

A study of employee attrition in Indian insurance industry

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Abstract

Attrition refers to the trends of the employees leaving the company. High turnover may be destructive to a company's efficiency if expert employees are frequently going and the employee's population contains a high proportion of novice workers. "HDFC Bank's attrition rate of around 20 per cent is making its top management anxious," Aditya Puri, Managing Director and Chief Executive at the country's second largest private sector lender, has said. "The staff attrition rate is something that is worrying us as well and it ranges up to around 20 per cent," Puri told the shareholders at its annual general meeting over the weekend. Experts said that employee attrition would be in double digit specifically in banking, finance and insurance services near about 23%. According to Deloitte talent 2020, a survey form all sectors predicted that 34% of these workers expect to leave within a year, and for Insurance this number reaches an alarming 60%. With this alarming situation the study tried to identify the major reasons responsible for employee attrition in Indian insurance industry. Through structured questionnaire a sample of 400 employees (200 from public and 200 from private insurance companies) for respondents have taken. For significant inferences, factor analysis statistical tool has been used. With identified important factors responsible and suggestion for employee's attrition for both public and private industry study concluded.

Keywords: Employee Attrition, Employee Turnover, Insurance

1. Introduction

Attrition refers to trends of employees leaving the company. It is usually calculated with its rate, which measures the employees moving out of company (voluntary resigning for better career prospects). This is also referred as 'churn rate' or 'labour turnover'. Attrition ^[1] can be calculated as:

$$\text{Attrition (per month) \%} = \frac{\text{No. of separations in the given month}}{\text{Average headcounts in the given month}} \times 100$$

High turnover may be destructive to a company's efficiency if expert employees are frequently going and contains a high proportion of novice workers ^[2]. The financial charges of employee churn rate for-profit organizations has been estimated to be between 30% to upwards of 150% of the employees' remuneration package. There are two types of costs include in employee' attrition that is direct costs and indirect costs. Direct costs communicate to the leaving costs, substitute costs and transitions costs. While indirect costs speak about to the loss of production, reduced performance levels, needless overtime and low morale ^[3].

In year 2000, the insurance sector in India was growing speedily to bring in escalation and employment opportunities. The major confront faced by insurance companies is employee churn rate or high attrition rate especially in sales force. By 2020, it is expected that the Indian Insurance sector will be amongst the top 3 in the world ^[4]. According to Deloitte talent 2020, a survey form all sectors predicted that 34% of these workers expect to leave within a year, and for Insurance this number reaches an alarming 60%. "HDFC Bank's attrition rate of around 20 per cent is making its top management anxious," Aditya Puri, Managing Director and Chief Executive at the country's second largest private sector lender, has said. The

staff attrition rate is something that is worrying us as well and it ranges up to around 20 per cent. Private sector lenders like HDFC Bank and its larger competitor ICICI Bank, Indus Ind Bank are planning to give higher pay hikes to their workforce. These inducements will include a hike in the cash component as well as stock options for senior management ^[5]. According to a report published in economics times said "attrition is at all levels, more in junior customer-facing jobs. Attrition in the banking, financial and insurance sectors was 30%, in IT services 28%, retail and consumer goods 16%, retail store-level 30%, healthcare 10% and hi-tech 14%. Experts said that attrition would be in double digits in all the sector" ^[6].

2. Review of Literature

(Bhat, *et al.*, 2005) Studied insurance Industry in India, its structure, performance and potential future challenges; and found that with the liberalization and entry of private companies in insurance; the Indian insurance sector was started showing signs of significant change. Within a short span of time, private insurance had acquired 13 per cent of the life insurance market and 14 per cent of non-life market. However, there is still a huge untapped demand for insurance. Insurance companies have a pivotal role in offering insurance products which meet the requirements of the people and, at the same time, are affordable. Some of the challenges faced by the insurance sector pertain to the demand conditions, competition in the sector, product innovations, delivery and distribution systems, use of technology, and regulation ^[7].

