

# [Factors affecting life insurance agent turn over commerce essay](https://assignbuster.com/factors-affecting-life-insurance-agent-turn-over-commerce-essay/)

This case study aims to explore factors commonly believed to affect life insurance agent turn over. Several factors has been affected to life insurance agent turnover. The factors are demographic, organizational and selling skill factors. Factor demographic are age, length of service, family size and responsibility, education, martial status and . Second the organizational factors consist of employee commitment, employee satisfaction, compensation. training and development, supervisor-agent relationship and organizational Culture. Third factors are seling skils consist of running out client list, lack of interpersonal skills, lack of salesmanship skills. Impact of all factors has been positive significat to turn over.

Keywords: Life insurance agent, turn over, demographic, organizational, selling skill

## Introduction

Turnover of life insurance agent is a classic problem that occurs in almost all insurance company’s, therefore it is becomes important for them because it associated with the development of the companies.

Agent development was surved by many research company’s and one of them is LIMRA Life Insurance Marketing and Research association (LIMRA). They publication in 2005 has been results, 68% of agents to end his career in the insurance companies in the first 2 years on their career .(Honan’s, 2006). Honan pointed out that some agents often voluntarily leave from one company to another for company or make own business for themselves. Beside that agents are asked to leave due to not achived minimum target requirements, than there are agents turn over 31% with a 4-year retention rate of 14% according LIMRA survey.

In Indonesia survey for agent development very periochial, we only found about growth as insurance companies. Base on survey Indonesian economy in 2010, as reflected in Gross Domestic Product (GDP) increased by 14. 4% from Rp5, 614. 3 trillion in 2009 to Rp6, 422. 9 trillion in 2010. Within the same period, gross premium income of insurance industry increased by 17, 5% from Rp106. 4 trillion in 2009 to Rp125. 1 trillion in 2010. Thus, the ratio of gross premium to GDP increased in 2010 from 1. 90% to 1. 95%. As of the end of December 2010, there were 377 companies having business licenses to operate in Indonesia which consist of 142 insurance and reinsurance companies, and 235 insurance business supporting companies. The insurance and reinsurance companies consist of 46 life insurance companies, 87 non life insurance companies, 4 reinsurance companies, 2 companies administering social insurance program and workers social security, and 3 companies administering insurance for civil servants and armed forces / police. The number of life and non life insurance companies per 31 December 2010 is the lowest for last five years (Indonesia Insurance 2010). The other hand survey all staff turn over has been done by the global management consulting firm Hay Group Hay Group . Base on their survey rate of staff turnover in Indonesia was increased The research was shown that the Indonesian insurance industry’s turnover in 2007 is at 10. 7% and 12. 7% in 2008. The research indicated that salary increase is the most cited reason for job hopping. The study suggests that companies must make a continuous effort to create an attractive working environment to retain employees.

In general, people have bought insurance product based on 20% of the benefits of the product, 20% was seen the background of the insurance companies and 60% depending on agent offered. Because the Indonesian people in general are prefer interacting and their want to get more detailed information directly from agent. Hence to said insurance agent is the vanguard of the company.

The purpose of this study is to explore factors commonly believed to affect life insurance agent turn over in the JV Insurance Indonesia. Furthermore, a case study of turn over is presented to show the impact of turn over in the JV Insurance Indonesia. In order to ensure the confidentiality, the name of company has changed, so that the information’s indicated do not affect the reputation of the company

## The JV Insurance Indonesia.

The JV Insurance Indonesia belongs to JV Group of Companies, the largest life insurance group in Singapore and Malaysia with its two distribution channels – the tied agency and bancassurance. The JV Insurance Indonesia started its operation in Indonesia in1996, with headquarters in Jakarta and several Sales Offices in big cities in Indonesia. The JV Group is a subsidiary of O Bank, the second largest financial services group in Southeast Asia by assets. It is among the world’s highest rated banks, with a long term credit rating of Aa1 from Moody’s. It is also ranked by Bloomberg Markets as the world’s strongest bank. Since 1908, The JV Group has a strong legacy of putting you first. We make life great by providing financial security, and promoting good health and meaningful relationships. With our comprehensive suite of plans to meet your every need, you can be assured of true peace of mind.

## Literature Review

## Insurance Agents

Insurance agents are primarily responsible for searching, collecting, selling insurance products and other financial services. Knowledge agents on selling product have been considered equal to company knowledge. Misconduct of an agents are responsibility of the company; This are bind company to clients. Notice from clients to insurance agents, as same as to the insurance company. (http://www. aaji. or. id/InfoCenter/Dictionary. aspx)

Turnover

Turnover is defined as the number of people who leave a job or organization (DeNisi & Griffin, 2008). Cascio and Boudreau (2008) said that a more appropriate way to define turnover is to consider, not only separation, but also the replacement of employees leaving.

