Factors affecting labour turnover commerce essay

This proposal is on the factors that affect labour turnover of Life insurance Agents in Old Mutual Life Assurance Company Kenya. A Life insurance company relies on a stable Agency force to sell and service its Life insurance products to enable it make profit from the Life policy. The exit of an Agent affects the servicing of the policies sold with negative impact on Company's profitability and investable fund for the nation's economic development. Therefore, the objective of this study is to identify the factors, find out how and to what extent they affect labour turnover of Agents in Old Mutual Life Assurance Company Kenya. It will also seek to find solution to the problem and make recommendations. This study will benefit the management and Agency Managers of the company, other Life Insurance companies, current and potential investors in Life insurance companies as well as government and its Agencies.

The study will make use of descriptive research design which will involve field survey of targeted respondents of Old Mutual Life Assurance Company Kenya. The target population will be the regional managers, sales managers and the Agents at its branches in Nairobi numbering about 200. A sample of 15% will be taken using simple random sampling technique. The data will be collected by the use of questionnaire and analyzed using descriptive statistics which will include tables, charts, diagrams and frequency distribution measurements such as mean, mode and median.

OPERATIONAL DEFINITION OF TERMS

Life Insurance Life Assurance is an aspect of Financial Planning which provides for the payment of a capital sum to the dependants of a policy owner on his death or to the policy owner on survival to policy expiration, in consideration of the payment of a smaller, often regular, amount to the Life office

Life Insurance Sales Agent Life insurance agents specialize in selling policies that pay beneficiaries when a policyholder dies. They also sell other varieties of Life insurance products such as annuities that promise a retirement income, Health insurance and short-term and long-term-disability insurance policies. Agents may specialize in any one of these products, or function as generalists, providing multiple products to a single customer. They earn commission and other benefits for their effort.

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ABBREVIATIONS AND ACRONYMS

LIMRA – Life Insurance Marketing and Research Association

AKI – Association of Kenya Insurers

IIAA- Independent insurance Agents of America

COP – Certificate of Proficiency

OMLAC – Old Mutual Life Assurance Company

CHAPTER ONE: INTRODUCTION

This chapter will focus on background of the study, statement of the problem, objectives of the study, the hypothesis or research questions, significance, scope and limitation of the study.

1. 1 Background to the study

Life Insurance is an aspect of Personal Financial Planning which enables somebody to provide for his future financial needs at old age and that of his or her dependants in the event of unforeseen circumstances. Such unforeseen circumstances are premature death, Total Permanent disability resulting from Accident or Critical illnesses which may reduce or terminate a person's income earning capacity.

The risk of premature death is one of the major personal risks faced by most individuals. The financial consequences resulting from the death of a breadwinner before adequate resources have been established for dependents can be severe. Life insurance is a major source of financial protection against premature death.

There are three main sources of life insurance protection which are individually purchased, Employer-sponsored and Government sponsored life insurance coverage. The dependable source is the individually purchased Life insurance protection because the other two may not be available to an individual.

Life Assurance is a service premised on a promise to pay a certain amount of money in future in the event of the occurrence of a stated contingency which usually depends on the duration of human Life. Hence, the best form of selling this service is one – on – one personal selling through a Sales Person traditionally called an Agent.

One major problem facing Life insurance Companies in selling their products and hence, profitability is the high rate of labour turnover of their Agents. A

Life insurance company relies on a stable Agency force to sell its Life insurance products. These products are usually long tern going for a minimum of five years in duration. The profitability of a policy to the Life insurance Company depends on the consistent servicing of that policy by the Agent. When an Agent leaves an insurance Company when the policies he sold are still in their early years, such policies will no longer be serviced. Hence, the Company will lose in terms of future in-flow of investible funds, lost of commission that has been paid in advance to the Agent and payment of surrender values arising from lapsed policies.

