Impactful Successes in SEA

Understanding the Successes and Potential of Impact Investing in Southeast Asia

Authors: Arushi Mehta, Ethan Zhang, Sanya Goyal and Paula van Brakel

Summary

Project details: This study is done as part of the INSEAD MBA Private Equity course and in cooperation with Quest Ventures a VC fund that invests in technology startups that have scalability and replicability in the Digital Economy. It focuses on backing Southeast Asia and Emerging Asia's startups in the post-seed to Series A stages in Southeast Asia and Emerging Asia. *Main Purpose of the Project:* Quest Ventures is launching a new sustainable impact fund, which actively invests in early stage, high growth and impact-driven startups in Emerging Asia (comprising of Southeast, South and Central Asia). Through this project, we hope to assist Quest Ventures in raising further interest in its impact fund (targeted at $30mm) by providing a research-based study on the attractiveness of impact investing in Southeast Asia. We are looking for companies that have demonstrated track records of achieving dual sustained success of financial and social or environmental returns in the region.

Problem Analysed: Given that impact investing in Southeast Asia is still a relatively nascent and niche space, there is limited data and publicly available information. Despite this we managed to conduct a research into the following:

1. Which companies have successfully achieved strong financial returns, while remaining authentic to their impact intent?
2. Which countries and sectors are these success cases concentrated in?
3. What are key success factors of such firms?

Methodology and Approach: In our analysis, we have used a combination of approaches entailing both primary and secondary resources. We have conducted market, investing landscape and specific enterprise research to identify a few key success stories in the region. In order to do so, we primarily relied on well-known databases and other publicly available information. However, to substantially and meaningfully address the third issue of drivers of success for these enterprises, we reached out to 12 such companies and spoke to the founders of one[1].

*Key Findings: I*mpact investing is becoming hot in the past years, and investors only recently started explicitly focussing on impact *and* financial returns. This is also why the number of impact businesses in Southeast Asia that received Series C+ funding or had a successful exit are still few. Most of the demonstrated successes so far are in Indonesia. Although sectors like Agri are big in Indonesia, it is remarkable that amongst the companies that received round C+ funding or did a successful exit, nearly all are in the tech space (fintech, health-tech or ed-tech).

The examples and particularly the deep dive into the CXA Group case study show how important the value proposition with a sound business model, the right partners and an excellent and driven team are. This does not sound surprising, since these are key success factors in any starting business. However, in similar businesses in other regions like USA or India, where the space is

[1] Given the short turn-around and current COVID-19 situation, it was difficult to get a response from the founders of most of the start-ups.

more mature, companies and founders do not need to struggle as much to hit all criteria to the same extent as in Southeast Asia.

There is an emerging trend towards investing in education and healthcare as the middle class in the SEA countries expands and demands better basic services like education and healthcare. The ICT or tech component is underlying most of these ventures as access to internet and smartphone technology grows in the region.

INSEAD The Business School for the World®

Table of Contents

Impact Investing in Southeast Asia: An Introduction

The below is a summary of relevant insights of Southeast Asia's impact investing landscape based on the extensive research done by the Global Impact Investing Network (GIIN, 2018).

Impact investing relatively new, growing market in SEA

SEA is a diverse region, consisting of 11 countries at different stages of economic development. Although the economic growth in SEA has been strong in recent years and shows great potential in the post-pandemic future, the imbalanced development among the countries faces a wide range of socio-economic challenges. Thus, such an imbalance creates a huge potential for impact investing in the years to come.

Despite its current relatively small size, the SEA's impact investing ecosystem has developed significantly in the past decade. Since 2007, Private Impact Investors (PIIs) have injected more than USD 904 million through 225 direct deals, while Development Financial Institutions (DFIs) have deployed USD 11.3 billion with 289 deals. Just as the different economic stages, the entrepreneurial activities among the countries vary at a distinct maturity level so that the impact investing remains highly fragmented. Each country faces context-specific challenges.

The challenges can be further decomposed at the level of political freedom of the relevant country. Looser control, such as in Cambodia, leads to more PII investments. On the contrary, tighter control, such as in Malaysia, requires much more creative investment strategies and creates higher barriers for PII to enter and thereby invest. To bypass restrictions and have a stable operating environment, many social investors and enterprises choose Singapore as their home-base.

Large differences between countries – Indonesia 'longest' track-record

As the previous reasoning points out, the various stages in the countries brew divergent sectors to focus on. Indonesia has the highest GDP (PPP) in this region and a large and young population. The key sectors in Indonesia currently heavily skew to agriculture and financial services, with a promising future for workforce development, fisheries, education, and healthcare. DFI has traditionally been the major source for Indonesia. DFI activity has both the highest number of deals and the deployed amount in microfinance, commercial banks, and the energy sector.

