

Sales Force Attrition Study in Indian Life Insurance Industry

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Abstract

The life insurance industry in India is grappling with high attrition levels of sales force, approximately 30 percent newly appointed sales person are leaving the job in the same year of appointment as well four years retention rate is as low as 13 percent only. Huge are the costs (direct & indirect) of turning one salesperson over, turnover then represents the largest area of financial loss for many companies (Copper, 2012). Present article attempts to compare the sales force attrition trend of Private and Public Life Insurance Companies operating in India, as well effort has also been made to find out probable causes (along with remedial measures) of this high attrition and its effect on company specific as well as on industry.

Keywords:

Life Insurance Industry in India, Sales Force Attrition, Public Sector, Private Sector, Recruitment; Actuation (motivation & direction).

Introduction

The insurance sector in India having huge potential, motivated through the back up of Inland as well as foreign capital & efficiency collaboration is rising rapidly to bring in growth and employment opportunities. Insurance companies especially in India {where, even today 78.40 percent (approx) of individual new business performance are got through insurance agents (IRDA Annual Report, 2013-14)} are basically human intensive, and human resources act as an undoubted differentiator, therefore quality manpower and its retention would act as a litmus test. But, unfortunately the life insurance industry in India is grappling with high attrition levels and lower productivity of insurance agents. Insurance is used as a temporary parking space by an agent before moving to another sector. Turnover of sales force has been 30% (average) in the first year of recruitment and up to about 18% by the fourth year because of low entry and exit barriers at one side and high targets and work pressures on the other (Pathak, 2010). The 4 (four) year retention rate in the insurance industry is as low as 13%. The failure rate then is 87%. New sales people joining a company affect the existing daily banter and human connections already in place. Huge are the costs (direct & indirect) of turning one sales person over, turnover then represents the largest area of financial loss for many companies (Copper, 2012).

Literature Review

As per Saha & Bharti, (n.d.) being an insurance agent in

India is seen as a societal stigma as there is an uncertainty of job and income attached to it. People join insurance companies as a part time job or a gap filler occupation and not as a long – term career. Very few competent people want to become agents owing to low social status attached to it. Even in developed nations insurance companies are losing 44 percent of their newly appoint sales force in the first contract year. The survey result conducted by the Life Insurance and Market Research Association (LIMRA) in the U.S. on the Insurance Agent Production and Retention Survey, revealed that only 19% of male and 15% of female agents make it to their fifth year in the insurance business. This low retention rate may indicate two things (a) the failure rate for agents is high, and (b) successful agents frequently become dissatisfied and seek for employment from another insurance company (Dalessio, 1994). Rahman, Naqvi, & Ramay (2008) revealed that job satisfaction and organizational commitment had a negative effect on turnover intentions, whereas perceived alternative job opportunities had a significant positive correlation with turnover intentions and is the major factor associated with turnover intention among it Professionals in Pakistan. Dick, et al., (2004) have also identified job satisfaction as a mediating variable between organizational identification and turnover intention. Kandelousi & Seong (2011) revealed that leader's characteristic has significant and valuable effects on retention rate of agents. There is a strong and direct causal link between leader's leadership style and employee's retention, especially on Gen Y members.

Researchers believe that in very healthy sales cultures, turnover should be 10% or less. Sales teams produce within a bell-shaped curve of production and even the best managers or recruiters do not hire with 100% effectiveness, and some do change their attitudes or motivations after the hire due to unforeseen circumstances. Therefore, the bottom 10% will either need to be replaced or they will self-clean themselves away from the companies in which they do not fit well. However, as turnover increases to 20, 30, 50 or even 100 percent, the resource costs to an organization create an unhealthy environment - one that reduces profits, tarnishes brands, loses more good employees, and eliminates the ability to compete in the marketplace (Copper, 2012).

