






VIMOSEWA

A capability assessment of the company's aspiration to build a scalable, sustainable micro-insurer






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AUTHOR'S NOTE

India has seen micro-finance companies multiply and scale-up significantly over the past 20 years. However, the micro-insurance space has seen negligible activity and interest from manufacturers. This despite an estimated target market of 200mn people – most of whom are daily wage earners with no social security and an average daily income of US$6.

The market potential for this business is significant – with annual premium income estimated at Rs69bn-138bn (~US$1bn-2bn). However, no private insurance company has attempted to build a business model around this segment. This is in stark contrast to the micro-lending segment, in which there are more than 53 micro-lenders. The lack of interest stems primarily from the challenge of selling an abstract concept like insurance to a market segment more interested in the immediate and tangible value of financial products like loans and give-aways.

Against these odds, VimoSEWA has made a beginning in micro-insurance by building a small but sustainable distributor model and now plans to turn manufacturer, which is critical for meaningful scale. Notwithstanding the challenges, the management's experience, passion and focus in this segment leads me to believe that VimoSEWA can transform into a scalable and sustainable manufacturer.

Tabassum Inamdar
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INDEX

OVERVIEW: INSURING THE POOR

National Insurance VimoSEWA Cooperative Ltd (VimoSEWA) is an insurance marketing/distribution organisation, which was registered as a multi-state cooperative society in 2009. It emerged from an insurance programme that was started in the early 1990s by SEWA – a not-for-profit organization aimed at the economic empowerment of women. VimoSEWA's key focus was women and their families from low-income households, employed in the informal economy. After several organizational changes over the past ten years, VimoSEWA has managed to build a financially sustainable model. The cooperative now plans to transform itself into a full-fledged insurer with the aim of expanding reach, scaling-up operations, and designing and manufacturing micro-insurance[1] products.

Low value product for those who earn US$6 a day

Insurance – needed more by the poor: Calamities like illnesses, accidents, death, or the loss of agricultural income often have very grave financial consequences for low income HH/families. Such events can result in families in this segment getting pushed into deeper poverty as their meager finances are depleted. Many get sucked into debt traps as they borrow beyond their means, sell productive assets, take children out of school or put them to work, compromise on food, or leave illnesses untreated. The impact of such a turn of events is higher on women and girl children in many families as males in the family get the bulk of household resources, particularly when constrained.

Potential for micro insurance is very large…: Nearly 25% of India's population falls below the poverty line and 50% of HHs earn US$2-5 (Exhibit 1) per day in wages. Additionally, over 93% of the population works in the informal economy, a large part of which is not covered by insurance or any social benefits (Exhibit 2). VimoSEWA is focused on this large ignored informal sector which tends to earn less than US$6 a day and I estimate this market segment at 138mn-276mn of population, with potential premium income of Rs69bn-138bn. This assumes an Annual Premium of Rs500 per person and Sums Assured (SA) in the range of Rs13.8tn-27.6tn, not including the savings component. Currently, VimoSEWA offers five different types of products in a price/premium range of Rs150-3,000, with average premium per policy at Rs286 in CY16 and SA ranging between Rs10,000 and Rs100,000.

Nearly 85% or more of the non-wage/salaried segment earns less than US$6 a day

Exhibit 1: Average monthly earnings by worker class (%)

	Persons in labour force	Up to Rs5,000	Rs5,001 to 7,500	Rs7,501 to 10,000	> Rs10,000	Segment earning <US$6 a day (%)
Self Employed	46.6	41.3	26.2	17.4	15.1	84.9
Regular Wage/Salaried	17.0	18.7	19.5	19.0	42.8	57.2
Contract workers	3.7	38.5	27.9	20.3	13.3	86.7

Source: Report on Fifth Annual Employment-Unemployment Survey (2015-16), Government of India

[1] For the purpose of this report micro-insurance refers to insurance for those earning US$6 or less in daily wages, primarily women working in informal sector and their families. Micro-insurance as referred to in this report may exceed a sum assured of Rs50,000 (~US$6,000 at current rates; the ceiling for micro-insurance as defined by IRDA).

Over 75% of rural and 60% of urban workers have no social security benefits

Exhibit 2: Workers not eligible for social security benefits (%)

	Rural	Urban	Total
Male	75.8	60.5	70.4
Female	79.3	62.1	74.0
Transgender	63.5	73.3	67.0
Total	**76.6**	**60.8**	**71.2**

Source: Report on Fifth Annual Employment-Unemployment Survey (2015-16), Govt of India

… but private participation has been slow: As per IRDA data, micro life policy sales by insurance companies, both PSUs and private, have been rising steadily, reaching 23mn lives in FY15 versus 14.8mn in FY12. LIC dominates this segment with 87% of lives covered in FY15, compared to its overall market share of 54% of the life insurance premium market. The reasons for lower sales and lack of interest by private players are plenty: higher risks, lower profitability, difficultly in marketing micro-insurance products, and lack of documentation (such as identification, proofs of age and residence). The issuance of national identity cards (Aadhaar) and the government's financial inclusion drive (Jan Dhan Yojana – opening of bank accounts) are likely to be game changers in documenting low income groups.

Private insurers have ignored this market due to high risk and low profitability

A focused player can target this segment of the market more efficiently: Even as documentation issues are getting resolved, the low-income populace is mostly unaware of financial products, more so insurance, which is more difficult to understand and adopt than deposits and loans. Additionally, given 70% of the population is in rural India, organizations like VimoSEWA, with almost 48% of SEWA's business coming from rural India, are well placed to address the gap. Though VimoSEWA currently operates on a very small scale, it has been developing this market long before the private sector and the government entered this space.

Nearly 48% of VimoSEWA's business comes from rural India

VimoSEWA's micro-insurance products. VimoSEWA currently sells five micro-insurance products offering limited benefits for small premiums. The target market is women and their families working in the informal sector earning US$2-6 a day. Currently, the five products cover credit risk, life, health, and increasingly, income. VimoSEWA has a tie-up with LIC for credit, life and savings policies and L&T for medical insurance, while it provides its own livelihood product as an add-on to the government's health insurance schemes. In CY16, VimoSEWA sold policies worth Rs21.4mn, earned commission of Rs2.4mn and reported profit of Rs2.3mn on an aggregate basis.

Way forward: from intermediary to manufacturer

VimoSEWA follows the partner-agent model of insurance, where the insurance company carries the risk for a majority of the products sold by VimoSEWA. However, to provide better service to its members, VimoSEWA has been carrying out all the tasks of a manufacturer – educating customers, identifying right products, helping through KYC and finally collecting, screening claim documents and undertaking settlement of claims.

Given the challenges of selling voluntary insurance, VimoSEWA management believes there is a need for a dedicated participant in the micro-insurance segment. In VimoSEWA's experience, most manufacturers fall short of designing products for low-income groups. They do not adequately align products to the paying capacity of low-income customers, nor do they provide quality service for claims.

Additionally, the current VimoSEWA model is not very conducive given the lack of capital which restricts its ability to scale-up operations and hire competent professionals. Regulations also hinder expansion as a cooperative cannot legally enroll agents (VimoSEWA does have commission agents on its roll[2]), or underwrite the low value policies under the government schemes. As a manufacturer, VimoSEWA will be well placed to target MFIs and co-operative banks that have similar customer profiles with specific products designed for this market segment.

Lack of capital restricts Vimo's ability to scale-up operations

Equipped to earn regulatory approval

Given its perseverance and 25 years of experience in the insurance space, the Board of VimoSEWA believes that VimoSEWA is well placed to enter the space as a manufacturer. It appears well qualified to secure itself a license from the regulator given its (1) focus on financial inclusion – micro insurance for the low income, (2) clean background, (3) demonstrated ability to structure products for this segment and (4) sustainable business model (it earned aggregate commission of Rs2.4mn and reported profit of Rs2.3mn in CY16. All of the above should enable VimoSEWA to secure a license from the regulator.

A report by Milliman (Feb 22, 2017, *Life Insurance Market Entry, Update of Financial Projections*) projects that VimoSEWA will need to raise capital in the range of Rs1.7bn and Rs2.4bn to meet the IRDA requirement. As per IRDA, the minimum capital required to start an insurance manufacturing company is Rs1bn. The balance amount of Rs700mn to Rs1.4bn would be needed to meet the viability gap funding.

VimoSEWA would need Rs1.7bn-2.4bn to transform into a manufacturer

- The lower number of Rs1.7bn assumes that the company delivers new premium income of Rs242mn in Year 1 going up to Rs13.5bn in Year 10 (no. of policies/(lives covered) sold 105,400 in Year 1 going up to 3mn in Year 10.
- The second scenario that would need higher capital assumes new premium income of Rs185mn in Year 1 going to Rs4.5bn in Year 10. The number of policies/(lives covered) sold are estimated at 80,400 in Year 1 going up to 1mn in Year 10.
- As per this analysis, the company will make statutory profits in Years 5 and 8, respectively, under Scenarios 1 and 2. More details including assumptions and risks, are available in the Milliman report. Summary of financials included in Appendix 3 on Page 34.

VimoSEWA could break even in 5-8 years

Implementation risks remain high given that the company has not managed to scale-up operations up until now. The use of technology and a more experienced insurance team will likely mitigate these risks. The core team at VimoSEWA is cognizant of these challenges.

To raise these funds, VimoSEWA plans to target donors/impact investors whose long-term interests are aligned to those of the company. Note that VimoSEWA will have to reach an agreement with the shareholders/investors on an expected rate of return for the capital invested.

[2] Cooperatives are not permitted to enroll commission agents. However, VimoSEWA does have some commission agents on its roll. The regulator appears to have taken a soft view of this, possibly because it is filling a much needed gap in the market.

THE NEED FOR VIMOSEWA

Financial consequences of calamities on low income HH can be dire

The financial consequences of calamities on low income HH/families can be dire, particularly events like chronic/serious illnesses, accidents, deaths and loss of agricultural or other produce. The families could be pushed into deeper poverty as they may be required to deplete savings/income and fall into debt traps as a result of borrowing beyond their means, selling off productive assets, taking children out of school or putting them to work, compromising on nutritious food, or leaving illnesses untreated. The problems could be more severe for females given the social and cultural bias that traditionally favors resource allocation towards males in the family.

Selling insurance policies to low income groups can therefore impact the women in particular and society in general positively in multiple ways. VimoSEWA has been in this micro business for the past 40 years. Over the past five years (CY12-CY16) alone, VimoSEWA has helped settle claims worth Rs62mn against medical and term policies.

Not many contenders in the micro-insurance space

The government is marketing very attractive insurance products for the poor

The government is marketing more insurance products for the poor, and these appear at first glance to obviate the need for a specialized micro insurer, for example:

1. The government's health and life insurance schemes (Pradhan Mantri Suraksha Yojana, and Pradhan Mantri Jeevan Jyoti Bima Yojana) that were introduced in 2015 have made a significant difference to the reach and awareness of the micro-insurance market.

2. The regulator also made it mandatory for the insurance sector to sell products in the rural areas and meet social sector targets (see Appendix 2 on Page 32) – not all these policies would be "micro-insurance policies" where the sum assured must be less than Rs50,000.

Customers do not understand the benefit of buying insurance

However, VimoSEWA's on-the-ground experience is that most customers still do not comprehend the risk-mitigating benefits of buying insurance. Additionally, large manufacturers – both private and public, find it a challenge to assess such customers for risk or assist them in making claims. These challenges make customer acquisition very expensive for manufacturers looking to maximize profit.