(Pathak & Tripathi, 2010) Through exploratory study tried to find out turnover in sales force in Indian Insurance sector. 350 Sample of employees who had left insurance companies had been selected, with survey method and factor analysis test used to analyze factors that influenced their decisions and job satisfaction. The paper addresses issues of recruitment,

retention and turnover of sales force in insurance companies. Authors made an attempt to integrate them with Maslow’s Need Hierarchy. In conclusion, 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 [8]. (Kumari, T Hymavathi, 2013) studied the life insurance sector in India and its flagging issues. Through liberalization, India opened up its financial sector for foreign players, many private insurers came into existence. Insurance has a very important role in the country’s economy development. The study explored the performance of life insurance industry in India in post liberalization era & present a deep analyzes about the financial performance of insurance industry both public sector and private sector, its market share, growth have been studied in post liberalization era [9].

3. Research Methodology

The study is descriptive comes analytical in nature and deals with the factors responsible for employee attrition in public and private Indian insurance industry. A sample of 400 respondents, 200 from public and 200 from private insurance companies of Haryana and NCR has been selected. With a five points Likert scale; structured questionnaire and through random sampling method data has been collected. FACTOR analysis statistical technique has been used to understand the factors responsible for employee attrition and retention strategies in Indian Insurance industry.

4. Analysis- Factor Analysis

a) Reliability of Research Instrument

For reliability test of collected data and questionnaire;

Cronbach’s alpha test has been used in which Cronbach’s alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient.

Table 1: Reliability Statistics

Cronbach's Alpha	No. of Items
0.88	45

Source: Survey (Data Processed through PASW SPSS 18)

Table no. 1 represents the Cronbach’s alpha value which is .88 and more than .6 and near to .9 which is a symptom of good reliability.

b) Bartlett Test of Sphericity

Prior to departure for factor analysis; the data adequacy condition is checked by seeing the value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO).

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.790	
Bartlett's Test of Sphericity	Approx. Chi-Square	17778.850
	Df	990
	Sig.	.000

Source: Survey (Data Processed through PASW SPSS 18)

Table no. 2 explain the values of Bartlett’s Test of Sphericity and KMO of sampling adequacy 17778.850 and 0.790 respectively with significant value of 0.000, which satisfies essential condition for factor analysis. Hence, researcher can proceed for further analysis.

Table 3

S. No.	Name of the Factors	Statements	Factor Loading	Eigen Value	% of variance	Cumulative %
1	Lack of awareness, limited saving/disposable income, tax incentives by government mandatory premium payment, under-penetrated rural market, high pressure of profitability, entry of private player, Less appointments of insurance agents, strong growth rate of ULIPS, high interest rate (of Bank FDs), high inflation and lack of adequate training to the insurance agents are making tough to work and adversely affecting the public perception towards stable career in Indian Insurance Industry.	Indian insurance market is an under-penetrated market, primarily dependent on push sales, tax incentives by the Govt. and mandatory premium payments; making it a tough industry to work in.	.922	10.534	23.410	23.410
		Limited financial awareness among the masses and limited saving/disposable income available for investment in financial services; responsible for under-penetration of insurance services; makes it a tough industry to work in.	.922			
		The life insurance market in India has a considerable amount of untapped latent potential (particularly in rural areas) because of low awareness and under-penetration of insurance services.	.889			
		After a decade of strong growth on the back of ULIPS, the Indian Insurance Industry is currently experiencing a slowdown with rising costs, deteriorating distribution structure and stalled reforms.	.950			
		Historically high interest rate (of bank FDs) and high inflation (reducing saving/disposable income) has worked against the growth of insurance industry as consumers look at insurance more from the point of return expectations than managing risk.	.855			
		Entry of private sector insurers brought healthy competition in the market and led to the rapid growth of the industry by offering new products and distribution channels.	.706			
		Declining top line, coupled with persisting pressure on profitability is posing a serious challenge to the long-term financial health of Life Insurance companies in India.	.859			
		Indian Life Insurance Industry is presently challenged with high attrition levels of agents and agency managers because of stiff performance pressures and less flexibility in achievement of sales targets.	.841			
		High attrition in Indian Insurance industry is adversely affecting the public perception of agency channel as a stable career.	.824			
		High termination of insurance agents in comparison to their appointments is leading to a critical fall in the number of individual agents.	.808			