This situation threatens the survival of Life insurance companies and it has attracted the attention of some writers and researchers. According to Leverett et al (1977), the death of the independent Agency system as it exists today has been predicted for several years. Increased competition from newer sources, such as the entrance of Life insurance companies into the property-liability field, as well as traditional competition from the direct writers of insurance, tends to reinforce the foundation for such a prophesy. The attraction and retention of new agents into the independent agency system is vital to the continued successful existence of that system.

A number of studies have indicated that the retention rate for agents recruited into the Life insurance industry is very low. According to one study, the two year and five year retention rates for 13 large life insurers in the United States were 39 and 13 percent respectively. Furthermore, the retention rate for smaller life insurers was found to be even less than for their larger counterparts. These figures are not totally unexpected given the lack or inadequacy of training and educational programs offered to new life insurance recruits.

LIMRA (2009) points out that, it has been of great concern to many managers, the fact that only 5% of sales representatives who join the industry remain in the industry and become successful sales representatives. Out of the 5% only 2% become high achievers in the industry. Despite the fact that those on commissions earn more than majority of the salaried people, it has remained a very challenging field especially for the young people from college and university who would wish to earn good money easily and fast.

Burand (2010) notes that over time, agents retention in the life insurance industry remains a perennial challenge for companies operating within the traditional career agency system. According to LIMRA (2010), 68% of agents leave companies within their first two years.

Many managers presuppose that retention rates correspond with a company's effectiveness in building its sales and Organization in general. Company " bottom lines" would benefit substantially from increased retention rates.

1. 1. 1 Background to the Scope of Study

Old Mutual Life Assurance Kenya belongs to an International long-term savings, protection and investment Group.

The Group provides life assurance, asset management, banking and general insurance in 33 countries (Africa, Europe, the Americas and Asia). It has over

15 million customers and approximately 55 000 employees. The vision of the group is to be their customers' most trusted partner – passionate about helping them achieve their lifetime financial goals. The group was founded in 1845 and has expanded from their origins in South Africa in the last decade through organic growth and strategic acquisitions. It is listed in the UK, South Africa and three other African exchanges.

Old Mutual Kenya (OMK) started doing business in Kenya in the late 1920's. The vision of the company is the same as its parent company but limited to East Africa. The mission statement of the company is as follows ' through understanding and meeting our customers' needs, we will profitably expand our market for wealth accumulation and protection in Kenya'.

1. 1. 2 Background to the Population Area and organizational Chart

Old Mutual has 16 retail marketing outlets throughout Kenya including 4 in Nairobi. The retail marketing arm is under the jurisdiction of the Head of Sales who is at the head office. The head of sales is part of the executive management who reports on the activities of the sales force. The head of sales is assisted by head of channels who oversees the activities of the Branch managers in different locations. Under the Branch Manger are Sales managers who manage the Agents.

1. 2 Problem Statement

The Insurance industry has suffered astronomical losses resulting from high rate of labour turnover among Agents especially the new agents. The new agents are the sales representatives who have been with the company for less than four years. Annual report published by LIMRA international in 2004 pointed out that four year agents' retention has not been able to move above 13 percents. This translates to 87 percent of the new agents in the insurance industry leaving their respective companies within the first four years of signing the contract.

An agent in the insurance industry especially life insurance starts becoming profitable only after the third year of their contract in the company. This is because the initial years are characterized by huge training cost, initial allowances which are not tied to production and forward-earning commission system. This results in high expenses for the firm in the early years of recruiting an Agent with the hope of recouping the cost gradually from the future earnings of the Agent. This implies that most of the insurance companies have been incurring huge losses because of consistently poor retention rate of the new agents. Insurance agents' retention has become a matter of concern as the Association of Kenya Insurers (AKI) highlighted in the 2011 report concerning developments of the tied agents in the insurance industry in Kenya.

AKI report (2010) observed that lack of personal development of many Agents who join insurance industry is an issue that requires attention by the industry if the industry is to remain relevant in the country. Lack of personal development among the agents has been cited as an important factor that affects agents' retention in the industry.