The corporate sector has not been enthused about selling micro-insurance products (Exhibit 3) in this space on account of the multiple challenges it faces:

- Inability to develop a low-cost distribution model.
- Lack of enough data on mortality risk for the target segment.
- High claim rates: potential risk of illness, death and possibility of adverse selection (Exhibit 4).
- Limited infrastructure in rural areas, in particular to meet health insurance needs.
- Lower sales and low visibility on renewal rate.
- Spread of customers over a large area, making it difficult to appropriately incentivize distributors, and also making the product less cost-effective for insurers.
- Likely losses on the sale of their own micro-insurance policies.

These factors compel insurers to make higher capital allocations, which get priced into the product. The goal gets limited to meeting the minimum regulatory requirement. Not surprisingly, we have seen dismal growth in micro-insurance premium income for private companies and even for LIC. Interestingly, LIC accounts for nearly 87% share of the premium income in micro-insurance segment, versus its 54% market share chunk in overall premium. LIC also has nearly 92% (Exhibit 5) of overall micro-insurance agents. At present and in the foreseeable future, the focus of these insurance vendors remains the low hanging fruit of the more affluent and urban segment in India. It would take time and effort for any private insurance company to build the expertise required to effectively target the micro-insurance market. This leaves VimoSEWA a clear field to establish a successful micro-insurance business.

Micro-insurance premium collection by existing companies was a measly Rs3.4bn in FY15…

Exhibit 3: New Business under micro-insurance portfolio for 2014-2015 – Life

	Individual			Group			Total
	No of policies	Premium (Rs mn)	No of agents	No of schemes	Lives covered	Premium (Rs mn)	Premium (Rs mn)
Private sector	416,027	125	1,476	62	2,531,436	337	462
LIC	400,341	164	19,379	5,417	20,596,725	2,819	2,983
Total	**816,368**	**289**	**20,855**	**5,479**	**23,128,161**	**3,156**	**3,445**

Total includes renewal, first year and single
Source: IRDA Annual Report 2014-2015

…and insurers have seen higher claims versus premium earned

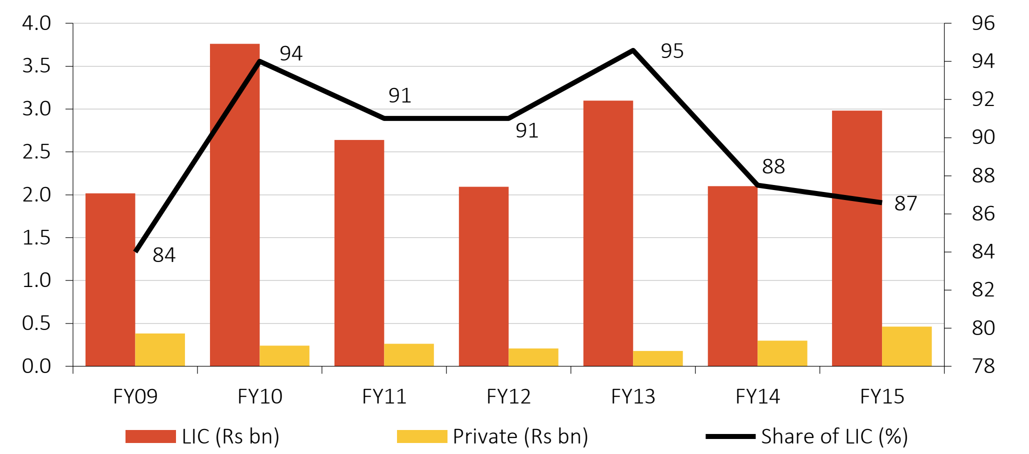
Exhibit 4: Individual and Group Death claims under micro-insurance portfolio – 2014-2015

	Individual				Group			
	Total Claims		Claims Paid		Total Claims		Claims Paid	
	No of policies	Benefit amount (Rs mn)	No of policies	Benefit amount (Rs mn)	No of Lives	Benefit amount (Rs mn)	No of Lives	Benefit amount (Rs mn)
Private sector	1,814	41	1,773	34	5,655	125	552	122
LIC	11,582	185	11,365	182	127,836	4,148	12,775	4,144
Total	**13,396**	**225**	**13,138**	**216**	**133,491**	**4,273**	**13,327**	**4,266**

Source: IRDA Annual Report 2014-2015

LIC has a disproportionately higher share in micro-insurance premium collection

Exhibit 5: Premium collection (Rs bn) and share of LIC (%)



Source: IRDA

Distributors find government insurance products unattractive

The policies introduced by the government through the insurance industry i.e. PMJJBY and PMSBY are generally being sold by banks. This product is clearly less attractive for banks given: (1) low premium amount of Rs12-330 per policy, and (2) lower distribution commission earned at 12.4-16.7%. As against this, banks earn commissions of 15-35% on selling other insurance policies, where average premium income is Rs21,000 per policy.

As per Exhibit 6 and 7 below, insurance companies are making losses on PMSBY and only marginal profit on PMJJBY before providing for policy processing and claim management cost, post which this product is also likely to make losses. As losses increase on every additional policy sale, the enthusiasm for selling this product is likely to wane.

Low policy value, low commissions of government schemes underwhelm distributors

Exhibit 6: Commission that Insurance companies earn on selling government schemes

	Annual Premium (Rs)	Insurance company gets (Rs)	Agent/distributor (Rs)	Participating bank (Rs)
Pradhan Mantri Suraksha Bima Yojana	12	10	1	1
Pradhan Mantri Jeevan Jyoti Bima Yojana	330	289	30	11

Source: Business Standard

Companies are likely making a loss on sale of government policies

Exhibit 7: Government schemes data from May 2015 to December 2016

Policy name	Type of policy	Enrollment (mn)	Premium amount (Rs mn)	No of claims	No of claims settled	Claims settled (Rs mn)	Claims to premium (%)	Payment to distributor (%)*	Bal. for recovering cost/profit (%)
PMJJBY	Term	30.6	10,098	44,720	40,375	8,075	80	12.4	7.61
PMSBY	Accidental death	97.2	1,166	8,821	5,878	1,176	101	16.7	(17.46)

*Source: Economic Times, Tabassum Inamdar, *Business Standard*

The initial push we saw in selling these policies is fading as can be seen in the marginal uptick in numbers over the past year on a hugely attractive product (Exhibit 8). Additionally, there is no data available to show that these policies have been sold primarily to the low income segment.

Sale of government policy has already slowed

Exhibit 8: Outstanding number of policies under government schemes (nos in mn)

	Feb-16	Jun-16	Mar-17	March 2017/ Feb 2016 (%)
PMJJBY	29	30	31	6.6
PMSBY	93	94	99	6.8

Source: Finance Ministry

VimoSEWA's expertise enhances its customer proposition

As a specialized and experienced organization in this segment, VimoSEWA is equipped to tackle the following challenges:

Improve customer awareness. Insurance is an intangible asset whose long-term benefits are not well understood. Low income customers generally consider insurance an unnecessary expense with neither visible benefits in the near term nor certainty of returns. VimoSEWA has a track record in perseverance, awareness of local factors and the sensitivities required for educating this client base.

Settle claims faster. Currently, VimoSEWA finds that customers have trust issues with insurance given their disappointing experiences in claim settlements – either companies take very long to settle dues (whereas the need for funds is a lot more urgent in such cases given the lack of savings) or reject claims due to documentation issues. Under its livelihood product, VimoSEWA settles claims in 10 days versus 1-2 months taken by the manufacturer to settle life and medical claims. VimoSEWA can also simplify the process of underwriting and claims management as a specialized entity.

Design/customize products for this segment. Given that the 'cooperatives only' business is serving low income groups, it is closer to the market, understands the requirements better and can design more suitable products based on research and consultation with sales agents.

Reach remote areas by building cost effective distribution reach.

Provide training to its agents/staff on best sales practices. This is a requirement for all companies, however, the low income market needs more handholding, knowledge building and sensitivity as customers in this segment are not financially savvy.

Benefits of becoming a manufacturer

As a manufacturer, VimoSEWA will enjoy several benefits:

VimoSEWA will target MFI's, banks for its products

1. **It will be able to target MFI, co-operatives and small finance banks** which have a similar customer profile. Currently, VimoSEWA faces a disadvantage versus a manufacturer who directly deals with them. VimoSEWA can provide a more suitable product for this market segment, given its closeness to the market and understanding of the space. Its products can be more economically priced as well in comparison to other manufacturers given its low cost model.

2. **Tie-up with any bank** as the micro-insurance product is outside the purview of bancassurance rules. Banks will likely be amenable as the policies are annual premium policies and there is no loss of commission while shifting the marketing arrangement from the manufacturer. In any case banks can now tie-up with three insurers, without impacting their existing arrangement.

3. **Directly underwriting government schemes.** As a manufacturer, VimoSEWA would be allowed to underwrite the low value policies under the government schemes (Pradhan Mantri Jeevan Jyoti Bima Yojna – PMJJBY, and the Pradhan Mantri Suraksha Bima Yojna – PMSBY), which it cannot do as a distributor. As a distributor, VimoSEWA currently provides complementary products of its own, for instance, loss-of-income insurance.

4. **Share profit with policy holders** under the mutual model. This could reduce the overall net cost of policies for the policyholder, unlike non-member shareholders driven companies. Note VimoSEWA will have to arrive at a separate agreement with the shareholders/investors on an expected rate of return for the capital invested, details of which are not yet firmed up.

VimoSEWA aspires to expand operations, while continuing to focus on women

5. **Scale-up operations and hire professionals**, which is currently difficult given its limited resources. Expanding into other geographies takes time given the arduous process of educating customers and building trust– essential before customers start to buy these policies. As a manufacturer with scale, it will also be able to pay market salaries to attract professionals.

New role will help VimoSEWA serve its target segment better

VimoSEWA has established a sustainable business model as an intermediary and a shift to manufacturer will enable it to expand into other geographies, build scale and sell low-value but high-volume products. VimoSEWA plans to apply for a licence for a life insurance company, which will also allow it to sell some medical insurance products that are permitted under the act.

VimoSEWA will continue to focus on selling products to workers in the informal economy as this is a segment that is underpenetrated and receives no workplace benefits. The primary focus will be on women and through them, their families. Currently, VimoSEWA offers five different types of products in a price/premium range of Rs150-3,000 (and SA ranging between Rs10,000 and Rs100,000) including life, health and protection on hospitalization/illness. Additionally, VimoSEWA will also likely offer products with higher premium and sum assured products.

TARGET MARKET POTENTIAL >RS100bn

According to the World Bank, approximately 25% of the Indian population is in the low income bracket, earning less than US$1.25 per day. Additionally, as per the National Sample Survey Organization 2011-12, nearly 92% (Exhibit 9 and 10) of the 474mn of India's working population is employed in the informal sector. Of this, 87% of rural and 54% of the urban population is self-employed or are casual labourers that have no access to social security, work-place benefits or insurance. It is important to note that 71% of India's population resides in rural areas. The problem is even more acute for women, as nearly 96% work in the informal sector, do less skilled jobs and are invariably paid less than men in similar job profiles.

