

High Attrition Rate: A Big Challenge for Insurance Sector in India

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Abstract

In the insurance industry, trade secrets, confidential information and valuable ideas are part of the workforce knowledge. Recruiting, selecting, training and managing human resource constitute a real challenge for insurance companies all over the world. But mainly organizations are struggling with knowledge loss resulting from employee turnover. Quality manpower and its retention would act as a litmus test. Turnover of sales force has been high because of low entry and exit barriers. Moreover, costs of recruiting, lost productivity and training to replace employees can reach huge values. The paper emphasizes on issues of potential HR factors which affect employee retention and critical management strategies for reducing employee turnover in Insurance sector.

Keywords: Knowledge-Based system (KBS), Recruiting, Selecting, Training, Managing Human Resource.

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1. INTRODUCTION TO INSURANCE SECTOR

The insurance sector in India is rising rapidly to bring in growth and employment opportunities. Insurance companies are human intensive. The insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15–20% per annum. Together with banking services, it contributes to about 7% of the country's GDP. The government of India liberalized the insurance sector in March 2000, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. With several reforms and policy regulations, the Indian Insurance Sector has witnessed tremendous growth in the recent past. Insurance companies in India are growing vertically and horizontally bringing growth and new employment opportunities. It is an intensively people-oriented business and human resources will be the undoubted differentiator. The quality of manpower attracted and retained by insurers and how their abilities and ambitions are harnessed would be the litmus test for the industry. The insurance sector faces high rates of employee turnover. The highest employee turnover is at the FLS (Front Line Sales) level, where the entry barriers are low but targets and work pressures are very high. It is very difficult for HR managers to retain employees at this level which in turn is building lot of pressure in insurance sector.

2. REASONS FOR JOINING AN INSURANCE COMPANY

1. Growth Opportunity
2. Flexibility of Time
3. Challenging Job
4. Reputation of the Company
5. Work Environment of the Company
6. Attractive Salary/Incentive Plans
7. Job security
8. Low entry barriers

3. ATTRITION IN INSURANCE COMPANIES

Attrition is the menace of Insurance sector. The attrition rate is about 35% in the first year of recruitment. This goes down to about 18% by the fourth year. Most of those who drop Sales Force Turnover out are non-performers, as told by the Executive Director of the Kotak Mahindra Mutual Life Insurance Company; he attributes it to the high expectations on the part of the employees. Most people think that they can make a lot of money in a short span of time. It is a high pressure job. Sustenance requires constant networking and acquiring new relationships which requires a lot of discipline. The attrition rate in the industry is pitched between 14% and 38%. Companies have to go beyond building a brand to offer sales careers and let them grow with the market. In the case of the insurance industry, each new recruitment costs a company nearly ₹25000, other associated costs of training and administrative service are also involved. Each newly recruited employee works in a non-productive or partly productive mode in the organization for nearly the first 2–3 months. An employee leaving the organization within the first 6 months is a bad investment for the company. It is one of the major challenges for HR to retain its employees. Recruiters explain that high employee turnover rates significantly increase the investments that are made in the employees. The problem of losing funds in employee acquisition is prominent.

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. An employee leaving the organization within the first 6 months is a bad investment for the company. High attrition reflects that an organization is not able to fulfill the needs of its employees.

4. BUSINESS COSTS AND THE IMPACT OF EMPLOYEE TURNOVER CAN BE GROUPED IN FOUR MAIN CATEGORIES

- 1. Costs due to a person leaving:** Other employees must fill in for the person leaving, lost productivity of the employee, the cost of training the company has provided, the cost of lost knowledge, skills and contacts, and the cost of lost customers the departing employee is taking with him.
- 2. Hiring costs:** Costs associated with identifying, recruiting, selecting and hiring a replacement, such as advertising, internal posting, costs in term of time spent arranging the interviews, or calling references. These costs also translate into lost productivity.
- 3. Training costs:** The Replacement person's orientation, product knowledge, industry knowledge on the job training.
- 4. Lost productivity costs:** New employee will go through a few stages before becoming fully productive, his supervisor will spend time for guiding him and correcting his potential mistakes.

5. LITERATURE REVIEW

Hale (1998) stated that employers cited recruitment costs of 50% to 60% of an employee's first year's salary and up to 100% for certain specialized, high-skill positions. **Bowen and Shuster (1986)** stated that while all constituting elements of an organization are important for its success, it is its enhanced ability to attract and retain the best quality talent that separates it from the others.