A Life insurance company relies on a stable Agency force to sell its Life insurance products. These products are usually long tern going for a minimum of five years in duration. Agents are paid commission for any policy sold. The commission is structured in such a way that a substantial percentage up to 50% of the premium is paid in the first year and between 10% to 40% is paid in subsequent years up to the fifth year or sometimes end of the policy term. The profitability of a policy to the Life insurance Company depends on the consistent servicing of that policy by the Agent.

If an Agent leaves an insurance Company when the policies he sold are still in their early years, such policies will no longer be serviced. Hence, the Company will lose in terms of future in-flow of investable funds, loss of commission paid in advance for future services of the Agent and an early lapse of such ‘ orphan’ policies. The economy also suffers because it will be starved of investable funds which aid the economic development of the nation.

Old Mutual Life Assurance Kenya has experienced a drop in its number of Agents in the past years. While it had 500 Agents in 2010, they currently have about 200. This has also reflected in the revenue of the company from the individual life Insurance segment of the company. The premium income generated by the Agents for the past four years is represented in the following table.

Table 1. Premium Income of Agents in Old Mutual Life Ass. Co. Kenya (2008 – 2011)

Year	Premium Income (Kshs' 000)	Difference	Percentage Difference
2008	386, 367	–	–
2009	378, 056	(8, 311)	(2%)
2010	376, 496	(1, 560)	(0. 41%)
2011	349, 429	(27, 067)	

(7. 18%)

Source: OMLAC (2012)

The graphical representation of the above situation is shown below.

Figure 1. Premium Income of Agents in Old Mutual Life Ass. Co. Kenya (2008 – 2011)

Source: OMLAC (2012)

Life insurance premium from the sales Agent should increase in geometrical progression with positive cumulative effect on the revenue of the company. If the premium from new policies sold is added to the premium of existing policy holders, it should lead to increase in premium income from year to year. However, the reverse is the case in Old Mutual where premium income from Life insurance Agents has declined from Kshs 386 million in 2008 to Kshs 349 million in 2011. This represents a drop of 9. 56% in premium income in 2011 compared to 2008.

It is against this premises that this study will focus on factors affecting labour turnover of Life Insurance Agents in Old mutual Life Assurance Company Kenya.

1. 3 Objectives of the study

The objective of the study will include the following:

1. 3. 1 General Objective

To investigate the factors that affect labour turnover of Life insurance Agents in the Life insurance industry in Kenya.

1. 3. 2 Specific Objectives

To find out how remuneration affects the turnover of Life Insurance Agents of Old Mutual Life Assurance Company Kenya.

To determine the effects of training on the turnover of Life Insurance Agents of Old Mutual Life Assurance Company Kenya.

To investigate how physical work environment affect labour turnover of Life Insurance Agents of Old Mutual Life Assurance Company Kenya.

To establish to what extent job satisfaction affects labour turnover of Life Insurance Agents of Old Mutual Life Assurance Company Kenya.

To determine to what extent level of education affects labour turnover of Life Insurance Agents of Old Mutual Life Assurance Company Kenya.

1. 4 The Research Questions

The study will seek information to answer the following research questions:

To what extend does remuneration affect turnover of Agents in Old Mutual Life Assurance Company Limited?

To what extent does training affect turnover of Agents in Old Mutual Life Assurance Company Limited?

How does physical work environment affect labour turnover of Agents in Old Mutual Life Assurance Company Limited?

How does job satisfaction affect turnover of Agents in Old Mutual Life Assurance Company Limited?

To what extent does level of education affect labour turnover of Agents in Old Mutual Life Assurance Company Limited?

