CATALYST FUND
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REMOTE DUE DILIGENCE GUIDE

Assessing pioneering inclusive fintech products from afar for an inclusive recovery

May 2021

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ACKNOWLEDGMENTS

This report was written by Rasima Swarup and Malika Anand, with support from Maelis Carraro and Aaron Fu. Editorial support and design by Thea Sokolowski and Dami Famuyibo of BFA Global/Catalyst Fund.

Special thanks to Ashley Lewis (Accion Venture Lab), Johan Bosini (Quona Capital), and Efayomi Carr (Flourish Ventures) for their valuable time and contributions.

We would also like to thank members of our Circle of Investors who provided valuable insights into their remote due diligence processes, which informed the basis of a workshop in November 2020 and this resource.

FOREWORD

It has been more than 12 months since the WHO declared COVID-19 a global pandemic. Since then, our personal, professional, and financial lives have been turned upside-down, and the global economy has been undeniably altered.

In the financial sector, many were concerned that financial institutions might collapse if people drew down their savings and stopped repaying their loans. In fact, banks have remained stable, and we've seen a surge in liquidity across the globe, including in countries that haven't had stimulus programs. We have also seen a spike in the adoption of digital commerce, digital payments, and other digital financial services, often motivated by pandemic restrictions.

Unfortunately, we have also seen inequalities grow, as gender parity faced a devastating setback. Female founders experienced a 27% decline in investment in 2020 relative to the previous year, while the UN predicts the pandemic will push more women into poverty globally than men. As well, many individuals have lost their jobs, and many are instead relying on short-term and gig work, limited savings, and weak (or absent) safety nets.

For startups in the process of fundraising, the onset of the pandemic was similarly met with great apprehension. Many across the industry worried that investment flows would dry up, since investors traditionally rely on face-to-face interactions to due diligence companies. Many startups saw their distribution channels fold overnight or had to cease operations in response to lockdowns and changing business environments.

However, against all odds, startup founders and the investment community have demonstrated remarkable resilience and an ability to adapt and innovate. While investment slowed in early 2020, by the end of the year it returned to pre-pandemic levels, and we even saw a surge in fintech investments to meet the growing demand for digital financial services; a surge that continued into Q1 2021.

To create this guide, we identified the fintech opportunities that we believe will power a faster post-COVID19 recovery, particularly across emerging markets. We also spoke with investors across our global community to understand the lessons they learned in performing due diligence remotely. We compiled our experiences, together with their insights, to create this guide, which we hope will be useful as our community continues to invest in startups with the potential for transformative impact.

Maelis Carraro
Managing Director | Catalyst Fund

INTRODUCTION

The COVID pandemic has decimated travel and face-to-face meetings for over a year. As a result, investors have been unable to conduct due diligence on potential startups as they normally would: with in-person evaluations, founder meetups, events, and field visits.

While many worried that investments would come to halt, investors have risen to the challenge posed by the need for remote due diligence, and investment flows to inclusive fintech startups remained robust in 2020 - even bullish particularly in Africa toward the end of the year. According to our recent State of Fintech in Emerging Markets Report, in Africa, $1.35 billion went to fintech companies in 2020, including M&A activity. In Latin America that number was around $1 billion. Meanwhile, 2020 saw $3 billion invested in India alone.

In all, funding for fintech dropped by only 2% in 2020 relative to 2019. Fintech companies in Africa even saw an uptick, with notable investments and acquisitions including Paystack, Chipper Cash (Catalyst Fund portfolio company), Wave, and others.

This confidence from investors reflects one of the silver linings of the pandemic: increased usage and uptake of digital financial services and e-commerce models. The need to purchase from home has fueled e-commerce market growth as well as soaring growth in digital payments. Among small and medium businesses, this shift has been an important source of income: in Mexico, 75% of micro and small businesses surveyed noted an increase in revenue after adopting digital payments. Together, this growth in usage and users has given investors confidence, even from afar.

However, even as investment flows for fintech have continued, many investors tell us they are relying on a pipeline developed before the pandemic for current deal-flow, and as such, may be missing out on new startups, product areas, and business models that have been gaining steam in recent months. In particular, they may be overlooking innovations that have taken on new importance in fueling recovery from the pandemic.

Similarly, even as early-stage startups across emerging markets have benefited from the turn toward digital financial services, they too have faced challenges. Many have had to pivot during the pandemic, and the communities they serve have suffered disproportionately. Fortunately, fintech startups have innovated and adapted, showcasing their agility and customer centricity.

Like the rest of the inclusive fintech community, at Catalyst Fund we have pivoted our model to source, select, and support companies via venture building, remotely. In fact, we have invested in and accelerated 20 startups since the start of the pandemic. This experience has given us unique visibility into the latest generation of fintech innovations in emerging markets, including those that have been able to adapt their models to better serve customers amid the pandemic, as well as experience in assessing and supporting startups from afar. In particular, we have sought to accelerate innovative fintech solutions that are providing essential services and tools to consumers and small businesses, to support a faster bounce-back from the pandemic.

Based on our experience and that of our Circle of Investors, this guide seeks to help investors assess startups, even when they cannot see them in action, so as to evaluate fintech opportunities that can support a faster recovery. In this guide, we share insights into three product areas that can support inclusive recovery and build resilience for the most vulnerable populations:

Insurtech

Micro-savings and investments

Financial products for platform workers

What to expect in this guide

This guide provides:	This guide does NOT provide:
Insights into remote due diligence practices adopted by investors across the world	A checklist of remote due diligence approaches
Critical lessons in innovation for three inclusive fintech product areas gaining steam in emerging markets	Due diligence process recommendations for investors to adopt
Practical tips for investors to better assess startups developing businesses in these product areas	

OPERATIONAL AND STRATEGIC SHIFTS FOR REMOTE DUE DILIGENCE

Throughout the pandemic, investors have been able to leverage their deep knowledge about fintech products, relationships with local stakeholders and co-investors, as well as video calls to get the information they need to confidently close deals.

At the end of 2020, we spoke to a dozen members of our Circle of Investors, which includes over 85 leading global tech and emerging market investors, to understand how they have approached due diligence since the onset of the pandemic. We were pleased to hear that most had rather seamlessly transitioned to remote and were committed to sourcing new deal flow and to supporting existing portfolio companies. In our conversations, they highlighted necessary shifts in four critical areas for effective due diligence: team, product, market, and financials.

TEAM

Many early-stage investors note they invest in innovators and leaders, and not in a product, as that product is likely to evolve significantly as the team works to achieve product-market fit. While in-person meetings and observations are normally critical to assessing leadership potential, the pandemic shifted these interactions to video conferences. Investors found creative ways to leverage video conferencing: replicating investment committees, pitch days, and other formats in an online fashion. They also listened in on team calls, had virtual meals and coffees, and conducted virtual tours in the field and in the office.

In some ways, the pandemic itself provided investors valuable information about a critical aspect of leadership: evidence of how the team reacts under pressure. Investors had a firsthand, real-time view into how teams handle changing circumstances - from new regulation to disrupted field operations to decreases in user purchasing power. Some told us that surviving the pandemic itself was an extremely strong signal of leadership resilience and resourcefulness.

Here are some practices they recommended when evaluating teams remotely:

Observe team dynamics during video calls
Note how team members interact with each other, the level of control the CEO has, whether teams have clear areas of responsibility, and whether the CEO delegates questions to them appropriately. Kalon Venture Partners, for example, employs this technique and pays particular attention to team dynamics.

Vary the format and tone of video calls
To interact with the founders in different environments and learn more about them, try to vary the format of conversations. For example, Ankur Capital holds a series of one-on-one calls between partners and each of the co-founders. GMC coLABS holds pitch sessions where they invite the founders to present in a short timeframe to their team and Investment Committee. The rapid-fire Q&A at the end of the pitch gives them insights into how the founders perform under pressure.

Probe leadership capabilities in hard times
One popular question these days is, "How is your team responding to COVID19 + adjusting plans?". This question gives investors insights into the challenges the team is facing and how leadership is tackling them. Investors mentioned that in the future, they would consider asking scenario-based questions, like: "What if a pandemic were to happen again? How would you adjust?"

Psychometric evaluations
can also help investors learn more about the founders, though such tests have their flaws (e.g., cultural bias). Edge Growth outsources evaluation to specialists to interview and assess the founders, while coLABS utilizes online tests like Enneagram tests to learn more about their personalities and behavioral aptitude.

Diversified and deeper reference sources
can complement direct observations. Angel Ventures, for example, reaches out to startup team members who are not directly linked with the fundraising process to learn about the work environment and how the team works together.

PRODUCT

With regards to product assessment, the pandemic again offered investors some advantages. Since field operations were suspended, startups had to pivot to pure digital plays, making it easier for investors to experience, observe, and stress-test operations from afar. In addition to typical data analysis, many investors said they tried (or asked local partners to try) the startup's services (and those of their competitors), since anonymity was much easier to maintain.

Below are some practices investors recommend to evaluate products remotely:

Go mystery shopping by pretending to be a target customer and reaching out to the company with queries about the product and how it works. Additionally, shop at the startup's competitors to see if the service and experience is distinctive.

Become a customer by downloading and using the product or a prototype. It helps to stay long enough to experience product updates and marketing campaigns. Look out for bugs, report them as a customer, and evaluate the overall user experience.

Conduct virtual site visits to observe startup operations through video calls or recordings, where possible.

Listen to customers' opinions by identifying the top customers and scheduling calls with them to learn more about their experiences with the startup. Read app reviews, and talk to businesses from your or your partner networks that could be potential users to hear their views on the startup's value proposition and growth potential.

Take a data-heavy approach. Investors are accustomed to asking about customer acquisition rates and costs, but a closer interrogation of the data can be invaluable (see how Catalyst Fund approaches rapid tech due diligence here). The ideal approach is to get direct access to the startup's database to analyze basic metrics like acquisition costs, retention rate, lifetime value, average revenue per user, and other metrics related to sustainable growth.

MARKET

With regards to the market and competitive landscape, international investors have been much more dependent on local partners during the pandemic to understand market trends and local sentiments regarding a company or a founder. Those with local relationships already in place (via local offices or past co-investors) benefited from that existing trust and shared vocabulary. In some cases, investors noted that their risk tolerance had shrunk and that stress tests on financial models were applied more vigorously and with smaller tolerance.

Below is one method investors recommend to evaluate the market remotely:

Triangulate information with multiple sources to get a more accurate and comprehensive map of the startup's market. Traditionally, investors triangulate information more with specific stakeholders in their networks, leaning on personal or informal networks. In the remote environment, the sources investors are tapping have expanded to include:

Accelerators/incubators that can derisk high-potential startups and provide tailored insights, especially if they have a local presence and sectoral expertise.

Data-based benchmarks (e.g., IF50, Briter Bridges, Disrupt Africa) that can situate models or sectors in relation to each other.