Abbasi and Hollman (2000) sought to determine the impact of employee turnover on an organization and found that excessive employee turnover often engenders far reaching consequences and at the extreme may jeopardize efforts to attain the organizational objectives. **Elangovan (2001)** has argued that there is a reciprocal link between organizational commitment and turnover intention, i.e. lower commitment increases turnover intention, which lowers commitment further.

Abdul Rahman, Raza Naqvi, and Ismail 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. **Van Dick et al. (2004)** have also identified job satisfaction as a predictor of turnover intention, however, they argue that it is a mediating variable between organizational identification and turnover intention. According to their Sales Force Turnover study, organizational identification feeds into job satisfaction which, in turn, predicts turnover intention. **Zheng and Lamond (2009)** found out that training, size, length of operation and the nature of the industry are significantly related to turnover.

Suman Pathak & Vibhuti Tripathi (2010) in their paper addresses issues of recruitment, retention and turnover of sales force in insurance companies. A survey was conducted among 350 employees who worked in or had left insurance companies to analyze factors that influenced their decisions and job satisfaction. Factors such as Safety & Security, Social & Esteem and Personal Work Style emerged as the influencers to join insurance companies. Primary Needs and Social & Self Esteem Needs were the factors associated with job satisfaction; Stress, Career Advancement and Work Environment emerged as factors for leaving the companies. They concluded organizations need to develop and deploy human resources that can articulate the vision of the organization and make teams with the synergy to perform at much higher levels. The survey revealed that 60% of the employees left the insurance sector in less than 1 year; 22% employees remained in the same sector for 1-3 years; 8% of employees worked in this sector for at least 4-6 years; 5% of employees remained in the same sector for 10 years, and 5% had been in the insurance industry for more than 10 years.

Geeta Verma , Neha Jain , Neha Choudhary (Nov, 2010) in their paper stated that successful organizations realize on effective employee retention strategy. It will help them to sustain their leadership and growth in the market place. Good organizations make employee retention a core element of their talent management and organizational development strategy. Those that failed to make employee retention a priority are at risk of losing their top talented people to the competition. Employee retention is an important job of HR department in today's optimistic scenario. Managing people at work can be done by using an easy to understand approach to ensure the root causes of turnover. Also considered are challenges unique to the industry sector, competitive market place issues and talent shortages.

According to **Abhishek Roy Chowdhary (Dec, 2011)**, people quit early due to poor compensation, no recognition, no rewards, no benefits and when they don't find appropriate growth prospects in the company. Other reasons for high retention could be due to Micro Management – constraints to employee. Poor relationships and biasness could also be one of the major factors behind. He had concluded that employee decides duration of his stint in the company depending upon his personal perception and outlook about employee.

Dr. Ms.Zartaj Kasmi (Dec 2011) had emphasized on HR factors affecting employee retention. He had identified Financial Rewards, career development opportunities & Job content as main measures to reduce employee turnover. By adopting these method HR can effectively retain its employees. In her conclusion she had mentioned Retention management practices. It can be done through proper selection process and by managing HR related factors.

Dr. Abhishek Srivastava & Nitu Saxena (2011) in their work had focused on employee engagement. They had used a tool AIM (Articulate, Improve, Manage). It focuses on employee engagement through quality of work life, growth opportunities, hygiene & motivators. It can create healthy organization and healthy environment.

Arijit Bose (April 2011) examined the purpose of exit interview in order to study the reasons behind high attrition rate. He focused on seriousness of low retention rate for HR managers and how they are fighting this problem by redefining their HR policies & practices. In his study he focused on questions to be asked by employees in exit interview so that it may reveal the reasons

for high retention. He concluded that third party firms should be hired to conduct exit interview on behalf of company so that it could throw light on true perspective of high retention.

Monika Hamori & Burak Korjuncu (August, 2012) in their study “Why top young managers are in a non-stop job hunt”) they had discussed career development gap. For the same they had asked 1200 young managers to rate mentoring, coaching, training, support from senior management & working as a virtual global team, to rate on the scale of 1 to 5 depending on how important these items are to them. The conclusion was 95% of managers regularly engaged in such activity. It also revealed that they leave their company in every 28 months reflecting despite all these activities there is low retention of employees in companies.

6. OBJECTIVES OF THE RESEARCH

1. To identify and understand the factors which influences the decision of an individual to join Insurance industry.
2. To study the retention rate of Front Line Sales employees in insurance sector of India
3. To study the factors affecting retention rate in insurance sector in India.
4. To provide recommendations to insurance sector to further enhance retention rate.