Because of the long track record of impact investing and the more mature intermediate infrastructure, supply-side opportunities have emerged in Indonesia, which has the only impact-focused angel network in the SEA region. The network strives to fill the funding gap in the country and sets a good example for others to follow.

Early stage investments seem underfunded due to challenges

Like many other investment opportunities, impact investing in SEA faces problems as well. For instance, the seed funding investment does not seem to be widely available for social enterprises. The difficulty can be largely divided into 3 perspectives:

1) *Supply-side:* poor corporate governance, high cost of deal sourcing and due diligence, and the lack of sufficient local investors, all create a harsh environment to get funding

2) *Demand-side*: Many social entrepreneurs still see their effort as a charity and rely on grant capital, instead of focusing on organic financial sustainability. Furthermore, the new market does not provide enough network opportunities to connect entrepreneurs and investors. And, many early-stage enterprises cannot even pay for support services such as an incubator

3) *Ecosystem:* Fund managers currently lack local knowledge to make necessary judgements and, as a result, forbid themselves to invest continuously in the region. Additionally, most of the VCs investing in the region don't have local offices making it even more difficult to understand the local culture and landscape. Lastly, most of the governments here are outside the rank of "top 100 on the Ease of Doing Business rankings". These facts work together to disincentivize many investors.

The market is looking for more evidence of 'double bottom line' success

Quest Ventures believes that there is immense potential at the intersection of financial stability and social or environmental impact. However, it remains challenging to create more interest in this space from investors and push for more capital. Quest Ventures has asked for our support in a study that underlines the attractiveness of the impact space. The main goal of the study is to attract more investment interest and capital in early stage impact startups by showing successful investments are possible in terms of both financial returns as well as social or environmental impact returns ('double bottom line').

GIIN and Quest Ventures also signal that there is a lack of demonstrated success cases: "Although several exits have been disclosed since 2017, the industry needs more examples of success".

Defining Success: The Double Bottom Line

Looking for the holy grail: good social AND financial returns

> *"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."*
>
> Website of the Global Impact Investing Network (GIIN)

It sounds like a dream. However, there is more and more evidence that impact and financial returns can be mutually reinforcing, for example shown by the importance of focus on ESGs for corporations. On top of that, the trend in the current world is increased attention for these aspects. But what is a measurable social and environmental impact and what is a good financial return?

Defining impact: broad definition using SDGs, just 'jobs' not enough

A complication is that the space of social and environmental impact is hard to define, because of the definition of what this impact is and what it is not. Many agree that measurement of this impact is one of the key factors, which can be very challenging. Greenstone, a provider of non-financial reporting solutions, recently conducted an extensive research on social and environmental impact reporting. They conclude that the application of qualitative techniques would be a safe starting point for many organizations (Greenstone, 2018). In this early phase, organizations should not limit themselves to specific techniques and methods, but rather an individual customized approach should be applied to different projects, programs, investments and activities. It is then important to understand the differences and relationships between outputs, outcomes and impacts of activities for businesses: e.g. number of people trained is an *output*, number of jobs created an *outcome*, improvements in community well-being and impact (Figure 1).

Another difficulty with the definition of impact is, as Claudia Zeisberger[2] puts it, *"As a private equity investor in an emerging market, by definition you have impact."* So how to differentiate between 'regular' and 'impact' investing in these regions? Elizabeth Tan, Venture Partner for Sustainable Impact at Quest Ventures, says that it is important to weigh the intentionality and expertise of any founding team. "We have a hands-on approach in helping our startups go to market and in this case, to scale impact. When considering the latter, we look at which segment their product or service targets and if positive impact is woven in the underlying fundamentals of the business model. The entire process is screened with this lens at every stage." Quest Ventures measures impact on a case-by-case basis, relating it to the 17 SDGs of the United Nations, because many of the more sophisticated metrics that may exist are difficult to standardize and apply across early stage startups, which may need a more subjective and customized lens to assess impact. What is important is that the founders have a strong intention and drive to make a positive impact. We will use this broad definition of impact with a case-by-case assessment, not just on *output* but

---

[2] *Senior Affiliate Professor of Entrepreneurship and Family Enterprise and Academic Director, Global Private Equity Initiative at INSEAD*

towards the *impact*, and the *input* (steering direction). The impact explicitly must go beyond the mass of companies, so just broad 'job creation' is not enough.

Defining financial success: growth and successive investments

Many impact investing funds have target returns close to average returns of non-impact funds in the same region. The logic: the positive impact and image will cost effort but will also reinforce financial returns. In the years 2011-15, median return of venture and private equity capital in Southeast Asia varied between 10-30% in the region (Figure 2). According to the Bridgestone and their experience, most venture investors seek a 30% IRR on their successful investments (Bridgestone VC, 2019).