Turnover in the organization has become a very investigated area (eg, Marsh & Mannari, 1977; Mobley, 1977, 1982; Bluedorn, 1982; Horner, & Hollingsworth, 1978. Cotton & Tuttle, 1986; Mathieu & Zajac, 1990; Babkus, Cravens, Johnston, & Moncrief 1996;; Gaertner, 1999; Hom & Griffeth, 1995; Rhodes, Eisenberger, & Armeli, , 2001; Meyer et al, 2002; Alleyna, 2002; Zacharatos, Herschcovis, Turner, Barling, 2007; Hong, Wei, & Chen, 2007; Clark, 2007). Turnover can lead to loss of productivity, quality of service interruption, lost of business opportunities, and demoralized employees who live (Hom & Griffeth, 1995; Mobley, 1982). Limiting turnover would be beneficial to organization.

## Insurance Agents and Turnover

Empirical research on the insurance agents and turnover is limited. Current statistics indicate the turnover rate of 85% for women and 81% for males four-years model (Huffman, 2007). This statistic is an increase from two years earlier that showed the overall turnover of 89% in 2005 (Brown, 2004) and 86% in 2004 (Higgins, 2003) using a 4-year retention rate. While the turnover rate has increased, losing more than 80% of the industrial workforce for the past four years is quite expensive. Muise (2007) showed that 28% of U. S. insurance agents hired in early 2006 were not employed with the same company at the end of 2006. Moreover, the greatest loss occurs before the second year employment is complete. Huffman (2007) determined that 62% of women and 53% men are no longer employed by the same insurance company at the end of two years. Berris and Jackson (2008) notes that turnover was the biggest frustration for managers, owners and employees of the insurance companies. It is clear that insurance agents are a valuable commodity in the field of insurance. Sadly, there are not sufficent agents to adequately serve the community. In addition, retention is at a staggering low level while recruitment cannot compete with the speed of the insurance agents leave the industry. In addition, turnover is a consistent problem that inhibits the insurance industry. Determining the factors that increase retention and minimize the necessary intention to leave for the insurance industry to continue to thrive.

There are many factors that cause an employee to intent to leave the organization. The research was not all encompassing. This study only offered additional information to the body of knowledge. Prior studies and research in the future will continue to add to the body of knowledge considering employee’s intent to leave the organization.

## Problem Description

The company is a complex organization that consists of many resources, one of which is human resources. One of problems in corporate human resources is inten to leave of employee impress of agent turn over, If agent has a sense of satisfaction in work or enviroment of company, then the agent would demonstrate good personally in companies. Base on theory, job satisfaction is negatively related to employee turnover, higher job satisfaction associated with low turnover, whereas the less satisfied employees show higher turnover. But in the current conditions of the country of Indonesia with a high unemployment rate and lack of alternative work, will lead to a lot of people would think twice about leaving their job, they prefer to stay in their job even though it may in fact employees are not satisfied with the work.

Based on the pre-survey in the JV Insurance Indonesia was found in 2011 a common problem associated with the employee is the employee dissatisfaction on commision factors and the relationship between superior and subordinate that makes some employees who are not satisfied will resign his job. It marked the turnover rate of employees in the BL Insurance Indonesia in 2011 is higher in the amount of 20. 60% depend on 5, 76 % in 2010. This is certainly very interesting to study further. Is there job satisfaction associated with employee turnover rate in the company’s current condition? Based on the mentioned hence the issues will be investigated in this study are:

1. What factors that can influenced turn over rate of insurance agents of The JV Insurance Indonesia?

2. How is improvement efforts need to be implemented by the JV Insurance Indonesia to enhance employee satisfaction and reduce the levels of turnover occurring?

## STATEMENT OF THE PROBLEM

Considering all these issues study determines its Factors Affecting Life Insurance Agent Turnover (case study in The JV Insurance Indonesia )

## FINDING

## Demograpic analysis

Demographic factors may influence the occurrence of turnover. Those factors are age, length of service, education, family size and responsibility and marital status.

## Age

The result of these study show that the majority of respondent are young agent. Young agent indicate a higher turnover rate than workers with older. Previous research shows there is a strong negative relationship between age and turnover, The negative relationships that exists in these studies mean as age increase the rate of turrnover decreases, Older agents are reluctant to move because of work and family responsibilities and they do not want to work from the beginning in a new place. They do not get comfortable even though their will get a new salary and more facilities more bigger.

