

Bundling of Insurance with Agricultural Inputs

STRATEGY FOR ENHANCING ACCESS AND DISTRIBUTION

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**THEME: DEEPENING AGRICULTURAL
INSURANCE PENETRATION IN NIGERIA:
OPPORTUNITIES AND STRATEGIES**

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Goal

- ▶ This presentation is aimed at providing insight into:
- ▶ Features of a good bundling arrangement
- ▶ Identification of Products that can be easily bundled
- ▶ Steps to be followed in bundling
- ▶ Need for both input suppliers and insurance stakeholders to work together

Introduction

- ▶ Agricultural insurance is one of the ways to manage risks by farmers;
- ▶ Insurance has historically been out of reach for those in rural areas.
- ▶ Few insurance products are accessible to rural communities due to lack of distribution networks and high premium costs.
- ▶ Not all farmers will want or need insurance even if it is available and affordable.
- ▶ Agricultural insurance can often be more effective when bundled with other financial and non-financial services to address the spectrum of risks faced by smallholder farmers and other actors within the value chain.
- ▶ Bundling agriculture insurance with other services like credit and better farm inputs is fast emerging as a possible solution to help agricultural insurance to make insurance more tangible.

Bundling

- ▶ Bundling occurs when companies package several of their products or services together as a single combined unit, often for a lower price than they would charge customers to buy each item separately,
- ▶ In the simplest way, a product bundle is a grouping of individual products that can be sold separately but are sold together. This marketing strategy facilitates the convenient purchase of several products and/or services from one company.
- ▶ The products and services are usually related, but they can also consist of dissimilar items which appeal to one group of customers.

Different Bundle Types

- ▶ Bundling strategy works in different ways, below are the different types of product bundles that can be used to gain increase in sales:
- ▶ **Pure Bundling:** takes place when the individual products that make up the bundle are only made available when purchased as a bundle. The individual products cannot be purchased by customers separately.

For example, fertilizer + herbicide + seed + insurance premium.

- ▶ Other examples of Bundling are:
 1. Mix and Match/custom Bundles
 2. New or Less-Known Products Bundling
 3. Upsell Bundles
 4. Cross-Sell Bundles
 5. Necessity or Occasional Bundles
 6. Old or Excess Inventory Bundling
 7. Gift Set Bundles
 8. Buy One, Get One (BOGO) Style Bundling



Form of Agricultural Insurance Bundling:

- ▶ The Insurance companies adopt the product bundling technique to Bundle insurance products together so that a customer has more than one insurance product with the same insurance company. For example, Area yield index insurance and Fertilizer/CPP/Seeds/Veterinary drugs etc).

- ▶ **Agricultural insurance bundling takes two forms:**
 1. Those where the insurance product is compulsory for the smallholders when using a complementary product or service, such as inputs or credit (note: the insurance component may be invisible to the farmer)

 1. Those where the insurance product is voluntary and presented as part of a menu or set of solution options.

Bundling of Agricultural Insurance

- ▶ Bundling of agricultural insurance with other services like credit and better farm input is fast emerging as a possible solution that can help agricultural insurance to:
 1. make insurance more accessible/tangible,
 2. enable schemes to scale faster, and
 3. achieve better social outcomes
- ▶ A coordinated bundling has a strong potential to build momentum around innovative new approaches by:
 1. Lower market cost
 2. Increase sales
 3. Leverage on existing/popular product to introduce new/unpopular products, to mention just a few



Product Bundling -Agric Inputs

- ▶ Product bundling works well because it is deeply rooted in a psychological process called customer value perception.
- ▶ As a general rule, farmers favour products that they find valuable or worth it to buy e.g., Fertilizers, Crop protection products (herbicides/pesticides/vet drugs e.t.c.) or certified seeds.
- ▶ Customers perceive that they will save if they purchase a bundled item at a cheaper price instead of buying them as individual products.
- ▶ Bundled products greatly affect the farmers' subconscious judgment with a feeling like 'they have bought several products at a bargain'.
- ▶ For instance, rather than going through the hassle of looking at multiple products or going back and forth on different product pages, offering the buyers with a bundled item at a discounted price makes their buying decision easier and faster.
- ▶ **It is all about leveraging on the farmer's perception of savings, value, and convenience, that is why product bundles work effectively.**

Bundled Products

- ▶ For effective bundling, farm inputs should have the following characteristics:
 1. available,
 2. affordable,
 3. accessible, and be of
 4. good quality.
- ▶ Essential ingredients for agriculture to prosper are:
- ▶ Seeds, fertilizers, and agro-chemicals, are essential inputs for improving the productivity and incomes of smallholder farmers (World Bank, 2013; AGRA 2013; FAO, 2013).

Bundling: Case study-Rice Farmer

- ▶ For the typical Rice farmer, the most basic agricultural inputs required are fertilizers, crop protection products (herbicides/pesticides/fungicides e.tc.) and certified seeds.