The Significance of the Study

The findings from this study will benefit the organization and its stakeholders, the life insurance industry, government and other researchers in this field. The top management of Old Mutual Life Assurance Company Limited consisting of the Managing Director, the head of sales and head of channels who are likely to use the findings to understand the reasons behind labour turnover of Agents in the company. It will also help the Regional and Sales managers of Old Mutual Life Assurance Kenya to improve on their management techniques towards reducing labour turnover of Agents in their region and sales unit. The Sales Agents will also benefit from the study by using the recommendations to improve on their sales performance and create the personal willingness to stay with the company

The findings of the study will also be of immense benefit to the government, especially the ministry of finance, and the commissioner of insurance who will use it to formulate policies that will improve retention of Agents in the Insurance industry. The stakeholders of Old Mutual Life Assurance Limited which include customers, investors and the public will also benefit from the study by understanding the factors that affect labour turnover of Agents in the company. Lastly, it will also benefit other researchers in this field who may use this report for further studies.

1. 6 Scope of the Research Study

The scope of this study will be found in the Life Insurance industry of Kenya. However, due to time and limited resources, the focus will be on Old Mutual Life Assurance Company Kenya. Since this study is on factors affecting labour turnover of Agents, the research will concentrate on the Agency force of the company which has about 200 Agents nationwide. For the same reasons above, the study will concentrate on the Agency force in Nairobi which is about 100 in number. The researcher will take sample from the research population. The period of study will be up to 30th September 2012.

CHAPTER TWO: LITERATURE REVIEW

2. 1 Introduction

This chapter will critically analyze literature related to the study. This will include the issue of labor turnover in general and its effect, special attributes of Agents engage in selling services and Agent turnover in Life insurance industry.

2. 2 Labor Turnover

Labor turnover is the ratio of the number of employees that leave a company through attrition, dismissal, or resignation during a period to the number of employees on payroll during the same period. One of the 14 principles developed by Henri Fayol is stable labor turnover. He postulated that there should be stability of tenure of personnel in an organization. This is because a high labor turnover is harmful to the organization. Employee turnover refers to the rate at which employees leave jobs in a company and are replaced by new hires. A high employee turnover rate implies that a company’s employees leave their jobs at a relatively high rate. Employee turnover rates can increase for a variety of reasons, and turnover includes both employees who quit their jobs and those who are asked to leave. Average employee turnover rates differ among industries; for example, in 2006, average turnover rates in the United States varied between around 15 percent annually for durable goods manufacturing employees to as high as 56 percent for the restaurant and hospitality industry, according to Nobscot Corporation.

According to a freelance writer, Shelley Frost, Employee turnover is a natural part of business in any industry. Excessive labour turnover decreases the overall efficiency of the company and comes with a high price tag. Understanding the effects of losing a high number of employees serves as a motivator to work toward reducing the labour turnover rate for higher profits and a more appealing work environment. The writer identified some cost associated with labour turnover as follows.

Each employee who resigns costs the company money. All of the money invested into that employee through training, education and licensing walks out the door with the employee. When you hire a replacement, the company spends money on those same areas to prepare the new hire for the position. The company also pays to advertise the vacancy and may incur costs for drug testing, physicals and moving expenses. The company could pay 1/3 of the yearly salary of the new employee in costs.

Labour turnover rates cost the company time in addition to money. Managers or human resources staffs spend time conducting exit interviews, advertising the job, recruiting candidates and interviewing. Supervisors and colleagues are often left to cover until a new employee is hired and begin working. The new employee may take several months to fully learn the job and achieve competency in the position.

When the staff changes frequently, the employees who stay have a difficult time building a positive team dynamic. A group of employees learns to work well together, only to have one or more members leave. This leaves the staff in limbo until a new employee starts. The personality and work ethic of the new employee may vary significantly from the previous employee. Labour turnover can hurt overall morale of employees.

The overall productivity of the workplace tends to decrease with high turnover. Since a new employee has a period of adjustment, he won't complete tasks as quickly as the person he replaces. Group projects that rely on the new team member may slow down, which affects experienced employees' productivity levels. The loss of momentum when an employee resigns may also affect morale.