Third-party references and experts within local networks that could provide direct insights, or connections to other founders that can offer their market experience. For example, Catalyst Fund's Circle of Investors consists of over 70 global investors; networks like these can easily be tapped for reliable information.

FINANCIALS

Perhaps unsurprisingly, financial analysis due diligence has remained largely intact, since very little was dependent on in-person interactions in this space previously. However, we did hear that investors expected startups to be leaner and that investment decisions were more focused on unit economics and profitability than before. For instance, they noted that healthy unit economics were weighted more heavily in recent investment decisions.

Below are some practices investors recommend to evaluate financials remotely:

Apply a deeper focus on select financial metrics by taking a closer look at unit economics and business model intricacies, with a greater focus on CAC, retention rates, and profitability. Consider performing scenario analyses on all possible revenue models. Also, take a stricter look at a startup's total runway and burn rate, and focus on the team's ability to stretch money for a longer period of time. Overall, the investors we spoke with spent more time on financials to compensate for other due diligence areas affected by going remote.

Look for a lean execution team by examining team salaries and how roles at various levels are compensated. Review team utilization with managers and leadership to assess any redundancies in roles, and also review long-term staffing needs and hiring plans. Ask questions about where there are opportunities to hire better talent, do more training or upskilling of existing employees, or find other lean forward tactics to lengthen the runway while ensuring that the existing team is not significantly impacted by budget streamlining.

DUE DILIGENCING FINTECH OPPORTUNITIES FOR AN INCLUSIVE RECOVERY

Even as many investors have continued to invest and perform due diligence remotely, the world around us has changed dramatically over the past 12 months.

Not all changes have been negative for fintech. In many ways, fintech companies have benefited from accelerated digitization and customers' need to perform transactions and access services online. Fintech companies offering services like digital asset exchange, digital payments, savings, and wealth management reported growth of over 20% in the first half of 2020, and initial evidence suggests that Q1 2021 investment flows to Africa were 73% greater than last year. Greater acceptance and confidence in digital payments and online commerce, and heightened interest in health insurance and savings mechanisms, should benefit fintech companies going forward.

At Catalyst Fund, we have seen these shifts play out in real time. Our recent cohorts have included more insurtech startups, more startups addressing the growing population of digital platform workers, and many catering to the newfound enthusiasm for saving and safety nets for underserved populations.

Together with members of our Investor Advisory Committee, we believe these shifts represent three fintech product areas that will be critical to supporting an inclusive recovery: insurtech, micro-savings and investments, and products for platform workers.

Not only do these new areas signal the coming-of-age of a new generation of inclusive fintech products, they also reflect urgency and demand among users for financial tools and services that can build resilience and health. The chapters of this guide consider each opportunity area in turn, analyzing the drivers of the opportunity, business model, and other challenges that investors should be aware of, as well as describing implications for investors performing due diligence.

OPPORTUNITY 1
INSURTECH

> “For the underserved to mitigate risk, insurance is the other side of the coin from a savings product. For someone to manage downside shocks, insurance creates a cushion for them to avoid disastrous experiences that they couldn’t cover through savings only.”
>
> ***- Ashley Lewis, Accion Venture Lab***

In 2019, the global underinsurance gap across health, mortality, and natural disaster-related perils was estimated to be $1.24 trillion. According to the Geneva Convention, the annualized health protection gap in emerging markets alone is $310 billion. Due to COVID19, this gap is widening further, and the global health protection gap increased by over 5% to $588 billion in 2020. With such gaps in coverage, it may not be surprising that global resilience has dropped dramatically - by roughly 20% between 2019 and 2020.

INSURTECH OPPORTUNITY

Given the gaps in coverage and urgent needs in developing markets, especially among vulnerable, underserved households, many are excited about the promise of insurtech. Insurtech solutions leverage tech and new sources of data - like cell phone usage, mobile money transactions, and satellite data - to inform actuary models. They also build on digital mechanisms like apps and digital payments to facilitate new delivery models. Such innovations are particularly promising for inclusivity, as they allow insurers to accumulate data about customers that are typically "invisible" and to reach users that are typically "off-grid".

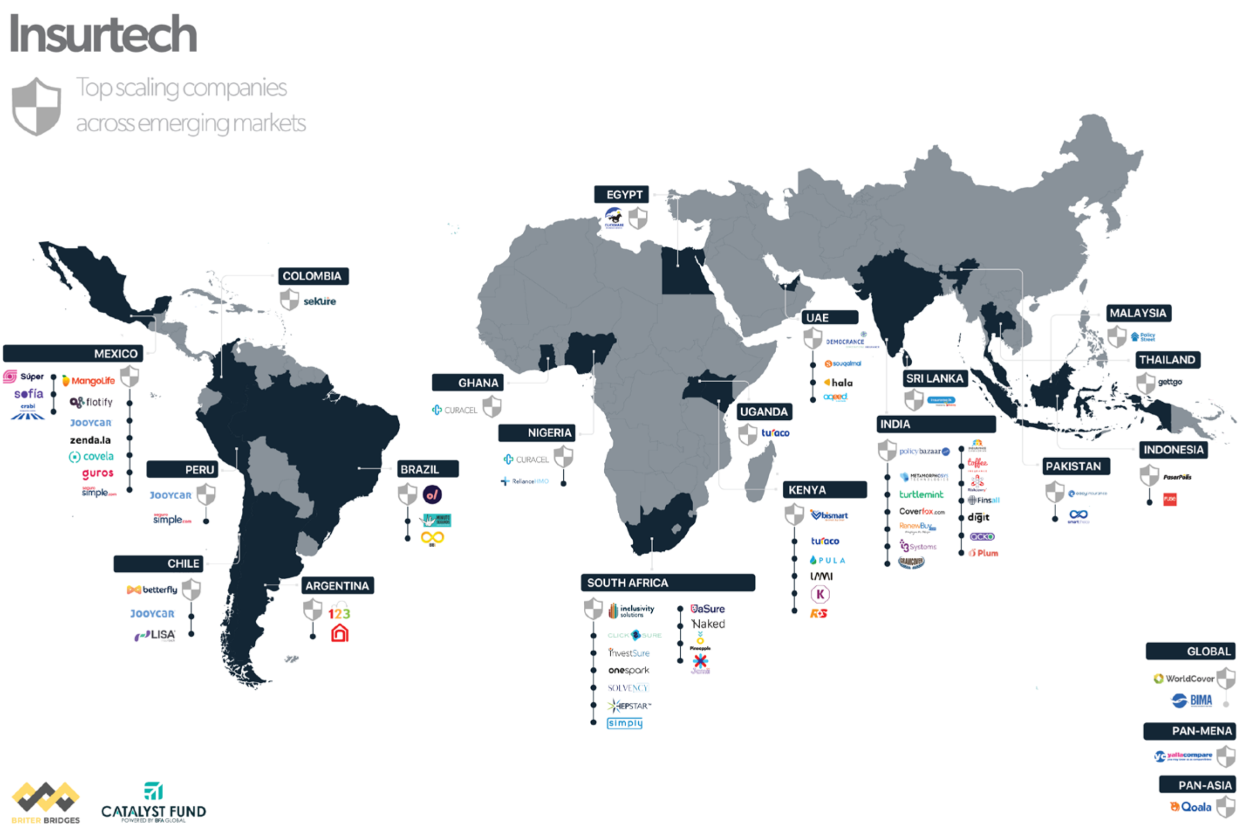
Insurtech solutions include a wide range of products, from parametric policies for crop and weather coverage, to APIs to embed insurance into other services, to white-label banking solutions, to microinsurance policies for hospital stays and other emergencies. Inclusive insurtech startups continue to innovate on these solutions, tailoring policies and distribution models to better suit the needs and preferences of underserved families and small businesses. As a result, the risks covered by insurtech startups are more appropriate to their needs (e.g., crop coverage, malaria, education) and are more affordable and accessible for underserved populations.

Given these opportunities, insurtech solutions in emerging markets have been growing in number. At least 292 startups were recorded in emerging markets in 2019 (an 86% growth since 2017). Despite this growth, almost a quarter of new initiatives fail to survive, highlighting the difficulty of making them work. Accion Venture Lab and Catalyst Fund have both found that inclusive insurtech startups often struggle with three key challenges:

Acquiring new customer segments who have never had insurance coverage before.

Developing appropriate risk coverage for low-income populations whose risks are unlike those experienced by middle-class consumers in developed markets.

Executing a seamless, cost-effective service delivery that reduces the pains of claims submission, assessment, and payout and leads to higher retention and renewals.



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Acquiring new customer segments

One of the most difficult challenges for insurtech startups is to sell policies to customers that are unfamiliar with the product, especially when coverage is not mandated by law. Insurance is a complex product to understand for the majority of customers, given the variety of premium and payout models and coverage levels. Underserved households that are unfamiliar with the concept of insurance may struggle to understand why they would want to pay upfront for coverage, when they may never make a claim or when they risk claim denials, especially if they had previous negative experiences with government or other private insurance offerings.

To solve this problem, many insurance providers often find themselves investing heavily in customer acquisition via physical touchpoints like sales agents or retail networks, which educate and sell simultaneously. As such, it is no wonder that of total costs, distribution costs ("of selling products to customers who don't understand, trust or want them") account for 50%.

Noting that such cost structures are rarely sustainable, especially for early-stage startups, investors should keep an eye out for alternative approaches to acquiring customers. In particular, we have seen two approaches work: embedded distribution channels and insurance as a service.

Embedded distribution channels: B2B2C approach

Embedded distribution channels can reduce friction in both education and sales. In a B2B2C (business to business to consumer) distribution approach, the insurtech startup partners with a provider or tech company that has an existing customer base, thereby leveraging their established communication channels and brand to offer insurance. This approach makes it easier to build trust and establish product validity and may also offer opportunities to ease registration and payments if those functions can be seamlessly integrated with the partner.

While B2B2C approaches may simplify the process of outreach and sales, they are not without difficulty. First, identifying the right partner, whose customers align with a startup's target users, requires time and effort. The insurance offering must also align with the partner's offering, adding value in a way that feels significant to the existing customer base. Finally, accomplishing the integration so that the offering is, in fact, embedded, requires time and technological adaptations, especially if a partner has outdated legacy systems.

Embedded distribution strategies investors can look for when assessing insurtech models:

- **Bundling insurance products with other financial services:** This is an intuitive way to cross-sell insurance policies through trusted entities. Turaco, for example, partners with digital lenders in Kenya so that loan recipients can pay a small margin on top of their existing loan repayments to receive instant hospital cash coverage. This approach makes it easy for customers to pay for premiums, using channels that they already know and utilize on a regular basis. Moreover, such bundling allows Turaco's partners to distinguish themselves in a saturated digital credit market.

- **Bundling insurance with asset purchases at point of sale:** Offering insurance at point of sale can help customers more tangibly understand the value of the insurance product, since it can be framed as a guarantee. At the moment of purchase, coverage is salient since the customer is cognizant of the risk of the asset failing. Moreover, making the insurance purchase doesn't add any additional steps. For example, Pula bundles crop insurance with agri-inputs like seeds and fertilizers. This makes it easier for farmers to understand the value proposition, as they see crop yield failure as a real risk. Such bundling also reduces decision-making effort as it is offered on the spot through a trusted agri-input provider.