- ▶ There are seven possible bundling products combinations and these are:
 1. fertilizer + insurance premium,
 2. herbicide + insurance premium,
 3. seed + insurance premium,
 4. fertilizer + herbicide+ insurance premium,
 5. fertilizer + seed + insurance premium,
 6. herbicide + seed + insurance premium and
 7. fertilizer + herbicide + seed + insurance premium.

NB: A template for bundling can be developed and customized for the different insurance products

Insurance Products and Bundling

- ▶ There are several agricultural insurance products in the industry from which the farmer could make a selection from.
- ▶ For example, in this project,
- ▶ For the crops, index based insurance which is known to be less susceptible to asymmetries of information is highlighted for bundling with agricultural inputs. The features of these products can be enhanced for a more efficient bundling outcome.

For example, fertilizer + herbicide + seed + Area yield index insurance premium.

- ▶ The insurance products for crops are:
 - ❖ Area yield index insurance
 - ❖ Weather based index insurance
- ▶ For animals, a typical insurance product is:
 - ❖ Livestock insurance

Practical Tips on How to Put Product Bundles

- ▶ Agricultural input suppliers and agricultural insurance product providers would not just have to worry about understanding their customer's needs and wants, but they also must ensure their profitability, inventory, and overall supply chain management.
- ▶ **HERE ARE SOME OF THE BEST TIPS WHEN CREATING PRODUCT BUNDLES**
- ▶ **Emphasize on savings:** The cost savings for your customers is an important aspect for your product bundles to be successful, buyers must feel that the bundle is worth it. However, the cost savings do not have to be huge, but they must be noticeable.
- ▶ **Be mindful of your profit margins:** You want to be profitable with your bundled offerings. If you want to steer clear of huge price discounts, consider incorporating a really enticing free product with a good margin. Test and measure performance - Keep track of your bundled product's performance.
- ▶ **Is there a negative impact on other products? :** Putting together your success for your input store to benefit from product bundling successfully, you need to carefully consider a lot of factors such as customers' demands, profit margin, inventory levels, and supply chain management.

The Benefits of Synergy (Insurance/Input/Farmer)

S/No.	FOR THE INSURER	FARMING INPUT PROVIDER	THE FARMER'S
1	Leverage existing non-insurance services to increase outreach and penetration, and compensate for lack of own staff/distribution in rural markets	Reduction of agriculture lending risk;	Access to insurance on a cost-effective basis;
2	Utilise the partner's goodwill and get customers to try the insurance offering;	Use of insurance as a sales promotion tool for farming inputs;	Easy access to credit and improved farm input
3	Reduce cost of distribution, customer education, and premium collection through pre-financing by the partner or aggregator;	Increased loyalty to the product;	Loan repayment relief and access to loans for the next season (in case of default due to unfavourable production);
4	Have reduced anti-selection/fraud due to bundled nature (especially for mandatory products)	Additional revenue stream in terms of commission or service fees from the insurer	Easy payment of premium, if service providers pre-finances or subsidises premium;
5			Access to multi services at a competitive price through the "one-stop" shop.

For the *Insurer*, bundling is an opportunity:

1. Leverage existing non-insurance services to increase outreach and penetration and compensate for lack of own staff/distribution in the rural market
2. Utilize the partner's goodwill and get customers to try the insurance offering
3. Reduce costs of distribution, customer education and premium collection through pre-financing by the partner or the aggregator
4. Have reduced anti-selection/fraud due to bundled nature (especially for mandatory products)

For the Provider of *Agricultural Inputs*

- ▶ Provider of non-insurance services such as farm input supplier and banks, bundling with insurance can offer several advantages like:
 1. Use of insurance as a sale promotion tool for farming inputs
 2. Increase loyalty to the product
 3. Additional revenue stream in terms of commission or several fees from the insurer
 4. Reduction of agriculture lending risk

From the *Farmer's* Perspective

► *From the farmer's point of view, a bundled insurance product can provide:*

1. Access to insurance on a cost-effective basis
2. Easier access to farm inputs and credit
3. Easy payment of premiums (subsidized premium)
4. Access to multiple services at a competitive price through the one-stop-shop
5. Loan repayment relief and access to loans for the next season (in case of default due to unfavourable production);

Conclusion

- ▶ Agricultural insurance naturally complements a number of other products and services, including input loans, asset loans, seed sales, extension services, and forward contracts.
- ▶ When used together, these products and services can increase the chance of a smallholder farmer having a financially successful season and reduce their overall risk.
- ▶ Additionally, by leveraging existing distribution networks for multiple products and services, bundling helps providers to reduce costs and expand reach.
- ▶ Bundling holds great promise and concerted efforts should be tailored to overcome smallholders' limited awareness, understanding, and acceptance of agricultural insurance.
- ▶ Strategic and creative innovation around how bundled products are effectively developed, marketed, and administered would trigger a buy-in by smallholder farmers.

THANK YOU !!!