

**FACTORS INFLUENCING INSURANCE AGENTS'  
INTENTION TO LEAVE: FINDINGS FROM LIFE  
INSURANCE SECTOR IN PAKISTAN**

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**Abstract**

Insurance sector has become very vital in today's business in order to cover the risks. Pakistan is a developing country which is prone many types of violence. Insurance industry in the country is not stable enough to provide hedge against risks to individuals and firms. The Paper addresses one of the most important problems faced by life insurance i.e. the labor turnover. The paper finds out the factors which are most likely to affect the insurance agents' intention to leave the organization. The findings reveal that Compensation, Training, Career Commitment, Stability of Organization and Freedom in Decision Making are the most significant determinants that affect the insurance agents' intention to leave the firm.

**Key Words:** Insurance, Turnover, Risk

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## 1 Introduction

The Insurance industry is an essential part of daily business in a capitalist economy particularly in developed countries. It helps the businesses and individuals to transfer their risks to the Insurance Companies. Insurance enables the whole society to minimize the risks caused by some natural factors for instance earthquakes, hurricanes, tornados, flood,; some human actions for example theft, fraud, pollution, terrorism; and some economic impacts such as inflation, obsolescence, depressions/recessions.

### 1.1 Insurance in Pakistan

History of Insurance Sector in Pakistan started as soon as the state came into being. At the time of independence, Pakistan inherited five insurance companies, which were increased to seven within five years. In 1948, a tariff determining body was established called Insurance Association of Pakistan [IAP]. The Insurance Association of Pakistan aimed at creating links between the government agencies and the private sector insurance companies. According to the Year Book 2006-2007 of IAP, there are 31 non-life insurance and 5 life insurance companies operating in Pakistan (IAP, 2008).

### 1.2 Life Insurance Sector in Pakistan

Presently there are only five Life Insurance Companies in Pakistan. One is a state-owned company and other four companies are in the private sector. State Life Insurance Corporation of Pakistan is a public sector company whereas EFU Life Assurance Ltd. and New Jubilee Life Insurance Co. Ltd. are foreign companies. Similarly, Metropolitan Life Assurance Co. (Pak) Ltd. and American Life Insurance Co. (Pak) Ltd. are domestic insurance companies in private sector.

### 1.3 Issues in Life Insurance Sector in Pakistan

Life Insurance Industry is facing a number of problems and challenges in Pakistan. Its performance is not much impressing in a densely populated country. The major insurance companies have insured less than 15 million out of 160 million lives in Pakistan by the end of fiscal year 2006-07 (Pakistan and Gulf Economist, 2007). Moreover, this sector is unable attract large number of entrepreneur despite a vast scope in this sector.

There are a number of reasons behind the poor performance of this sector. People are less inclined towards Life Insurance because of lack of education, religious beliefs, lack of understanding and lack of trust. Moreover, Life Insurance products call for a very long-term

investment i.e. from 15 to 20 years. So, people are hesitant to keep their funds idle for such a long period of time.

Above all these issues, the problem of ineffective sales force is very important. Role of sales force is very significant for the development of this sector. There is no doubt that lack of awareness, religious beliefs, the concept of long-term investment and lack of trust are the major problems, which give Pakistan the lowest ranking in terms of per capita on life insurance. But this is equally important to realize the fact that if ineffectiveness of sales force is handled properly, most of these problems can be eliminated.

#### **1.4 Role of Insurance Agents in Life Insurance Sector**

The performance of life insurance sector is directly correlated with the performance of insurance agents. These agents basically serve as a direct channel of selling for insurance companies. The term “insurance agent” is defined by Insurance Association of Pakistan (2008) as follows:

“An Insurance Agent is a representative of an insurance company in soliciting and servicing policyholders”. The IAS further states about the significance of an agent that

“An agent’s knowledge concerning an insurance transaction is said to be the knowledge of the insurance company as well. Wrongful acts of the agent are the responsibility of the company; these bind the company to the customer. Notice given by an insured to the agent is the same as notice to the company” (IAP, 2008).

This is clear from the above statement that an insurance agent plays a vital role for the company. He is responsible for his good and bad acts to the company and to the clients. His performance and capabilities have a direct impact upon profit and sales of an insurance organization. The survival and growth of life insurance sector is heavily and positively relied upon the performance of these agents. Therefore, this human resource is the backbone of life insurance sector.