However, there is often lack of data to enable measuring successes in terms of return, particularly for early stage investments and over the typical 5-10-year time span. Therefore, we will focus on successful *growth* of the investments. Growing and being able to attract successive investments is an indicator of the success of a company. If a company can get at least round C funding or exit successfully via M&A/ IPO within 10 years of the early-stage investment, the investment was likely successful for the investors, the business and the magnitude of their impact.

INSEAD The Business School for the World®

Recent Trends in Countries and Sectors

Microfinance receives most impact capital, growing interest in ICT & Agri

The SEA impact start-up landscape is varied as the definition of 'impact' itself is quite broad. However, there are some clear observable trends in the space. As mentioned previously, there are two major categories of investors – PIIs and DFIs. The former category includes a range of investors funnelling private capital into impact start-ups, while the latter are government backed financial institutions that provide capital to start-ups to promote development. The top two sectors of investment for both investor types in the region have been financial services and clean energy (GIIN, 2018).

The financial services sector has received the most impact capital, accounting for roughly 60% of all private capital deployed. Microfinance institutions account for over 80% of the capital deployed in financial services, while some capital has been allocated to insurance and commercial banking for SMEs (GIIN, 2018). Most of the start-ups in this space either operate in the micro-finance space or work with the rural and poorer regions in their country to provide access to basic financial services. For example, FinAccel is a fintech that provides access to retail credit and unsecured lending across South East Asia.

It is interesting to note the divergence in the sector preference between private and public investing after financial services and clean energy. The private sector prefers Information and Communications Technology (ICT) and Agriculture. For example, *ImpactTerra* based out of Myanmar is a venture that exists at the intersection of agriculture, ICT and financial services. It is a platform for farmers which offers real-time, personalised information about local crop prices, weather-based advice like flood or drought warnings, and pest risks. The platform also collects data on farmers, such as their location and details about crops, which helps financial service providers deliver financial products that meet their needs and correspond to their specific risks. This enables these farmers to get the capital they need to improve or expand their farms at accessible rates. Another example is *EcoZen*, an agritech startup based in Kerela, India but targeting the SEA market. It aims to improve farm-to-fork movement of perishable goods by providing solar-based cold rooms at the farm level (The Independent, 2018).

Alternatively, the public sector prefers to invest in manufacturing and infrastructure. This is understandable as both manufacturing and infrastructure are CAPEX-heavy sectors where investment periods might be considerably longer.

While social impact ventures are growing across SEA, we looked at shifting trends in two major countries in the region: Vietnam and Indonesia.

Vietnam taking off, recent trend towards health-tech and ed-tech

Traditionally, private money went into financial services and health care. There are multiple examples of health tech platforms like *MediTank* which provides a data management platform for medical practitioners to classify and store medical data and *Vicare* which is a listing and discovery platform for health care facilities, health care service providers as well as testing facilities in Vietnam (Tracxn, 2019).

However, there has been a recent boom of education/ ed-tech platforms. Vietnam has 17 million K-12 students, making it a massive market for ed-tech. Investors are noticing the potential in the country's e-learning market and a growth of 50% is expected annually. Some examples of ed-tech platforms to watch for are *Edmicro*, *Everest Education*, *ELSA speak*, and *Tesse* (TechCollectiveSEA, 2019).

Indonesia further developing, expanding agri-& fintech to also health-& edtech

In a country where agriculture contributes to almost 14% of its GDP growth, it is not surprising that impact ventures and funding have been focused on agriculture/ agri-tech. An example is Vasham, which assists smallholder farms with financing, technical expertise and income security, has created a vertically integrated agribusiness model that can be replicated by smallholder farmers. (AVPN Asia, 2019)

There is no dearth of fintechs in SEA and Indonesia is no exception. There is a boom of fintechs aiming to provide everything from basic banking services to the majority of the population to more complicated lending products to support employment. Along with *FinAccel*, mentioned earlier, *Akulaku* which is an e-commerce platform with a specific focus on card-less instalment shopping on products like car loans, bill payment, top-ups, travel and other leisure packages. *Cashlez* offers a mobile POS sales system, which allows SMEs and smaller vendors to accept card-based transactions (including Visa and Mastercard) on card readers which are connected to their smartphones. (Fintech News, 2019)

However, like Vietnam there is an increased preference for health-tech and ed-tech in Indonesia. As these economies develop and the population has access to more resources, the demand for better health care and education is increasing exponentially. It is therefore not surprising that back in October 2018, Indonesia's Minister of Communication and Information Rudiantara mentioned that both health-tech and ed-tech verticals are set to become the country's next unicorns. (e27, 2019).

