mid market segment. There is usually scope to significantly enhance governance with few and simple measures. At the same time, enhancing governance can significantly facilitate exit and enhance valuations for emerging markets companies. Operational improvements to boost top line growth and productivity typically represent the core of value creation and additionality for the investee, including strategy, development of product capabilities, growing distribution, improving processes, and efficiency. While leverage tends to play a minor role in emerging market private equity, other financial levers such as repositioning of investment portfolios, introduction of lenders, or reinsurers are frequently of value to insurers and lending institutions in the financial inclusion space. To be successful, value creation measures have to be identified at the outset of an investment, be aligned with the partner company, and initiated immediately after investment.

Assuring impact objectives: Impact forms an essential part of the initial conversations with prospective portfolio companies and partners. Investing in like minded firms and with like minded partners is critical to achieving the impact objectives. It is imperative to understand the connections between the social impact objectives and the profitability of the business and how working towards social impact and contributing to the SDGs can grow the value of the company. To ensure successful implementation, impact objectives and key performance indicators (KPIs) need to form part of the 100 day plan and the long-term business plan. Other levers to ensure commitment with and execution of the impact objectives include active board participation and frequent interaction with management, aligning management incentives with impact objectives, effective monitoring, and reporting including specific KPIs and the deployment of technical assistance and other support measures. Lastly, specific governance rights and provisions can provide a certain degree of control over strategy and budgets. Examples include the establishment of veto rights on certain strategic decisions and annual budgets established in the shareholders' agreement or articles of association prior to the transaction.

Portfolio company case studies

Royal Exchange General Insurance Company

Nigeria is the largest economy in Africa and the most populated country on the continent. Its population is expected to grow from 200 million to an estimated 400 million in 2050 [22]. Insurance penetration is low, at 0.3 % of GDP (2.3% in Kenya, 13% in South Africa) [23]. The insurance industry relies mostly on commercial lines, while growth in the retail lines is hampered by low client awareness and lack of enforceability of mandatory covers. In 2018, the regulator outlined plans for increases in minimum regulatory capital, which were subsequently modified in 2019, with a staggered approach for implementation finalizing in September 2021. This regulatory change created a strong demand for capital and an opportunity for equity investments.

BlueOrchard had started conversations with Royal Exchange General Insurance Company (REGIC), the 6th largest player in the market, in 2017, when an increase in regulatory capital was already anticipated. The company's strategy is to diversify away from the commercial lines into retail insurance. REGIC was one of the first companies to move into agriculture insurance, an area only recently opened to private players. Agriculture represents 20% of GDP and provides employment for 35% of the population of Nigeria.

When engaging with the company, the BlueOrchard team found that key parameters for a successful investment were in place. There was clear alignment with the local partner on the strategy to target the underserved and potentially vast retail segment – and agricultural insurance in particular – in pursuit of both impact and profitable growth. The company displayed marketleading underwriting capabilities paired with meaningful potential to lift value through process digitization and digital distribution, talent acquisition in the retail space, enhanced investment management, and product innovation in retail and agriculture insurance. In addition, the imbalance between demand and supply for capital following the increase of capital requirements offered an attractive entry.

In October 2019, the InsuResilience Investment Fund (IIF), managed by BlueOrchard, acquired 39,25% of the company and obtained two board seats. Collaboration with the company on value creation started before the investment was disbursed, allowing for several initiatives to be concluded within the first year of investment. Governance was improved, including enhanced reporting, KPIs, and impact metrics. Management was strengthened with key hires, including chief financial officer (CFO), chief investment officer (CIO), and chief commercial officer (CCO). Growth initiatives were supported, including the launch of new retail products in the digital channel, product design, marketing, distribution, and end client education for agriculture insurance – including support by the fund's Technical Assistance Facility and Premium Support Facility. Efficiency was enhanced with the digitization of processes and operations, including full digitization of the agriculture insurance offering. Lastly, the BlueOrchard team supported the company in bringing in another highly reputed shareholder, resulting in a joint majority.

REGIC grew its Gross Written Premiums at solid pace throughout the 2020/21 Covid-19 crisis. Following the entry of BlueOrchard, the number of policies protecting smallholder famers from extreme weather events and natural catastrophes has more than doubled.

