

## InsuResilience Investment Fund (IIF)

Blended finance for climate case study

## BlueOrchard – Leader in emerging markets investing and impact

### Investing for Empowerment



### BlueOrchard key facts

Commercial investment manager with a **20-year track record**, founded by the initiative of the United Nations

Focused on **credit, private equity and infrastructure assets** in emerging markets


Disbursed in excess of **5bn dollars**, creating social and environmental impact for **37m people** in over **80 countries**

Over **100 staff** in **8 offices**, concentrated in our investment regions

**Licensed by the Swiss and Luxemburg regulators**, featuring state-of-the-art investment and risk management processes

## KfW on behalf of the German government is the initiator of IIF, showing strong financial commitment

### Role of BMZ and KfW in initiating and sponsoring the InsuResilience Investment Fund (IIF)

<p>Initiators</p>	 <p>Federal Ministry for Economic Cooperation and Development</p> <p><b>KFW</b></p>	<ul style="list-style-type: none"> <li>▪ Set up in December 2013 by KfW on behalf of the German Ministry for Economic Cooperation and Development (BMZ).</li> <li>▪ Commencement of commercial activities in January 2015, under the German G7 presidency.</li> </ul>		
<p>Mandate</p>	<ul style="list-style-type: none"> <li>▪ Facilitating the adaptation to climate change by improving access to and use of climate insurance solutions in developing countries.</li> <li>▪ Improving the resilience of poor and vulnerable households as well as micro, small and medium enterprises (MSME) to weather events.</li> <li>▪ Financing of qualified corporates along the value chain of insurance (e.g. insurers, brokers, aggregators) with main operations in Official Development Assistance (ODA) recipient countries</li> </ul>			
<p>Financial commitment</p>	<p><b>Seeding</b></p>	<p><b>Technical Assistance facility for investees</b></p>	<p><b>Premium Support facility for investees</b></p>	<p><b>USD 64.3mm of 1<sup>st</sup> loss protection for private investors</b></p>

## Mandate and unique position of the InsuResilience Investment Fund (IIF)

Only part of the **G7 Initiative on Climate Risk Insurance** deploying private capital in the private sector.

Aiming to **protect more than 100 million of the most vulnerable people in developing countries** against the impacts of climate change – through commercial insurance offerings.

Opportunity to participate in the **fast growth of Emerging Markets and the Emerging Market insurance sector** in particular.

**Unparalleled access of the investment manager** due to unique value proposition to investees and close familiarity with the target markets.

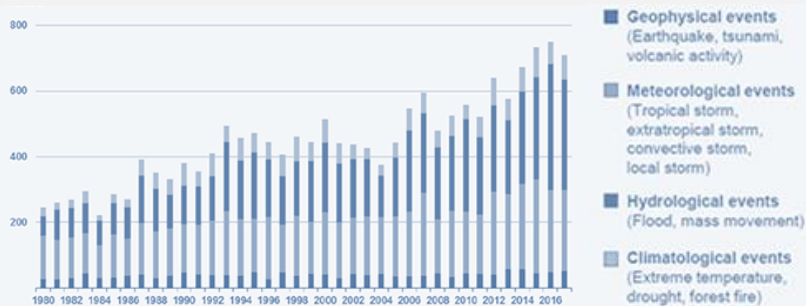
**First-loss capital** and **grant-funding of investees** by the German government, de-risking the Fund and enhancing returns.

# Impact investment opportunity: Accessible and affordable insurance against climate risks can be produced at scale and profitably

## Frequency of climate events is on the rise

The number of extreme weather events and natural catastrophes has tripled over the last four decades (3-year avg.).

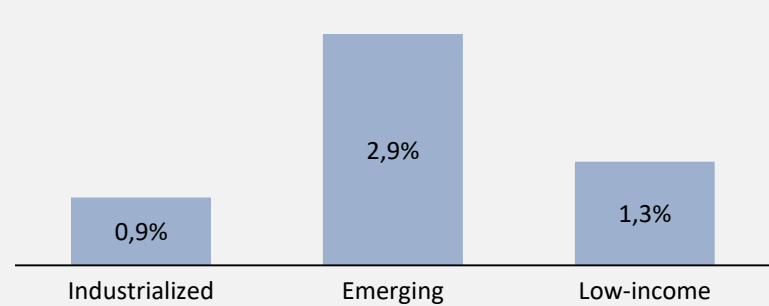
Number of loss events from extreme events 1980 - 2017



## EM are highly exposed to climate risks

Losses from natural disasters are 1.5 to 3 times higher in low-income and emerging economies than in industrialized economies.