Sales force in Life insurance sector is very large. Only in State Life, there are around 5,000 insurance agents in Karachi who are in direct contact with their target customers. The number of agents in private life insurance companies is around 10,000 in the

#### **1.5 High Turnover in Life Insurance Sector**

The agents in life insurance companies in Pakistan are not properly trained or formally educated; they lack selling skills; they are less skilled to convince their target customers as

compared to the agents in other industries; they are less loyal to their profession; and they have a poor image of their job (Pakistan and Gulf Economist, 2007). Therefore, it is a big challenge as to how to retain valuable employees is one of the biggest challenges that plague companies in the competitive marketplace. Insurance Agents in life insurance companies face a number of problems in their job. All of these factors cause a very high turnover of valuable agents in this sector which is around 70% per annum (Moez, 2008). As a result, the high turnover rate affects the progress of life insurance industry.

Therefore, the intention of Insurance Agents to leave the organization has a great impact upon the overall performance of an insurance company. Therefore, life insurance companies must develop a concrete steps to find out the causes which influence the intention of insurance agents to leave the organization. In this way, they can formulate better retention strategies for their valuable human resource in order to avoid the costs of hiring, training, loss of experience and improve their performance. Hence the problem statement of this research is as follows:

“The insurance agents frequently leave the organization or they always have intention to leave the work place. This high rate of turnover deprives the life insurance companies of valuable, trained and experienced human resource”.

### **1.6 Research Question**

What are the factors which influence the intention of insurance agents to leave the organization in life insurance sector in Karachi?

## **2. Literature Review on Retention**

The literature review on the topic is as follows:

### **2.1 Significance of Retention**

If organizations fail to retain high performing employees, they will be left with an understaffed, less qualified workforce that ultimately hinders their ability to remain competitive (Rappaport, Bancroft, & Okum, 2003). Despite the vast literature on employee turnover, which aims at identifying factors that cause employees to quit (Griffeth, Hom, & Gaertner, 2000), much less is known about the factors that compel employees to stay. For example, Maertz and Campion noted “relatively less turnover research has focused specifically on how an employee decides to remain with an organization and what determines this attachment...retention processes should be studied along with quitting processes” (1998, p. 65). Steel, Griffeth, and Hom added “the fact is often overlooked, but the reasons people stay are not always the same as

the reasons people leave” (2002, p. 152). Retention is a critical element of an organization’s more general approach to talent management, which is defined as

“The implementation of integrated strategies or systems designed to increase workplace productivity by developing improved processes for attracting, developing, retaining, and utilizing people with the required skills and aptitude to meet current and future business needs”

With regard to retention, Towers Perrin (2003) highlights an important impact related to the disengaged. Whilst organizations can potentially lose key employees through not successfully engaging them, there is also a risk to the organization from the disengaged who are not actively looking for other employment and continue in their current employment but are disaffected and unproductive. Towers Perrin (2003) note that retaining the disengaged can have as serious consequences for performance as losing the highly engaged.

## 2.2 Why Employees Leave their Job

According to a survey of employee satisfaction and motivation (Australia Seek Ltd., 2007), the key emerging theme is that the employees are primarily motivated to change employers for a better salary. An employer who is not paying what an employee thinks that they are worth is vulnerable to that employee leaving. In addition, career development is a strong driver for changing employers. Interestingly, in line with employees’ attitude to work, 21% of employees would sacrifice loyalty for the chance to achieve their desired work / life balance. Only 5% of employees consider themselves to be happy with their current employer and would not dream of moving, perhaps highlighting once again how mobile employees are.

While loyalty is dependent on salary, career development, and work-life balance, these are not necessarily the reasons that employees actually leave their jobs. Rather, the highest proportion of employees leaves jobs because of bad management. This is consistent with the top hates of current jobs, and the top desires when seeking a new job. Consistent with bad management, the third most often mentioned reason for leaving was a lack of appreciation at work. Wanting a new challenge was the second highest reason for leaving. The greatest disconnect between job hates and the actual reason for leaving is job stress. Only 20% of respondents reported that it contributed to them leaving their last job (Australia Seek Ltd., 2007).

## 3. Factors Influencing Insurance Agents’ Intention to Leave

Following is the brief literature review of the most influential factors upon the employees intention to leave or stay:

### **3.1 Impact of Compensation on Intention to leave**

The research conducted on the link between dissatisfaction with compensation and voluntary turnover appears to be inconclusive. Mobley et al (1979) concluded that results from studies on the role of pay in turnover were mixed but that often there was no relationship between compensation and turnover. Other studies found no significant relationship.