Agritask

Agritask is a SaaS (Software as a Service) company based in Israel. The company has developed a platform for agriculture precision that helps decision making across the agriculture ecosystem: farmers, input providers, integrated food and beverage companies, governments, insurers, and lenders. The company is active in the emerging markets of Latin America, Africa, and Asia. Because of its flexibility to manage a large number of small farm plots, the system is particularly suited for institutions working with small scale farmers, such as government programs, farmers cooperatives, or food and beverage players, improving risk management (data) and cost efficiencies (digitalization of processes for insurers).

Considerations driving the investment included the quality of the management team and strategy which is closely aligned with the fund's impact mandate to provide small scale farmers in emerging markets with access to insurance. With the agricultural sector and the firm is targeting a huge addressable market, given the low level of digitalization of the sector globally and in emerging markets in particular. The company is facing limited competition, with few peers operating globally and servicing all segments of the ecosystem. While creating impact in some of the world's most vulnerable countries, the firm is generating most of its revenues in USD limiting currency risk for the fund.

The BlueOrchard managed IIF, led the series A round and acquired stake in the company and board representation in June 2019. Immediately after investment, our team worked with management to enhance governance, with changes in board composition and reporting, including SaaS and impact metrics. Management was broadened with the hiring of key senior management (CFO, chief technology officer (CTO), head of insurance). The insurance sector offering was developed successfully, with eight insurers and reinsurers clients in the first year of activity in this vertical, including several top notch global players. In this respect, deployment of grant funding provided by the IIF Technical Assistance Facility was critical to enhance the platform's offering for insurers targeting small scale farmers.

The company significantly increased its ARR during 2020 and 2021 due to a change in go-to-market strategy. Expanding its strategy and service offering to insurers following the entry of BlueOrchard, Agritask is now counting nine blue-chip emerging market insurers amongst its clients.

About BlueOrchard's private equity practice

Our experience

To date, BlueOrchard has invested more than USD 9 billion in over 400 institutions across more than 90 countries. Around 230 million poor and vulnerable people in emerging and frontier markets received access to financial and related services with the support of BlueOrchard as of December 2021.

BlueOrchard's private equity activities were launched in 2016 as part of the IIF. A groundbreaking mandate, the IIF is investing along the insurance value chain with the objective to foster climate adaptation in emerging markets through the use of insurance. As of September 2021, the IIF had extended insurance coverage against extreme weather events and natural catastrophes to over 27 million low income individuals and MSMEs.

Following deployment of the IIF, we are expanding the focus of our private equity activities across the full spectrum of financial inclusion, leveraging our unparalleled network and access in financial inclusion, and our network of emerging market insurers globally. The deep knowledge and expertise of our global platform combined with current data at the institutional level provide our private equity team with unique and immediate transparency on developments and trends at the institutional, sectoral, country, and regional level.

Our team

Our team of dedicated private equity professionals has more than 70 years' investment experience, with extensive track record in emerging markets and financial inclusion. Composed of well rounded professionals, the team is adept at originating and executing transactions in their respective regions and actively engages at board, management, and operational level for value creation and impact.

Our impact management framework

Each potential investment is analysed with BlueOrchard's proprietary impact management framework, B.Impact. The framework takes a three step approach, assessing the investment's ESG (environmental, social, governance) characteristics, potential for delivering impact, and alignment with the United Nations SDGs. It is aligned with industry standards set by the Principles for Responsible Investment (PRI), International Finance Corporation (IFC), Impact Management Project and Sustainability Accounting Standards Board (SASB). The framework is applied at an individual transaction as well as wider fund level and supported by BlueOrchard's independent impact management team with more than 50 years of collective experience.

Our value creation framework

BlueOrchard applies seven value levers across the three key pillars of governance enhancement, operational improvements, and financial efficiency. Each of the seven value levers comes with an extensive set of concrete measures, resulting in a powerful toolkit for value creation.

Measures targeting impact, ESG improvements, and financial return feature across these levers. Similarly, the effective use of technology is a common theme across the operational levers in particular.