Some well-known names in the health-tech space are *HaloDoc*, *AloDokter*, *PesanLab* and *Homecare24.* In the ed-tech space, enterprises like Ruangguru, PT Zenius, and HarukaEdu have gained substantial recognition. (Tracxn, 2019)

However, even as the impact venture activities in the SEA grow, Singapore remains the hub for start-up and funding activity for the region. It is the market of choice for most ventures looking to expand and a lot of VC funding in the neighbouring countries is managed through Singapore.

To summarize, there is an emerging trend towards investing in education and healthcare as the middle class in the SEA countries expands and demands better basic services like education and healthcare. The ICT or tech component is underlying most of these ventures as access to internet and smartphone technology grows in the region.

INSEAD The Business School for the World®

Successes Stories in SEA

Number of success stories still limited, mainly because space still nascent

Although there has been growth in impact investing firms in Southeast Asia, the market is still largely very nascent and fragmented. The growth of this space in SE Asia is evinced by a rising demand from early-stage (typically Seed and Series A) impact enterprises across the region. In spite of this trend of growth, impact ventures in the region still remain grossly underinvested in and lack adequate visibility. Particular challenges that lead to these are:

1. *Lack of adequate demonstrated success in the region*: While there are several cases of enterprises that successfully raise multiple rounds of funding, and even manage to raise Series B funds, there are very few demonstrated success stories of firms that have managed to either exit successfully or raise funds Series C and beyond. Part of the reason for this is simply that it is a young space and most of the start-ups have been around for less than a decade. Companies making it up to round C+ have been around for 7.3 years on average (based on our sample). In order to bolster investments in impact enterprises in the region, more data is required and perhaps it may be more relevant to look at evidence on returns and impact performance

2. *High risk perception:* Traditionally, impact initiatives and strong financial returns have not been considered to go hand-in-hand. This is because most social enterprise ventures rely on grants and this prevents them from focusing on independent financial sustainability. Further, because social entrepreneurship is so nascent in the region, there is a high-risk perception associated with it

3. *Lack of incentive to invest:* The sparse data on returns of social enterprises coupled with the fact that the cost of conducting due diligence on these early stage ventures requiring relatively small investments is very high, dissuades investments in the space.

Yet, in spite of these challenges, a few key sectors in region have managed to successfully expand (i.e., raise Series C or more) and exit (M&A, etc.). We have identified three such sectors (Healthcare & Wellness, Fintech and Financial Services, Ed-tech & IT) in a sample study of the top three countries (Indonesia, Singapore, Vietnam) with an actively growing portfolio of for-profit social enterprises in SE Asia.

INSEAD The Business School for the World®

Companies making it up to round C+: 7 examples of success stories

1. **PT Ruma (now Mapan) – fintech in Indonesia**

   Headquartered out of Jakarta, Indonesia and founded in 2009, PT Ruma is a leading seller of mobile minutes, community-based lending and savings network in rural areas of Indonesia. At the moment, it has over 3 million members and about 115 branch offices in Java and Bali. Its objective is to enable low-income communities to access products that they couldn't previously afford by building upon technology that leverages the bonds within these communities.

   It is one of the few firms in Southeast Asia that has been able to successfully exit via acquisition[3]. Prior to its acquisition, Mapan had successfully raised Series B round of funding from a.o. Patamar Capital. According to Beau Seil, partner at Patamar Capital, the deal is their most successful one. *"There is now a chance for Gojek to become the most impactful company in SEA, but question is do they have that mindset."*

   It had several key reasons for its successes, which eventually enabled it to become a strong acquisition target:

   - Backed by strong investors like Omidyar Network and Patamar Capital
   - Measurable and tangible track record of financial and social returns
   - Unique product and niche positioning within region / country of operation
   - Strong team; culture for innovation and commitment to mission
   - Proof of synergies and past collaboration with acquirer – Gojek

2. **Ruangguru – ed-tech in Indonesia**

   Ruangguru is a leading education-technology start-up headquartered out of Jakarta, Indonesia. Founded in 2014, by Adams Belva Syah Devara and Iman Usman, the company offers online video subscriptions, a marketplace for private-tutoring, on-demand tutoring services, online mock exams and corporate learning. It has grown to serve more than 15 million students and actively manages more than 300K teachers. The firm raised $150mm in its Series C fundraising effort and has expanded into the Vietnamese market in 2019 through its platform called Kien Guru. The firm's focus is to expand its products and services in the Southeast Asian region and it further plans on providing artificial intelligence-driven personalized teaching. This Uber-like model for online learning in Southeast Asia has immense potential and Ruangguru, if it continues on its projected trajectory, is well-poised for successful exits whether through acquisitions or an IPO.

[3] PT Ruma was acquired by Gojek in December 2017.

