



CASE STUDY

Financial Inclusion Fund II

LeapFrog Investments

Geography: **Sub-Saharan Africa and South Asia**

Size: **Around USD 400 Million (raised)**

Impact thesis: **Financial inclusion**



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Financial Inclusion II is the second generation private equity fund launched by the Australian firm LeapFrog in 2014. It was significantly oversubscribed, raising USD 400 million to be invested in financial inclusion across Africa and South Asia. Investments are de-risked through a diversified portfolio and active management approach.

Fund manager: LeapFrog Group

Total assets under management (AUM): Around USD 1.6 billion

- LeapFrog Group is an Australian private equity firm founded in 2007, with USD 1.6 billion in AUM
- The fund specialises in growth-stage and expansion equity investments in financial institutions, distributors for financial products, enablers of financial services, and recently healthcare
- Invested companies have provided financial services to over 25 million people across 13 countries
- LeapFrog Investments was named Africa Firm of the Year in 2016 by Private Equity International, a global insight, analysis and data provider for the private equity industry

Investment overview

Key fund limited partners (LPs) and investors	American International Group, Inc. (AIG), AXA, Zurich Insurance, Christian Super, MetLife, Prudential Financial, Inc.
Instrument type	Private equity (financial inclusion)
Average investment size in portfolio companies	USD 10-50 million
Time horizon	Long-term closed fund (10 years +)

Financial return profile

Track record: Above market-rate

- Top-quartile returns compared to other emerging market private equity investment funds
- Between 2009-2019, grew 33% on average

Liquidity:

- Illiquid investment
- Long-term (10+ years)

Risk profile

Currency risk: Diversification across 35 emerging markets including in numerous local currencies

Execution risk: LeapFrog generally owns majority shares in microfinance institutions (MFIs) and has developed a significant track record in supporting companies scale, exiting through profitable sales or initial public offerings (IPOs)

Concentration risk: Diversification through investments in 26 companies

Investment thesis

LeapFrog's investment philosophy is "profit with purpose", investing in companies that provide impactful services and market-rate returns.

LeapFrog achieves this through rigorous sourcing and assessment through a proprietary framework (FIIRM) looking at:

1. **Financial performance:** Including revenue, profitability, internal rate of return (IRR)
2. **Impact:** Key performance indicators (KPIs) on the number of consumers, renewal ratios, efficacy, etc.
3. **Risk management:** Environmental, Social and Governance (ESG), governance, and other risk management
4. **Consumer insights:** Social outcomes, experience, loyalty

These insights are essential to build investor trust and accurately predict return expectations

Investment structure: Equity and value creation

Alongside an equity investment, LeapFrog provides a number of tools and capacity building services to investees, including:

- **Governance and financial management support:** Effectiveness of their organisational structure and accurate financial management
- **Product design and pricing:** Building on customer insights to develop positive user journeys and affordable price points
- **Sales and distributions plans:** Improved customer outreach
- **Technology platforms:** Offering products via mobile or digital platforms to reach more customers
- **Human resources and talent management:** Scaling sustainably and training new staff
- **Measurement tools:** Including rolling out the FIIRM dashboard

Investment selection

Eligible investments

The following projects are considered eligible:

1. MFIs focused on bottom-of-the-pyramid (BoP) customers, defined as those with an income of USD 10 a day or less
2. MFIs adhering to the FIIRM criteria on financial, impact and risk metrics

Due diligence process

Due diligence of possible investments through assessment against the following criteria:

- **Scale:** Strength of the business case for scaling the MFI
- **Quality:** Appropriateness and quality of products provided
- **Affordability:** Price points affordability for BoP customers
- **Governance:** Strength of governance and leadership within the MFI

The due diligence also collects consumer insights to understand unmet demands, pain points, perceived future risks and drivers of satisfaction

Impact targeting

Impact thesis

Theory of change: LeapFrog invests primarily in MFIs that deliver micro-insurance products (life, health, property, casualty), which provide a safety net to low-

income individuals and businesses in case of external shocks and thus prevent them from dropping below the poverty line

