



## Human resource management practices in Indian insurance sector with special reference to LIC

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### Abstract

HR practices are regarded as effective measures that entail employer investment in and commitment to and trust in employees or the reverse a lack of concern and the thoughtful and considerable people management within an organization potentially signifies interest for support and concern for welfare of the employees. The present paper attempts to highlight Human Resource Management Practices in Indian Insurance sector with Special Reference to LIC.

**Keywords:** human resource, human resource management, human resource management practice, insurance sector, lic insurance corporation of India

### Introduction

In today's highly competitive and globalized market place, a highly committed and competent workforce enables the organization to compete on the basis of market responsiveness, product and service quality, and technological innovation. Low cost, high quality products and services are not just the result of sophisticated machines, but the result of intensely committed employees who work hard and with self-discipline to produce such products at the lowest possible cost. In any business strategy, people are more crucial than plans. Human Resource Management is an equal partner in both the formulation and implementation of the company's strategies so as to gain a competitive advantage.

HR practices are regarded as effective measures that entail employer investment in and commitment to and trust in employees or the reverse a lack of concern and the thoughtful and considerable people management within an organization potentially signifies interest for support and concern for welfare of the employees.

HRM also participants in strategy formulation process by supplying information concerning the company's internal strengths and weaknesses, which can have a determining effect on the viability of the firm's strategic options. In several instances, the unique HR capabilities of an organization have served as a driving force in strategy formulation. For example, the IT major, Infosys has developed unique human resource capabilities that provide the firm with a competitive advantage enabling it to provide fast and high quality service to clients Foreign and Indian.

### Insurance Industry in Post Liberalisation Era

Insurance contracts in India are typically sold rather than bought. Before deregulation, life insurance policies were sold as tax-savings products by LIC. Insurance purchase decision was driven by a short-term motive to invest a small sum as premium to reduce tax liability. The two popular products of LIC were Endowment and Money-Back Policies-the savings products. They dominated the Indian insurance market, accounting for nearly 99.5 percent of the policies sold and nearly 99.9 percent of the premium income before deregulation. The mindset of the Indian consumer is

changing. The Indian consumer no longer views insurance as tax-benefit induced exercise. The change has been due to the following reasons.

- The efforts of the private sector players who could successfully creates an awareness that the primary focus for any insurance cover is protection, savings is only a spin-off benefit. The entry of private sector companies has brought about a paradigm shift in the definition of the word insurance.
- A substantial drop in insurance prices, which created a preference for insurance products. Moreover, consumers have realized that there are several options for deploying savings but there is no substitute for life insurance as a means of protection.

This changing trend has led to an increase in demand for insurance products which offer protection. The insurance companies are aggressively marketing whole life and term plans. Another trend is an increase in the awareness about purchasing the correct amount of risk cover commensurate with one's age, income and profile. This has led to an increase in the size of the policy. Before deregulation, the policy sizes were restricted to the premium levels under which one would receive tax benefits. Life insurance companies are offering tailor-made products to suit the differing needs of the consumers. Life insurance products are designed to adjust protection levels within the same policy. Moreover, these companies are providing the clients with innovative, flexible and attractive riders. Joint ventures with renowned foreign insurance companies have provided an added advantage in product innovation. When life insurance companies started operating in middle of 20<sup>th</sup> century in the country, the evil play natural to all businesses had its sway. There was a lot of cut-throat as well as profiteering. As result, Life Insurance Corporation of India (LIC) came into existence on September 1, 1956 after nationalization of all the 245 companies engaged in the life insurance business (Choudhary & Kiran, 2011). However, the government made a paradigm shift in the economic policy by adopting the process of liberalization, privatization and globalization at the end of the previous decade. Consequently, the Insurance Regulatory and

Development Authority (IRDA) were established under the Act, 1999 to regulate the insurance business in the country. As a result, the private sector was allowed entry both in the general and life insurance sector in India. The life insurance industry expanded tremendously from 2000 onwards in terms of numbers of offices, number of agents, new business policies, premium income and so forth (Rajendran & Natarajan, 2010). Furthermore, many new products (like ULIPs, Pension Plans and so forth) and riders were provided by the life insurers to suit the requirements of various customers. As a result of this, the benefits which LIC was enjoying out of its monopoly in the market were taken away, and it had to face tough competition from the private companies. Due to this, LIC had to bring changes in its working. The human resources of an organization are the key towards the success of an organization as a whole. To make the organization competitive in the marketplace, it is very important that the employees are competitive. Keeping this in view, LIC brought about radical changes in its human resource policies to fight the competition after the private players flooded the insurance market. Among the private sector players, ICICI Prudential is the market leader. ICICI's success is driven by aggressive distribution, leveraging existing customer base, and detailed implementation planning. All new entrants have expanded rapidly and have presence in about 40 cities across the country, represented by more than 50,000 agents. They have introduced 70 odd new products and collectively spent about Rs. 150 crore on advertising. Life Insurance business is now sophisticated business in India. The deregulation of the insurance sector increased the number of players in the life insurance market. The Life Insurance Corporation of India (LIC), which had a monopolistic control over the market, faced a stiff competition from the new entrants. Competition led to the adoption of distinct marketing strategies and alternative distribution channels. To compete and survive in this highly competitive environment, insurers are offering insurance solutions which are customized to match with individual needs. In order to provide better services to the customers, the insurers have set up national level call centres, interactive voice response systems and websites that provide interactive tools to help customers to plan their needs. To increase their reach, insurers have tapped alternative distribution channels such as tie-ups with banks and retail giants like Shoppers' Stop. Insurers are also using their existing customer database and database of the distributors to cross-sell the products. These strategies have increased customer awareness of insurance products. The strategies have increased customer awareness of insurance which has led to a growth in the life insurance business. There is a large market for insurance untapped in rural areas. With 74 per cent of India's population living in rural areas and contributing 40 per cent of national income, insurance companies are looking at rural markets as an opportunity rather than obligation. The private sector life insurance companies are designing innovative insurance products and marketing strategies for the rural market. Many of the companies have tied up with non-government organization and social activists agencies for promoting and distributing their products.