Nearly 92% of India's work-force is employed in the informal sector

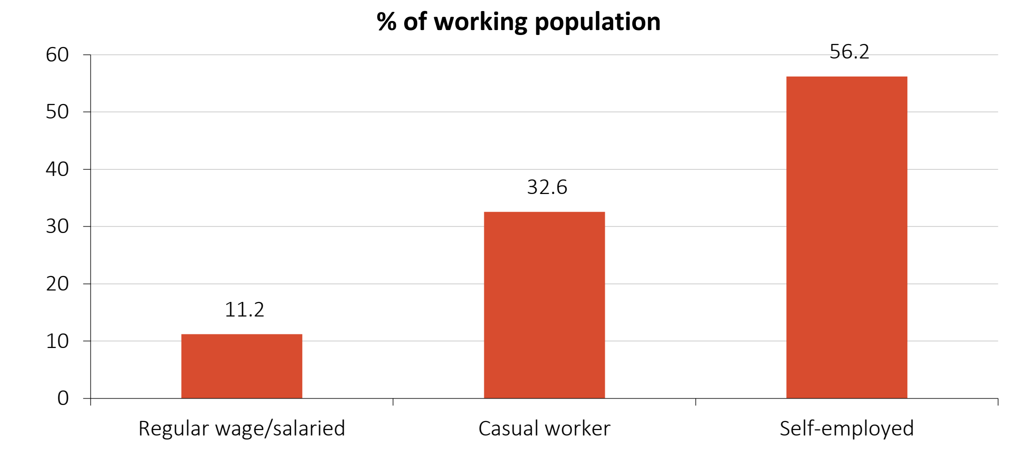
Exhibit 9: Formal-informal employment across organised-unorganised sector

(million)	Organized	Unorganized	Total
Formal	37.2	1.4	38.6
Informal	44.7	390.9	435.7
Total	**81.9**	**392.3**	**474.2**
% of total			
Formal	45.4	0.4	8.1
Informal	54.6	99.6	91.9
Total	**100.0**	**100.0**	**100.0**

Source: NSSO, CII report: An analysis of the informal labour market in India

VimoSEWA could target 92% those working in the informal sector

Exhibit 10: Nature and type of work for informally employed workforce



Source: IRDA

Estimated market size: > Rs100bn or >200mn persons

As per IRDA data, life insurance companies in India (including LIC) received micro-insurance premium income of just around Rs3.4bn or 0.3% of total first year industry premium (Exhibit 11). Within this, the share of the private sector was a low 13%. Together, LIC and private insurance companies insured about 24mn lives under micro-insurance schemes. In addition, the rural postal scheme sold another 8mn life insurance policies in FY15 and nearly 130mn persons were insured under the PMJJBY and PMSBY schemes till March 2017. Assuming no overlap, the total number of policies sold under various rural, government and micro-insurance schemes is roughly 160mn, against an estimated market of around 264mn to 274mn individuals – both men and women. Note that it is not possible to calculate the target market segment for women alone, and given that VimoSEWA is focusing on insuring families, it is important to look at the aggregate market segment rather than just at women who can buy policies.

Micro-insurance premium collection by existing companies was a measly Rs3.4bn in FY15

Exhibit 11: New Business under micro-insurance portfolio for 2014-2015 – Life

	Individual			Group			Total
	No of policies	Premium (Rs mn)	No of Agents	No of Schemes	Lives covered	Premium (Rs mn)	Premium (Rs mn)
Private sector	416,027	125	1,476	62	2,531,436	337	462
LIC	400,341	164	19,379	5,417	20,596,725	2,819	2,983
Total	**816,368**	**289**	**20,855**	**5,479**	**23,128,161**	**3,156**	**3,445**

Total includes renewal, first year and single
Source: IRDA Annual Report 2014-2015

Target market size: methodology and assumptions

1. An estimated 436mn Indians are employed in the informal sector, with nearly 387mn either self-employed or engaged in casual labour. Assuming that 50% of the self-employed and 100% of the casual labour are earning low income, the total market segment for VimoSEWA would be significant at 264mn individuals (Exhibit 12).

VimoSEWA could potentially target 264mn of self-employed and casual workers

Exhibit 12: Nature and type of work for informally employed workforce

(million)	2011-12	VimoSEWA's target segment
Self-employed	245	122
Regular wage/salaried	49	
Casual worker	142	142
Total informal workforce	**436**	**264**

Source: NSSO, CII report: An Analysis of the informal labour market in India

2. The Centre for Monitoring Indian Economy (CMIE) puts a figure of 138mn HH or 50% of total HH in the low income or poor income category (Exhibit 13). Even assuming two insurance policies per HH, the number of individuals that would need to be insured works out to 276mn. This is corroborated by the Fifth Annual Employment-Unemployment Survey (2015-16), which indicates that nearly 43% of the working population earns less than Rs5,000 per month and 68% earns less than Rs7,500 per month (Exhibit 14).

Income classification shows VimoSEWA can target 138mn/276mn HH/population

Exhibit 13: Target market segment for micro insurance products

Classification	Monthly income (Rs '000)	No of HH (mn)
Rich	93	2
High Income	30	53
Middle Income	13	82
Low Income	7.5	82
Poor	3.5	56
Total		275
VimoSEWA target market		138
% of total HH		50

Source: CMIE – 2015

Nearly 85% or more of the non-wage/salaried segment earns less than US$6 a day

Exhibit 14: Average monthly earnings by worker class (%)

		Average monthly income				Target market for VimoSEWA 1 + 2 + 3
	Persons in labour force	Up to Rs5,000 (1)	Rs5,001 to 7,500 (2)	Rs7,501 to 10,000 (3)	> Rs10,000	
Self Employed	46.6	41.3	26.2	17.4	15.1	84.9
Regular Wage/Salaried	17.0	18.7	19.5	19.0	42.8	57.2
Contract workers	3.7	38.5	27.9	20.3	13.3	86.7
Casual labour	32.8	59.3	25.0	12.0	3.7	96.3

Source: Report on Fifth Annual Employment-Unemployment Survey (2015-16), Government of India

Further in terms of value, I estimate the market size could be anywhere in the range of Rs69bn-138bn arrived at as follows:

1. The total premium income can be estimated at Rs69bn-138bn and Sums Assured could range between Rs13.8tn-27.6tn (Exhibit 15) assuming: premium income per person of Rs500 (which is just 0.6% of annual income for population earning Rs7,500 per month) and a sum assured of Rs100,000 (110% of their annual income) for a customer with an average age 35. Note the significant gap between this and government scheme collections of roughly Rs11.4bn in March 2017, and LIC and the private sector collections at Rs3.4bn in FY15.

2. Government schemes, on the other hand, currently provide term insurance at Rs330 per person for a Sum Assured of Rs200,000. Even if we assume VimoSEWA is able to match the lower premium of Rs330 charged by government schemes, the total value of the market would be 6-12X higher than government's existing premium collections (Exhibit 16). A focused marketing effort by a micro-insurance company could likely help in capturing a significant share of this micro-insurance market segment.

We note that the premium estimate for micro-insurance of US$1bn-2bn is understated when compared to the current industry Annualized Premium Equivalent (APE) of US$7.7bn, new premium income of US$20.7bn and total premium income of US$54.7bn in FY16. This because of the large savings component that forms a part of industry income. The comparable portion, i.e. the term component for the life insurance industry, is fairly low at 2-3% which would translate to a total premium collection of US$820mn or US$110mn of APE.

Term component in total premium collected is a measly 2-3%

Target market is significant in numbers as well as value

Exhibit 15: Estimating target market

Estimated market size for VimoSEWA		
Based on Exhibit 4 - no of individuals (mn)		264
Based on Exhibit 5 no of HHs (mn)		138
Based on Exhibit 5 no of individuals assuming 2 per HHs (mn)		276
	Low	**High**
Target number of individuals that can be insured (mn)	138	276
Premium per year per person (Rs)	500	500
Total premium (Rs bn)	**69**	**138**
Sum Assured per person (Rs)	100,000	100,000
Total Sum Assured (Rs bn)	**13,800**	**27,600**

Source: Tabassum Inamdar

Target market is significant – even at government premiums

Exhibit 16: Target market assuming premium income and SA as per government scheme

	Low	High
Target number of individuals that can be insured (mn)	138	276
Premium per year per person (Rs)	330	330
Total premium (Rs bn)	**46**	**91**
Sum Assured per person (Rs)	200,000	200,000
Total Sum Assured (Rs bn)	**27,600**	**55,200**

Source: Tabassum Inamdar

TAILORED PRODUCT, SERVICE, DELIVERY

Customised products for the market segment

Three key forms of micro-insurance products are sold in India:

1. Insurance, sold as a part of microcredit.
2. Schemes introduced by the government, both for life and non-life, which are voluntary but very attractively priced, making them affordable; and
3. The voluntary model, including the policies sold by insurers to meet regulatory requirements.

The first two types are the policies that sell the most. The first, because this is built into microcredit as a package and the second, simply because such schemes are attractive.

VimoSEWA follows the voluntary model, selling policies to women working in the informal sector and generating low income. Awareness is low in this segment, though growing gradually as private manufacturers, mandated to sell insurance to the low end of the market, make some effort to raise awareness in order to make their products accessible. As per IRDA's Annual report FY15 – 13 life insurers had 21 micro-insurance products, of which 13 were 'individual products' and the remaining eight were 'group products'.

With the proliferation of products in the market, there has been a gradual shift from providing just basic education (which remains a big requirement) to coverage, premiums, long-term benefits and more. The focus is on product detailing and comparison with other products in the market. VimoSEWA can further enhance this transition by designing products with payment schedules that take into account the income levels of customers at the low end of the market. Such finely-tuned products and payment schedules may be difficult for a general or life insurer to design and offer.

VimoSEWA's five insurance products in brief:

Life and credit linked products form bulk of VimoSEWA's sales

1. **Credit-linked scheme** (20% of CY16 premium income) savings linked, and life and accident policy in tie-up with LIC (42% of CY16 premium).
2. **Medical insurance policy** (20% of CY16 sales): Till recently, VimoSEWA used to sell New India Insurance medical policy as a group policy which it has now phased out given the high claims and rising premium charges. It is now selling more 'individual' medical policies through a tie-up with L&T General Insurance Company. To improve the underwriting quality of the product sold: (1) agents are being trained – including sharing information with them where claim ratios are high and the reasons for the same, and (2) health history of customers are checked pre-sale.

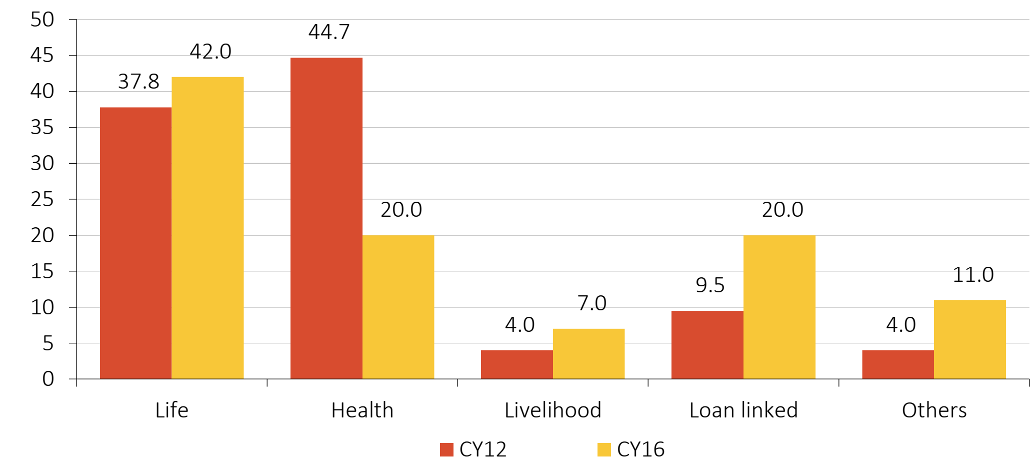
VimoSEWA sells own livelihood product alongside government schemes

3. **Hospitalization/livelihood compensation** (7% of CY16 policy sale). The Saral Suraksha Yojna (SSY), which is sold as a standalone product and also as a top-up product alongside RSBY is manufactured by VimoSEWA. This offers a fixed daily allowance to the customer for every day of hospitalization, regardless of the treatment costs incurred. In this product, VimoSEWA also shares any profit with policyholders. For example, a customer who has paid premiums for three years and has not made any claim up to the fourth year gets a silver coin, which is equivalent in value to the three years of premiums paid. In terms of regulatory provisions, VimoSEWA does not qualify to manufacture and underwrite such products. However, the regulator has not prevented VimoSEWA from selling such products, possibly on account of the unarguable benefits they provide to the low end of the market. If VimoSEWA gets a micro-insurance license, it will be able to increase the reach of such and other products addressing the same profile.

