

FEBRUARY 2014

# Profit with purpose: Alternative investing for emerging markets

Many global insurance and financial-services companies have traditionally avoided emerging markets such as Africa and Asia. In this interview, LeapFrog Investments president Andrew Kuper argues that the regions offer unprecedented opportunity.

**Founded by** Dr. Andrew Kuper in 2007, LeapFrog Investments today has stakes in companies providing insurance and related financial services to more than 18 million people across Africa and Asia. South Africa-born Kuper, a graduate of the University of the Witwatersrand, the University of Cambridge, and Harvard University, has pioneered this push to offer more sophisticated financial products to low-income consumers, many of whom earn as little as \$1.25 a day. Before selling its investment last year, for example, LeapFrog helped expand the customer base of Ghana's Express Life Insurance from just 12,000 people to 350,000 in less than two years. Its other investments include Bima—one of the largest mobile-insurance platforms in the world with millions of customers across Bangladesh, Indonesia, Ghana, Mauritius, Senegal, Sri Lanka, and Tanzania—and Mahindra Insurance Brokers, which provides life, property, and health insurance to people in rural India. In this video interview, Kuper argues there's a competitive advantage to being a purpose-driven business—and companies that shy away from offering financial products in emerging markets are missing out. An edited transcript of his remarks follows.

## Catalytic capitalism

For a long time, there was deep misperception about emerging-market consumers. People thought of them as aid recipients, or individuals who weren't acquirers of financial services or, for that matter, affordable health care or housing or education. In fact, as books like *Portfolios of the Poor*<sup>1</sup> show, 85 percent of low-income and emerging consumers are not destitute, are not pure recipients. They are working, striving people who are managing money and who are typically engaged in 16 financial transactions at any one time—borrowing from here, promising to pay there, protecting themselves here and there. And there is an opportunity to serve them with much more efficient tools.

<sup>1</sup> Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*, Princeton, NJ: Princeton University Press, 2009.

Our companies add millions of customers a year. It is an enviable development that people in emerged societies could only hope to emulate in the future. And what's so remarkable to us is that, in the face of this—in the face of the relative growth in the emerging consumer segment in Africa and Asia versus growth in emerged markets—people still see these markets as so risky. If you look at the innovations that our companies have achieved in emerging markets, selling \$4-a-month policies to one million people rather than \$4,000 policies to 1,000 people, you realize that a radically simpler product and process is possible by which to provide protection for people.


It is possible to insure against some of the worst things in life, to accumulate pensions, to help people save, to enable them to make payments with far fewer transaction costs, far less in clarity. And one of the things that our companies are well positioned to do is to take those frugal innovations that serve them so well in emerging markets and cascade them, not just across other emerging markets, but across developed markets.

We believe that these frugal innovations that are being driven by emerging-market companies are just the tip of the iceberg of what you're going to see once those models start coming to developed markets where there's significant capital, billions of consumers who are being inadequately served often by current companies.

### **Profit with purpose**

Profit-with-purpose investing is going to be the next venture capital, the next alternative investing. There's no doubt that those were once conceived of as exotic, and later became essential to strategies and allocations. Clearly, if you have a kind of business that reduces risk, that optimizes the experience of customers, that aligns and drives a company in a far better way than conventional businesses, you are going to have out-performance over time.

It's not a trade-off between money and meaning—it's a synergy. Businesses that pursue both profit and purpose achieve out-performance. They are able to focus far more on the end consumer. They are able to attract better talent. They are able to reduce the risks that come with corruption and with regulatory management. They are the owners of the future because they see three billion customers coming online. They see that it's not about serving them today or next week or what quick quarter results you can get, it's about tapping an opportunity that is going to run for the next decade and decades beyond.

We've shown that, once you put this synergistic combination together of profit and purpose, the results you get on both sides are stronger. Since the Industrial Revolution, this notion of a trade-off that has been practiced has actually been a fetter on humanity. And we can liberate businesses, we can liberate investors, and we can really liberate societies to invest in a very different way because of this demonstrated performance of the purpose-driven business. 

**Dr. Andrew Kuper** is the president and founder of LeapFrog Investments.

Copyright © 2014 McKinsey & Company. All rights reserved.