- **Bundling insurance with adjacent, relevant services:** Selling a hospicash policy with a health services bundle that includes regular testing and doctor appointments can make the purchase of health insurance more tangible for customers. Similarly, a policy to save for higher education costs could naturally be bundled with tuition fees. In these cases, insurance may be a minor piece in a bigger package of services or be an upsell on an existing sale.

- **Bundling insurance with employee benefits:** Employers typically provide a bundle of benefits to their employees. Adding insurance allows them to provide additional value to their employees, thereby driving loyalty. This may also improve attendance/productivity by helping employees to be better prepared for health or emergency disruptions.

- **Bundling insurance with airtime top-ups:** Freemium insurance approaches offered by telcos have also gained steam in recent years. Telcos provide insurance in an effort to augment their value propositions in comparison to competitors. The client of the telco essentially gets free insurance as a loyalty product, along with the option to buy more insurance beyond basic coverage. Customers can experience the product before purchasing more and can make the purchase via a familiar channel when they are ready. For example, aYo partnered with MTN in Zambia to bundle insurance with airtime top-ups, making it extremely easy for users to get hospital cash and life insurance. The more customers topped up their airtime, the more coverage they received, for free. However, it is worth noting that telco partnerships are challenging, and few such partnerships succeed. It also still remains challenging to get customers to upgrade to fully paid plans.

INSIDER INSIGHT

Tech and touch models can be critical to unlocking customer acquisition. Startups employing a fully digital process for the acquisition and onboarding of new customers will likely face difficulties deploying their solutions among low-income communities in emerging markets. These individuals prefer to speak with someone in person or on the phone to verify the company is real, to understand the offering, and to ask questions, especially for a product as complex as insurance. Combining a tech solution with human interaction will help a brand to gain trust faster, by:

- Leveraging call centers
- Employing agents/ambassadors to execute sales/education
- Offering tailored information early on to enable customers to compare options

Catalyst Fund portfolio company Mobilife uses agents for customer acquisition, but provides tech-intensive support via an onboarding app that guides the agent through the sales process and provides detailed information that might be of interest to the customer. Accion Venture Lab's portfolio companies use a range of tech interventions to balance costs with the high-touch support customers need to build trust throughout their journey. These can include personalized messages and dashboards, call centers, optical character recognition, and IVR.

Insurance as a service: B2B approach

Another solution to the customer acquisition challenge is to avoid selling directly to customers, and instead, sell a platform or an API to businesses that want to integrate insurance into their broader offering. We call this model insurance as a service. In these cases, the insurtech sells a tech platform so that financial service providers, digital platforms, and other organizations can offer insurance to their users.

Such B2B (business to business) approaches are on the rise as technological innovations make it easier for a variety of businesses to offer insurance and disburse policies. Whereas insurance providers may have previously depended on cumbersome credit checks and in-person verification to offer coverage, digital ID solutions, access to alternative data to power underwriting models, and digital automation of claims and payouts have made it much easier to verify identities, assess a customer's risk, and manage the cost of the insurance operating model. Three key B2B insurtech-as-a-service approaches include:

Providing a full-stack solution via APIs to financial institutions and other companies, such as digital platforms. This allows these businesses to easily integrate insurance offerings into their existing product suite by plugging into the insurtech's full-stack solution. They can then begin selling policies to customers via their normal portal (an online platform or an app). The full-stack solution could be white-labeled for the partner or branded by the startup. In South Africa, MobiLife partnered with Standard Bank to offer insurance products to its customers, administered via MobiLife's white-labeled platform. In Kenya, Lami is a technology platform that links insurance companies with brokers and other providers, allowing them to craft policies and process claims on an as-needed basis.

- **Adding insurance as part of a full-stack solution for digital transformation** can help MFIs, SACCOs, and other financial service providers (FSPs) offer insurance as part of upgrading or digitizing their internal processes. Especially in emerging markets, FSPs catering to rural or low-income populations have struggled to digitize, but many are now shifting to data-driven operations and tech-enabled user interactions. Lami has offered its insurance platform to leading banks in Kenya that see an opportunity to integrate insurance as part of their digital offering to customers.

- **Offering modular support to insurance providers** for specific parts of the insurance process, e.g., fraud detection, risk assessment, claims management, etc. Instead of a full-stack solution, providers looking to enhance a certain part of their insurance process can get focused support from specialized insurtech startups. For example, a provider might partner with a startup for claims and payouts but manage sales and customer service internally. RightIndem, has built an end-to-end solution focused on customer claims management. The solution can be integrated with the insurance provider's system and interacts with claimants to collect claims information through channels that the claimants prefer to use. The solution also includes a claims tracker for the insurer to keep track of decisions and turnaround times. RightIndem started out in the UK and is in the process of expanding into Africa.

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Developing appropriate risk coverage

Another major challenge for insurtech startups is identifying appropriate risk coverage. Underserved and low-income communities face risks that are unfamiliar to insurers focused on developed markets and higher-income populations. Not only do insurers have less information about these individuals with which to identify and assess risk (i.e., they can lack credit reports, degrees, medical records, payslips, etc.), but it is also more difficult for them to price their levels of risk given that home construction may not be up to code, land quality is difficult to assess, and assets may be old or in need of repair.

Data and tech innovations, together with greater motivation and flexibility among carriers, have resulted in several innovative approaches to designing appropriate risk coverage. Investors may find that startups leveraging approaches like the following may have a better chance at success:

- **Just-in-time (or pay-as-you-go) policies** enable coverage for a single, discrete, short-term event, usually via a digital labor platform. These are easier to sell because they tend to be cheaper, the risk is more salient, and the policy can be embedded in the price of the service. This also allows providers to avoid assessing individuals or even their assets. For example, a just-in-time automobile policy, like the one provided by Chubb Insurance in South Africa, covers drivers and passengers for the duration of a single Uber ride. In these cases, the insurer can use data about the driver and his or her car that Uber already has, together with data about the frequency of accidents in that area or time, to create a reasonable risk assessment. Similar approaches now exist for individual rides on public transport, individual trips, temporary staffing and equipment, and other short-term events that can be verified via a platform.

- **Parametric insurance** can be used when the risk is connected with the likelihood of a predefined event occurring - for example, a drought that could lead to crop failure or house damage due to earthquakes. In this case, instead of gathering data on precise damages incurred, providers use historical data to assess potential risk and leverage remote sensors that trigger a payout at a predetermined magnitude. For example, Pula supports farmers in Kenya through products like yield insurance, which looks at historical data on rainfall, temperature, farm yield, and other indicators to determine the likelihood of a good or bad yield for the season. Similarly, Super in Mexico gathers data on earthquake patterns, and fixed payouts are triggered if an earthquake occurs within a region at a predetermined magnitude, without requiring damage reviews.

- **Microinsurance** shifts insurance coverage from large, catastrophic events to more frequent, smaller-cost risks. These risks are easier for users to imagine, as they are connected to events that people know well, for example, theft, common illnesses, or hospitalization. Wellahealth in Nigeria and Toffee in India offer affordable premiums, often in the range of $2-4 a month, in exchange for smaller, more precise benefit packages like bicycle repairs, hospicash, or malaria/typhoid medication and testing. These policies are specific and are therefore easier to understand and more affordable for users.

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Executing a seamless, cost-effective service delivery

A third challenge insurtechs face is creating a user journey that sufficiently supports new users, but is still affordable. Insurance users, especially those new to insurance, need significant handholding throughout their journey -- from understanding the product, to registration, to claims, to renewal, and so on -- and such support can get expensive.

This handholding is especially important with first-time insurance users because unsatisfactory experiences could sour them on insurance going forward, meaning low retention rates and high churn in the future. We have seen that a bad experience in claims processing or a lack of understanding of how to manage or change policies can lead to very low retention rates.

However, high-touch interventions, which can create a more appealing customer experience, are often cost-prohibitive, especially for inclusive providers aiming to develop affordable products. Insurtech startups are therefore finding cost-effective innovations that investors can look for when assessing startup models:

- **Leveraging Internet of Things (IoT) devices to simplify claims validation** can help providers avoid costly, manual ways of making claims and evaluating their veracity. Automation can reduce the cost of claims management by up to 30%. In the past, home insurance policyholders, for example, would need to pay for repairs, file a claim (along with receipts), wait for insurers to evaluate their claim, and then get a payout. This might take several days, if not weeks, to reach one's account. An on-site device can solve this problem by triggering a claim, providing evidence of its veracity, and automating a payment trigger. For example, Lumkani in South Africa provides fire insurance by installing a heat sensor in homes; which detects when a fire is happening and quickly validates the payout, without needing to receive a claim. The sensor provides Lumkani all the information it needs, without requiring paper filings from customers or on-site visits to verify the accident.
- **Leveraging digital methods for claims submission and assessment** can similarly ease cost of delivery and avoid manual processes. For example, accepting photographs of receipts, diagnoses, and damage via WhatsApp is a user-friendly way for providers to manage costs. Turaco only needs a photograph of a hospital registration, from an authorized clinic/hospital, to trigger a hospicash payout.
- **Simplifying the benefits/payout process** can also help providers manage costs. Instead of tailoring payouts or reimbursing individual receipts, insurtechs can standardize payouts to ease execution. For example, Turaco pays a standard daily amount for any hospitalization, no matter the cause or treatment. Similarly, MobiLife, in South Africa provides money for food in a standard amount on a weekly basis. This simplification can significantly reduce operational costs.
- **Paying the provider directly** can also save costs by limiting the number of recipients that an insurer needs to manage. In these instances, users can seek services directly from authorized providers, and then the insurer pays the providers directly. This happens often in car insurance models, where customers can seek support from third-party validated car repair providers, and the insurance companies pay those garages directly. Users appreciate this simplicity as they do not have to worry about paying for services and waiting for reimbursement; they can just seek the care or repairs they need directly. This also helps insurtechs as they only need to pay providers already in the network, limiting recipient numbers and complexity.

LUMKANI
SAFER TOGETHER

Lumkani is an insurtech in South Africa that offers fire, funeral, and theft coverage solutions for customers living in townships and informal settlements in urban areas. The company started out with coverage for fire hazards by renting fire alarms, bundled with fire insurance, to households and businesses. Fires have displaced over 250,000 people over the past decade, making it an immediate risk that these communities closely recognize.

In the event of a fire, the heat detection system sounds an alarm, alerting the residents and neighbors about the emergency. Lumkani alarms at other houses within a 60-meter radius also go off to alert other households at risk. The alarm triggers text messages to residents and tags location coordinates that can help Lumkani to pay out a small stipend immediately, followed by a full payout to the claimant a few days later. Lumkani currently has over 3700 monthly paying clients and has paid out a total of 400 claims since 2017.