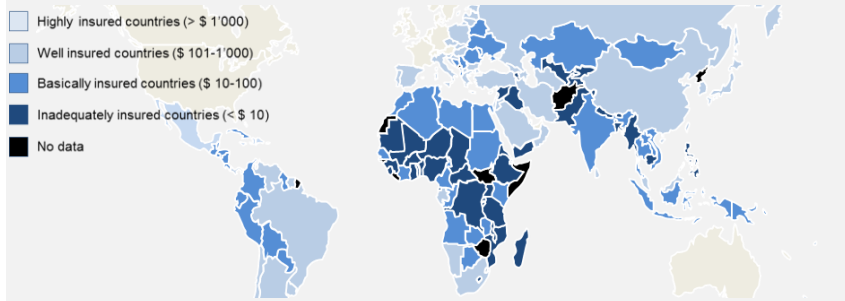
Average annual losses from natural disasters (% GDP)



## Low insurance coverage in EM

Emerging markets are least protected from climate risks despite high exposure and effect on livelihood, particularly for the poor and vulnerable.

Property insurance premium per capita in 2016



## Insurance can be made accessible and affordable

Spread and progress in technology is driving the development and distribution of affordable and relevant weather/Nat-Cat insurance products.

Measurement technology and parametric insurance



Technology for distribution and claims handling

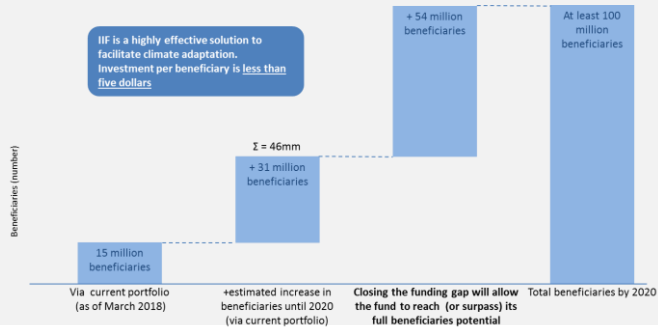


# Impact objective and strategy: Protecting 100m of the world's poor and vulnerable from the effects of climate change

## Impact objective

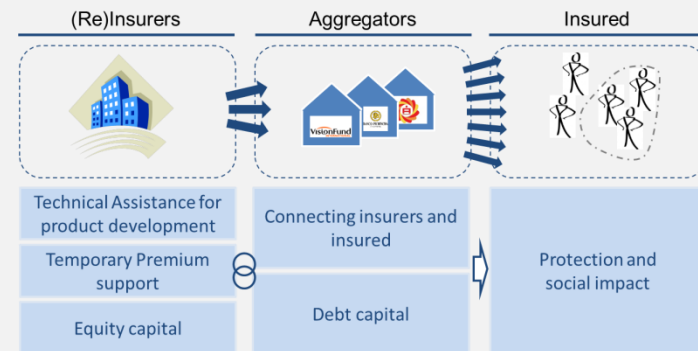
Through its investees, IIF is aiming to protect 100m poor and vulnerable from extreme weather events and natural catastrophes.

### Potential reach of IIF – 100m beneficiaries



## Impact strategy

IIF connects the value chain, provides technical assistance and funding for the development of markets for climate insurance.



## Effect on beneficiaries

Effective protection from the effects of extreme weather events and natural catastrophes provides direct and indirect social benefits.


	<b>Improved financial resilience</b>		<b>Ability to invest and productivity</b>
	<b>Enhanced bankability</b>		<b>Avoidance of negative coping strategies</b>



## SDG impact

Through its activities, IIF will contribute to several Sustainable Development Goals, directly and indirectly.



## IIF is combining several levers to support the development of markets for climate insurance

IIF private equity fund		
Investing in <b>insurers and brokers</b> actively building the market for climate insurance in emerging markets, with a focus on the poor and vulnerable.		
Target size \$ 100m	Manager  BlueOrchard Impact Investment Managers	Investors Private & Public

Premium support facility			Technical assistance facility		
Selectively <b>subsidizing the premiums of climate insurance products</b> launched by the Fund's investees to facilitate the achievement of critical volume.			Selectively funding the <b>development and realization of climate insurance solutions</b> at different stages by the Fund's investees on a non-profit basis.		
Size EUR 6m	Manager  BlueOrchard Impact Investment Managers	Funding BMZ	Size EUR 11m	Manager  CelsiusPro Professional Weather Protection	Funding BMZ

**Levers to develop and promote climate insurance**

The Technical assistance and premium support facilities are fully funded by BMZ/KfW, providing free financial support and expertise with benefit to investees and – indirectly – investors in the Fund.

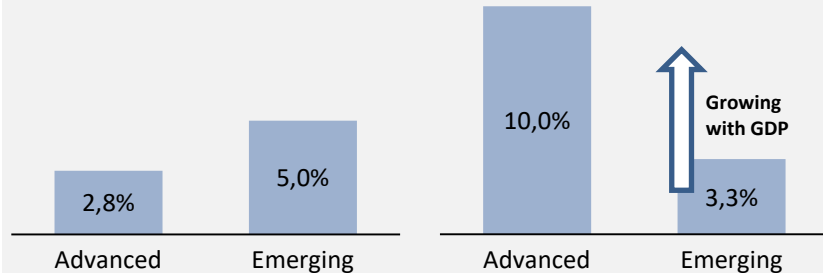
# Financial investment opportunity: Fast growth and supportive trends provide attractive investment opportunities in the Emerging Market insurance sector

## Fast growth GDP growth in Emerging Markets

Emerging markets grow twice as fast as developed markets, with insurers' share of GDP increasing as economies grow and mature.