		Inadequate investment in training of agency force is leading to high attrition in the Indian Insurance sector.	.875			
		The present life insurance agent licensing qualification's examination rigorously tests agent's ability to memorize facts and figures and requires applying the learning to a wide range of practical real-life situations which is responsible for few candidates being able to clear the examination.	.830			
2	Lower remuneration, high competition, stiff sales targets, very low productivity, enhancing employee attrition due to this insurance agents are not able to make insurance business as a stable career in the Indian Insurance Industry.	High attrition in Indian Insurance industry is adversely affecting life insurers' business prospects.	.688	3.595	7.990	31.399
		Indian Life Insurance Industry is presently challenged with low productivity of Insurance agents and agency managers due to poor performance in achievement of stiff sales targets.	.700			
		Attrition rate amongst agency managers is higher than Insurance agents because of stiff and (sometimes) unachievable sales targets.	.795			
		Increasing competition and lower remuneration levels (than in the past) has lowered the appeal / attraction of the career of a life insurance agent.	.795			
		Building a stable and growing agency force by reducing the employee turnover of agents is in the interest of all the stakeholders.	.799			
3	Insurance productivity can be increased by enhancing Customers meeting, Planning, Monitoring of agents activity, on-the-job quality training and providing innovative product range of insurance product in the Indian Insurance market as Indian Insurance Market is poised for a strong growth as per capita income and disposal income of consumers is on rising track.	Lowering the pass percentage for an agent's examination is not the right solution to the deteriorating quality of agents which could be improved only by continuous on-the-job quality training.	.726	2.611	5.802	37.202
		Insurers can enhance their productivity by increasing the number of customer meetings, better activity, planning and monitoring and leveraging of technology and thus reduce attrition.	.871			
		In the long run the insurance industry is poised for a strong growth as the domestic economy is expected to grow steadily and as per the capita and disposable income rise.	.633			
		Expanding product range, developing innovative products and expanding multi-distribution channels (like the internet, direct/tele-marketing and NGOs) shall be the growth drivers for Indian Insurance industry.	.510			
4	The rusted exiting business model, is the cause for low level of productivity, linking insurance agent's remuneration with Premium Paying Term (PPT) reduced agent's commission, whereas lack of trained active agents are required in double numbers as compare to present so that alternative way to policy suggestion can be made and sales/profit can be enhanced.	Linking an insurance agent's remuneration to premium paying term (PPT) has reduced agent's commission drastically and has led to a large number of agents leaving the industry.	.861	2.469	5.487	42.689
		The existing business model of insurers having agency managers with low levels of productivity (not enough for the channel to break even) is fundamentally flawed.	.590			
		Indian Insurers need to double the spans of control in agency management by doubling the number of active agents per agency manager for the channel to be economically viable and reducing attrition levels in the industry.	.661			
		Customers' grievances against insurance agents that they propose only one policy with little flexibility on discussing alternative options and their insufficient information on the policy leads to avoidable dissatisfaction and lost sales opportunities adversely affecting the interests of both the agents as well as the customers.	.826			
5	IRDA as a statutory regulating body promoting healthy competitive environment with mandatory revolutionary changes, under which product innovation, risk management are becoming growth driver for the Indian Insurance Industry. In terms of span of control and compensation, existing business model needs to be changed so that the better results can be produced and high attrition of Indian insurance industry can be minimized.	Indian Insurance Industry needs to consider a multi-pronged disruptive agenda challenging the existing conventional business model to yield positive results in financial viability and reduced attrition levels in the industry.	.798	2.422	5.381	48.070
		The existing business model of insurers having agency managers (with a high proportion of compensation as fixed salary) overseeing a part-time agency force with low spans of control and low activity levels of agents is not generating positive margins from the channel to the insurer, leading to high attrition rates.	.332			
		The level of influence of agents on customer decision making while buying insurance is significantly lower among high-income groups and represents a big gap in the training of agents.	.631			
		IRDA's regulatory changes to promote a healthy competitive environment and better customer service have brought about revolutionary changes in the Indian insurance industry.	.568			
		Product innovation matching the risk profile of the policy holder and changing consumer preferences should be the drivers of growth for Indian Insurance industry.	.654			
6	The Agency Manager's role as a leader is critical for the growth and expansion of Indian insurance industry, in which fixed cost structure, customized role expectation and adapted evaluation matrix can enhance the productivity and reduce employee attrition of Indian insurance industry.	Variable-ization of the fixed cost structure, customized role expectations and adapted evaluation metrics can enhance the productivity in Indian Insurance Industry and reduce attrition.	.720	2.235	4.966	53.037
		The role of agency manager as a true leader and coach besides being responsible for achievement of sales targets is critical for the growth and expansion of Indian Insurance Industry.	.775			
7	In Indian Life Insurance business, claim management is very hectic procedure. IRDA reduce the passing % from 50% to 35% of insurance agent's examination, it may increase number of agents and helpful in the implementation of new innovative scheme like Pardhan Mantri Suraksha Yojana to widening the reach of insurance in the rural poor and other marginalized sections of the society.	IRDA's decision to reduce the minimum pass percentage for insurance agent's examination from 50% to 35% marks may increase the number of candidates qualifying as insurance agents.	.570	2.169	4.819	57.856
		Timely and efficient management of claims to prevent delays is a big issue with life insurance companies in India.	.743			
		New innovative Schemes like Pardhan Mantri Suraksha Yojana shall be instrumental in widening the reach of insurance to rural poor and other marginalized sections of the society.	.673			