There are four noteworthy features about Lumkani's model and approach:

A niche focus area at the start: The team addressed a very specific problem of fire hazards that communities understand, which helped them quickly see the value of insurance coverage. Over time, this niche area has enabled Lumkani to build strong relationships with their customers, which has allowed them to introduce other insurance products like funeral coverage, protection from theft, and household damage insurance.

Appropriate distribution strategy: This included bundling the insurance cover with the monthly rental of the fire alarm, making it easy for customers to pay for and see immediate value in having an alarm installed at home. Lukmani experimented with the most effective channels to reach customers and tell them about the fire alarms. The team tested with agent networks, merchants, and broker models, and finally arrived at agent networks as their main channel. Experimentation like this is necessary and can take time.

IoT-based risk coverage: This enables Lumkani to access data from their sensors, ranging from location to rate of temperature rise, which helps them measure the incidence of dangerous fires and limit false alarms. These data points allow Lumkani to more accurately assess risk and build triggers for emergency support and claims assessments. Lumkani has also leveraged IoT to introduce a house alarm for theft incidents.

Strong relationships with investors and insurers: These partners help ensure that the team has space and resources to experiment with the right approach to building trust among community members, lowering distribution costs, and tailoring coverage and payouts to appropriately meet community needs.

Implications for investors performing remote due diligence on insurtech models

"What's common about successful insurtech startups is that they have broken down some of the bigger emotional barriers when customers think about insurance. They make the product specific to a real experience the client is going through; for example, when a customer is being affected by a fire or when a farmer is experiencing the consequences of low yield."

- Ashley Lewis, Accion Venture Lab

Given these challenges, investors evaluating insurtech models may consider adjusting their normal due diligence processes to account for these specificities. For example, Accion Venture Lab has found that insurtech models that are investment-ready are typically post-revenue or already have traction with partners. Since insurance requires partnering with large institutions and implies long sales cycles to build those partnerships, a fintech innovation alone is unlikely to be a good signal of future traction. Instead, the team needs to show they can sell and integrate with distribution partners or grow a large enough user base themselves.

Accion Venture Lab has also found this sector to be highly collaborative. Unlike in other sectors, the cap tables for startups in insurtech can be very diverse, ranging from commercial, to impact investors, to reinsurers, and insurers. It is important for investors to build the network in insurance to better understand this vertical. Another challenge that persists when assessing insurtech models remotely is evaluating agent-driven processes to see how they interact with clients, or collect premiums (if that process is not digital). To make up for this gap in visibility, the team at Accion Venture Lab more closely assesses team cohesiveness, and partner depth and commitment, to determine the strength of the business.

Key tips for remote due diligence when evaluating insurtechs:

- **Ensure team has actuarial experience:** Ensure the leadership team includes someone with an actuarial background who knows the internal workings of the product and can liaise with partners.
- **Look for evidence of deep partnerships:** Startups will likely need deep relationships with insurance carriers or re-insurers, so look for evidence of such relationships (e.g., direct stakes in the company, multi-year contracts, customized tech integrations, co-marketing projects).
- **Wait for evidence of stage and traction:** Securing and proving partnerships with large distribution partners is critical to this model, so startups may have more users and higher revenue than other companies in an investor portfolio. Furthermore, low uptake among potential users may be a more significant red flag for this model since distribution channels of the necessary scale are fairly limited. Models that require a great deal of education at the point of sale are also a red flag.
- **Assess public options in the competitive landscape:** Insurtechs may sometimes be in competition with the public sector or subsidized offerings, so markets with robust public safety nets may find that the demand for private insurance is weaker. Investors should assess current gaps in insurance coverage where the startup operates.
- **Insurance policies should be tailored for local populations:** Expanding traditional or vanilla insurance policies that were designed for middle and upper-income families in developed countries are unlikely to succeed with underserved populations in emerging markets, so investors should be looking for policies that are carefully tailored to local risks.

Key metrics	What to look for
Customer acquisition costs (CAC)	This is likely to be higher for insurance than for other fintech products, so it is important to keep an eye on this metric. Look at the customer acquisition strategy, especially around agent models and how agents are incentivized, as well as what that means for CAC.
Lead conversion rates	These show how well the team can sell to partners/users, especially when the market is small or saturated.
Lapse rate data	This can be assessed when the product has been in the market for more than 12 months and is extremely helpful to understand churn, overall product-market fit, and ability/willingness to pay.
Loss ratio	This is the ratio of claims paid out and adjusted versus premium payments received. It shows profitability of the product between the venture and their insurance partners. It also shows sustainability, as insurance partners will not want to have loss-making products on their books for too long. The ratio does depend on how long the product has been in the market and the cycle of the product.
Number of claims paid out vs. total policies sold	This metric can give you an indication of how often users receive a tangible "benefit". Strength here signals that customers are seeing value from the product and are in fact being covered.
Number of claims rejected	This can show process errors or signs of requirements that are too stringent. It could be an indication that the product is not right for the client base or additional education needs to take place. It can also potentially be an indicator of unsatisfied users.
Claims settlement ratio	This is the number of claims approved and settled vs those received. The ratio gives a sense of the benefits customers receive.
Claims turnaround time (TAT)	The faster claims are paid out, the better for consumers and their experience with the product. This often correlates with higher retention rates and NPS.
Admin costs	Including how much the company is paying the insurer and reinsurer, admin costs are a good signal of the overall feasibility of the product. Many providers use third parties, the cost of which can eat into margins. In some cases, bringing these in-house can be a cost saver, but it also can mean a bigger team is needed.

Members in Catalyst Fund's Circle of Investors who are active and interested in insurtech

> "We are going towards a place where consumers better understand insurance and the utility of the product. The barrier of getting clients onboard will further reduce as customers take up more specific products. Hopefully we'll see a new breadth of insurance offerings that we haven't even thought of - there are so many other things to insure."
>
> ***-Ashley Lewis, Accion Venture Lab***

GENDER LENS CONSIDERATIONS

According to the IFC, the underinsurance gap is larger among women. The COVID-19 pandemic has likely expanded this gap since women are more likely to be employed in healthcare and services -- sectors that have been more at risk for exposure and job loss. For lower-income segments, especially in emerging markets, women are also more likely to be working in the informal sector, meaning they lack safety nets and benefits. Given these gaps, by 2030 women will constitute a $1.7 trillion opportunity for the insurance industry, of which 50% is projected to come from emerging markets.

There are various resources on how to design insurtech solutions for women; however, there are still few insurtech solutions designed specifically to serve them. That said, we are beginning to see some models. Companies like Pula have studied how to better serve women farmers, and companies like Lumkani have noted that a large proportion of their customers are women. In the case of Lumkani, women may not be listed as the homeowner on the policy, but they are often the key decision-makers and are listed as the beneficiaries of the policy. More anecdotally, we hear that women are often the ones who pay for the policies and are considered the decision-makers around household budgets.

Startups are taking note of the opportunity women customers represent, as well as ways other companies are working to serve them. We are hopeful that these are the first steps to building a tailored, effective approach for serving women.

OPPORTUNITY 2

MICRO-SAVINGS AND INVESTMENTS

"Savings and investments are a good use case for how to build financial education and awareness. Having savings can prevent someone from needing an expensive loan and prevent the need to make quick, uninformed decisions in a crowded lending market, which may have detrimental effects when savings are low."

- Johan Bosini, Quona Capital

Savings and investments products help households build resilience and grow assets, but most low-income households are still dependent on risky, informal savings methods and lack access to services to build resilience and wealth.

Of the 5 billion people who are banked, a very low percentage have actually used their bank accounts to save; for example, only 12% of adults in Latin America have used a formal financial institution to save. This number is 15% in sub-Saharan Africa and 17% in South Asia. Low and fluctuating incomes, informal employment, and other factors can make it difficult for individuals to meet the minimum balance requirements of formal savings and investment accounts, afford account and transaction fees, and meet formal ID requirements. Given these constraints, many communities use informal savings methods like savings groups or saving in cash or gold instead.

On the supply side, the business case for offering small-balance savings is often weak. Financial service providers that accept deposits incur significant licensing and supervisory costs and struggle to profit from deposit transactions alone. Furthemore, it can be difficult to build trust with those who have not used digital products before.

Given these obstacles, savings rates tend to be low among low-income households. Perhaps unsurprisingly, these communities have struggled with the impacts of COVID19, as most report having only a few months' worth of savings, forcing them to resort to accessing expensive credit, selling assets, or reducing consumption to cope in difficult times.

THE MICRO-SAVINGS AND INVESTMENTS OPPORTUNITY

In spite of low savings rates across most emerging markets, evidence shows that households respond to past shocks by increasing their savings. As such, fintech innovators have the opportunity to develop intuitive, customer-centric business models for affordable savings products as the pandemic comes to a close.

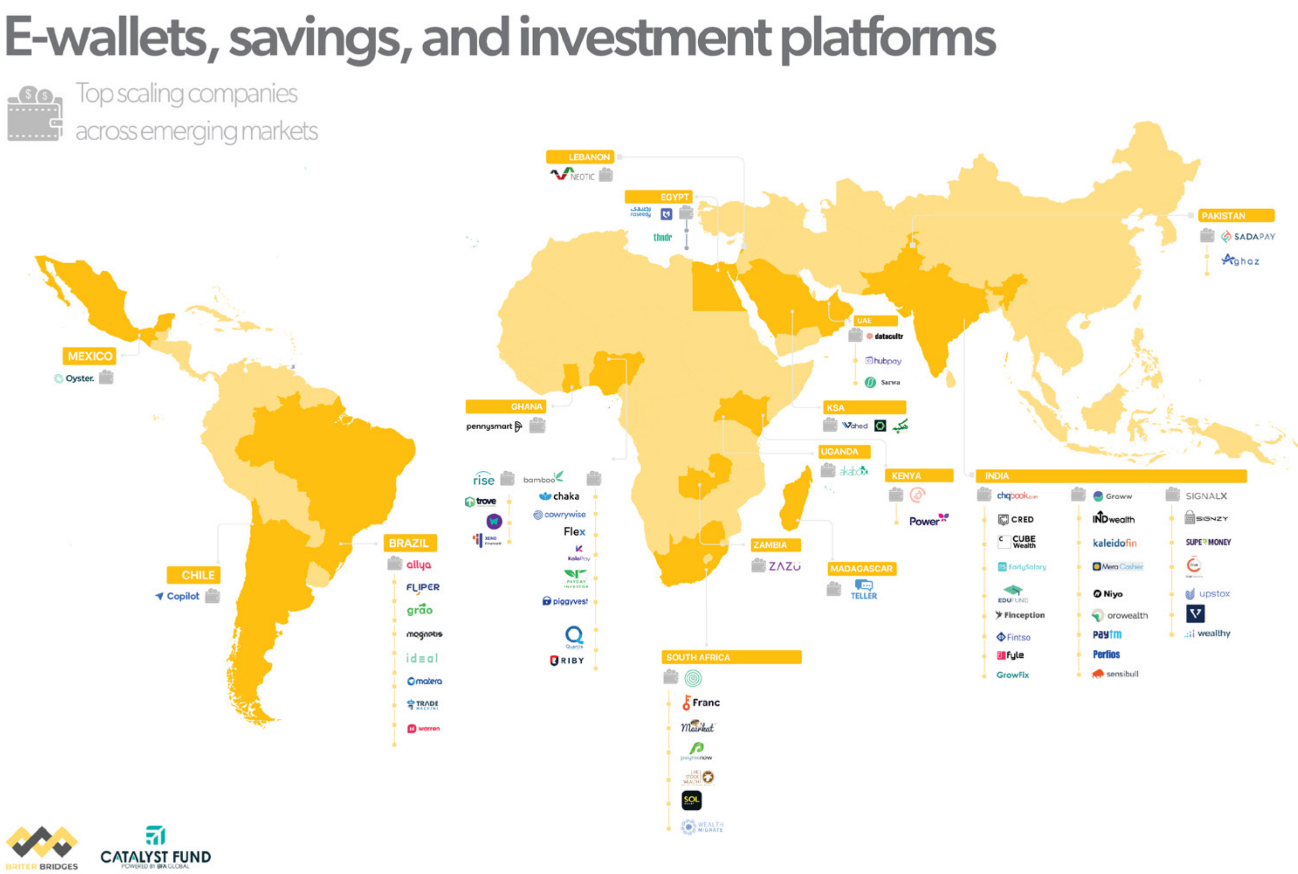
Fintech startups are already taking innovative approaches to savings and investment products that include automatic deposits, micro-investments, salary-based models, and other ways to help underserved people accumulate liquidity and build assets. Combined with advances in user interface design, clever use of behavioral incentives to support savings, and careful targeting, these innovations are gaining ground across emerging markets.