Objectives of the Study

- To compare the sales force attrition trend of private and public life insurance companies operating in India;
- To identify the factors attributed to high attrition of sales force in Indian life insurance industry;
- To bring in light the effect of high attrition rate of sales force on company specific as well as on industry; and
- To suggest feasible remedies to reduce sales force attrition down in life insurance sector in India.

Data & Methodology

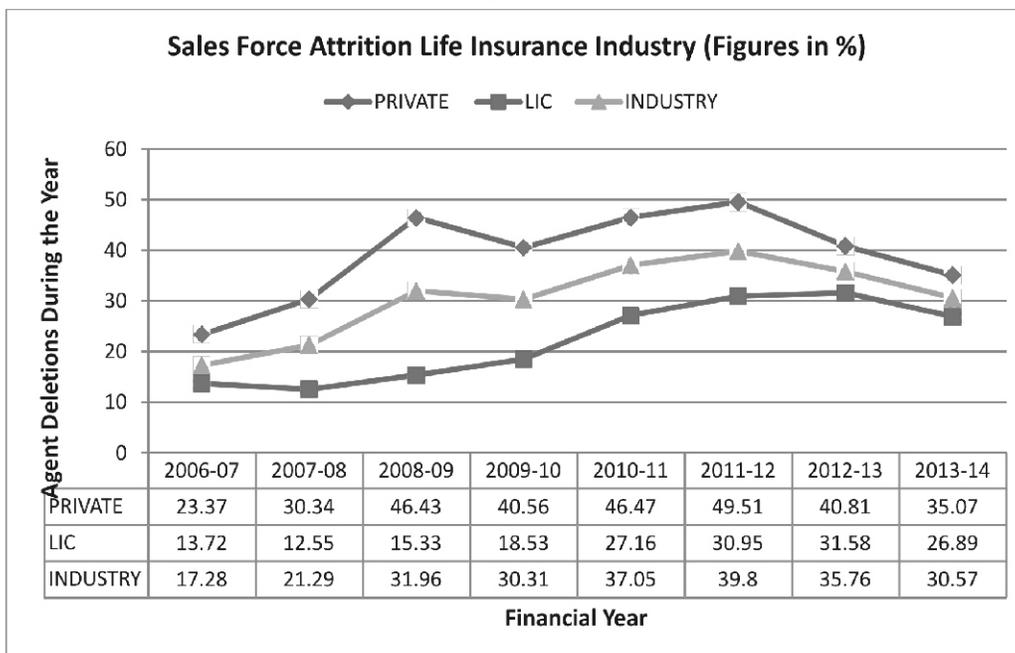
In this study the last seven years (2006-07 to 2013-14) sales force attrition trends of private as well as public life insurers in India have been analysed through the way of Line Chart. Life Insurance Corporation of India has been taken as a separate entity of public sector, and average performance of 23 private life insurance companies has been regarded for the purpose of comparison of attrition performance. The following formula has been applied to calculate attrition rate of sales force. **Attrition Rate= (Number of insurance agents who left in the year/Average Agents in the year)*100**. Sales Force in the beginning of the financial year and at the end of the respected financial year has been added and then divided by two to calculate the average sales force for this purpose. Only Individual insurance agents have been regarded as sales force for the purpose of this study.

About the causes and effects of attrition of sales force in life insurance industry several news papers, bulletins, conversation with officials and the opinion of learned scholars of insurance has been given due attention and scope in the paper.

Sales-Force Attrition Trend in Life Insurance Industry India

In the following line chart last seven years (2006-07 to 2013-14) attrition trends of public and private life insurers in India as well combined figure for the industry has been presented.