On the other hand, the most important reason for voluntary turnover is higher wages/career opportunity. Martin (2003) investigates the determinants of labor turnover using establishment-level survey data for the UK. Martin indicated that there is an inverse relationship between relative wages and turnover (i.e. establishments with higher relative pay had lower turnover).

### **3.2 Impact of Training on Intention to Leave**

Martin (2003) detected a complex relationship between retention and training. He suggested that establishments that enhance the skills of existing workers have higher retention rates. However, retention is lower when workers are trained to be multi-skilled, which may imply that this type of training enhances the prospects of workers to find work elsewhere. The literature on the link between higher retention and training has found that off-the-job training is associated with lower retention presumably because this type of training imparts more general skills (Martin, 2003). Shah and Burke (2003) reviewed some of the literature on the relationship between turnover and training. In a British study examining the impact of training on mobility, it was concluded that, in aggregate, training has on average no impact on mobility. However, training that is wholly sponsored by the individual (or their families) is on balance likely to be a prelude to job search. In contrast, when employers pay for training the downward effect on mobility is more likely. It was also concluded that both on-the-job and off-the-job training have a significant effect on job mobility. While formal on-the-job training reduces the likelihood of mobility, particularly for young women, off-the-job training increases the likelihood of mobility. In a study of six local labour markets in 1994, it was found that women who received employer-provided and job-related training had a lower probability of changing employer or making the transition to non-employment, but for men training made no significant difference to this type of

turnover. In a study examining the effect of apprenticeships on male school leavers in the UK, in 1994, it was found that completed apprenticeships reduced voluntary job-to-job, voluntary job-to-unemployment and involuntary job termination rates. In contrast, incomplete apprenticeships tended to increase the exit rate to these destinations relative to those who did not receive any training. It was also reported that in Germany apprenticeships and all other types of vocational training reduce labour mobility in spite of the fact that the German apprenticeship training is intended to provide general and thus more transferable training.

### 3.3 Career Commitment and Intention to Leave

Chang (1999) examined the relationship between career commitment, organizational commitment and turnover intention among Korean researchers and found that the role of career commitment was stronger in predicting turnover intentions. When individuals are committed to the organization they are less willing to leave the company. This was found to be stronger for those highly committed to their careers. The author also found that employees with low career and organizational commitment had the highest turnover intentions because they did not care either about the company or their current careers.

Individuals with high career commitment and low organizational commitment also tend to leave because they do not believe that the organization can satisfy their career needs or goals. This is consistent with previous research that high career committers consider leaving the company if development opportunities are not provided by the organization. However, this group is not apt to leave and is likely to contribute to the company if their organizational commitment is increased. Chang found that individuals become affectively committed to the organization when they perceive that the organization is pursuing internal promotion opportunities, providing proper training and that supervisors do a good job in providing information and advice about careers.

### 3.4 Stability of Organization and Intention to Leave

Organizational instability has been shown to have a high degree of high turnover. Indications are that employees are more likely to stay when there is a predictable work environment and vice versa . In organizations where there was a high level of inefficiency there was also a high level of staff turnover (Alexander et al., 1994). Therefore, in situations where organizations are not stable employees tend to quit and look for stable organizations because with stable organizations they would be able to predict their career advancement.

### 3.5 Freedom in Decision-Making and Intention to Leave

The imposition of a quantitative approach to managing the employees led to disenchantment of staff and hence it leads to labor turnover. Therefore management should not use quantitative approach in managing its employees. Adopting a cost oriented approach to employment costs increases labor turnover. Employees have a strong need to be informed. Organization with strong communication systems enjoyed lower turnover of staff. Employees feel comfortable to stay longer, in positions where they are involved in some level of the decision-making process. That is employees should fully understand about issues that affect their working atmosphere. But in the absence openness' in sharing information, employee empowerment the chances of continuity of employees are minimal. Costly et al. (1987) points out that a high labor turnover may mean poor personnel policies, poor recruitment policies, poor supervisory practices, poor grievance procedures, or lack of motivation.

### Conclusion

The above analysis reveal that the most likely factors that affect the insurance agents' intention to leave the organization are Compensation, Training, Career Commitment, Stability of Organization and Freedom in Decision Making. Therefore, in order to improve the retention rate, the life insurance companies should focus on these factors.

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