7. RESEARCH METHODOLOGY

7.1 Identification of Research Problem

It is clear from Literature review that the biggest challenge faced by the HR managers in insurance sector continues to be retention of Front Line Sales employees. Companies are investing huge money in hiring and training the employees but they are unable to retain them for longer.

Knowing the factors of retention of front line sales professionals in insurance sector can be a great help for the HR managers.

There is abundant amount of research done on low retention of employees in different sectors. But no similar research initiative has been undertaken in India which has focused on retention of front line sales employees in insurance sector. The literature available on the retention of front line sales employees is also limited. Continuing on the same note, this research paper will focus on understanding the factors and consequences of retention of employees in Insurance sector of India. It will develop the strategies to retain efficient employees in the organization.

7.2 Research Design–Descriptive Research (Study involves finding the root cause of employee retention)

7.3 Data Collection Method

The following types of data are used:

1. Primary Data (Interview).
2. Secondary Data (Books, internet, news paper, journals ,magazines).

7.4 Quantitative Approach

For the quantitative analysis, the research is conducted through questionnaire focusing on one independent group – Front Line Sales employees.

7.5 Front Line Sales Employee

FLS employees comprise of males and females from different age-groups with different educational qualifications and work experience.

Hence, **stratified random sampling is used.**

7.6 Sample Size

Front Line Sales Employees -100

7.7 Sampling technique - Area sampling

7.8 Hypothesis is based on the following assumption

Retention in insurance sector is influenced by selection policy

7.9 Suggestions to keep knowledge inside the organization

Determining what constitutes 'high turnover' is a complex issue, because there is no simple linear relationship between turnover rates and the social and economic performance of companies. Issues ranging from poor job fit, lack of recognition or support from senior management, uncertainty about the organization's future and poor management communication are some of the reasons why people start looking for other opportunities. Here are certain suggestions which can reduce turnover of employees and are being recently implemented in insurance companies like Kotak Mahindra, HDFC Life:

- to analyze the workforce's strengths i.e. analyzing their expertise and knowledge and categorize it so it could become accessible by other employees
- to determine which employees are flight risks and open talks to determine how could some employees be retained by hiring retiring employees as consultants
- to establish practice among communities where individuals could meet and solve problems;
- to implement a mentoring program for building a culture that values expertise once in a while training programs like stress management, team building etc.
- to try forming internal learning groups
- to provide Appreciations & Recognition.

8 FINDINGS

Reasons due to which an employee leaves an insurance company:

1. Better Job Opportunity in other sectors
2. Better Salaries
3. Target Pressures in insurance sector
4. No Time for the Family
5. Job Insecurity
6. Relocation
7. High targets

Variables that can reduce attrition rate thereby inculcating job satisfaction in employee :

1. Job Security
2. Work Environments
3. Accomplishments
4. Balance in Work and Family Life
5. Monetary Benefits
6. Career Growths
7. Better Work Culture

9. ANALYSIS AND INTERPRETATION

Likert scale technique has been used in order to analyse the causes of retention of employees and how to retain them. The responses from respondents for each determinant are scored on a five point scale i.e.; strongly agree, agree, uncertain, disagree and strongly disagree. Higher scores in each determinant depicts the high level of impact on employee retention and lower scores depicts less impact of determinants on level of job satisfaction. The responses of the various respondents have been given below in Table-1.

Table 1

Determinants	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Chances of Promotion	19	32	43	4	2
Good salary Structure	21	31	5	42	1
Good work Culture	34	23	4	29	10
Growth opportunities	31	29	37	21	3
Allocation of Rewards	20	14	12	44	10
High work Pressure	48	42	10	0	0
Lack of Support	19	27	13	29	12
Recognition of work	11	14	6	42	27
Job Security	4	8	32	39	17

10. CONCLUSION

Human Resource, a vital corporate asset, will melt away unless companies do something to stop the brain drain and to retain critical knowledge. Possible options include:

1. documenting invaluable critical knowledge from the top domain experts and key personnel, before they leave the company so that relevant information is maintained in the organization.
2. exit interviews would throw light on the factors which induces an employee to leave organization.
3. building a knowledge-based system(KBS). KBS allow less experienced staff to operate at higher levels with less oversight, which frees up more senior personnel for more complex activities. Finally, and perhaps most importantly, the use of this systems increases consistency and compliance to internal and external policies and regulations.

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