See Exhibits 17 and 18 below for product details.

VimoSEWA product mix has shifted towards life and loan-linked products from health

Exhibit 17: Product mix for CY12 and CY16 (% of total premium)



Source: VimoSEWA

Bouquet of products sold by VimoSEWA

Exhibit 18: Products currently sold by VimoSEWA

Product	Company tie-up	Age	Sum Insured/ allowance per day	Family size	Policy period	Features
Health Scheme	L&T	6mths to 60 years	30, 000 for hospitalisation expenses	Self + Spouse + 4 Children	1 year	• 24 hours hospitalisation mandatory to claim • 30 days waiting period • 2 years waiting period for any surgery • 4 years waiting period for any pre-existing disease • limit upto Rs12,500 per hospitalisation
Hospital Cash-daily allowance scheme	Own product	18 year to 59 years	Rs250 to Rs1000 per day allowance	Self + Spouse	1 year	• 24 hours hospitalisation mandatory to claim • 30 days waiting period • 2 years waiting period for any surgery • 4 years waiting period for any pre-existing disease
Life and Accident Scheme	LIC	18 to 54 years	Rs30,000 on natural death Rs75000 accidental death	Self	1 year	• 1 year waiting period for natural death due to pre-existing disease
Saving Linked Scheme	LIC	18-54 years	Rs20,000-50,000	Self	5 year to 13 years	• Maturity benefit after term ends • Natural death benefit
Credit Loan linked Scheme	LIC	18-54 years	Rs5,000 to Rs50,000	Self	1 year	• Covering loan risk • Death benefit to the nominee on the death of loanee member

Source: VimoSEWA

Focus will be on Life policies, post conversion

VimoSEWA's transformation into a manufacturer will allow it to sell life policies – including term, savings and some health products that are permitted under the Life Insurance Act. A key question in this context is: why life insurance and not general insurance – in particular health, which is likely more relevant for the target market segment. VimoSEWA's management believes that significant reforms are required in the health insurance space to reduce fraud, operating expenses and claim ratios. India has one of the least regulated healthcare industries in the world. Standard treatment guidelines which would contain costs and provide quality, rational and appropriate care have neither been developed nor enforced. This often results in the prescription of unnecessary laboratory tests, medicines and hospitalization, which in turn drives up costs.

Health insurance, therefore, remains a high risk and loss-making activity. Attempts to rationalize and streamline treatment and cost have met with stiff resistance. The Clinical Establishments Act passed in 2010 to regulate hospitals and other facilities has not been accepted by many states while many states that have enacted it do not implement it. Hence, in sum, healthcare reform, including regulation, will take time, consultation with stakeholders, and above all, political will. VimoSEWA does not believe it can take on the risk involved, particularly since it is a cooperative based on the earnings of poor women.

Health insurance carries multiple risks – and not a key focus area for VimoSEWA

We note that Uplift Mutual, another organization focused on micro insurance, has been primarily marketing health insurance policies successfully (though this model too is not permitted as per regulations).

Marketing its products through multiple channels

Insurance is a push product and selling micro-insurance products requires more effort than selling other insurance products given the character of the target market: low income, compulsion to see short-term benefits, tendency of women (who are VimoSEWA's primary target) to assign low priority to their own needs and put the family's needs first.

Successful insurance models require scale, effective feet-on-street distribution and personalized interaction to convince the policy buyer. VimoSEWA has been challenged in this area as its low capital base makes it difficult for the cooperative to scale-up its agency force. Also, the time investment required from agents in educating the customer base for micro-insurance products is disproportionately high. This makes it difficult for agents to be productive in this economic segment given very low policy sizes compared to higher income groups.

VimoSEWA needs capital to build scale, feet-on street

VimoSEWA markets its products through four key channels:

1. Aagewans (agents who are paid commission in addition to fixed pay) – enterprising women drawn from the community and trained for this particular activity.
2. Saathis (paid only commission).
3. Partner organizations, i.e., MFIs, NBFCs, that largely sell credit insurance products.
4. SEWA Shakti Kendras (SSKs) – convergence and coordination centers located in the areas where members reside.

Aagewans account for 36% of VimoSEWA's sales

Handful of agents account for 36% of business

Of the above, Aagewans are the most important distributors of insurance products for VimoSEWA, accounting for nearly 36% of sales (Exhibit 19). VimoSEWA has 18 Aagewans on a fixed honorarium. Notably, it has stopped enrolling new Aagewans since 2010 in order to reduce costs and move towards a variable-cost model. Aagewans are local women leaders that form the frontline sales force/direct marketing team and are paid a small wage as well as commissions. Aagewans are paid a fixed salary of Rs3,500 per month on average and have to achieve specific sales targets. In addition, they earned commissions for exceeding these targets. In CY16, these commissions ranged between Rs4,000 and Rs10,000 per month. These women agents go from house-to-house to promote insurance and enroll members. They use community-centric and one-on-one approaches to educate and market their products. It is an organic approach that includes area meetings, personal contact, video displays and importantly, the distribution of claim checks amidst much ceremony – to drive home the tangible benefit and credibility of such products.

Aagewans are paid fixed salaries as well as commission

Aagewans are supported by teams of full-time staff and get regular technical and motivational training. In VimoSEWA's experience, a female sales force is better able to understand the risk protection needs of the entire family and women clients are more comfortable engaging in discussion with women agents. Top-performing Aagewans are also elected as members to the board of the VimoSEWA Cooperative.

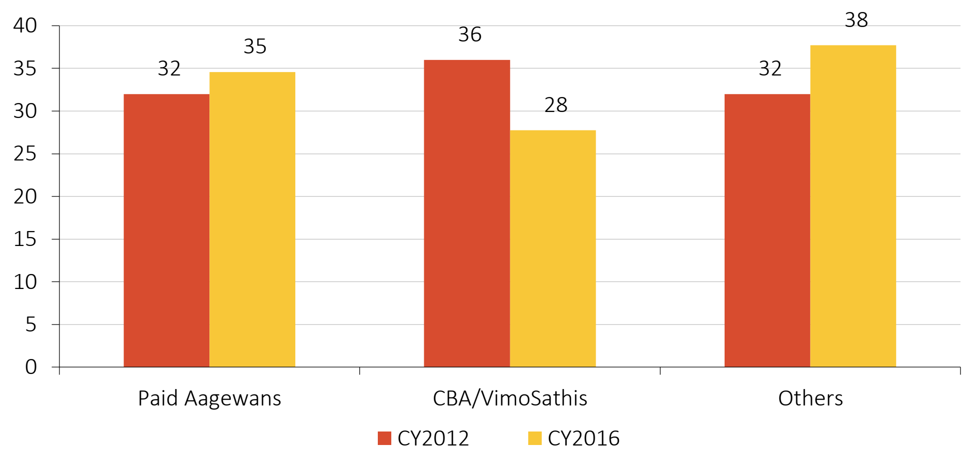
Saathis are paid only commissions and account for 28% of sales

Share of Saathis could increase going forward. The focus is now on Saathis that are pure commission agents. Currently, VimoSEWA has around 162 active Saathis accounting for 28% of the premium income in CY16, down from 36% in CY12 (when the number of Saathis was 175). The cooperative has been trying to increase the number of agents, which has not been easy because the commissions on offer are insufficient to keep them engaged, and also insurance is a hard sell.

VimoSEWA gets referrals from the SEWA group to enroll agents. Generally, most agents have Class 10 school certification. The quality of Saathis' has improved over the past two years on training. In 2010, when VimoSEWA first started developing VimoSathis, their total premium collection was around Rs0.5mn. This has now increased to Rs5.9mn, although the total number of VimoSathis has declined between 2012 and 2016. VimoSEWA believes that repeated training and capacity-building in general has resulted in the absolute premium collection by VimoSathis increasing over time. However, the premium income per VimoSathi is still 1/10th (at Rs36,600 pa) of the amount collected by Aagewans (Rs410,000 pa) as the latter work full time versus the Sathis that sell insurance products in their free-time and for whom selling insurance is not a primary income generating activity. VimoSEWA provides 25-hour training to these agents spread over three sessions: (1) information about VimoSEWA goals and functions, (2) details of the product that they need to sell, and (3) field training. Micro-insurance agents require 25 hours of training but are not required to clear the kind of exams required for selling insurance.

Aagewans dominate premium collection

Exhibit 19: Share of premium income distribution by channel (% of premium)



Source: VimoSEWA

Working with other organizations for larger outreach

VimoSEWA started working with partner organizations, mainly NGOs, in 2003 when these organizations wanted to offer insurance to their women members. Currently, it has a tie-up with 29 micro finance companies, SEWA cooperatives, and credit-cooperatives. VimoSEWA checks the background of the organization, trains their employees in sales practices, discusses/sets targets, and claims procedure and signs an MOU. As per IRDA data, of the micro-insurance policies sold in FY15, NGOs have sold 33%, MFIs 22% and cooperative societies 18%.

Micro-finance could provide a big fillip to VimoSEWA sales

One of the reasons for the pick-up in demand for micro insurance has been the explosion of the micro finance sector, which sells micro insurance as part of its financial product offering. This not only protects the company selling financial products, but also reduces the burden on the borrower.

There are 40mn microfinance customers in the country but MFIs sell health insurance policies to only around 10% of this segment, non-health to around 50% and pension products to 16% of the segment (Exhibit 20). There is clearly more scope to ramp-up the penetration of insurance products to this fast-growing customer base. However, credit-linked insurance penetration is likely to be high for this segment (Exhibit 21).

MFI's have been active in selling insurance policies to their customer base

Exhibit 20: MFI involvement in micro-insurance products

	FY16		FY15	
	No of MFIs	No of clients	No of MFIs	No of clients
MFIs involved in Micro Insurance – Health	15	366,022	21	4,055,489
MFIs involved in Micro Insurance – Non-health	39	5,538,101	41	21,265,762
MFIs involved in Micro Pension	11	1,858,933	22	6,347,483

Source: The Bharat Microfinance Report 2015, 2016

The micro finance market currently has an AUM of Rs600bn and has expanded at 21%/35% CAGR over FY11-FY16 and FY13-FY16. In addition to the loan portfolio outstanding against the Self Help group, bank linkage programs constitute another Rs571bn of assets. The number of customers has grown 12% over the past three years and 4% over five years, a slowdown that may be attributed to the aftermath of the Andhra Pradesh micro-finance crisis. While the near-term outlook for MFI loan growth looks bleak, the long-term growth potential will likely remain robust as several big developments play out; among these:

1. The conversion of large MFIs into banks (allowed access to deposits).
2. New payment banks getting involved in financial inclusion.
3. The entry of large private banks into the MFI space, directly or through acquisition.
4. Large sections of low income groups becoming financially included and bankable thanks to Aadhar and other government initiatives.