3. Alodokter – health-tech in Indonesia

Alodokter is fully integrated healthcare ecosystem, where patients can connect with doctors, handle their medical records, schedule appointments, access content and maintain their lifestyle. Headquarter in Jakarta, Indonesia, the firm is looking to address the problem of access to quality and unbiased information pertaining to healthcare providers, medical services and doctors. Alodokter is in both English and Bahasa and is backed by Softbank Ventures Korea. It has up to 16mm users and has expanded its service to Thailand under the name Pobpad.com. Again, with an Uber-like model for the healthcare ecosystem, Alodokter's biggest challenge was obtaining buy-in from consumers for a combination of artificial-intelligence driven chatbot and real-doctor interaction. It has raised a total of $45.1mm in funds so far with Series C being $33mm. Again, given its focused growth, strong leadership and impact-driven approach, it is another venture that may be well-suited for an exit in the near term.

4. FinAccel (Kredivo) – fintech in Indonesia

FinAccel is a financial technology company that is disrupting the financial services landscape by providing meaningful and relevant products in retail credit. It is currently focusing on disruption in the unsecured lending space for the underbanked in Southeast Asia through its credit app – Kredivo. FinAccel successfully raised $90mm in Series C funding for Kredivo only 3.5 years into its existence. Further, as of 2019[4], Kredivo had acquired over a million customers in Indonesia and was noted to be growing at a staggering 300% YoY. FinAccel has already evaluated more than 3 million applications and granted approximately 30 million loans. For further expansion and to promote financial inclusion, FinAccel is also working on low-interest education and healthcare loans. It is projected to expand its users to at least 10 million and gain strong footholds in other Southeast Asian markets like the Philippines, Thailand and Vietnam. With its fundraising success, broad product portfolio and proof of business model, it can be expected that FinAccel has the potential to be a rewarding investment as it may see future exit opportunities.

5. Akulaku – fintech in Indonesia, Malaysia, Philippines and Vietnam

Akulaku is a financial services provider for the urban working class in the South East Asian market. Although headquartered in Indonesia, Akulaku also operates in Malaysia, Philippines and Vietnam. It is a multinational e-commerce platform that offers online services such as card-less instalment shopping, cash loans, bill payments, etc. It has disbursed around $850mm in loans and has an employee strength of nearly 2,500. So far, it has raised about $220mm in funds, out of which $100mm was raised via Series D in early 2019. Backed by giants like Alibaba, Alukaku has already begun to invest in local banks (PT Bank Yudha Bhakti TbK) in Indonesia and help them digitize[5]. Through integrating its platform and technology with local banks, not only is Alukaku's survival guaranteed in

[4] As per techcrunch (link in references).

[5] As per fintech news, Singapore (link in references).

the face of increasing competition in the fintech landscape, but also its ability to thrive is practically made certain. It would be unsurprising to see the young enterprise IPO in the near future.

6. **CXA Group – health- and insurtech in Singapore**

   CXA Group is on its way to become Asia's leading Insurtech start-up. A one-stop shop, it enables employers to provide employees to proactively manage their health through a self-service platform with access to an increasing range of health, wellness and wealth offerings personalized to the individual's own health data. By eliminating middlemen such as brokers, etc., CXA allows more efficient use of employer-provided insurance policies, wherein employees can directly draw down on the existing policies provided by their employers and the funds can be accessed via the platform's e-wallet to make transactions efficient and effective. It serves more than 500 enterprises: servicing around 800K employees in Southeast Asia, Hong Kong and China. The company's mission is to go global with capturing all of Asia and then expand to North America and Europe as well. It has already acquired two brokerages and raised about $58mm in financing. It is amidst raising a bridge round before raising Series C early next year. They are backed by powerful investors like Gojek's early investor Openspace Ventures, HSBC, etc. The firm is well-positioned for a successful exit via either an IPO or trade sell in the future.

7. **Pharmacity – health in Vietnam**

   Pharmacity is Vietnam's largest pharmacy retail chain and is dedicated to improving the quality of healthcare for each customer. As of March 2020, it has more than 280 stores in the 6 major cities of Vietnam; and the company aims to achieve 1,000 stores across the country by the end of 2021[6]. Pharmacity has witnessed a growth of 127% in sales in 2019 vis-à-vis 2018. For 2020, prior to the COVID-19 crisis, the company had set a revenue target of around $130mm. Backed by private equity firms like Mekong Capital, Pharmacity has succeeded in raising $31.8mm for Series C funds.

In the next chapter we will deep dive in one of the success cases - CXA group.

Successes so far mainly Tech in Indonesia – with clear market need

Although sectors like Agri are big in Indonesia, it is remarkable that amongst the companies that received round C+ funding or did a successful exit, nearly all are in the tech space (fintech, health-tech or ed-tech). According to Beau Seil, Partner at Patamar Capital, this may be due to the scalability. The problem with more traditional vertical integrated companies, like Big Tree Farms, is that they are much slower to grow. These businesses take much longer to scale, and the scale is not anywhere near the same as a tech-company like PT Ruma, reaching thousands of people rather than millions.

