

## Sovereign wealth funds spur expansion of the insurance industry

Avicennia Capital, the insurance holding company of Khazanah Nasional Berhad, Malaysia's strategic investment fund, has the distinct advantage of leveraging on the Sovereign Wealth Fund's existing global market presence and resources. **Mr Alexander Ankel of Avicennia Capital** says by serving as an alternative financial services investment in the non-banking sector, it also contributes to the development of growth markets.



In the economic world order, Sovereign Wealth Funds (SWF) has been an indelible buzz word for the past decade. It was poised to scale and flourish the "New Economy" – and for the most part, it has served its purpose quite brilliantly.

In a nutshell, a sovereign wealth fund is an investment fund administered by a government agency with a mandate to invest globally in any asset class. Sovereign wealth funds are created to diversify a country's total revenue base and build up savings for future generations.

### Overcome trade barriers and promote international trade

Sovereign wealth funds typically have a substantial capital pool to extend the reach of an investee company on a global level, which may help overcome trade barriers and promote international trade, thus opening up the field for other investment opportunities.

In this regard, sovereign wealth funds can also help develop assets by contributing expertise, knowledge transfer, ethical operating systems and procedures, job creation – and most importantly, nation-building, by enhancing the value of core industries, including the insurance industry.

### SWFs a great financing tool for emerging markets

There are sufficient examples, particularly in emerging markets, as to why external financing, via platforms such as sovereign wealth funds, for development programmes have produced measurable results.

For insurance companies, offering access to good healthcare programmes and facilities to the middle and lower-middle income population segments ensures improved mortality rates.

Indeed, insurance companies have shaped financial systems in the developed world. It is now becoming critical that people care about saving for their retirement

through life and pension insurance, protecting their personal assets and the education needs of their children. This can be fully realised, however, through the liberalisation of investment regulations.

### Challenges Avicennia Capital faces

As a young company, Avicennia Capital is just starting to spread its wings and build a global brand presence. Insurance is a long-term investment with a huge upside potential in the growth markets. However, market restrictions – licensing and ownership limitations – may impede its immediate goals.

There is also the threat of intense competition from larger insurers and other corporate entities that will likely drive prices higher. Although the market is far from saturated, there is a narrowing pool of insurance companies open to mergers and partnerships, which is also compounded by the tightening of regulatory measures. Investments in companies without the requisite insurance expertise and innovative business models will not reap the desired results.

### Prospects are promising

The prospects, however, are promising. Insurance is widely viewed as a core infrastructure support for nation building. This is especially for non-life insurance where it supports the nation's infrastructure growth.

With a growing nation, there will also be an emphasis on health and well-being of its people, hence the rise in medical insurance need. There is certainly untapped potential for the insurance sector to thrive in growth markets.

### Group DNA

Avicennia Capital, incorporated in January 2013 and specialising in Insurance, is fully owned by Khazanah Nasional Berhad. The company was awarded Financial Holding Company status, regulated by the Central Bank of Malaysia, known as Bank Negara, effective November 2014.

The name Avicennia, is drawn from a genus of a mangrove tree characterised by its strong aerial roots and longevity. Like its namesake, Avicennia Capital is deeply rooted in its Asian identity, resilient in any environment and expanding across the region.

Avicennia Group of Companies' diversified business portfolio comprises Life, Family Takaful, Health, and PA insurance. Avicennia Capital holds a majority share of Sun Life Malaysia Assurance Berhad and Sun Life Malaysia Takaful Berhad, the fourth largest bancassurance in Malaysia. This bancassurance partnership is exclusive to Malaysia. Avicennia Capital also holds 90% of Acibadem Sağlık ve Hayat Sigorta A.S. ("Acibadem"), the second largest health insurer in Turkey.

In total, the Avicennia Group of Companies currently employs approximately 900 talents across its entities.