## The length of service

The length of service as define by Bluedorn (1982; 140) is the amount of time an individual has been a member of organisation. The result of these study has been indicated a negative relationship between length of service and turnover, Its mean the agent with shorter length of service with an organisation are more likely to leave

## Family size and responsibility

Stone and athelstan (1969) who studied turnove among famales shows that there is positive relationship between increses in family size and increased tendencies to turnover. This contrast in the findings on the impact of family size among male and female turnover can be simply explained by the typical rule of traditional sex-role differentiation in the family

## Education

Recent studies dealing with education, suggest that there is evidence to link better-educated agents with higher rates of turnover than less-educated agents. The result of these study has been indicated a positive relationship between education and turnover

## Marital Status

Several previous studies have demonstrated the relationship between marital status and labor turnover. Unmarried agent are more likely to leave a job compared to married agent. The result of these study has been indicated a positve relationship between marital status and turnover. That means single agent have higher turnover than that of married agent.

## Organizational Factors analysis

Several researchers have examined the turnover problem as a consequence of high turnover or excessively costly to the organization (North et al., 2005). Previous research has shown that many considerations affected to the decision to leave a company. Quantitative and qualitative research studies have shown correlative patterns that can both explain and predict agent turnover. The literature on agent turnover is very broad. The shortage of workers significantly impact overall organizational effectiveness and employee spirit (Bame, 1993; Fitzpatrick, 2002; Harrington, Zimmerman, Karon, Robinson, & Beutel, 2000). When agent turnover becomes excessive , productivity suffers, decreased services, increased cost, and leaves the knowledge of the firm (Drucker, 1998; Fitzpatrick, 2002; Shaw, Gupta, & Delery, 2002).

## Employee Commitment

The relationship between agent commitment and tendency to either stay with or leave an organization has been the source of much academic inquiry (Blau, 1985; Meyer, Allen, & Smith, 1993; Morrow, 1983). Commitment to job or the employer has been the subject of confusion because of different definitions for the concept of commitment (Morrow, 1983). Meyer and Allen (1991) define organizational commitment as “ a psychological state that (a) the character of the relationship between employees and the organization, and (b) has implications for the decision to continue or discontinue membership in the organization” (p. 61). This could take shape in the way employees become emotionally attached to or identify with an organization, the fear of losing their commitment and identity with an organization, or a sense of obligation to an employer (Meyer & Allen, 1991). Based on emotional commitment, two main directions of research that appears (a) studies examining agents emotional commitment agents and (b) studies examining attitudinal commitments. Agent’s commitment has affected the turnover rate. in these study showed little their commitment to an company.

## Employee Satisfaction

Employee satisfaction has the effect of work-related outcomes such as job performance, commitment to an organization, discretionary activities, absenteeism, turnover, and delays (Hulin & Judge, 2003; Johns, 2001, Judge, Parker, Colbert, Heller, & Ilies, 2001; Warr, 1999)

Employee satisfaction is one that affects the turnover can be divided into three sub-categories: (a) dispositional, (b) situational, and (c) integrational (Arvey, Carter, & Buerkley, 1991; 2001 Judge et al.)

In these study suggests there is a tendency not fulfilled employee satisfaction

## Compensation

Compensation affected the agent retention strategies (Corporate Leadership Council, 1999, Williams & Sunderland, 1999). Many studies show that compensation was a key determinant retention (Dreher, 1982; Gerhart & Milkovich, 1992; Griffeth, Hom, & Gaertner, 2000; Harrison, Virick, & Williams, 1996; Porter & Lawler, 1968; Schwab, 1991; Steers & Mowday, 1981). there are variations of several studies have shown that compensation for increased performance (Milkovich & Newman, 1996). Other researchers have questioned the premise that retention is connected to compensation (Kim, 1999; Kohn, 1993; Pfeffer, 1998). Pay-for-performance structures have been studied for their impact on individual performance improvement (Jenkins, Mitra, Gupta, & Shaw, 1998) and organizational performance (Gerhart, 2000). Because a lot of insurance companies pay their agents based on commission, not salary, they do not making enough money from commission may realize that they will not be able to fulfill their basic necessities and may need to look elsewhere for work. In these study compensation has affected the performance of the agent to remain in a company.

## Training and Development

According to some previous studies the effects of training and development programs have reduced turnover. That program on employee development has shown that improving agent skills as a result. Martin (2003) asserts that there is a complex relationship between turnover and employee development. Martin found that increased the skills of workers on the job resulted in a lower rate of turnover for the organization..

## Supervisor-agent Relationship

This study is the relationship between agent and supervisor. The quality of that relationship affects the commitment of the agent (Galagan, 2000; Kaye and Jordan-Evans, 2000; Kinni & von Hoffman, 2000; Tulgan, 2001).

These study has shown that voluntary turnover is due to the low quality of the supervisor-agent relationship (Dobbs, 2001; Kaye and Jordan-Evans, 2000).