MFIs sell insurance linked to loan products in order to protect their investment

Exhibit 21: Penetration of Insurance through MFIs

	Lives insured (in mn)	Sum Insured (Rs bn)
Jun-15	19.0	340
Sep-15	22.1	368
Dec-15	28.1	427
Mar-16	42.6	763
Jun-16	46.0	785

Source: Micro Finance Association

However, VimoSEWA has struggled in its partnership model with MFIs: there is little buy-in from the partners as micro insurance is just another product among multiple products that is not assigned high priority since it is commercially unattractive. Meanwhile, the situation has resulted in large insurance companies competing to sell products to MFIs as they find it convenient to sell group policies and lower prices to such entities to achieve their social/rural targets. Over the years, the share of this segment in VimoSEWA's premium income has reduced significantly from 32% in FY12 to 13% in FY15.

On conversion VimoSEWA could offer customized and attractive products to MFIs

VimoSEWA believes that as a manufacturer, it will be able to provide more customized and cheaper policy options, making it an attractive partner. Currently, it cannot manufacture its own products and the commission it earns has to be split with these organizations, making it less attractive for the partners.

Tie-ups with banks also likely

As can be seen from the Exhibit 22 below, private insurance company sales are dominated by the banking channel. VimoSEWA could tie-up with banks and expand its reach as it becomes a manufacturer through unique micro-insurance products for low income group.

Banks are key distributors of insurance policies for the industry

Exhibit 22: Premium income collection by channel (% of premium income)

FY16	Agency	Banks	Corporate agents	Others
Bajaj Life	90	2	1	7
Birla Sun Life Insurance	81	9	5	5
ICICI Prudential Life	24	57	7	16
HDFC Life	13	68	3	16
Max Life	28	59	4	9
SBI Life	38	61	1	0
Industry	68	24		
Private players	32	52		

Source: Company data, Industry data from ICICI Prudential Life Insurance presentation for 9M2017

Doorstep service for claims management

Provides doorstep service and hand-holding during claim settlement

VimoSEWA has found that effective servicing of claims is important for building client loyalty. Unlike an intermediary who only assists the insured in preparing the claim documentation, VimoSEWA's claims department undertakes doorstep facilitation, investigation, getting deficiencies rectified, scrutiny of claims, assessment of the amounts payable and sending the completed claims files to the insurer for final settlement. When a client needs to file a claim, she intimates the VimoSEWA office on a toll-free number, and a staffer from VimoSEWA goes to her doorstep to collect the required documents. Many clients are home-based workers or work in the vicinity of their homes.

Typically, companies take 30-60 days to settle health insurance claims and 30-45 days for life insurance claims. VimoSEWA believes that it is possible to do this in 10 days once it becomes a manufacturer (currently, this is offered on its own livelihood product).

In the past 5 years (CY12-CY16), VimoSEWA has paid out claims totalling almost Rs62mn. In 2016, VimoSEWA had six staff members in its claims department, which handled 2010 claims.

Better technology needed for better service

VimoSEWA uses basic technology that sends renewal reminders to members on their mobile phones through pre-recorded vernacular messages. It also provides a toll-free number for clients to log their claims. The number can be accessed from any landline or mobile phone across the country, free of cost. The member is supposed to provide enrolment details to the customer care executive, who will register the claim and guide the member on the documentation process. Some manufacturers give VimoSEWA direct access to software which enables direct logging of claims data.

The current technology used by VimoSEWA is designed for basic requirements: data entry, MIS and claims management. The problem, however, is that premium information has to be manually fed in for each individual product on different packages, making it cumbersome for the company. All packages, with relevant information, will be merged into a single platform when the company becomes a manufacturer.

VimoSEWA has recently installed a new server and computers and own custom-made software along with upgraded data security with defined rights given to the users. The server has enhanced storage along with an auto back-up system, minimizing data loss. This is still fairly basic and the eventual plan is to upgrade technology which can provide real-time information, connect members online, and provide real-time premium collection update, claim intimation information, and status on claims. As a first step towards this, Infosys has agreed to review VimoSEWA's entire system and recommend steps for greater technical efficiency within the next few months.

BACKGROUND: A 40-YEAR JOURNEY

VimoSEWA is a full service, voluntary, standalone, multi-product insurance cooperative, offering protection against natural and accidental death, hospitalization and asset loss to women and their families. It is the first insurance cooperative of its kind in India, one that is used, managed and owned by women workers. Currently, VimoSEWA is registered to operate in the states of Gujarat, Rajasthan, Madhya Pradesh, Delhi and Bihar. It currently acts as a distributor of insurance products for one life and one non-life insurance company in India. It provides bundled and unbundled micro-insurance products – life, health and general – to its members

Nearly 1.85mn SEWA members not mined

The cooperative was formed by the Self-Employed Women's Association (SEWA), a national trade union in India, registered in 1972. SEWA has over 1.85mn members in 14 states of India, of which about 1mn are in Gujarat, where the SEWA movement began. Its members are poor women workers in the informal economy, including agricultural labourers, service providers, home-based workers, and vendors. VimoSEWA is the insurance service arm of the SEWA movement.

In the mid-1970s, SEWA started selling life insurance products, when it realized that events such as illness, death or an accident in the family could lead to a huge financial burden on its clients. In the initial years, SEWA received technical and financial support from GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, the Consultative Group to Assist the Poor (CGAP), the Ford Foundation and the Asian Development Bank to start the insurance programmer. This was because the PSU insurance companies initially refused to support its initiative.

Started standalone operations in 2000, at the same time as the private sector

In 1992, the public sector life insurer, LIC agreed to extend credit life cover to SEWA Bank borrowers, leading to the group separating the insurance activity into VimoSEWA. Over time, it expanded the product coverage to accidents, assets and health and to coverage beyond the primary members – women, and to their families as well. VimoSEWA was operationally separated from SEWA Bank and been made part of SEWA's Social Security team after the deregulation of the sector and entry of private insurance companies in 2000.

As a part of SEWA Social Security, VimoSEWA enhanced voluntary outreach within SEWA's areas of operation as well as outside these. It received support in outreach from other social security services like health and child care.

By 2009, the National VimoSEWA Insurance Cooperative was formally registered with 12,000 shareholders–including informal women workers from five states of India and 13 institutional investors, all from the SEWA family of organizations such as SEWA Bank, SEWA Cooperative Federation and SEWA health cooperative, among others.

Started restructuring organization in 2009 to make it viable

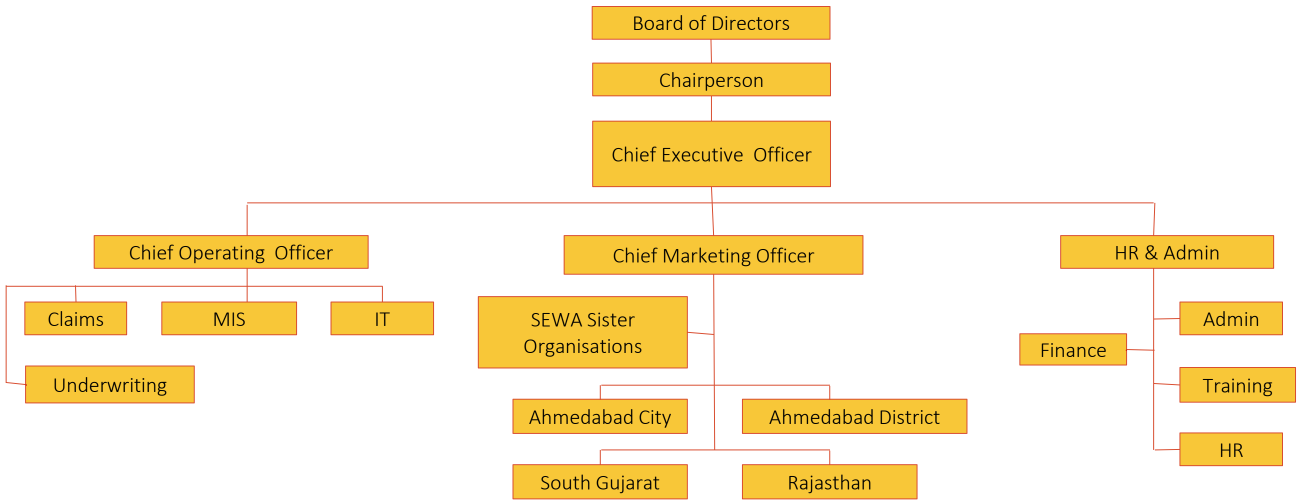
Until the late 1990s, none of the persons staffing VimoSEWA had any direct experience in the insurance industry. However, as it expanded, the entity started hiring a few experienced professionals from the insurance industry, which aided its negotiations with insurance companies. However, VimoSEWA continued to remain financially unviable till 2009. This is when VimoSEWA started focusing on organization structure and productivity outcomes. The company introduced a formal organization structure, splitting the organization on functional lines, including marketing and operations as core functions, and human resources (HR), finance and administration as non-core functions (Exhibit 23).

For more information on the history of VimoSEWA, see the VimoSEWA case study published in 2005 by the CGAP Microinsurance Working Group, available here:

http://www.ilo.org/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_122472.pdf

In 2009, VimoSEWA took its first step towards becoming a sustainable, productivity focused organization

Exhibit 23: VimoSEWA organisation chart



SEWA's holistic approach to problem- solving

VimoSEWA sells only insurance policies; however, SEWA centers tackle problems that women face on multiple fronts. The philosophy is to reach women in low income groups and better their access to funds, healthcare, child care, etc. Some of the key organizations that operate under the SEWA brand/umbrella are:

- **SEWA Agriculture Cooperative** which works in a tribal district, and focuses on improving income by getting women together to avoid middlemen, procure a seed license, and increase awareness of government health and MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) schemes.
- **SEWAChild Care** has 13 outlets in Ahmedabad which take care of infants and young children from birth to six years focused on providing quality nourishment, early childhood education, and assisting with admissions into private schools under the Right to Education. They also conduct regular health check-ups.
- **SEWA Health Cooperative**, which has around 1,800 members, provides low cost health education, diagnostic health camps and medicines. The latter are made available at a 10-70% discount as the cooperative sources them at wholesale prices and sells them through its own shops. The cooperative also sells alternative, more affordable therapies like Ayurveda for which it has a licence from the government. It has tie-ups with doctors and hospitals for consultations at low rates. Again, this cooperative is fully self-sustainable and even sets aside 25% of its profits for the purpose of imparting health education.
- **SEWA Shakti Centre** provides mental and occupational counseling to women, young people, including the children of SEWA members. The health workers who run the Shakti Centres also sell insurance products and promote linkages with government schemes to improve access to women and their families.
- **SEWA Bank** provides micro loans to women involved in informal sector enterprise. It has more than 500,000 depositors and a total working capital of Rs3bn.