[6] As per Vietnam insider (link in references).

Crucial with all businesses seems addressing a true market, that can actually pay for the product or service, not just an idealistic viewpoint like the original underpinning of how many impact companies have started in the past. The philosophy is that by not just focusing on the very low-income population, the businesses is much more sustainable, and the eventual developmental impact is likely higher. These are great business ideas within the area of social impact.

MINI CASE: CXA Group

CXA Group is a transforming healthcare and health insurance in SEA

CXA Group is a unique venture that stands at the intersection of healthtech, insurtech, fintech and social impact. It attempts to lower the rising cost of healthcare in SEA by eliminating the traditional one-size-fits-all benefits structure of employer covered insurance. It is digitizing the benefits and wellness value chain and connecting all the players in the wellness ecosystem like health check-ups, screening, clinics, insurance reimbursement, maintenance of medical records, etc. on one platform and eliminating the need for insurance middlemen/ brokers that drive up health costs.

Founded in 2013, CXA Group has grown from just three Fortune 500 clients to having over 500 clients and 350,000 enterprise clients. It can be safely said that CXA is a start-up that has moved into the scale-up stage.

As CXA Group gets ready for its next round of funding, we had an opportunity to speak with founder and CEO, Rosaline Chow Koo who helped us understand the unique challenges a firm like hers faces in this region.

Key challenges around funding, sufficient talent and geographical expansion

Like any start-up, CXA Group faced several challenges in all spheres of the business, be it fundraising, recruiting top talent, expanding, regulation, repeated product iterations and even more recently the consequences of the COVID-19 crisis.

Funding: After investing a very sizable amount from her own savings to start CXA Group, Rosaline admits that fund raising was quite challenging especially for a novice like her. She laughed about how she spent time *googling* term sheets to understand what to expect. The fact that she had made a massive personal investment ~$10mm to start the firm made it impossible in her mind to let the venture go belly-up. During a very painful 9-month period in 2017-2018, CXA Group came very close to this scenario with funds that would last only 2 more weeks. Thankfully, HSBC stepped in as both clients and investors. While she is more comfortable with fundraising now than her first round, she refuses to pigeon-hole herself in any one specific category or sector, in order to maximize her access to available investors and funds.

"Knowing that product is all you have, and you know that it will work, then you keep going and see it through!" - Rosaline Chow Koo, Founder & CEO

Talent Resources: Having lived and worked in Iowa, New York, and Los Angeles, Rosaline mentioned that it is generally easier to acquire and retain talent in the U.S. versus in Southeast Asia. Most students are awarded for compliance and risk averse behaviour, making start-ups an unfavourable employment opportunity. However, she did acknowledge that this is changing and the landscape for start-ups is becoming more positive.

Geographic Expansion: Rosaline has a laser sharp focus and wants to capture the Southeast Asia market completely before moving to the rest of Asia and then Europe and North America. However, with a limited team and constrained time she wonders how she will achieve this expansion without overextending herself. Additionally, HSBC now a major client and investor wants her to expand her platform in the UK, Mexico, India and France which puts further pressure on her limited resources. At the same time, she is already exploring opportunities in Thailand, the Philippines, Indonesia and India, while already having presence in Singapore, Hong Kong and China.

Regulation: Trying to simplify healthcare, insurance and banking may sound like a pipe dream but that is exactly what Rosaline is attempting to do with CXA Group. However, there is no denying the fact that all three industries come with heavy regulation that vary significantly based on the country of operation.

Competition and Internal Resistance: At the same time when CXA Group was struggling with funding in 2017, insurance companies had started to build out their own claim-apps. In addition, one of the brokerage firms acquired by CXA had a 68-year old founder, who was extremely resistant to any automation and change. As a result, receipts were being lost and data-entry was a manual process and did not reconcile. Individuals were not being reimbursed for their claims and CXA lost some clients.

Product: As CXA Group transitions from the start-up to a scale-up, the challenge has shifted from that of survival to solving the pertinent question of how to streamline and create a modular product across the different enterprise clients and geographies. The product is already at version 3.0 and CXA Group is now building the product to seamlessly integrate payments, connecting with clinics, testing and screening, disease management – in essence the whole insurtech ecosystem. They anticipate having a completed product by the end of 2020.

Exit opportunities: While she is not actively thinking about an exit yet, Rosaline does wonder where she and CXA will be in the next 10 years. She believes that CXA has the potential to be a unicorn but sees an IPO as a potential exit down the line.

Key success factors: value proposition, partners and team

In the face of insurmountable challenges, Rosaline leads CXA Group to its success. Driving this success are a number of factors that come together to harmonize and balance each other. In addition to its strong value proposition, CXA Group not only found the right partners, but also benefited from a natural competitive advantage of being a first mover. Lastly, and perhaps most importantly, Rosaline created a team and culture that worked together for the success of the business.