Supervisor-agent relationship quality assessed by the effectiveness and communication styles between the two sides. In the supervisor-agent studies and their impact on motivation and job satisfaction, the differences in communication styles have been neglected to date (Mayfield, Mayfield, & Kopf, 1995, 1998; Sharbrough, Simmons, & Cantrill, 2006

## Organizational Culture

The study of effects cultural organization have been at the retention of employees show there is a strong correlation between organizational culture and turnover (Galagan, 2000; Kaye & Jordan-Evans, 2000; Kinni & von Hoffman, 2000; Salopek, 2000). Work environment or organizational culture where relationships are based on trust and integrity, the staff is treated as a unique individual, and personal relationships taken care positively impact employee turnover. Good relationships between supervisors and agent or between agents and agents affect the decision to stay or leave a company (Friedrich, 2001; Morrison & Chan, 2000). Instead, the results showed that the stress levels of employees, lack of support from supervisors or management,, and non-empowering work environment had negative effect on turnover (Friedrich, 2001; Hemingway & Smith, 1999).

## Sales Skills

Sales skills factors caused insurance agent turn over. There factors are consist of

## Running out client list

Running out client list due to agents have been limited relationship held and the lack of ability to build relationships with new people. They were afraid ask for references from their clients

## Lack of interpersonal skill

Agents are not motivated due to lack of support from managers to provide encouragement and the assistance required. They were not given enough motivation to remain in the company.

## Lack of salesmanship.

Agents had been unable to selling product because they were not received training on how to selling a good product, lot of agents do not have a background in marketing and insurance so that they had difficulty in adapting the marketing environment

## Discussion

Turnover agent has been affected by job satisfaction. Job satisfaction can be broken down into short-term assessment and long-term assessment. Short-term assessment is the intention to leave the company before 1 year. Long-term assessment in relation to intention to leave in the next 24 months.

Respondents indicated that the commission, rewards and benefits are part of the top level in the short term. Gifts of money, non-monetary rewards and appreciation even considered as an important reason to consider when deciding to leave in the short term. Factors such as operating procedures, the nature of work, organizational communication, co-workers, and supervisors are most strongly associated with intention to leave in the short term.

Factors of working enviroment, good career opportunities, and communication around the organization in the long term will occurred for agent, they will be becomes important when considering leaving within the next two years. Operating procedure is still the most important and minimal supervision can still be considered in turnover.

Overall, in the short term, the five strongest factors to consider reducing the intention to leave in the next year including affective commitment, commitment to sustainability, contingen awards, commissions, and benefits. The five least important factor for respondents in the short term include normative commitment, operating procedures, justice, information, monitoring, and nature of work.

## Suggestions for minimizing turnover

Companies should improve the recruitment agent system.

companies create training programs that aim to meet the needs of agents such as how to increase ability to sell products and good approach to clients.

The company should require agents to have an agency license

Companies must improve operating system procedures, so that agents can smoothly in administrative affairs.

Designing forms used for agent activity in selling products

The company should improve the system of compensation, bonuses and awards.

The company established a corporate culture for all employees, especially convenient for the agent.

Improving relationship between supervisor and agent, thus forming a mutually beneficial relationship between two parties

## Conslusion

These study revealed interesting results regarding intent to quit

before 1 year. Most agents’ were satisfied and had no intent to quit in 6 and 12 months. Several economic and demographic factors like comission and age did not affect agent’ intent to quit before 1 year.

In marital status factors almost half of unattached employees, such as single, widowed, and divorced agent had intent to quit before 1 year. The result shown that a higher percentage of unattached agents’ intent to quit before 1 year and had lower organizational commitment.

In organization commitment factor was lack of organization commitment that contributed to the external factors, such as downsizing and outsourcing. Also, unattached agent have minimal risks with intent to quit due to less years invested and limited retirement investments.

The results revealed that married agent no intent to quit due to high organization commitment, in order to maintain family responsibilities and future retirement.

The relationship between commision and turnover is significant. Agents anticipate their sacrifice of time, energy and completion of job responsibilities to be demonstrated through rewards, such as reward and bonuses. When rewards and bonuses are not sufficient, then employees feel unappreciated and dissatisfied. As a result, negative attitudes and behaviors are demonstrated through minimal job performance and productivity like low achived premium target . In addition, negative attitudes and productivity increase agents’ intent to quit from company for additional experience and skills for potential career advancements. Similar to commision, promotions contribute to agents’ intent to quit in 1 year. However, insufficient commition and limited promotions increase agents’ intent to quit from organizations, in order to obtain additional experience and skills for higher commition and future career advancements.

## Future research and Limitations

The limitation of these research identified the collection of data from a small site in

Jakarta Indonesia to generalize to a large population of employees in the insurance industry. Future research is needed to obtain feedback from a larger sample rather than a smaller sample of the population. Future research will enable levels of management and human resource programs to enhance existing and incorporate additional programs to accommodate a diversified population of employees.

Another area of future research includes modifications with the demographic survey. The survey used in the study did not include variables, such as status of education.