A high turnover rate affects the continuity of service to clients and other employees. This is particularly difficult in an industry that relies heavily on relationships with clients. For example, a client who purchases products from a company on a regular basis may grow tired of getting a new salesperson or customer service contact every few months. Consistent relationships with clients help build a stronger loyalty to the company. The company is also better able to provide consistent, high-quality service with well-trained staff that doesn't change often.

2. 2. 3 Life Insurance Agent

According to Independent insurance Agents of America (IIAA) (2009) an agent is a person who performs services for another person or an organization under an express or implied agreement and who is subject to the other’s control or right to control the manner and means of performing the services. The other person is called a principal. Rosenberg (2004) expresses the same opinion in different words by saying that, Insurance agents are sometimes referred to as insurance sales agents whose main obligation is to help clients choose insurance policies that suite their needs.

There are two types of agents as classified by LIMRA (2007), some agents are captive or tied agents who mainly work for an insurance company and only sell that companies’ products, the other category of agents called independent or free lance Agents, are those who work for various insurance companies and sell insurance products of many insurance companies. The independent or free lance Agents are usually registered and licensed companies popularly referred to as brokers.

2. 2. 4 Qualification for becoming an Insurance agent

Frankas (2010) says that, for Insurance sales agents job, most companies and independent agencies prefer to hire college graduates-especially those who have majored in business or economics, high school graduates are occasionally hired if they have proven sales ability or have been successful in other type of work. In fact, many entrants to insurance sales agent jobs transfer from other occupations.

According to LIMRA (2007), College training may help agents grasp the technical aspects of insurance policies and fundamentals and procedures of selling insurance. As per the recommendation of AKI (Association of Kenya Insurers) regulations, every insurance agent must have done C. O. P (Certificate of proficiency in insurance) which is a proficiency certificate to transact insurance business in Kenya. Various employers are also placing greater emphasis on continuing professional education as the diversity of financial products sold by insurance agent's increases. (Holt, 2010).

An Insurance sales agent who shows ability and leadership may become a sales manager in a local office. As noted by U. S Bureau of Labor statistics (2010) a few advance to agency manager. However, many agents who have built up good clientele prefer to remain a sales agent. Some particularly in the property and casually field-establish their own independent agencies or brokerage firms.

2. 2. 5 Resourcing strategies

George (1990) has pointed out that before selecting an agent there has to be a great process than just interview. He asserts that pre-hire assessment like testing and call center simulations have become essential tool in the industry.

Tett (2000) of employment Technologies Corporation says that, for the insurance industry to succeed in improving agents retention there has to be simulation centers where the applicants would be given the opportunity to experience what they expect to find in the field and how sales are like.

According to Ashly (2000) it is good to control; the flow of less-interested candidates before they reach the interview stage. Sometimes the applicant knows better than the hiring specialist that he or she is not the right sampling the job. Tom (2009), and Peter (1999) agree that accepting agents without checking their interests in the initial selection stage leads to poor retention of the agents. Nevertheless Srivivas (2003) warns against relying too heavily on the simulation. He says that simulation can be very effective for providing people with some exposure to what the job is likely to be. On the same note Banks (2010) disputes the other authors by pointing out that simulation are too artificial such that good candidates get left behind because they do poor simulations Wright (1992) asserts that simulation is only good to give a job presentation.

2. 2. 6 Agents Remuneration

According Armstrong, (2006) Remuneration is the compensation an employee receives in return for his or her contribution to the organization.

Luthans (1992) asserts that Remuneration occupies an important place in the life of an employee, his or her standard of living and status in society. Groholdt (2001) points out that, Motivation, loyalty, and productivity depend upon the remuneration he or she receives. For the employer too, employee remuneration is significant because of its contribution to the cost of production, besides, many battles (in the form of strikes and lock outs) are fought between the employer and the employees on issues relating to wages or bonus.