Successful startups in this space must overcome three key challenges, which investors should carefully evaluate:

Building trust to acquire customers and generate loyalty

Retaining customers through appropriate product design

Generating revenue while maintaining affordability



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Building trust to acquire customers and generate loyalty

A major barrier to customer acquisition for savings products is the low level of trust in financial service providers, especially digital ones, among low-income households. Trust is low for a number of reasons, including low digital literacy and poor past experiences with formal financial institutions. Individuals may also have a weak understanding of how these accounts work or lack access to appropriate savings instruments and structures that meet their lifestyles and needs. The high acceptance of informal savings mechanisms also makes it difficult to introduce products, as users may not be actively searching for an alternative.

We have seen six approaches that have successfully broken these barriers, some of which are more appropriate for digitally-literate users and some of which are better suited for less digitally savvy populations.

For users comfortable with digital interaction

Leveraging high-touch digital engagement can personalize interactions with users and establish a connection, thereby building trust. For example, working with influencers to spread awareness about the service and teach them about financial concepts and best practices around savings and investments can mimic a personalized relationship between an advisor and customers. Cowrywise, a savings and investments app in Nigeria, leverages influencers as well as a fictional persona named Ope, who signs off all communication with their customers and regularly 'shares' tips and tricks to communicate brand values and narrate the benefits of good saving and investing habits. The approach generated viral interest in Cowrywise and helped drive uptake of their app organically.

Another approach is to embed chatbots within the app/website that can answer people's questions and refer them to helpful resources. Grao, a digital micro-savings solution in Brazil, leverages a virtual assistant that helps users understand how Grao works and helps them sign up if they are interested.

Generating value quickly via an instant product or a free trial can help customers experience a startup's benefits and generate trust early in the relationship. For customers who feel uneasy about a digital solution, providing instant value can generate a sense of safety and loyalty. For example, Destacame, a financial management platform in Mexico and Chile, allows customers to access their credit bureau report for free and then offers advice on how to improve their scores. Once customers understand what Destacame can do for them, they are more willing to commit to the platform.

Instant verification and other signals of reliability are also helpful. For example, allowing users to "test" the solution by easily and quickly depositing and withdrawing their funds can provide the evidence they need to instill trust. Their ability to validate that they can move their money quickly and securely strengthens the company's credibility. Startups gain trust by also indicating how the company keeps data and money secure.

For less digitally-savvy users

- **Callback requests** can be useful for customers that would like to speak to a representative. With callbacks, customers don't have to wait in line to be served or, based on the country context, spend their airtime money to learn about the solution. Meerkat, a debt consolidation and financial planning tool in South Africa, has embedded a callback request in their website, allowing customers to enter their contact details, select a topic of interest, and indicate their life stage (e.g., newly independent, young professional, young family). This way, Meerkat ensures that the representative calling back can tailor the conversation to the customer.

- **Demos of how to use the app** can help users feel more comfortable during initial use and onboarding. Demos might take the form of videos on different channels, like the brand's website, YouTube, or other social media platforms that target customers may use most frequently.

- **Dedicated staff** can help customers who may be disconnected from digital solutions, by answering queries and facilitating onboarding. Managing an agent network at the start can be expensive, so startups should be creative in thinking about partnerships that can help increase touch points with customers. For example, startups can partner with MFIs, SACCOs, or other financial service providers that have field agents to tap into channels like savings groups.

  For example, Kwara has built a digital banking platform for SACCOs in Kenya. Based on their technology needs, SACCOs can either select services that can enable them to digitize their end-to-end core banking system or choose specific modules like digitizing their agent network's approach to data gathering and processing. The module-by-module approach allows Kwara users to experience the solution in pieces before buying the whole package. Similarly, Kaleidofin in India has built tools for their network partners like banks, banking correspondents, NGOs, MFIs, and other customer-facing organizations interested in adding Kaleidofin's savings solutions to their suite of products. Institutions can plug into Kaleidfin's solutions either via APIs or direct integration methods and try it out piecemeal.

INSIDER INSIGHT

"Startups should prioritize user engagement to increase customer comfort levels. Investors should look for startups that are keeping in touch with users even when they aren't depositing and look for signs they are integrating product value-add reinforcement whenever possible. For example, startups can show customers supporting messages that incentivize desired behaviors, such as: "What if you saved X more than you do now? Here's what you could have saved by now if you did this last year."

Providing updates on how much the user earns or how much the platform has paid out in total can also be a simple but effective user engagement touchpoint. Particularly in this product area, it is important that startups are having transparent, high-engagement conversations with users because engagement and trust go hand in hand. They need to balance a friendly tone with the reliability to be taken seriously - can't be too friendly or informal."

- Johan Bosini, Quona Capital

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Retaining customers through appropriate product design

The most difficult part of running a business in this space is ensuring high retention, as users are often attracted to the notion of saving or investing but struggle to make deposits regularly. Furthermore, encouraging adherence is not straightforward, as being reminded that users are failing to make the deposits can discourage further engagement, rather than encouraging it. However, behavioral research suggests that certain design features and messaging can better motivate and resonate with individuals.

Here are some innovative approaches to sustaining retention that investors can look for when evaluating startup models:

- **Assigning default savings amounts** through auto-deductions can alleviate the need to remember to save and can delight users when they find they have saved painlessly. Such defaults are an effective way to overcome decision-making inertia, which can be particularly overwhelming for users.

- In practice, one way to automate savings is to connect to employee payroll systems and automatically deduct a portion of the income towards savings every month. A study among employees in Afghanistan found that when they were assigned a certain savings amount (5%) to be deducted from their payroll, employees willingly continued to save 5% even after the study, as compared to those with no predefined assignment. Power, a financial wellness platform for workers in Kenya, is an example of a company that allows workers to set savings goals, set auto-deduction amounts, and then forget about deposit days.

- The other approach is to **connect to an individual's money management account** to make auto-deductions on selected amounts. Piggyvest in Nigeria allows users to select this method and offers a high interest rate on their deposits. Digit, a savings and investment app in the US, has built a solution that assesses a user's savings goals, average account balance and weekly/monthly expenses, and automatically deducts a small amount that the user may not need for expenses. This approach removes the pressure of committing a standard proportion of money to be saved.

- **Leveraging commitment devices and savings buckets** for specific goals can help users work towards their savings goals by leveraging commitment to their self image, decreasing procrastination, using default saving amounts, and increasing salience. Soft commitment accounts have been tested in the US, and one study showed that the average savings in commitment accounts was higher at account opening and remained higher through the duration of the account than in those without commitment devices.

- **Motivating compliance through immediate rewards/points schemes and games** that engage individuals, teach them financial concepts, and help them save can counteract time inconsistency by aligning present rewards with future goals. Zogo, a gamified financial literacy app, teaches users about financial concepts, and through partnerships with banks, rewards users for their learning. Other options include prize-linked savings such as raffles or cash prizes. For example, Yotta offers users a raffle entry each time they deposit $25 into their bank account. Each raffle provides the opportunity for users to win cash prizes ranging from $0.01 to $10 million.

Social savings approaches have been shown to increase average savings amounts by leveraging peer pressure and social expectations as a nudge. One successful approach has been to assign a monitor for a group of savers who knows about their savings behaviors and can exert pressure for compliance. Another effective approach has been through SMS messages to savers, telling them about the average savings increase for others in their group, which effectively encourages them to save more.

More specific product offerings and options can lead to greater salience by helping users better perceive the extent to which a product matches their needs. Options may include a variety of long-term investment products like term deposits, short-term wallets that offer more flexibility, and channels allowing digital payments or cash collections. Piggyvest, for example, offers five different savings options, from auto-savings, to fixed term deposits and goal-based savings, to more flexible instant withdrawal savings, and also savings in US dollars. Having a range of offerings allows users to assess and self-select into the products that they prefer while increasing the perception of tangible benefit.

A customer profile assessment can help startups offer customers tailored products. One way to do this is by assessing their experience with savings and their savings capabilities. Based on their experience, startups can provide the most suited products. For example, Kaleidofin offers three solutions, each suited to the user's cash flow and existing savings habits:

1. short-term, goal-based savings suited for customers with volatile incomes and who have never formally saved before;
2. short-term, goal-based savings for those who need to build the discipline of saving before spending;
3. longer-term, goal-based savings for those who have a savings discipline.

Helping users customize their savings journey can ensure that they have the right experience and would continue to use the products as a result.

Implementing routine-building strategies can also help by approaching messaging and reminders as support for habit-building. Lessons from behavioral change experiments around compliance with health regimes, like diabetes treatment, provide lessons on how to approach reminders successfully (e.g., use visuals, tailor messages to behaviors, don't depend on SMS without a careful strategy, and leverage behavioral insights).

INSIDER INSIGHT

The key to retention is data, data, data; any startup in this space needs to dominate a keen understanding of who is staying, who is leaving, and what levers they can pull to encourage retention. A startup that is trying everything, but can't demonstrate what is working and what is not (using data), needs to upgrade their analytics as soon as possible.

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Generating revenue while maintaining affordability

Low-balance savings accounts have been notoriously difficult to offer profitably and have typically remained in the realm of government-sponsored rural or postal schemes. Startups can compensate for low returns per user by leveraging lower-cost, tech-powered operations, but they still need time to grow their user bases to reach profitability.