Real GDP growth 2007-17 (Swiss Re Sigma N°3 2018)

Insurance penetration 2017 (Swiss Re Sigma N°3 2018)

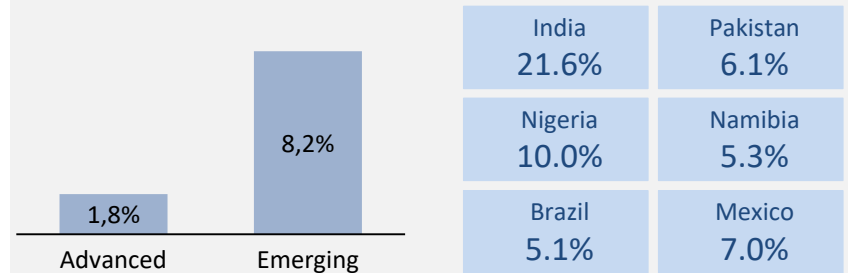


## Over-proportional growth of EM insurers

Insurance is a high-growth sector in emerging markets, outpacing developed markets.

Real non-life premium growth 2007-17 (Swiss Re Sigma N°3 2018)

Real non-life premium growth '17 - Select markets (Swiss Re Sigma N°3 2018)



## Current trends provide good entry opportunities

Growing capital requirements and support for agricultural/ climate insurance schemes provides good entry opportunities for IIF.

Increasing capital requirements across many emerging markets, for example

Regulatory / government support for climate insurance, for example

Cameroon	India
Ivory Coast	Pakistan
Kenya	Rwanda
Nigeria	Thailand
Pakistan	Uganda
Zambia	Vietnam

## Strong investor support by the German government

Grant-funded technical assistance and premium subsidies as well as 1<sup>st</sup> loss protection for investors positively affect returns and de-risk the Fund.

KFW support on behalf of BMZ (German ministry of ec. cooperation & develop.)

Benefit to investors

Grant-funded Technical Assistance Facility: EUR 11m	⇒	Economic benefit to investee through provision of technical expertise and product launch support
Grant-Funded Premium Support Facility: EUR 6m		
1 <sup>st</sup> loss protection for senior investors: USD 32m	⇒	De-risking and IRR enhancement for senior investors



# Investment strategy and financial return objective: 20% IRR through investment selection and value creation

## Focus on countries with high impact and growth

Focused on ODA countries<sup>1</sup>, markets are systematically prioritised by relevance of climate risks, general attractiveness and concrete opportunity.

**146** ODA countries, eligible for investment by the Fund

**38** Target countries, selected in consideration of market maturity and fit with impact strategy

**19** Priority 1 countries, prioritised in view of market structure, regulatory support and momentum

## Focus on well-run and fast-growing investees

Investment focus is on well-run companies with high growth potential and strategic interest in the development of climate insurance markets.

### Selection criteria

- (Re-)insurers, brokers & svc providers
- Strategic interest in climate insurance
- Fast-growing and profitable, select start-ups with strong sponsors
- Sound governance, professional management, aligned shareholders
- Aligned with BlueOrchard value creation approach



### Current pipeline

N° identified targets  
**240**

N° targets contacted  
**81**

Active Pipeline (NDA+)  
**26**

## Hands-on approach to value creation and impact

Value creation through active board representation and technical assistance, identification, initiation and execution of concrete initiatives.

### Two models for value creation on IIF

Direct value creation by the investment manager

Grant-funded technical assistance projects



### Focus of value creation



## Portfolio implementation

Currency	USD
Target Fund size	USD 100m
Target investment size	USD 3-15m
Target n° of portfolio companies	10-15
Country / single investment limit	20% / 15%
Ramp-up	Equally over 4 years, two possible 1-year extensions
Hedging	Opportunistically

1. Countries and territories eligible to receive official development assistance (ODA) as defined by the OECD;

## Terms for Investors

IIF terms		BMZ and BO commitment
Target size	USD 100m	<b>USD 32m</b> of 1 <sup>st</sup> loss capital provided by KFW on behalf of BMZ (paid-in seed capital)
1 <sup>st</sup> Closing	July 2017	
Term	10 + 1 +1 years	
Target return (net of fees)	20% IRR	
Fee model	2.5% management fee, tailing down from year 6 <sup>1</sup> 2.0% management fee for commitments above USD 10m 20% performance fee, 8% compounded IRR hurdle <sup>2</sup>	<b>EUR 17m</b> grant-funding by BMZ in support of investees' climate insurance business activities
Minimum commitment	USD 5m	
No. investments <sup>3</sup>	10-15 (max. 15% of commitments or \$ 15m per investment)	<b>USD 2.5m</b> commitment by BlueOrchard Finance and the PE Team
Domicile and legal form	Luxemburg RAIF (S.A.)	

**Capital contributions of Class A investors are protected with Class B capital. This includes Class A contributions for investment and fee payments.**

1. Fees charged on committed capital (cf. appendix); tail-down typically reducing effective management fees by 15% over a fund's life;
2. Cf. appendix;
3. Number of investments at full investment level;

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