8	Down fall of ULIPS and other market linked Insurance products, Lack of consumer’s awareness about the Importance of LIC, and mis-selling of insurance policy leads to termination/surrender of insurance policies.	Steep fall-down in the NAV (Net Assets Value) of ULIPS and other “market-linked” insurance products during the recent cycles of recession was responsible for lot of insurance policy surrender/termination.	.637	1.797	3.994	61.850
		Consumers of life insurance in India are not clued in about their life stage needs and the product solutions suitable for such needs leading to mis-selling by agents.	.760			
9	Low financial literacy in consumer and distributors is the major problem in the penetration of right kinds of insurance product whereas FDI Limit increment from 26% to 49% appropriate decision which provokes global participants to do business in India.	Low financial literacy among both the consumers and distributors lead to lack of understanding of the true purpose of life insurance creating a problem in penetration of the right kinds of life insurance products.	.524	1.629	3.620	65.470
		Increasing the FDI cap from 26% to 49% is a step in the right direction as more global industry participants shall enter India bringing investments and thereby deepening the Indian market.	.824			
10	Lack of proper Knowledge and guidance of distributors leading to mis-selling of financial instruments.	The distributor, armed with an array of products is unable to give proper insurance guidance to the consumer due to limited knowledge of the true purpose of each financial instruments leading to mis-selling.	.800	1.615	3.589	69.059
11	Online licensing examination policy and unacceptable behavior of ULIPS/Market linked policies are the reason for the loss of trust and also reason for less new joiner as an insurance Agents.	Insurance agent’s unscrupulous behavior of guarantying high returns for ULIPS and other “market- linked” policies to gullible consumers was responsible for the loss of trust and consumers shifting to other financial services like Mutual Funds and Bank FDs.	.830	1.503	3.339	72.398
		The present life insurance agent licensing qualification’s examination being online prevents impersonation and cheating (unlike in the past) and thus few candidates are able to clear the examination.	.365			
12	Stress/Work pressure/Less Flexibility/Lower Commission are the reasons for the employee attrition in Indian Insurance Industry.	The problem of attrition is worse for private life insurers as compared to State-owned Life Insurance Corporation of India (LIC) due to greater stress, work pressures and less flexibility in work conditions and autonomy.	.697	1.169	2.598	74.996
		Because of lower commissions, insurance agents are not able to make enough money and thus move to more remunerative sectors leading to high attrition in the industry.	.783			
13	High standards of LIC agent’s examination/qualification working as a barrier in the joining of insurance agents to LIC	The present Life Insurance agent licensing qualification’s syllabus, being challenging in scope & depth, has led to very few candidates being able to clear the examination, thus leading to a significant drop in the number of insurance agents in the Industry.	.879	1.084	2.408	77.404

Source: Survey (Data Processed through PASW SPSS 18)

5. Conclusion

From data analysis and interpretation, 13 factors came out from the structured questionnaire. In these 13 factors includes various major problems which are the root cause of employee attrition. By strongly working on these factors, public and private insurance companies can enhance their employee retention rate and minimize employee attrition.

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