Ownership structure and capital required on conversion

If VimoSEWA succeeds in acquiring a manufacturer's license, it will have to consider two options:

1. Convert existing cooperative into a manufacturer, while retaining the cooperative structure.

2. Float a wholly-owned subsidiary, which is issued the licence.

Manufacturer's license: particularities and challenges

1. This will be the first instance of its kind where a cooperative will be seeking a manufacturer's licence. VimoSEWA's interactions with IRDA lead it to believe it will qualify for the license. However, it is important to note that there is no difference in the minimum capital required for a corporate entity and/or a cooperative – which is Rs1bn. In addition, as per Milliman projections for VimoSEWA, the capital requirement could range from Rs1.7bn to Rs2.4bn to meet the regulatory solvency requirements (see detailed projections in the Milliman report). Given its cooperative structure, IRDA will seek assurance on the cooperative's ability to raise capital, which is easier managed under a corporate structure.

2. As per the Insurance Act, the voting right of every shareholder will be proportionate to the paid-up amount of the shares held by the individual/ institution. Under the Cooperative Act, voting rights are limited to 1 per member/ holder irrespective of ownership. This could be a problem as VimoSEWA is planning to raise capital from donors/impact investors, who may find such rights diluted and disproportionately low.

Legal structure will have to provide rights to shareholders

3. VimoSEWA may need to tap international investors for funding to meet its capital requirements. As per the Cooperative Act, the maximum any individual shareholder can own is 20% of capital. There appears to be no ceiling on foreign holding as per the Multi-state Cooperative Societies Act, 2002, under which VimoSEWA is registered. However, under the Insurance Act, foreign holding will be limited to 49%.

4. The Cooperative Act does not seem to have any restriction on foreign investment. It is unclear whether VimoSEWA will need FIPB (Foreign Investment Promotion Board) approval while seeking foreign capital, particular since this board is being disbanded

5. VimoSEWA is considering a mutual model for becoming an insurer. If this is indeed the final structure, it is not clear how investors will get paid.

Will have to ensure decent returns to shareholders under the new structure

There is only one example of a cooperative that is the promoter of an insurance company in India: i.e., IFFCO Tokio. However, this is not a cooperative (where all policy-holders are members and get a share in the profit) and has been floated as a separate corporate entity rather than a cooperative. If granted a licence, VimoSEWA will be the first cooperative insurer to have multiple foreign owners/shareholders rather than a single one.

Capital required estimated at around Rs1.7bn-2.4bn

As per Milliman, the total funds required over a two-year period will be around Rs1.7bn to Rs2.4bn. The estimated total premium income under the Scenario 1/base case is Rs31.7bn and under Scenario 2/low volume at Rs11.9bn in Year 10 of operation. The company is expected to start making profit from Year 5 or 8 under Scenarios 1 and 2, respectively, and generate sufficient profits thereon to meet capital norms with internal funds/accruals.

VimoSEWA will need in-principal commitment from donors before going to IRDA for the licence proposal, and funds will have to be invested in the company before the licence is given in the R 3 stage.

Financials: Running a sustainable model

Currently, insurance business income and expense are booked under three different entities:

1. **Self Employed Women's Association:** a non-commercial entity which falls under the Trade Union Act. This entity owns a fixed asset i.e. building where VimoSEWA operates from. All income from the Group policy for health (New India Assurance) and Life policy (with LIC) and own livelihood products are booked in this entity. Additionally, expenses pertaining to the claims department are expensed here. The association also earned Rs1.1mn interest income on the Rs13.8mn on its Corpus/capital funds in CY16.

2. **Mahila SEWA Trust:** a non-commercial entity, a public charitable trust where the cost of marketing staff, salaries and admin cost is booked and adjusted against interest income on grants received and outstanding corpus. The outstanding corpus as of CY16 was Rs23.3mn.

3. **National Insurance VimoSEWA Cooperative**: a commercial entity in which all premium income pertaining to policies sold to individuals is booked. The outstanding corpus for this entity in CY16 was Rs20mn.

The total corpus across the three entities is Rs57.1mn. VimoSEWA will have to bring all income and expenses under the commercial entity as it looks to change the structure of this organization. Numbers referred to below in Exhibit 24 are thus based on the consolidated entity.

Running a sustainable model

Exhibit 24: VimoSEWA financial performance CY09-CY16

	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CAGR (%)
Premium income (Rs mn)	**12.6**	**13.3**	**16.3**	**18.1**	**19.8**	**20.5**	**22.1**	**21.4**	**7.8**
yoy growth (%)		5.6	22.6	11.0	9.4	3.5	7.8	(3.3)	
Premium per policy (Rs)	117	153	201	224	249	244	255	286	
yoy growth (%)		30.8	31.4	11.4	11.2	(2.0)	4.5	12.1	
Membership	107,398	119,477	99,117	100,297	92,345	94,722	95,125	86,533	(3.0)
yoy growth (%)		11.2	(17.0)	1.2	(7.9)	2.6	0.4	(9.0)	
Gross margin	**3.6**	**2.9**	**3.2**	**3.4**	**3.9**	**3.0**	**3.2**	**2.4**	**(5.7)**
Gross Margin (%)	28.8	22.1	19.5	18.9	19.8	14.5	14.7	11.3	
Acq. Cost (Direct channel) (%)	29.0	18.8	12.9	10.9	10.3	13.1	12.8	11.9	
Acq. Cost (Partner channel) (%)	23.8	14.9	13.5	12.4	8.2	9.2	8.8	8.0	
Renewal Rate (%)	55.3	66.0	32.0	59.0	52.0	48.0		65.0	
Claims paid (No)	4,505	4,198	3,139	3,482	3,042	3,069	1,724	1,634	(13.5)
yoy growth (%)		(6.8)	(25.2)	10.9	(12.6)	0.9	(43.8)	(5.2)	
Claims Paid (Rs mn)	7.6	12.5	11.5	14.9	14.0	11.5	11.7	10.0	3.9
yoy growth (%)		64.5	(8.0)	29.6	(6.0)	(17.9)	1.7	(14.9)	
Claim paid per person (Rs)	1,687	2,978	3,664	4,279	4,602	3,747	6,787	6,092	20.1
yoy growth (%)		76.5	23.0	16.8	7.6	(18.6)	81.1	(10.2)	
Claims Time for Average Turnaround (TAT) days	104	90	89	43	24	43	44		
Cost per Claim (Rs)	339	351	297	267	327	295	337		(100.0)
Total cost	19.15	16.61	18.36	20.17	19.69	19.08	18.26	17.55	(1.2)
Staff cost (Rs mn)	9.45	6.44	6.56	6.88	6.81	6.70	6.19	6.13	
Admin Cost (Rs mn)	9.70	10.17	11.80	13.29	12.88	12.38	12.07	11.42	
Return on Investment (%)	7.49	7.79	6.85	7.55	8.80	7.97	8.05	8.05	
Underwriting surplus (Rs mn)					0.79	1.10	1.07	1.66	
Viability (Rs mn)	**1.70**	**0.21**	**1.77**	**2.07**	**0.34**	**1.42**	**2.15**	**2.30**	**4.4**
Underwriting surplus to premium income (%)	–	–	–	–	3.97	5.37	4.85	7.77	
Viability to Premium income (%)	13.47	1.58	10.86	11.45	1.71	6.94	9.71	10.76	

Source: VimoSEWA

Over 2009-16, VimoSEWA's premium income grew by 7.8% versus the insurance industry which has seen premium income stagnate. Note the numbers may not be strictly comparable as VimoSEWA sells both health and life policies and the share of its savings linked product has increased in the past two years. While premium income increased, the number of members fell 3%. Commission earned/gross margin (commission on policy sale) also declined 5.7% over this period, on lower commission from insurance companies and more recently demonetization impact. The cooperative's profit grew by around 4.4% on the back of premium income growth, investment income, cost control and surplus from mutual product.

VimoSEWA earns commissions ranging between 7.5% to 20% on products sold

Exhibit 25: Commission received by VimoSEWA on insurance products sold

Product Type	Product Name	Insurance Company	Commission Received by VimoSEWA
Health	Swasthya Parivar	New India	20.0%
Health	Medisure Micro Insurance	L&T	15.0%
Health	Hospital Cash	L&T	15.0%
Heath	Saral Suraksha	Own	Surplus
Life (OGI)& Accident	Sukhi Jeevan	LIC	20.0%
Saving Link	Jeevan Mangal (New policy)	LIC	10.0%
	Bhgyalaxmi (New Policy)	LIC	10.0%
	Jeevan Mangal (Renewals)	LIC	10.0%
	Bhgyalaxmi (Renewal)	LIC	7.5%
Credit Life	Loan link product	LIC	20.0%

Source: VimoSEWA

To improve its premium income, VimoSEWA is trying to expand the network of Saathis and has set up a team to focus on renewals of lapsed policies, encouraging Aagewans/Saathis to stay in touch, and follow up with clients. The cooperative also sends SMS reminders. The current lapse ratio on savings linked policies is 20% and other products 40% and the renewal rate of all products on average is 62%.