Strong value proposition: CXA Group has identified a gap in the market and significantly lowers the cost of insurance for its enterprise clients. By eliminating middlemen and brokers, and further directly connecting the entire ecosystem through a single point, i.e., the CXA product, the firm is able to cut down costs from the traditional 30-35% of fee to only $2. Further, through automation and leveraging technology, the company has successfully reduced the insurance reimbursement window from 90 days to just 7 days. Moreover, the CXA product enables enterprises to tailor healthcare insurance to the wallet and needs of each individual by making available an ever-widening bouquet of options and having each individual choose directly.

Competitive advantage: CXA Group has a clear first mover advantage in Southeast Asia. There is currently no direct competitor for the firm, and it is precisely this unique positioning that

Rosaline seeks to leverage and capture value from. In addition, since Fintech, healthcare and insurtech are all very highly regulated industries, the barrier to entry is relatively high. As such, CXA Group has the luxury to be somewhat protected from the threat of imitators and other competitors.

Right partners: Although CXA Group struggled severely for a period of 9 months with respect to fundraising, it did form strategic partnerships and find a fit with their investors. One of their investors is Openspace Ventures, an early backer of Gojek and they have been of immense assistance with respect to technology and building out the micro services for the Group. Additionally, banks like HSBC, serve as both investors and clients and are willing to sign long contracts (~11 years for $25mm). Such strategic alliances enable CXA Group to not only have a strong foundation as an enterprise through providing the firm with access to resources that go beyond the pure funds, but also enable it to traverse the scale-up phase relatively smoothly. CXA Group is currently closing out a bridge financing before raising Series C early next year.

Team and people: Rosaline is a visionary and knows the importance of streamlining leadership at CXA Group. She has a diversified C-suite with a 50-50 gender balance. CXA's CTO came from Lazada and had scaled up 8 different start-ups before. The Head of HR had worked with Rosaline at 3 different companies before. Similarly, 75 of the firm's current employees had all worked with Rosaline at Mercer previously and chose to move with her. Over time, CXA Group evolved its hiring-firing to match the dynamic environment of the firm. For instance, individuals who had performed terrifically during the early start-up phase of the Group were either re-staffed or let go. The individualistic workstyle and inability to work with / report to others was non-conducive to the scale-up and growth phase at the firm, which required increasing collaboration.

"If you don't have the right people, you're dead. If you do, it's magic." - Rosaline Chow Koo, Founder & CEO

Key Lessons from Growth Successes in SEA

Social and financial impact not seen as trade-off anymore

The underpinning of companies and investors in the impact space is moving from a purely 'we want to change the world' towards sustainable and financially attractive business models. Social impact investing is becoming hot in the past years, and investors only recently started explicitly looking for tremendous impact *and* financial returns. Both should be evaluated, both have their own risks, but impact and financial returns should not be treated as a trade-off. Successes of that are only just starting to show.

Successes so far mainly Tech in Indonesia – with a clear market need

The number of impact businesses in Southeast Asia that received round C+ funding or did a successful exit is still small, but likely many more will follow in the near future. The companies making it up to round C+ have been around for ~7 years on average, based on our sample.

Most of the demonstrated successes so far are in Indonesia. Although sectors like Agri are big in Indonesia, it is remarkable that amongst the companies that received round C+ funding or did a successful exit, nearly all are in the tech space (fintech, health-tech or ed-tech). Crucial with all businesses seems addressing a true market, that can actually pay for the product or service.

Scalability is at the core of sustainability and attractiveness to investors. The digital-based and relatively light capital expenditure enables tech ventures to scale up rapidly in SEA. Business models with such characteristics are easier to achieve financial soundness.

Key success factors sound business model, right partners and team

The examples, and particularly the deep dive in CXA group, show the importance of the value proposition itself with a sound business model, the right partners and an excellent and driven team. This does not sound surprising, since these are key success factors in any starting business.

However, this may not be the case for social enterprises in the US or India. In both countries, the impact market is relatively more mature, and founders do not need to struggle as much to hit all three of the above criteria at the same time. While further investigation into this early hypothesis is required, it seems to be the case that social enterprises in more mature markets have an easier time to raise funding and therefore may get away with less. On the other hand, this would mean that there is still much more potential for successes in Southeast Asia.

In broader research for this report, it is apparent that the elite background of the founders and leadership team allows them to access precious entrepreneur resources such as early funding, government connection, and media coverage. Objectively, the access creates better M&A and exit opportunity for the ventures, thus ensures continuous funding over different development stage.