For maximum effect, BlueOrchard systematically works with its portfolio companies along the entire investment process. Concrete initiatives are identified prior to investment, ensuring strong alignment, effective collaboration and fast execution. This enables BlueOrchard to help its investees grow their business and enhance their outreach right from the start of the investment.

BlueOrchard value creation framework

Value creation pillars	Objective	Key value levers
Government Enhancement	Assure effective governance and management	Governance & Mgnt.; Control & Transparency
Operational Improvements	Enhance growth and productivity of the business	Strategy; Product Capabilities; Distribution; Process & Efficiency
Financial Efficiency	Optimise capital structure and costs of capital	Capital Structure

Our investment and risk process

BlueOrchard's private equity team originates investments via a variety of sources, including leveraging the team's and BlueOrchard's unique network with industry players, clients, providers, regulators, associations, and advisors. The team evaluates the potential for financial return and impact, portfolio fit, exit avenues, and key risks of the investment. Investments are evaluated and structured in the prism of the private equity team's experience as well as the firm's understanding of opportunity and risk at the country level. Risk awareness and mitigation is woven into all phases of the investment process, from origination, negotiation, and structuring to investment approval and disbursement. Following the investment, the team engages actively in pursuit of the financial and impact objectives. Performance and risks are monitored by the private equity team and BlueOrchard's independent risk function.

Abbreviations

ARR	annualized recurring revenue
B2B	business-to-business
bn	billion
BO	BlueOrchard
CCO	chief commercial officer
CFO	chief financial officer
CGAP	Consultative Group to Assist the Poor
CIO	chief investment officer
CTO	chief technology/technical officer
DM	developed markets
EM	emerging markets
ESG	environmental, social, governance
GDP	gross domestic product
GLP	gross loan portfolio
H/HY	half year
ha	hectare(s)
IFC	International Finance Corporation
IIF	InsuResilience Investment Fund
IMF	International Monetary Fund
KPI	key performance indicator
MSCI	Morgan Stanley Capital International
MSME	micro, small, and medium sized enterprise
NBFC	non-bank financial company
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PBV	price/book value
PE	price/earnings
PRI	Principles for Responsible Investment
REGIC	Royal Exchange General Insurance Company
RoE	return on equity
₹	Indian Rupee
SaaS	Software as a Service
SASB	Sustainability Accounting Standards Board
SCNL	Satin Creditcare Network Ltd
SDG	United Nations Sustainable Development Goal
SME	small and medium enterprise
TVPI	total value to paid in
UNCDF	United Nations Capital Development Fund
USD	US Dollars
YoY	year-over-year (year-on-year)

About the authors

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Felix is Head of Private Equity & Sustainable Assets and Member of the Executive Management of BlueOrchard. Prior to joining BlueOrchard, Felix was Executive Director for Corporate Business Development at Bank Vontobel and served in senior positions at a leading global strategy consulting firm focused on financial services.

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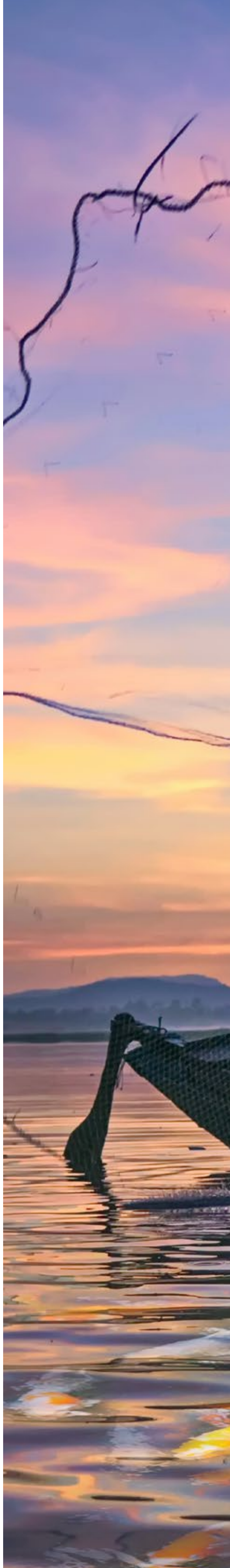

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