Target stakeholders: Low-income individuals and micro and small businesses (with an income of USD 10 per day or less) that are willing and able to pay for critical products and services

Impact metrics and outcomes

- LeapFrog's proprietary framework, FIIRM, is used to track KPIs on financial, impact, innovation and risk metrics within a live dashboard. Data is collected monthly and quarterly for each investment, including:
 - Total target stakeholders (205 million people reached by essential financial services to date)
 - Jobs created (127,683 new permanent jobs created to date)
- The data is complemented by consumer insights on 14 markets and 10,000 direct interviews
- The assessments are verified by Tideline, a leading impact investing consultancy
- LeapFrog is a founding signatory and key participant in the development of the standardised International Finance Corporation (IFC) Operating Principles for Impact Management, which are being rolled out across the impact investing sector

Portfolio investee spotlights

Express Life, Ghana

Insurance services

- Express Life is a micro-insurance provider in Ghana targeting BoP customers
- LeapFrog invested in 2012, when Express Life had 12,000 policy holders and exited it in 2014 at 425,000 policyholders, selling the business to Prudential
- LeapFrog supported the launch of new streamlined product offerings such as a simple life cover and an education endowment product
- It also helped to establish a distribution partnership via mobile insurance with BIMA, another portfolio company, to increase outreach

BIMA, Ghana

Mobile platform

- BIMA is a micro-insurance provider selling life, accident and health insurance over a mobile platform, starting at USD 0.3-0.5 per month
- Since LeapFrog's investment, the mobile platform has expanded to 16 countries and partnered with a large number of local MFIs to bring their offerings onto the mobile platform
- In 2017, Allianz purchased the majority stake of BIMA in a USD 97 million deal

Institutional investor spotlight: Prudential Financial, Inc.

Investment: Unknown

Prudential Financial, Inc. has been a repeat investor in several LeapFrog funds. In 2018, Prudential committed additional capital to LeapFrog's new emerging markets fund focused on healthcare and financial services.

"Prudential's lead investment in LeapFrog's latest fund underscores our conviction in the power of capital-based solutions to solve the financial, social, environmental, and economic challenges of our changing world. We are pleased to partner with LeapFrog to realise the enormous potential for inclusive growth and shared prosperity in emerging Asia and Africa."

Charles Lowrey, Chairman and CEO of Prudential Financial, Inc.

Other similar opportunities in the market

- In 2019, LeapFrog launched its third fund, exceeding its USD 600 million target to raise USD 700 million
- The mandate of investment was broadened to include both financial services and healthcare and attracted investment from many repeat investors of its earlier funds, including Prudential Financial Inc., AIG, AXA, Christian Super, and others
- Micro-insurance overall is nascent in Sub-Saharan Africa and South Asia, but the opportunity is large, with only around 4% of the population in Sub-Saharan Africa currently covered
- LeapFrog and IFC are currently the largest players, although a number of public-private partnerships are developing to scale this proposition

Key observations for institutional investors

- 1 A track record of effective active portfolio management**
 - Private equity funds which actively manage portfolio companies can help firms achieve attractive growth
 - LeapFrog portfolio companies have grown 33% on average between 2009-2019
 - Key areas where funds provide support include governance and financial management as well as human resources and talent to ensure the sustainable growth of the company
- 2 Funds with global networks can support strategic exits**
 - The two investee spotlight companies profiled in the case study, Express Life and BIMA, were sold to Prudential and Allianz respectively upon exit
 - With the support of LeapFrog, the operating standards and size of these companies had grown sufficiently to be incorporated into large global insurance firms
- 3 Clear financial and impact measurement drives trust**
 - LeapFrog has attracted significant repeat investment from several institutional investors, including pension funds and insurance companies
 - LeapFrog's rigorous and highly transparent impact measurement framework FIIRM is often cited as one of the primary mechanisms of trust-building with partners, as it helps them to understand investment decisions