KEY RISKS: SCALING UP

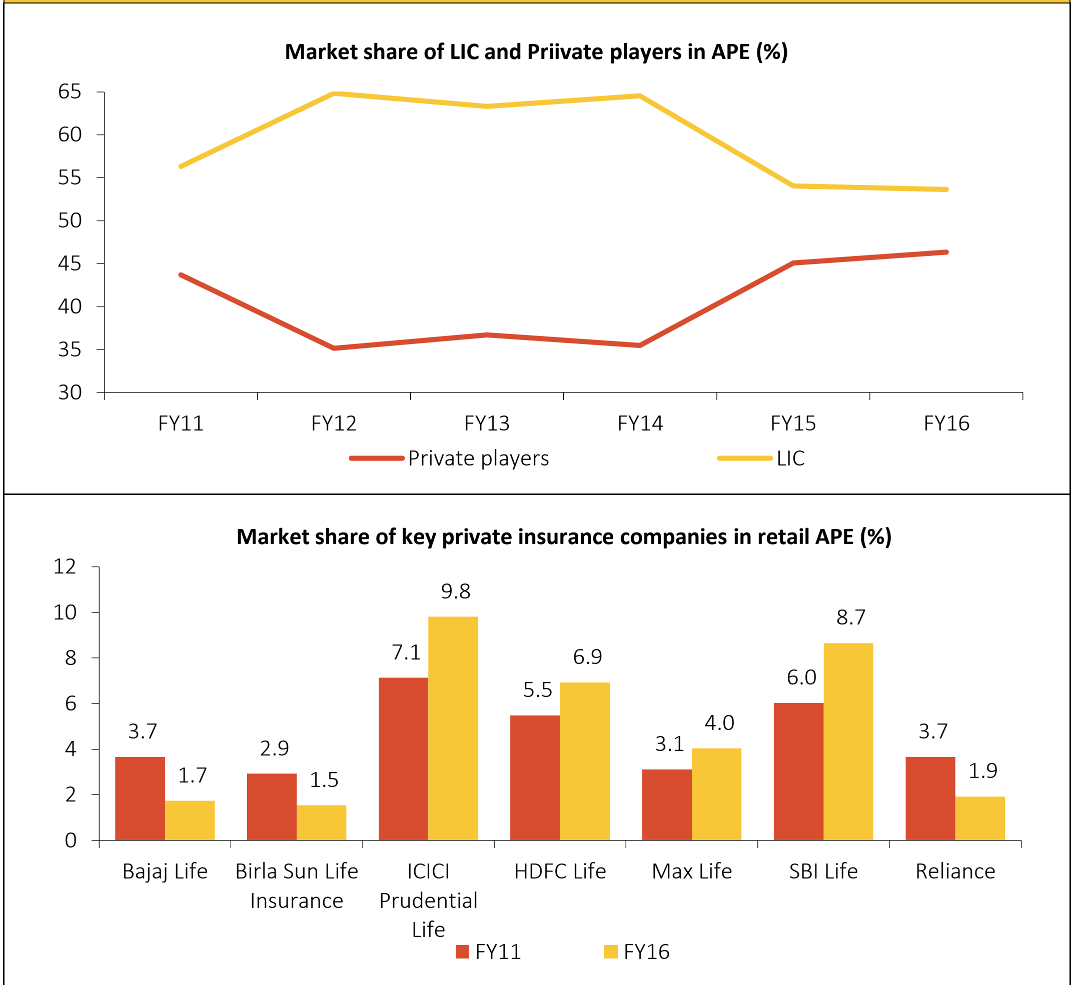
- **Fund-raising constraints.** Will the regulator be comfortable giving VimoSEWA a full-fledged licence given the company's limited ability to raise capital from donors/investors? The constraints will likely be more significant in a cooperative model than in a corporate model.
- **Slow in scaling up operations.** The company has been operating primarily in Gujarat and has not managed to scale up in other geographies. The insurance business can be successful if companies manage to scale-up operations to reduce cost and spread risk. VimoSEWA has yet to demonstrate its ability to effectively expand into other geographies. The key constraints so far have been a lack of capital which is essential to scale-up operations and also attract talent. VimoSEWA's objective is serving the needs of the under-privileged rather than the pursuit of profit. This makes it difficult for the company to pay market related salaries/pay/ESOPs to attract and retain talent. The Milliman projections of capital required factors in the expansion plan including hiring of professionals at market driven salaries.
- **Beneficial policies outside of regulatory provisions.** It is important to highlight three areas in the current business model which are not permitted by IRDA regulations: (1) VimoSEWA is offering its own livelihood insurance product (i.e. manufacturing a product) and taking the underwriting risk. Only a licensed insurance company is permitted to manufacture products in India. (2) VimoSEWA has been charging a commission to customers of a New India Insurance's product (medical insurance group policies) a charge that is technically proscribed. Note this product is being phased out now. (3) It has agents enrolled to sell policies. Distributors have to employ these agents and cannot enroll them on a commission basis.
- **Geographic concentration heightens risk from natural disasters.** These risks are higher given the company's narrow geographic presence. It could get hit significantly if a majority of its customers are within a single territory that is hit by floods, earthquakes, epidemics or the like.
- **Challenges in expanding distribution channels.** Nearly 50% of insurance product sales for the industry are currently being done through the banking channel. VimoSEWA would be a late entrant to this market and may find it difficult to get appropriate banking partners. Most banks have already tied-up with banks, however, the regulations do permit micro-insurance companies/providers to enter into fresh tie-ups for selling micro-insurance products, without impacting existing arrangements. Banks are also permitted to have tie-up with three insurers as per changed regulations. Additionally, small cooperative banks and credit cooperative societies are still an untapped market.
- **Collection and deposits of premium income not efficient.** It is all in cash on account of the target profile. This could pose a potential risk of fraud and loss of interest income due to time loss in depositing funds. Currently, Aagewans collect the premium income from clients and Saathis daily and deposit these with VimoSEWA once a week.
- **Profile of Board.** The Board largely consists of self-employed women members from the low-income segment. VimoSEWA will need to attract professionals experienced in running larger companies.
- **Projections of capital required could fall short.** The capital requirement and projections provided by Milliman could carry risk as actual experience may vary versus assumptions in particular on product/distribution strategies, operating experience etc.

APPENDIX 1: INDUSTRY STRUCTURE

LIC dominates with reach and brand

The life insurance industry currently has 21 players with LIC the largest public sector player accounting for nearly 53.7% market share and private players 46.3%. Despite the significant competition from private players, LIC continues to remain a dominant player in the market given its strong reach of over 1mn agents and brand equity. Within the private players, the top five account for 31% share of the market.

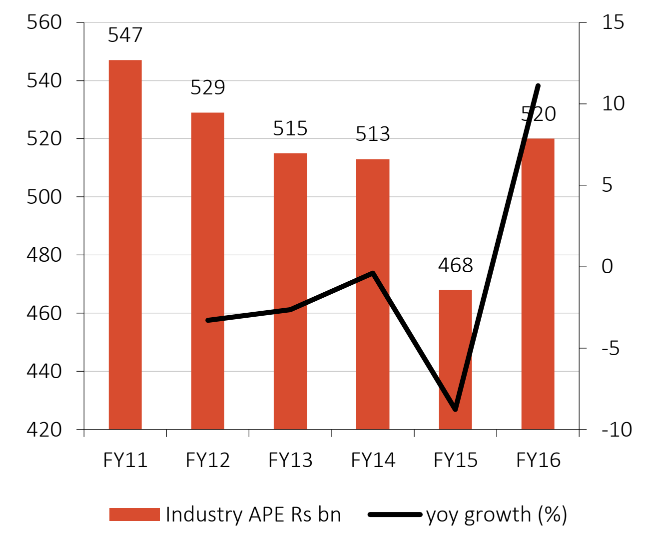
LIC still dominates the insurance market, followed by ICICI, HDFC and SBI Life

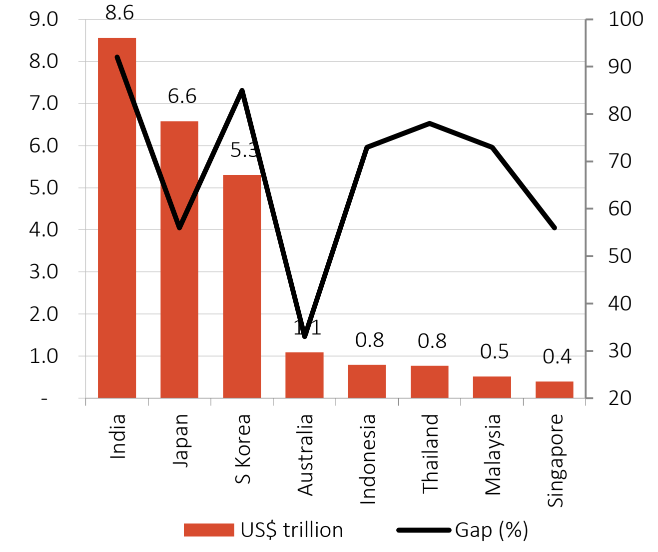


Source IRDA

Growth has been muted for the past five years, penetration still low. The insurance industry has seen muted premium income over the past five years which has remained at Rs520bn in FY16 versus Rs547bn in FY11. This is on account of significant changes in the regulations, reducing commissions paid to agents and withdrawal of products to protect customers. Insurance penetration therefore has remained low, at 2.6%, for life insurance.

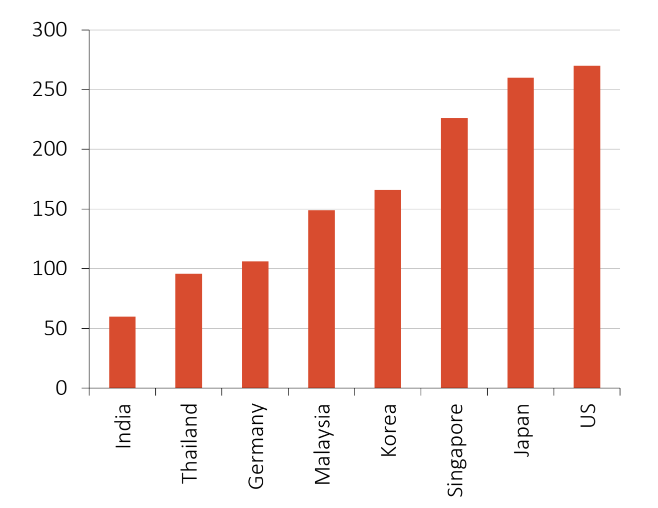
Premium income growth has been sluggish due to regulation changes

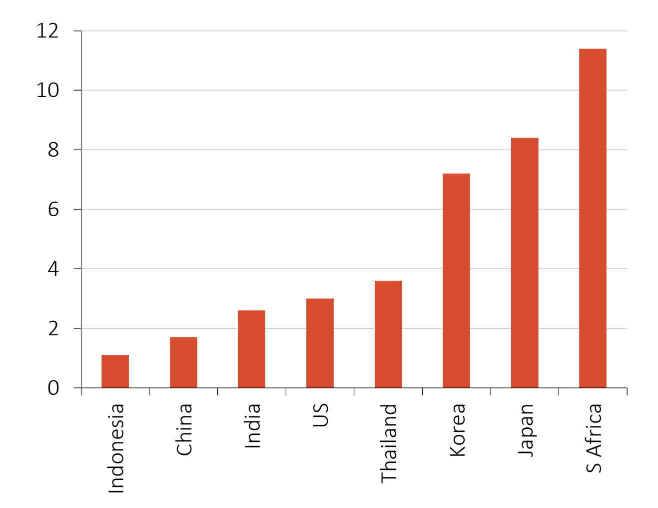




Note: Protection coverage gap – Ratio of protection lacking/protection needed
Source: ICICI Prudential Life Insurance presentation for 9M2017

India's penetration levels still low versus other key markets



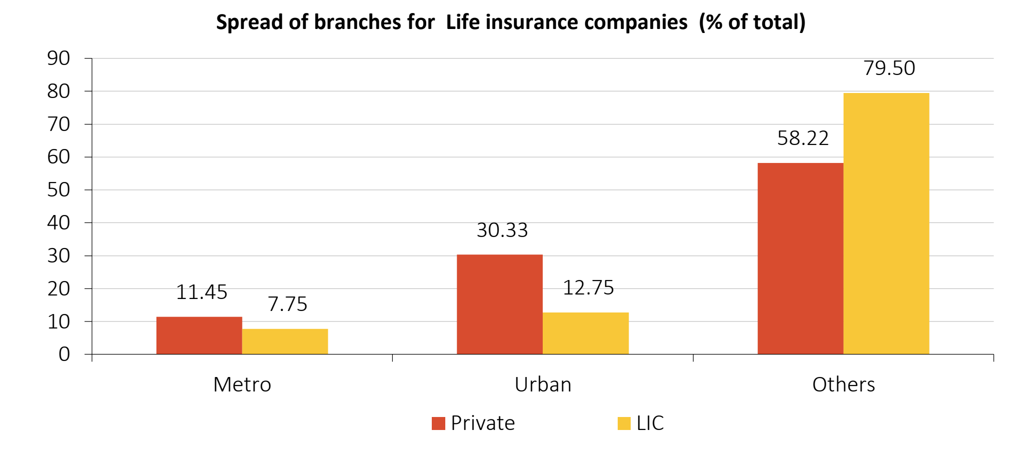


Source: IRDA

Savings dominate the premium share. Even within life, the share of term policy is limited to below 3%, and most of the products are dominated by savings polices. India's penetration level therefore is likely inflated when compared to other countries where the term component is generally higher.

Channel of distribution. For most private players, product distribution is dominated by the banking channel which accounts for nearly 50% of their premium collection. In contrast, LIC distributes 95% of its individual policies through the agency channel. This is likely one of the reasons why private players find it difficult to expand into micro insurance.