INSEAD The Business School for the World®

Market opportunities looking forward likely in health- and ed-tech

There is an emerging trend towards investing in education and healthcare as the middle class in the SEA countries expands and demands better basic services like education and healthcare. The ICT or tech component is underlying most of these ventures as access to internet and smartphone technology grows in the region.

References

Market reports and whitepapers

The Landscape for Impact Investing in Southeast Asia, GIIN, August 2018

Whitepaper 'Beyond Sustainability Reporting' by Greenstone, June 2018

Market in Focus: Private Equity & Venture Capital in Southeast Asia, Preqin, September 2019

Risk, Return and VC IRR Benchmarks, article by Bridgestone VC, February 2019

Who are the top EdTech startups in 2019, Tech Collective, January 2019

Kredivo's parent firm FinAccel raises $90M…, TechCrunch, December 2019

Fintech Akulaku buys stake into a bank, Fintechnews Singapore, March 2019

Vietnam's Pharmacity raises $31.8 million in a Series C funding round, Vietnam Insider, February 2020

Why the next wave of Vietnamese startups won't be clones, TechInAsia, April 2019

Vietnam's emerging edtech startups, TechCollectiveSEA, December 2019

Indonesia's healthtech sector anticipates its first unicorn, e27.co, August 2019

10 of the Top Fintech Startups in Indonesia for 2019, FinTechNews Singapore, April 2019

StartUp News Asia, Quarterly Archives, Q2 2019

HealthTech Startups in Vietnam, Tracxn Explore

EdTech Startups in Indonesia, Tracxn Explore

Databases

Crunchbase, consulted in March and April 2020

Interviews[7]

Rosaline Chow Koo, founder and CEO of CXA group

Elizabeth Tan, Venture Partner Impact at Quest Ventures

Beau Seil, Partner at Patamar Capital

[7] Except for CXA group, the founders of 11 other success companies were approached, but given the short nature of this research, unfortunately it was only possible to interview one of them

Appendices

(Tables and figures)

Figure 1: Private Equity & Venture Capital Benchmarks: Southeast Asia (Prequin report, 2019)

Net IRR (%)

	Preqin Southeast Asia Market Benchmarks			
Vintage	No. of Funds	Min	Median	Max
2010	3	2.5	6.5	70.0
2011	3	8.7	10.7	28.9
2012	4	6.9	19.6	43.2
2013	9	-2.4	10.8	65.0
2014	4	15.8	31.6	50.0
2015	6	2.2	13.4	23.0

Figure 2: Examples of social enterprises with successful series C funding or exit through M&A (CruchBase, April 2020)

Social Enterprise	Sector	Country	Description	Stage	Contact	Year of Founding
PT Ruma	IT	Indonesia	Ruma is a leading seller of mobile minutes and provider of low-income consumer surveys in rural areas of Indonesia. The company leverages a robust and growing network of several thousand micro franchisees and has developed key commercial partnerships with Bakrie Telecom and Qualcomm Wireless	Series B; successful exit through M&A in 2017	info@ruma.co.id	2009
Ruangguru	Ed-tech	Indonesia	Ruangguru is the largest and most comprehensive technology company in Indonesia focusing on education-based services and has over 6 million users and has managed more than 150,000 teachers offering services in over 100 subject areas. It offers subscription learning videos, private tutoring marketplace, on-demand tutoring services, online mock exam, and more.	Series C	info@ruangguru.com	2013
Alodokter	Healthcare	Indonesia	Alodokter.com is a leading health portal in Indonesia providing high quality content and interaction with qualified Indonesian doctors.	Series C	info@alodokter.com	2014
FinAccel (Kredivo)	Fintech & Financial Services	Indonesia & Singapore	FinAccel is a financial technology company creating disruptive and meaningful products in retail credit. It is currently focused on disruption in the unsecured lending space for the underbanked.	Series C	hello@finaccel.co	2015
Akulaku	Fintech & Financial Services	Indonesia, Malaysia, Philippines & Vietnam	Akulaku is a financial services provider for the urban working class in the SEA market. Akulaku is a multinational e-commerce platform that offers online services such as cardless installment shopping, cash loan, bills payment, mobile and	Series D	cs@akulaku.com	2014

			game top-ups on installment as well as travel and leisure packages on installment.			
CXA Group	Healthcare & Wellness	Singapore	CXA has grown to become Asia's leading Insurtech start-up. Employees are now able to proactively manage their health by choosing the best-suited insurance, wellness and disease management offerings while employers are able to view aggregated health and claims analytics of their workforce to prioritise interventions that reduce costs and improve workplace health, productivity and employee engagement.	Series C	info.sg@cxagroup.com	2013
Pharmacity	Healthcare	Vietnam	Pharmacity operates as a retail drugstore chain that is dedicated to improving the quality of healthcare for each customer.	Series C	cskh@pharmacity.vn	2011