Other approaches to generating revenue, like processing and transaction management fees on behalf of investment funds, may be feasible when the market is still new, but these margins are likely to shrink as competitive forces increase. In particular, startups should steer clear of charging for cash-in/cash-out transactions as such charges are likely to drive churn and erode trust.

As such, startups' main revenue source really depends on generating user trust, growing the user base, and retaining as much of it as possible. Startups like Cowrywise and Grao used this approach and have grown substantially since their inception. Where traction is harder to achieve, particularly in early days, investors can look to other options for revenue generation:

- **Offering a holistic suite of products** that includes savings and investments, among others, and can help cross subsidize low-balance savings accounts. In these instances, savings and investments products offered alongside other financial services can make it easier to generate revenue. Both Destacame and Meerkat use this approach by offering debt consolidation services, customized credit solutions, and insurance, among other services, as they build a sufficient user base for savings.

- **Cross-selling** savings and investments products with other financial services can also help with profitability, though savings can sometimes be perceived as a "cost to credit" if made compulsory. Chime, in the US, and BrightLife, in partnership with FINCA Uganda, linked savings with their credit offerings, encouraging users to better manage loans and increase their savings. BrightLife allowed users who paid for their assets on time to get a rebate, which was deposited into a savings account that could be used as security for additional loans or withdrawn. Chime offers savings accounts alongside their credit offering to bring forward paychecks to savers. Their main revenue source, however, is from debit card transaction fees.

- **B2B models** that offer savings and investments solutions to financial service providers could also prove to be a significant source of revenue. Startups typically do this through a white-labeled approach or by offering their investments/ digital savings platforms as a service. For example, startups have tried this approach with asset management companies, or with SACCOs and MFIs, who have paper-based, manual processes and need to digitize. Kwara, mentioned above, has a dedicated software for SACCOs that allows them to offer digital savings and credit to their customers, providing greater speed and transparency.

Cowrywise helps young Nigerians to manage their wealth by regularly saving and investing and boasts over 200,000 registered users and $13 million in assets under management. While wealth management companies generally serve the top one percent of the country, Cowrywise has made it easy for individuals as young as 18 years old to start saving and significantly grow their money.

Some of the noteworthy aspects of Cowrywise's business approach are:

Strong trust-building efforts that led to speedy, organic growth. Cowrywise has not spent any marketing budget for over an entire year and instead relies on organic growth achieved via referrals. The team has built a strong relationship with their customers by keeping them engaged and providing superior customer service that makes customers feel heard.

Product variety to meet everyone's needs. The company offers four different savings options, from three-month fixed deposits, to longer-term deposits with a minimum of a year's tenure. They also offer halal savings accounts and savings circles for those interested in pooling money as a group. Having a range of offerings allows users to assess and self-select the products they prefer.

Customer-profiling through a risk-assessment on the app also helps Cowrywise tailor suggestions for potential mutual funds. This ensures that customers safely invest in funds that fit their risk profile, knowing that Cowrwise has done the hard work for them.

Effective partnerships with 19 mutual funds in Nigeria, covering 20% of the country's mutual funds, allows Cowrywise to offer customers a range of options. Such variety also ensures the startup can negotiate competitive rates.

IMPLICATIONS FOR INVESTORS PERFORMING REMOTE DUE DILIGENCE ON MICRO-SAVINGS AND INVESTMENTS MODELS

"If this pandemic happened a few years ago it would have been so different. It is now easy to catch up with founders and businesses on a regular basis, more than before, and also look at how someone arrives at meetings repeatedly and what's going on in the offices to learn about the other person."

- Johan Bosini, Quona Capital

Quona Capital has been assessing startups throughout the pandemic and made the decision to invest in Cowrywise in late 2020, after a completely remote due diligence process. For savings and investment startups, Quona Capital looks to understand how open the market is to a digital savings solution and assesses the culture of savings. For example, in Cowrywise's case, Johan noted that the Nigerian market was open to digital financial services, with clear evidence of early adoption of digital savings and investments. In contrast, Kenya has hundreds of digital lenders but also a strong SACCO movement, so digital savings might be harder to establish since the digital financial services are credit-oriented, and a straight B2C savings-first approach may have been harder to establish. The team also looks at how startups would approach scale to determine the strengths and challenges of the approach within the market. When approaching new markets, Quona prefers to co-invest with a local investor.

According to Quona Capital, one challenge that persists when assessing these startup models remotely is replicating the gut-feel investors get from spending time with a founder in person. As a workaround, the Quona team leverages their networks or their partner networks to conduct additional reference checks.

Key tips for remote due diligence when evaluating savings and investments products:

- **Look for pragmatic, realistic founders:** Building savings and investments solutions will likely be more time-consuming and face more setbacks than other product areas will, so founders in this space who are promising to be unicorns in two years are not realistic. "There are marketing CEOs and execution CEOs, and execution CEOs are a much better bet in this space," says Johan.
- **Be aware of risky regulatory frameworks:** Savings is a hyper-regulated space, and it is critical to understand whether the startup's products and services are considered fully legal in their target markets, or whether they are trying to create a new regulatory category. A local law firm can be helpful in navigating local requirements, as well as validating that founders have fully understood the regulatory complexity.

Key metrics	What to look for
App engagement through active users	Consistent engagement with the app can demonstrate that startups are building lasting relationships with users that will ensure retention and organic acquisition, even if AUM is growing more slowly. Look for daily, weekly, and monthly active users.
Retention rate	The number of customers who use the product again after using it the first time are a clear sign that their experience has satisfied their needs and of prospective growth in AUM.
Bank account or mobile money penetration and usage	This indicates if there is already a strong alternative for savings in place. Competing directly with established, bank-led savings behaviors is difficult, as startups will struggle to establish trust. Look for the number of active bank or mobile money accounts (30-day active).
Revenue run rate	A strong number here is an indication of product-market fit. Generally, a good indicator is anything upwards of $1 million annualized revenue run rate (calculated by last month's revenue x 12).
Customer acquisition costs (CAC) to lifetime value (LTV)	The CAC to LTVratio is a clear indication of whether the business can be profitable or not, and a reducing CAC also means the business knows how to optimise over time to drive effectiveness.

Members of Catalyst Fund's Circle of Investors that are active and interested in savings/investments

> "Pattern recognition is hard when you have only done a handful of deals in a certain category. In these instances, collaboration is ideal so you can tap into others' expertise. You can also employ pattern recognition around the entrepreneur to identify a safe pair of hands for your investment."
>
> ***- Johan Bosini, Quona Capital***

GENDER LENS CONSIDERATIONS

Women face numerous barriers when it comes to accessing digital financial services, including challenges with cell phone ownership and usage, not having the right papers, having responsibilities that restrict their mobility, and many more. These challenges prevent women from exploiting digital financial services and from participating in the economy more fully. Fully integrating women into the financial services system would add $12 trillion to global GDP. If only income-earning women were to invest their savings as men do, they would add $25 billion to AUM within the first year. Women's World Banking and the World Economic Forum note that these gaps persist because organizations are not designing women-centric products.

While there are an increasing number of initiatives that study and spread awareness about the gaps, there are still few startups specifically helping women save and invest. In fact, many question whether a gender-specific approach is needed or whether such an approach would be sufficient to power a startup. However, Oraan in Pakistan is one example of a female-led startup that has designed financial products for women. They performed research with 2,000 respondents and found that women already leverage ROSCAs for financial management. The startup is using them as their entry point to interact with women, digitize their savings, offer new credit products, and introduce new and lesser understood products like insurance. They are also using savings buckets and vocabulary more relevant to women.

OPPORTUNITY 3

FINANCIAL PRODUCTS FOR PLATFORM WORKERS

"Our core mission is to increase the financial wellbeing of the most vulnerable. The global gig economy consists of a vulnerable population because they are largely informal, and they don't have access to the resources that formal workers do. What we found is that the global gig economy has grown rapidly over the past decade, and there is an opportunity to offer smart financial services to this new, large category of workers to create further opportunities for them."

- Efayomi Carr, Flourish Ventures

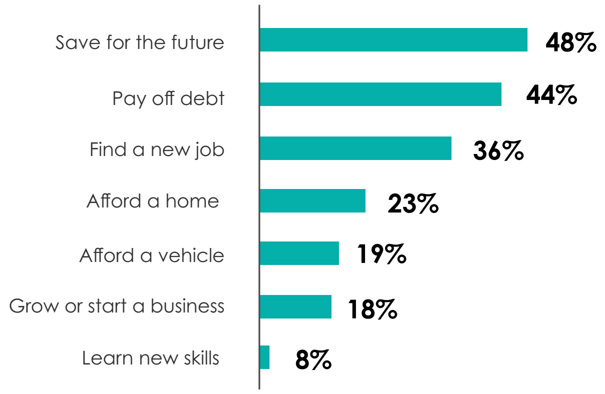
Between 2018 and 2023, the digital gig economy is projected to grow by 123% to $455 billion. This growth has been accelerated by the COVID19 pandemic as more vulnerable families depend on gig work and more households shift to buying online. Digital businesses that have seen rapid growth over the past year include: e-commerce platforms for ordering household goods or prepared foods; worker platforms for plumbers, electricians, and other maintenance workers; and other professional services platforms for remote learning and training opportunities.

Given their digital ways of working, this segment presents a unique opportunity for fintech startups to offer tailored solutions. These workers are particularly "accessible" to startups given they already access work via digital platforms, and records of their earnings are more readily available. However, the fluctuations and dependencies (e.g., smartphones, vehicles, tools) of this work mean that they also face particular challenges around purchasing assets, managing cash, and experiencing income volatility.

The financial life of platform workers

Platform workers generally remain excluded from the formal financial ecosystem and lack access to basic financial services like credit and savings. The pandemic has also deeply affected their lives, especially blue-collar workers. According to research from Flourish Ventures that surveyed over 3,000 gig workers across the US, Brazil, South Africa, India, and Indonesia, an average of 66% of workers reported a large drop in their income due to the COVID19 pandemic, and roughly 74% reported being very concerned about the effect of the pandemic on their ability to work and the loss of income if they fell ill. According to Flourish Ventures' survey, workers reported their top financial concerns and top financial goals as:

Top Financial Goals*



*Average across Brazil, India, Indonesia, South Africa, and United States

Top Financial Concerns*

% Very Concerned

- **67%** Ability to save for the future
- **58%** Ability to pay off debt
- **57%** Risk of getting sick or not being able to work
- **53%** Access to sufficient cash to manage day-to-day expenses
- **52%** Risk pf vehicle or phone breaking and not being able to work
- **48%** Need to learn new skills for work
- **45%** Access to asset financing

*Average across Brazil, India, Indonesia, South Africa, and United States.
"Ability to pay off debt" average across India and United States responses;
"Need to learn new skills" across Brazil, Indonesia, South Africa, United States

Source: Flourish Ventures

There are many resources that describe platform work environments and the vulnerable situations workers can find themselves in (including this gamified experience that puts players in gig workers' shoes); however, products designed to serve them are just emerging. When designing products to cater to their specific circumstances, investors and startups need to be aware of four key implications of platform work:

- These workers tend to have uneven but extremely flexible cash flows from one week or month to the next. Their income varies according to the number of jobs they complete within a specific period of time and according to fluctuations in pricing, which can be difficult to predict and integrate into forecasting. However, such flexibility means that workers can adjust their hours and jobs as needed to meet obligations.