Table-1.5.1



Source: IRDA Annual Reports of the respected years

Analysis & Discussion

Pie-chart given Table: 1.5.1 show that average attrition rate of sales force for all the observed financial years is $(30.50 \pm 7.12 \text{ S.D})$ percent for life insurance industry in India. For LIC of India this rate is only $(22.09 \pm 7.39 \text{ S.D})$ percent, whereas, for private insurers this is $(39.07 \pm 8.38 \text{ S.D})$ percent. Attrition rate of sales-force with private insurers is approximately two times in comparison to Life Insurance Corporation of India. Due to the attrition performance of private players this rate is too high as $(30.50 \pm 7.12 \text{ S.D})$ percent in case of industry. New companies, in desire to achieve big profit in a short span are following the same old Style "Push hard" with Bad results. In the end People are not happy with work and personal life; eventually they are leaving the organisation and giving a hike to the attrition rate of overall industry. Private players, they must try to understand the philosophy "nourish first and then reap the advantage", this will not only increase their market share as well profit in long run, but also the satisfaction level of sales force, the real assets of the organisation, will be improved, customer will be more satisfied, consequently the overall performance of the industry will be improved.

Factors Attributes to High Attrition of Sales-Force-

- On the way, going through literature, records and conversations the scholar felt that selling an insurance product is really not so easy, one digit number of success is followed by two digit number of failure every time in the case of insurance selling in India. People (buyers) are not motivated to get the cover as they seem it not necessary, excessive costly or perhaps, most likely, they lack insurance literacy. Having carried a very bright prospect of this profession, an individual becomes an insurance adviser, taking bundles of a supreme motivation and offerings, when goes, give it to others, he see that their is no space in houses enough to have it. Walking on the roads and lanes with the baggage of high targets, pushes of boss and repeated failure (inadequate numbers of success), finally makes his motivation move in search of a new profession rather than a new prospect. To the great extent it shows the failure of not a sales person instead it points out the finger towards non-futuristic goals of insurance companies, unstructured management system, and non integrated effort of all the players (industry) as well as authority.
- Executives and higher authorities of private insurance companies, attribute it to the high expectations on the part of the agents. Most people think that they can make a lot of money in a short span of time. Whereas, during early phase, the earnings of the agents are low despite hard work. The expectation achievement gap leads many of them to break down in the initial period of

joining and adds to the rate of attrition. Insurance salesmanship, this high pressure job requires constant networking and acquiring new relationships which necessitate a lot of discipline. To earn a decent income, agents require a lot of patience, perseverance, and persuasion in the field. It is expected from an insurance agent to understand the customer's needs and sell the products accordingly. This process involves a high level of persuasion and a sustained effort for a long period of time. A lot of people succumb to such pressures. Development officers opine that it's a sunrise industry, a lot of people just want to join the race, but cannot retain the enthusiasm till the end of a year. Most of those who drop out are non-performers.

- Anybody who possess the required qualification and capable to pass the online recruitment test organised by the IRDA can easily become an insurance agent. Industry has not the opportunity to make an scrutiny of the candidates by the way of an interview or apply some additional term and conditions for recruitment as the number of candidates interested to become the agents and qualify the recruitment test are much lesser than the requirement to fill the gap of vacancy. So the people who do enter without identifying their interest area and capability to do the job, after some time they find themselves incapable to do and leave.
- Scarce skilled or experienced human resource in insurance market leads to wide – scale poaching and head – hunting amongst the competitors. The industry has yet to witness mature hr processes, like work force planning, training, motivation and retention. A large number of sales force also switch the organisation in the greed of more attractive incentives & bonus and join the queue of attrition. Insurers having a high percentage of the workforce from multiple sectors (non-domain), the chances of losing employees to other fields, like Fast Moving Consumer Goods companies or other financial outfits, are high.
- In 2011, IC33, "the syllabus of Pre-Recruitment training for agent" was revised in consultancy with Chartered Insurance Institute (CII), London in the hope that only most effective persons might be selected, so that to reduce the exit rate. But, this created an another problem that the number of persons able to qualify test criteria were not enough to fill the gap of vacant positions in sales force, leading to significant drop in the number of insurance agents in the industry in recent years.
- ▶ Effects of Excessive Attrition of Insurance Sales-Force-
- ▶ Attrition bring itself some direct and indirect cost like recruitment and training cost for new employees as well lost sale (productivity) costs and customer

loss/loyalty costs etc. The problem of losing funds in employee acquisition is prominent. High employee attrition rates significantly increase the investments that are made in the employees. Companies invest significant amounts of money and time in training in the initial phase; but these investments do not always get converted into actual profits. In the case of the insurance industry, each agent level recruitment costs a company nearly Rs. 5000, other associated costs of training and administrative service are also involved. Each agent works in a non-productive or partly productive mode in the organization for nearly the first 2–3 months. An agent leaving the organization within the first 6 months proves a bad investment for the company.