Life insurance sales professionals typically earn all or most of their income through commission, which means that they get a certain percentage of every sale they make as well as residual income when clients continue to make payments. For this reason, an agent has the potential to earn much more than he would at an average hourly job. As with any other commission-based job, if an agent fails to perform, he will not be able to earn anything. Even if he does sell a substantial amount of insurance one month, he may not be able to sustain these sales numbers from month to month, and this may result in an unstable level of income. Cravens, Ingram, Loforge and Youngs, (1993), explored the relationships between compensation/control systems and performance and retention. Their results indicate that the type of control system, that is management control versus commission control, is correlated to several measures of success and agents retentions.

They found out that sales performed and agent's retention was more affected by commission control than by management control.

2. 2. 7 Agent Training

Employee development is something that most people imagine as intrusive all-day group training sessions. Unfortunately, this dreaded approach to employee development is just the opposite of how employee development should occur and feel to employees. Employee development can manifest itself in many forms of training, evaluations, educational programs, and even feedback. If executed correctly, the effects of training on agent performance can often encourage growth within the worker and the organization itself. One of the larger aspects of developing Agent's skills and abilities is the actual organizational focus on the Agent to become better, either as a person or as a contributor to the organization. According to Organizational Behavior by Robert Kreitner and Angelo Kiniki, (2009) it’s been shown that employees that receive regular, scheduled feedback, including training, along with an increase in expectations, actually have a higher level of worker output. Kreitner and Kiniki refer to this as the “ Pygmalion Effect.”

The hope is that agents who receive training in line with their individual or organizational goals will become more efficient in what they do. Organizations should look at the positive effects of training on agent performance, and consider agent development as a targeted investment into making the front line worker stronger. More importantly, development plans that include “ train-the-trainer” (training that trains agents to become trainers of a skill) can provide exponential benefits to the organization. This training can be anything from how agents can do their own jobs better to these agents being groomed to replace their supervisor. In addition, agents who are invested as a trainer might be further inclined to stay with the organization, and possibly reduce agent turnover.

Along with supporting the organization, agents might recognize that most types of agent development provide them benefits. Agent development programs that range from certifications to education reimbursement, to even basic sales skills training, have a certain cost to the organization that can easily be considered a benefit to the agent. Such awareness on the part of the agent can also lead to greater loyalty to the organization as well as enhanced job satisfaction. Training and education that can be added to the agents resume are big ticket items in terms of compensation plans, and should be treated as such.

Beyond agent training and certification courses, evaluations and counseling sessions are another form of agent development. They provide performance feedback and allow agents to be aware of changes to both their work goals and the overall objectives of the organization. Agents who do not receive feedback on a regular basis usually end up feeling as though they might be forgotten by their supervisor, and this pattern may even lead to feelings of dissent among the Agency force. Going back to the Pygmalion Effect, agents who have consistent knowledge of their levels of performance, and who feel that their supervisors are placing expectations on them, generally perform better on an individual basis.

Agents are required to attend meetings, seminars and programs to learn about new products and services, learn new selling skills and receive technical assistance in developing new accounts. Churchill, Ford, Hartley, and Walker, (1998) explored role variable, skill, motivation, personal factors, aptitude, and organizational/environmental factors in the retention of agents. The study found that, on average, single predictors or sales performance accounted for less than 4% of the variation in salesperson performance. Aptitude accounted for less than 2% skill levels slightly more than 7%, motivation accounted for 6. 6% role perceptions was by far the best predictor, accounting for as much as 14% of the variation in performance. Personal variables (age, height, and sex, completion, and dressing) accounted for 2. 6% while organization and environmental factors accounted for about 1%. They concluded that personal characteristics, while important, are not as important as the influencing factors such as, training, company policies, skill levels, and motivation.

2. 2. 8 Physical Work Environment

The physical work environment can be identified as a place or location where somebody works. Performance experts agree that the physical work environment has a significant impact upon employee performance and productivity. By physical work environment we mean the building structures, office layout, tools, furniture, space, noise level and surrounding of