- Workers have detailed, real-time income and work records, but limited (or no) credit histories. Given the lower predictability of their incomes and the risk involved in their jobs, platform workers seldom have access to loans or other financial services from formal institutions. Although they have limited transaction or credit histories, they are constantly producing work and income data, which can be a valuable foundation for lowering risk and tailoring offerings.

- Platform gig workers' incomes are vulnerable to the platforms' changes in competitive policies, but they also have a choice of platforms from which to work. Platform policies play a determining role in workers' earnings; for example, a ride-hailing platform driver that invested in a standard-size car based on one pricing policy may suddenly face competition from smaller cars with lower ride-rates on the platform due to policy changes aimed at attracting more riders. However, platform workers are not tied to their employers; they can easily switch to other platforms that may offer better terms.

- Unfortunately, this flexibility means that as workers move between platforms, they leave behind a small digital footprint that is non-transferable across platforms, making it hard to track the workers' behaviors unless they self-report their movement or unless a solution can span multiple platforms, carrying data across them.

- Platform workers are digitally savvier than offline workers, so they may be more able to input information and leverage additional services in features, creating more opportunities for cross and upsell.

The rapid growth of platform work means that these workers are constantly generating data stores. Gig work platforms capture unique data about the work performed and income earned, often enough to predict future trends and earnings. Unlike that of other low-income work, like factory, construction, or domestic work, the nature of digital platforms enables fintech startups to access earnings data and create profiles for workers to help them manage their cash flows, access productive-use credit, protect against risks, save for future goals, and take advantage of income-generating opportunities.

INNOVATION TRENDS IN FINANCIAL PRODUCTS FOR PLATFORM GIG WORKERS

Keeping worker profiles and risks in mind, and the opportunities highlighted above, startups have begun to focus their efforts in serving this segment of workers. To succeed, startups need to resolve three key issues, which investors should assess carefully to ensure startups have adequately considered these complexities:

Crafting tailored value propositions that meet platform worker lifestyles

Leveraging alternative data for risk assessment

Acquiring and retaining workers across platforms

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Crafting tailored value propositions that meet platform worker lifestyles

Due to the nature of their work, digital platform workers have unique financial needs and circumstances, as well as abilities. Workers utilize their phones to match with jobs and may also rely on mobility for transport work or to travel to households to offer their professional services. This means that phones and vehicles are critical to their livelihoods. When these assets break or lack airtime/fuel, workers are unable to earn. In these situations, the ability to instantly pay for repairs or airtime is vital, as are tools to manage liquidity and expenses. Products offered to gig workers should reflect these particularities and avoid traditional structures that depend on biweekly earnings or other traditional approaches. Below are some innovative product features investors can look for that are tailored to platform worker lifestyles:

- **Offering instant, short-term credit** is risky for some low-income populations (as it is often used for discretionary spending), but it can be critical for platform workers. Risk may also be lower because, with adequate resources, workers are better able to "earn on demand" and are not tied to harvest or paycheck schedules. KarmaLife offers digital gig workers in India an instant credit line that they can use to pay for fuel, asset repairs, or other daily expenses to maintain their work and household needs. The startup leverages India's UPI to allow gig workers to make digital payments through the app and pay back what they used during their next income payout. Zippi, in Brazil, offers workers weekly credit cards that help them manage their expenses more easily compared to saving and paying at the end of the month.

- **Providing credit for productive asset-leasing** is also helpful for gig workers who would earn much more if they owned their assets rather than borrowing them from friends or lenders at expensive interest rates. Such an approach is not only more valuable for workers but may be more feasible for startups as the economies around use of those assets are better known and less risky. Tugende operates in Uganda and Kenya and offers lease-to-own financing for motorbikes, cars, and other vehicles that can help generate income for the owner. Once customers complete their payments, they can apply for add-on financing covering smartphones and other work equipment. Asaak in Uganda also offers asset financing for motorcycle drivers (boda drivers). They work with partners like SafeBoda, Bolt, Jumia, and SACCOs to extend motorcycle loans to drivers. An Asaak motorcycle is usually the first asset these drivers have owned in their lives, and they are eager to pay off their loans as this can double their income.

- **Just-in-time, tailored insurance products** are also critical for gig workers to carry out their activities so they are covered for any unexpected expenses due to sickness or accidents. Zego offers accident insurance through which insurance coverage starts when the driver is matched to a job and stops when the job is completed. This pay-as-you-go coverage aims to reduce overall insurance costs to drivers while ensuring that they are covered on the job. Turaco offers microinsurance to gig workers in Kenya and Uganda for as little as $2 per month.

It partners with gig platforms to offer their drivers health and life insurance policies. Health coverage includes hospital cash for overnight stays that can lead to income loss for workers. Asset insurance is another critical cover for gig workers to protect their phones and vehicles, the main link to their work. Heru in Mexico offers a range of insurance products, including motorbike, vehicle, and cell phone insurance.

Digital payments solutions enable savings products that can help gig workers save for emergencies and for specific life goals. ImaliPay offers gig workers in Nigeria, Kenya, and South Africa the ability to save based on their payout frequency. The company also offers cash advances and in-kind loans and helps workers build a credit score based on their savings and loan repayment behaviors.

Tax management and portable benefits are also helpful for gig workers to manage their income and build their financial health, even when they move from one digital gig platform to another. Heru offers tax preparation support, along with credit and insurance services. The tax support has been valuable especially since independent workers in Mexico are expected to file taxes on a monthly basis. US-based Catch offers a suite of personal benefits ranging from tax support, to insurance, to retirement savings, and investments. The platform allows gig workers to link the accounts into which they receive income and helps them manage their financial health from a single place, even if they change their gigs.

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Leveraging alternative data for risk assessment

Although digital work creates new sources of data, that data tends to be shallow and recent, so startups and investors need to be realistic about its value, which may be lower compared to past repayment or banking data. When building models with alternative data, investors need to make sure that startups follow the standard experimental process: build a model on as much historical data that can be gathered from the alternative source as possible, back-test and otherwise stress-test the model, then let it run with new data for a few months, and validate the results before deploying in the market.

When it comes to lending, gig workers lack credit profiles, so startups need to find innovative ways to assess their risk. Here are some innovative data sources and ways to generate more data:

- **Workers' phone data** can be valuable for augmenting limited digital work data. Being largely smartphone users, platform gig workers hold rich data in their phones, including vast troves of SMS messages about bank transactions and other digital transactions that can be accessible based on local regulations. Similarly, looking at the types of apps they have and the frequency with which they use their phones for calls can help startups better understand and eventually assess their credit worthiness.

- **Repayment and deposit data** can be generated by the startup itself by offering small credits based on work histories, or by allowing users to save before they access credit. In the case of small, introductory loans, this repayment data is an extremely good predictor of future repayment. KarmaLife provides workers with an initial credit that is a small proportion of their income, without any traditional application/underwriting requirements. In these cases, work history replaces a credit history, and the costs saved on underwriting help offset repayment risk. Their usage and repayment data then determines whether they are eligible for higher credit limits or more services going forward. Deposit-taking startups can additionally monitor deposit behaviors to understand the user profile and use these histories to evaluate credit risk.

- **Motivating additional data submission via increased credit limits or other rewards** can help startups collect additional data from users that may not be available from within the platform. For example, SmartCoin in India has developed a pathway to sweeten their credit offering to workers as they provide more data and information about themselves. Their app has a gamified interface for loan applications and repayments that allows users to "unlock" badges when they have completed certain tasks, like adding information or making timely repayments. The badges create awareness about the different services the user could get, and each unlocked badge tells the user about new available products. The sense of progress encourages users to continue using the app instead of deleting it once they have repaid their loan. The data also allows SmartCoin to grow their offering while better assessing risk.

- **Just-in-time data, used primarily for insurance pricing**, can ensure that workers only pay for insurance coverage during work hours. Zego calculates pricing by collecting data about work times and locations the drivers on gig platforms travel to and from to more accurately determine the risk levels of the drivers.

INSIDER INSIGHT

Data and algorithms that may work in one market do not necessarily translate into accurate predictions in a different market. For example, Destacame's credit decisioning models were first built for the Chilean market and showed high predictive accuracy. Those same modeling techniques, when brought to Mexico, showed different results and had to be customized to local context and behaviors. For startups and investors, this means that it is critical to test a model in new markets to see how it behaves before rolling out the solution.

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Acquiring and retaining workers across platforms

Another core challenge is acquiring workers and retaining them in the longer term. Partnering with gig platforms via a B2B2C model is a good option for acquisition, though startups may still struggle with registration and activation, especially if the platform partner is less invested in marketing and promoting the service. Furthermore, as workers move between platforms, retention can be challenging. Startups need to leverage partnerships with platforms while still developing direct loyalty and trust with users to encourage long-lasting retention. Here a few strategies that seem to be working among startups serving gig workers and might provide investors more confidence in platform worker models.

Owning the customer relationship

Owning the relationship ensures that the startup can keep track of worker movement across platforms, gather direct insights about their behaviors and needs, and target them with the right services. To do so, startups can consider the following:

Balance online and offline interactions with the workers, ensuring that offline interactions happen directly between the startup and the workers. Many startups in this space partner with gig platforms through a B2B2C approach to reach workers. Platforms provide startups with an established pool of gig workers and enable the startup to leverage the platform's operations and staff. While this can enhance worker trust in the product at the outset, the startup runs the risk of never developing a strong direct relationship with the workers. A mix of online and offline interactions can mitigate this. They ensure that the workers recognize the startup as an independent service provider and increase their loyalty towards the service.

For example, KarmaLife visited workers at their platform hubs to tell them more about the company's services and to gather insights about their needs. The team was able to hold in-person group discussions and appoint worker ambassadors, and leveraged WhatsApp to communicate with the workers off-platform. Heru, in Mexico, has developed a unique approach by setting up Heru Casas, dedicated centers where workers can tap into user benefits and interact with Heru representatives.

Direct outreach to gig workers through a B2C approach can also facilitate direct ownership of the relationship with workers from the beginning. This approach, however, is highly dependent on the startup having a core product that gig workers will find attractive enough for acquisition and retention, as well as a heavy marketing strategy that would enable high volume user acquisition. For example, Catch has built a platform that allows gig workers to retain their benefits as they move from one platform to another. The core product in this case is workers' ability to centralize their finances for easy management wherever they are.