- ▶ Employees develop a sense of belongingness with the company. New salespeople joining a company affect the existing daily banter and human connections already in place.
- ▶ Attrition affects customer loyalty of the company. Policies sold by the agents who have left the jobs are converted in to 'orphan' policies. The customers of these orphan policies feel cheated by the company as they have no longer their own agent to renders services and suggestion regarding the continuation of these policies. Most of the customers let their policies lapsed loosing the trust which is the essence of insurance business.
- ▶ Lost of management focus and time spent on core business requirements-leading to lower team performance and lower sales (Copper,2012).
- ▶ Suggest Remedies for High Attrition of Insurance Sales Force-
- ▶ New players in the field of insurance must understand that reaping the potential of Indian insurance market is not possible without the basic infrastructure that is literacy, in case of insurance in India. Along with IRDA, individual players of insurance might handle the task to enhance insurance literacy in their respected region. Insurance companies can success this task by obligate their branches to promote this literacy in their respected region according to the regional need and characteristics of the area specific. This will make an ease the task of insurance sales personal.
- ▶ Along with providing the sales targets of insurance products, insurance agents must obligate to make their prospects learn the advantage of insurance products. For this job they might be provided some fixed amount of remuneration, of course, commissions and incentives can go in line of the target. Besides this insurance advisors must got free from the targets for the

initial year of appointment at least.

- ▶ The candidates who have got cleared the written examination organised by the IRDA must go through an easy interview. This interview will facilitate to make a scrutiny of the candidate in the initial stage by the way to judge their basic sales potentials as well as their interest regarding the profession.
- ▶ The right to get renewal commission must condition to the fulfilment of the responsibility of 'compulsory after sales service' by insurance advisors. This might facilitate the task of insurance advisors by the way of creating a sense of satisfaction in the market.
- ▶ On frequent intervals effective training cum motivational programmes (apart from sales training) might be organised for the advisors especially in initial years of appointment. These programmes might focus to develop a sense of discipline, moral as well as patience among the advisors which are the key to success in the profession.
- ▶ To create a sense of respect for all the products of all the companies' advisors must licensed to deal with the offerings of all insurance companies.
- ▶ Insurers must follow the mature HR process (which strictly prohibits the activities like poaching the staffs among the players), if they have to survive long run.
- ▶ The Baby Boomers (Gen Y agents), who believe to the ideals of a materially rich existence, "live for the now", they want work that will give them recognition, praise and fame (Kogan, 2001). Companies might give them the opportunity to participate in major decision making regarding sales planning and sales strategy formulation to make them feel that they are playing significant role to run as well as for growth and development of the organisation. Employees who are committed, flexible, and ready to participate in decision making are real asset of the organisation.

Conclusion and Findings

Making profits out of any market in long run necessitate studying the characteristics as well as need of the market and making marketing strategy as well. Emerging insurance players in India are still busy to actuate their sales personnel for already developed market, instead to reap the untouched and neglected rural potential; accordingly they are making their HR strategy. Instead of creating the need insurance advisors find themselves busy either to sell to those who have not identified the need or to those whose need has already been fulfilled by the market, ultimately they got failure, frustrate and finally adds the percentage of attrition. Insurers as well development authorities are expected to develop the basic infrastructure i.e. insurance literacy to facilitate

their sales force for making an easy sale. Insurance advisor's commission & incentives for sales, followed by a fixed minimum salary “for educating the market” might be one of the best possible solutions to make a reduce in threats of attrition from the market.

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