LIC has significant presence in rural/semi-urban areas



Source IRDA

APPENDIX 2: REGULATIONS

Insurance companies mandated to meet social obligations

The IRDA has made it mandatory for insurance companies to achieve both rural and social sector targets since 2002. Furthermore, in 2005, the Insurance Regulatory Development Authority (IRDA) mandated that insurance companies must sell micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. Regulations were eased on distribution channels, allowing NGOs, cooperatives and other such organizations to become micro-insurance intermediaries without the need for a licence of regular insurance agents.

Sector obligation to be met by insurance companies in India		
	Rural Sector	**Social Sector**
Private sector		
Life	5% of total policies in year 1 increasing to 20% by year 10	5,000 lives in year 1, growing to 55,000 by year 10
Non-life	2% of gross premium in year 1, increasing to 7% by year 10	
LIC		
Life	25% of total policies in FY10	2mn lives in FY10

Source: IRDA

How micro insurance policies are defined in India			
Type of policy	**Sum insured (Rs 000)**	**Term (in years)**	**Age (in years)**
Life Policies			
Term Life	5-50	5-15	18-60
Endowment	5-30	5-15	18-60
Health (Individual)	5-30	1-7	Insurer's discretion
Health (family)	10-30	1-7	
Accident rider	10-50	5-15	18-60
Non-life Policies			
Livestock/assets	5-30	1	NA
Personal Accident	10-200	1	5-70

Source: MicroSave India Focus Note 49 Trends of Microinsurance in India Premasis Mukherjee August 2010

Government insurance policies in existence

Type of Product	Name of Product	Year introduced	Cover	Eligibility (years)	Cost
Agriculture (area yield)	National Agriculture Insurance Scheme (NAIS) Program	1999			
Natural and Accidental Death for SHG Members	Janashree Bima Yojna	2000			
Livestock (for mortality)	Livestock Insurance Scheme	2006			
Natural and Accidental Death for Landless Labours	Aam Admi Bima Yojna	2007			
Agriculture (weather index)	Weather Based crop Insurance Scheme	2007			
Health insurance	Rashtriya Swasthya Suraksha Yojana	2008			
Term life Policy	Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)	2015	200,000	18-50 Should have SA	330 a year
Accidental death/permanent disabilities	Pradhan Mantri Suraksha Bima Yojana (PMSBY)	2015	200,000	Should have SA	Rs 12 a year
Pension product	Atal Pension Yojana (APY)	2015	Rs1000-5000	18-40 Should have SA	Rs42-291/month
Health insurance-hospitalisation cover	Health insurance	2015	50000	18-40	700-800/year

Note: SA is savings account with a bank
Source: Various government websites

APPENDIX 3: FINANCIALS SUMMARY

Milliman's projections: Base case scenario – High volume and low capital requirement

Summary of Key Financials (Rs mn)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Total premium	242	725	1,476	2,538	4,339	6,932	10,430	14,973	21,878	31,764
Total operating expenses	445	435	588	775	1,064	1,426	1,879	2,387	3,320	4,478
Expense ratio (%)	184	60	40	31	25	21	18	16	15	14
Required capital infusion	1,000	700	–	–	–	–	–	–	–	–
Total expense overruns	282	48	–	–	–	–	–	–	–	–

Key financial indicators	
First year of statutory profits	Year 5
Total capital infusion required (Rs mn)	1,700

Revenue Account (Rs mn)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Revenues										
Total Premiums	242	725	1,476	2,538	4,339	6,932	10,430	14,973	21,878	31,764
Total Investment Income	6	26	75	165	323	576	958	1,511	2,322	3,504
Contribution from shareholder's account	385	239	274	331	436	526	605	646	864	1,047
Total Income	634	989	1,825	3,035	5,097	8,035	11,993	17,130	25,064	36,314
Benefit Outgo										
Death outgo	14	45	93	165	287	467	717	1,050	1,550	2,271
Surrender outgo	–	–	23	69	145	263	469	776	1,214	1,819
Maturity outgo	–	–	–	–	–	–	–	–	–	–
Total Benefit Outgo	14	45	117	234	432	730	1,186	1,826	2,765	4,089
Expenses										
Commission	86	208	370	577	967	1,470	2,102	2,878	4,230	6,094
Acquisition expense	289	294	397	524	720	965	1,273	1,618	2,251	3,036
Maintenance expense (Total)	156	142	191	251	344	460	606	770	1,070	1,442
Total Expense	532	643	958	1,352	2,031	2,896	3,981	5,266	7,550	10,572
Increase in liability										
Increase in Reserve	85	293	666	1,209	2,083	3,382	5,215	7,632	11,116	16,097
Pre-Tax Profit	**3**	**8**	**85**	**240**	**551**	**1,027**	**1,611**	**2,406**	**3,633**	**5,556**
Tax on Profit	0	1	12	35	79	148	232	347	524	801
After-Tax Profit	**2**	**7**	**72**	**205**	**472**	**879**	**1,378**	**2,059**	**3,109**	**4,754**
Transfers to shareholders	**2**	**7**	**72**	**205**	**472**	**879**	**1,378**	**2,059**	**3,109**	**4,754**
Retained within WP fund	–	–	–	–	–	–	–	–	–	–

Profit and loss account (Rs mn)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Revenues										
Amounts transferred to policyholder's fund	(385)	(239)	(274)	(331)	(436)	(526)	(605)	(646)	(864)	(1,047)
Amounts transferred from policyholder's fund	2	7	72	205	472	879	1,378	2,059	3,109	4,754
Investment income	68	93	83	74	69	76	104	162	267	434
Total Income	(316)	(139)	(119)	(52)	105	429	878	1,575	2,512	4,141
Profit and loss										
Profit / loss before tax	(316)	(139)	(119)	(52)	105	429	878	1,575	2,512	4,141
Tax on investment income	10	13	12	11	10	11	15	23	39	63
Profit / loss after tax	(325)	(152)	(131)	(63)	95	418	863	1,552	2,473	4,079

Balance Sheet (Rs mn)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets										
Assets in shareholders' fund	1,375	1,222	1,091	1,028	1,123	1,541	2,403	3,956	6,429	10,508
Assets in policyholders' fund	85	378	1,044	2,253	4,336	7,718	12,933	20,565	31,681	47,778
Debit balance in P&L account	325	478	609	672	577	159	–	–	–	–
Total assets	1,785	2,078	2,744	3,953	6,036	9,418	15,336	24,521	38,110	58,286
Liabilities										
Capital	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Policy reserves	85	378	1,044	2,253	4,336	7,718	12,933	20,565	31,681	47,778
Others (Funds for Future Appropriations or Estate)	0	0	0	0	0	0	0	0	0	0
Retained profit in P&L account	–	–	–	–	–	–	703	2,256	4,729	8,808
Total liabilities	1,785	2,078	2,744	3,953	6,036	9,418	15,336	24,521	38,110	58,286
Solvency ratio										
ASM / RSM (%)	275	244	218	206	225	277	274	300	326	360

Note: For detailed assumptions and risk please see Milliman's report dated Feb 22, 2017, Life Insurance Market Entry, Update of Financial Projections

Source: Milliman

Milliman's projections: Scenario analysis – Low volumes and higher capital requirement

Summary of Key Financials (Rs mn)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total premium	185	448	805	1,392	2,226	3,334	4,754	6,534	8,719	11,906
Total operating expenses	445	393	489	658	836	1,047	1,322	1,614	1,952	2,561
Expense ratio (%)	241	88	61	47	38	31	28	25	22	22
Required capital infusion	1,000	1,400	–	–	–	–	–	–	–	–
Total expense overruns	320	169	141	80	–	–	–	–	–	–

Key financial indicators	
First year of statutory profits	Year 8
Total capital infusion required (Rs mn)	2,400

Revenue Account (Rs mn)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Total Premiums	185	448	805	1,392	2,226	3,334	4,754	6,534	8,719	11,906
Total Investment Income	5	17	43	87	165	285	456	696	1,018	1,457
Contribution from shareholder's account	400	270	289	310	346	400	465	514	555	715
Total Income	589	734	1,136	1,790	2,737	4,019	5,676	7,743	10,292	14,078
Benefit Outgo										
Death outgo	11	28	52	91	149	228	333	467	637	879
Surrender outgo	–	–	18	42	80	147	245	384	574	827
Maturity outgo	–	–	–	–	–	–	–	–	–	–
Total Benefit Outgo	11	28	69	134	229	375	578	851	1,211	1,707
Expenses										
Commission	66	121	190	315	474	671	909	1,195	1,533	2,124
Acquisition expense	289	265	330	444	565	708	895	1,092	1,322	1,734
Maintenance expense (Total)	156	128	159	213	271	339	427	521	630	826
Total Expense	511	515	678	973	1,310	1,718	2,231	2,808	3,485	4,684
Increase in liability										
Increase in Reserve	65	187	379	667	1,086	1,672	2,434	3,399	4,595	6,235
Pre-Tax Profit	**2**	**5**	**10**	**17**	**111**	**255**	**433**	**685**	**1,002**	**1,452**
Tax on Profit	0	1	1	2	16	37	62	99	144	209
After-Tax Profit	**2**	**4**	**8**	**14**	**95**	**218**	**371**	**586**	**857**	**1,242**
Transfers to shareholders	**2**	**4**	**8**	**14**	**95**	**218**	**371**	**586**	**857**	**1,242**
Retained within WP fund	–	–	–	–	–	–	–	–	–	–

Profit and loss account (Rs mn)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Amounts transferred to policyholder's fund	(400)	(270)	(289)	(310)	(346)	(400)	(465)	(514)	(555)	(715)
Amounts transferred from policyholder's fund	2	4	8	14	95	218	371	586	857	1,242
Investment income	68	139	129	118	105	94	87	85	95	121
Total Income	**(330)**	**(126)**	**(151)**	**(178)**	**(146)**	**(89)**	**(8)**	**158**	**397**	**648**

Profit and loss										
Profit / loss before tax	(330)	(126)	(151)	(178)	(146)	(89)	(8)	158	397	648
Tax on investment income	10	20	19	17	15	14	13	12	14	17
Profit / loss after tax	(340)	(146)	(170)	(195)	(161)	(102)	(20)	146	384	631

Balance Sheet(Rs mn)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets										
Assets in shareholders' fund	2,060	1,914	1,744	1,548	1,387	1,285	1,265	1,410	1,794	2,425
Assets in policyholders' fund	65	252	631	1,298	2,384	4,056	6,490	9,888	14,483	20,718
Debit balance in P&L account	340	486	656	852	1,013	1,115	1,135	990	606	–
Total assets	**2,465**	**2,652**	**3,031**	**3,698**	**4,784**	**6,456**	**8,890**	**12,288**	**16,883**	**23,143**
Liabilities										
Capital	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Policy reserves	65	252	631	1,298	2,384	4,056	6,490	9,888	14,483	20,718
Others (Funds for Future Appropriations or Estate)	0	0	0	0	0	0	0	0	0	0
Retained profit in P&L account	–	–	–	–	–	–	–	–	–	25
Total liabilities	2,465	2,652	3,031	3,698	4,784	6,456	8,890	12,288	16,883	23,143
Solvency ratio										
ASM / RSM (%)	412	383	349	310	277	257	253	234	213	206

Note: For detailed assumptions and risk please see Milliman's report dated Feb 22, 2017, Life Insurance Market Entry, Update of *Financial Projections*

Source: Milliman

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