INSIDER INSIGHT

When partnering with digital platforms, startups can be limited to workers on those platforms. It is helpful to think about how to structure the product so that it allows for interoperability across platforms and partners.

Growing the offering with long-term retention products

Most fintech startups begin their journey by offering products around credit, savings, and portable benefits so as to meet the immediate needs of gig workers. However, if they wish to build a longer-term relationship with gig workers, they need to think about broadening their product offering to continue to deepen the relationship with workers. Startups should consider cross-selling and up-selling strategies to increase customer lifetime value. For example, startups can offer some of the following products that help workers meet their larger goals and aspirations:

- **Family-oriented, flexible insurance plans** ensure that workers can cover their loved ones and drive loyalty. For example, Power plans to offer workers flexibility to define family members who can receive coverage (be it aunts and uncles, or nieces and nephews). Power also allows for maternity insurance with no wait times, which has also been an appealing offer for workers.
- **Savings products for bigger aspirations**, like children's education, earning a degree, or some other goal can be designed for deposit-taking startups that are either licensed or have partnered with a bank.
- **Investment opportunities** can also help workers grow their money in funds for asset purchases or other opportunities.
- **Personal non-productive loans** can help workers to cover school fees, a house or house improvement, car loans for personal use, or emergencies. At Asaak, once a motorbike driver builds a loan repayment history with Asaak, the driver can qualify for personal loans to meet emergency needs at rates that are much more affordable than the 10–25% monthly interest rates that digital and traditional moneylenders charge in Uganda.
- **Other non-financial offerings** can help workers increase their income or build further resilience. For example, helping gig workers find jobs, providing them with financial wellness or work tips that help them make better decisions, or even helping them with career development via training can ensure they continue to use the service. Kandua, a South African platform connecting workers to home services jobs, recently began offering an intensive course for workers on their platform interested in personal professional development and learning how to better manage and grow their business. This ensures that workers can continue to grow while working on jobs through Kandua and offer improved services to their clients.

Betterplace in India started out offering select financial services, like loans, to blue-collar workers and has since expanded its services to offer insurance and savings options. On the non-financial side, the platform matches workers with jobs from partner platforms, offers upskilling services including training via chatbots, and also allows family members to access tele-consultations with doctors to support overall family health.

Heru

Heru offers a suite of digital services through a platform to gig workers in Mexico. The service suite offers tax preparation support, health and asset insurance, working capital credit, and mobile data plans. The company also has unique offline centers for gig workers called Heru Casas. When the company's app was soft launched, 1,200 workers were onboarded for testing while the waitlist grew to 20,000 workers. Heru now has 35,000+ subscribers on its app, with over 90% being gig workers. Users visit the app more than three times per week, showing signs of strong engagement.

Some noteworthy features of Heru's success include:

Balanced offline and online solutions to serve gig workers created a differentiated and strong feedback loop between Heru and the user. While the app allows Heru to gather quantitative insights about user experience, Heru Casas, small centers where gig workers can drop by to charge their phones, hydrate, use the restroom and just take a break outside their vehicles, allows Heru to interact with them in person. Casas help to easily onboard new workers, help with any queries they have, and also gather more detailed insights on how to serve them. Casas also instill trust in workers and generate loyalty.

A low-cost product offering for tax preparation support also helped in attracting large volumes of gig workers. Where accountants in Mexico typically charge $25-$30 per service, Heru charges $5 per month, which is a significant cost saving for the workers, who are expected to submit taxes every month. The product also provides clarity on monthly declarations by automatically detecting which expenses can be deducted according to the user's tax regime, performing that deduction, and also offering information on what can be deducted in future declaration periods.

Strong partnerships with gig worker companies have validated the value proposition and opportunity in the market. The willingness of gig worker companies to partner has shown that Heru's services can help them better serve their workers. Heru partnered with UberEats to sign up partners from its Loyalty Program and offer discounts on Heru's services. The startup also partnered with Cornershop, providing 11,000 Cornershop users with an exclusive discount on the Automated Tax Declaration product and a 25% discount on other products. Heru also paved the way for a new insurance product specifically tailored to gig worker needs by leveraging its relations with insurers that agreed to invest and experiment with the new product.

Long-term retention is very promising with Heru's model, as its direct line of interaction with gig workers allows the team to be creative and experiment with new features more easily. The team noted that their users live day-to-day and so built a series of financial insight tools to help them better manage their monthly financials. Additionally, strong partnerships have allowed the team to shape flexible and innovative products with partners, including broadening the scope of insurance products, posting job opportunities that workers can use to increase their income, and opportunities for career development.

IMPLICATIONS FOR INVESTORS PERFORMING REMOTE DUE DILIGENCE ON SOLUTIONS FOR PLATFORM WORKERS

"Be very clear around your thesis and development of your own industry. We did months of research to arrive at our focus areas related to supporting gig workers. Once you have that informed thesis and select companies, then there is the diligence process where it will be difficult to engage the end-user. Make sure that you have a strong cohort or network to speak with as a result."

- Efayomi Carr, Flourish Ventures

Flourish Ventures notes that evaluating companies that serve gig-workers requires steps similar to what you would follow in a more traditional due diligence framework - looking at team, product-market fit, performance, and projected financials. However, investors new to the space should think more deeply about the competitive landscape and the importance of startup agility. As a growing number of companies try to reach this customer segment and the market becomes more saturated, startups are likely to grow their offerings, so flexibility, speed, and responsiveness will become increasingly important. Given that a single product is often just an entry point to a larger suite of offerings, investors might think about these models as a broader platform through which startups can meet a number of worker needs.

In this more competitive environment, loyalty will also become critical. Investors should carefully assess the relationships startups are building with workers and the benefits they intend to offer them. Loyalty and engagement will become more important than features and options, which are easily replicated by strong competitors. As such, startups will distinguish themselves not by features but by flexibility and responsiveness to worker needs.

When assessing startups in this space remotely, Flourish has paid more attention to referrals than before given the difficulty of verifying startup work in-person.

Key tips for remote due diligence when evaluating financial products for platform workers:

- **Assess the competitive landscape for captive users:** For fintech startups in this space, the competitive landscape also includes the number of work platforms and the competition between them. With few platforms, a partner can deliver more captive end users. In contrast, where platforms are proliferating, like in Kenya where ride-hailing drivers tend to have multiple apps on their phones, churn may be high. These drivers are price sensitive, so they may jump from one app to another when they see an opportunity, meaning greater retention challenges for startups.
- **Ensure the core product delivers:** While startups in this space may offer additional products and cross-sell through partnerships, they need a solid entry-level product that will get workers in the door.
- **Look for an agile product roadmap:** Given how dynamic and flexible platform work is, startups need to be sufficiently able to respond and adapt. They should have a plan for how to add new products as customer needs shift.

Key metrics	What to look for
User engagement metrics: customer growth, active users vs. total users, churn rate	The most important metrics tied to user engagement can indicate how valuable the solution is to workers. User engagement may also include how frequently users use the product or interact with the solution.
Worker engagement on digital work platform	There are two ways to look at this metric: **Partnerships lens:** Where the model is B2B2C. This can provide more clarity on what types of partnerships are faring better than others by looking at user engagement metrics within the solution, spliced by the different business partner platforms. **Competitive lens:** Look at how often users open or use other platforms, what their loyalty is (are they switching between platforms), what the split of their utilization or spend is between platforms to determine how valuable the solution at hand is to them.
User engagement by product	Where there are multiple products being offered -- for example, if the solution offers insurance and short-term loans -- determine user engagement for all products. Identify the hook product and where the core value lies. Look at which products they are using based on % of spend or time.
Revenue run rate	Depending on the product, it is good to understand how this compares to other market examples. It is also useful to understand why customers are being retained to complement this metric.

Members of Catalyst Fund's Circle of Investors that are active and interested in supporting gig workers

> "Overall this segment is continuing to grow, and there is a lot of opportunity to digitize and serve them."
>
> ***- Efayomi Carr, Flourish Ventures***

GENDER LENS CONSIDERATIONS

Women have consistently low representation among platform gig workers. Among respondents in Flourish Ventures' survey, only 23% were women, ranging from 59% in the US to 12% in India, and only 5% in South Africa. Nevertheless, women reported similar levels of financial resilience (ability to last a month without borrowing money) and negative impacts of the pandemic on their quality of life as men did.

While the opportunity to serve gig workers remains high, enabling women to work equitably and safely is a key priority to unlock the potential of gig work for them and expand the total addressable market for gig work. Numerous startups focusing on "ride-hailing services for women by women" have begun to emerge in various emerging market countries. The next step is to see how services can be further expanded and biases against women removed in product design.

Barriers in the gig economy remain high for women given their lack of access to smartphones and concerns about safety. However, as platform work grows to include domestic work, cosmetic services, and other sectors dominated by women, these trends may shift.

CONCLUSION

Inclusive fintech startups have played a critical role in helping countries, communities, and businesses survive the pandemic by enabling access to digital commerce, emergency credit, and savings. They have also shown great resilience to unstable macroeconomic conditions, changes in the investment landscape, and investor preferences. As the pandemic slows down in many countries around the world, albeit unevenly so, we are confident the inclusive fintech community will continue to play a central role by developing and scaling tailored products that meet the urgent needs of underserved communities.

In particular, we are hopeful about startup progress and innovations in insurtech, micro-savings and investments, and products for gig workers. In our work and across our investor community, we are seeing innovative founders craft products in these areas that will enable a quicker, more inclusive recovery.

We hope this collection of insights across these opportunity areas will help investors better identify promising fintech models so as to provide high-potential startups with the capital they need to deliver benefits to underserved populations.

Additional insights from our work can be found in the following resources:

- Report: The State of Fintech in Emerging Markets
- Brief: Fintech for financial health
- Brief: Inclusive platforms in the digital economy
- Blog: Beyond credit: 3 emerging opportunities for fintech startups in the gig economy
- Blog: Rapid tech due diligence: How Catalyst Fund assess a startup's tech
- Blog: How inclusive fintech startups are responding to COVID-19
- Blog: Fintech in the new normal: how four startups are innovating during COVID-19
- Blog: Fintech accelerator programs find new opportunities in adapting to COVID-19
- Toolkit: Assessing Product-Market Fit

ABOUT CATALYST FUND

Catalyst Fund, managed by BFA Global, is a global accelerator that supports inclusive tech innovators and facilitates the growth of innovation ecosystems in emerging markets. The Catalyst Fund Inclusive Fintech Program, supported by the UK Foreign, Commonwealth and Development Office (FCDO) and JPMorgan Chase & Co., and fiscally sponsored by Rockefeller Philanthropy Advisors, provides startups with catalytic grant capital, bespoke venture building support from emerging markets and fintech experts and access to a global network of investors and corporate partners, while sharing learnings and insights with the broader inclusive tech ecosystem. Its mission is to accelerate the development of affordable, accessible and appropriate digital financial solutions to improve the financial health of the world's 3 billion underserved. Its focus markets include Kenya, Nigeria, South Africa, Mexico and India.

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