### Strong interest to expand overseas

The company, holding three entities in Malaysia and Turkey since 2013, is currently participating in tenders in Malaysia, the Philippines and Turkey. It is also exploring and evaluating investment opportunities in Indonesia, Thailand, India, China, Singapore, and Vietnam.

For the near-term, Avicennia Capital targets adding at least two companies from within the South-East Asian region and Turkey per year to its portfolio. We are looking at Life, Pensions, Health and Non-Life insurance.

Avicennia Capital aspires to become the leading Malaysian-based regional insurance group by building national insurance champions in selected growth markets. It also aims to build a best practices platform for the Group.

### "Best in class" approach

What does Avicennia Capital offer its partners? Quite simply, exceptional business model firmly entrenched in ethical practices.

- Avicennia Capital is a committed shareholder with a long-term investment plan and partnership horizon
- Avicennia Capital adheres to a collaborative principle by working in partnership with investee companies and partners in value creation

Avicennia Capital's core competencies include Risk Management, Capital Management, Investment Management, Actuarial, Product Development, Compliance and Distribution Management and observe "best in class" approach in all these areas.

The company has ambitions and practical business strategies aligned to its stakeholders' interest in creating sustainable and profitable growth. The company aims to drive positive change and create value through constructive engagement with its partners.

### Sovereign wealth investors make good partners.

Recent global surveys reveal that the venture appetite for sovereign fund investors is on the rise with increased allocations to alternative asset classes, including investment in insurance and reinsurance companies.

In the past few years, sovereign wealth funds have started adopting a strategic change in direction, leading to increasing their risk exposure while apportioning more capital to alternatives, such as insurance, to meet their

long-term return-on-investment targets. With their long-term investment perspective, sovereign wealth investors make good partners.

Investment in insurance also offers a benefit to their overall portfolio. Sovereign wealth funds like Khazanah command significant assets with the ability to provide sizeable capital to the right strategies for the long haul, not as an exploratory short-term investment.

### Contribute towards nation-building

When Khazanah was launched, its goals were firmly established with extraordinary purpose: to manage the nation's commercial assets, to promote economic growth, and to undertake strategic investments on behalf of the Government that would contribute towards nation-building.

As a Government-linked Investment Company, Khazanah is authorised to steer shareholder value creation, efficiency gains, and enhance corporate governance in Government-linked companies (GLCs).

Khazanah's investments in over 50 companies – including the Media and Communications, Property, Healthcare, Power, Transportation, and Insurance segments – cut across the regional footprint including China, India, Turkey, Indonesia, Singapore, among other countries.

Khazanah's 10-member Board comprises representatives from the public and private sectors, all of whom are professionals in their respective fields with outstanding credentials.

The company's stellar financial performance (Net Worth Adjusted as of 31 December 2014 is US\$31.7 billion) is a direct result of Khazanah's domestic and international investments and divestments.

For the near future, Khazanah forecasts extending its international presence through new acquisitions while concurrently boosting local economic growth. With its global network, served by five Khazanah satellite offices, the investee companies have made deep impressions in the representative countries via mergers and joint venture projects.

### SWFs investing more in non-banking services

To put things into proper perspective, Sovereign Wealth Funds' investments in financial services represent over 30% of all investments in the Malaysian sector. Previously, these investments in the financial sector were predominantly in banking services.

Out of the 45 deals completed in the financial services sector two years ago, 13 were in commercial and investment banks, six in insurance firms, and two in exchanges. Khazanah made up 78% of the financial services deals by Sovereign Wealth Funds in 2013.

Sovereign Wealth Funds remain an integral tool for a country's economic growth. They propel economic activity while improving productivity, create a stronger talent pool, raise the standard of living, and provide employment opportunities. ■

Mr Alexander Ankel is the Group CEO of Avicennia Capital, the insurance holding arm of Khazanah Nasional Berhad, the Sovereign Wealth Fund of Malaysia.

For more information, please visit [www.avicenniacapital.com](http://www.avicenniacapital.com)