## **Human Resource Management Practices in Insurance Industry**

The insurance sector in India has made a full circle from being an open competitive market to nationalization and back to a liberalized market again. Because of liberalization and globalisation of Indian economy, the nature of competition both for final products/services as well as for human resources, has changed. This leaves no scope for complacency on the part of the organization. Insurance industry players are not exceptional to this. A few of important relevant human resource management practices in the context of insurance industry are

- Human Resource Planning is need-based, in that only when the organization requires a certain skill will hire employees with that skill. Provision is not made for keeping reserve workforce.
- For selection purpose, skill requirement is prescribed rigidly. In the selection process, this rigidity is maintained.
- Since employees are selected with specific skills to perform specific jobs, job rotation practice is not followed.
- Training is mostly of short-term duration to inculcate skills for performing specific jobs. The training is mostly on-the-job and aims at helping the employees to perform specific assignment.
- Performance appraisal is highly formalized in which the immediate superior plays a crucial role. The result of performance appraisal is not shared with the subordinates.
- Internal mobility that is promotion is based on organizational loyalty which is measured in terms of years of service. Thus, promotion is based on seniority.
- Employee welfare is viewed more in economic terms. The only thing the organization provides is facilitate environment in terms of physical facilities at the workplace. No importance is given to the psychological environment of the workplace.

Human Resource Management is geared towards a management and business oriented philosophy. It forms a central, senior management-driven strategic activity seeking to accomplish total organizational interests. It gives importance to strategic integration and strong cultures, stemming from top management vision and leadership. It stresses that people are committed to strategy adaptable to change and assimilated in the corporate culture.

### **HR department of insurance industry is responsible for**

- Preparation of HR Plans,
- Developing HR Policies in the context of overall organizational policies.
- Recruitment, selection and placement.
- Developing HR development system,
- Preparing compensation packages in consultation with top management,
- Devising appraisal system for personnel,
- Developing retention strategies for personnel,
- Integrating people with the organization,
- Developing and maintaining employee welfare and social programmes and
- Devising ways for maintaining harmonious industrial relations.

## HRM Practices in LIC

Liberalisation in the Indian Insurance sector has opened the sector to private competition. A number of foreign insurance companies have set up representative offices in India and have also tied up with various asset management companies (Shanker, 2006). All these developments have forced the insurance companies to be competitive what makes a firm best in not just technology, bright ideas, masterly strategy or the use of tools, but also the fact that the best firms are organized, to meet the needs of their people, to attract better people who are more motivated to do a superior job (Waterman, 1994).

The present study has depicted that LIC has made a lot of changes in its human resource management system after privatization. The recruitment of agents, which was done at the branch level before privatization, was changed to follow the norms laid down by the IRDA regarding the recruitment. These norms are applicable to all the life insurance companies. The agents need to clear an examination and undergo training before starting business. The training of agents before privatization was informal. The development officers trained the agents at the branch level. The agents would then learn gradually by observation and experience. Post privatization, IRDA laid down norms for training of agents. This includes pre-recruitment training followed by on the job training given at the branch level. The agents are updated in between with the help of regular training sessions. There are no changes in the process of recruitment of LIC employees. The pay scales have been improved to retain the employees.

In the pre-privatisation era, the performance management system, which was confirmed to preparation of a confidential report by higher level officers, was used for promotions and other decisions. After privatization, modern methods of performance appraisal such as internal audit, 360 degree appraisals and so forth are being used. Prior to privatization, LIC followed a rigid HRM pattern, and not much attention was paid to learning and development activities for employees. After privatization, LIC developed a good HRD program to improve the performance of the employees. The changes which have been implemented regarding the HR management within the company helped the employees of LIC to become competitive and LIC is giving a strong fight to the private insurance players to retain its market share. In addition, to improve the ambiance, the office environment and furnishings were also spruced up.

Thus, we can say that LIC realized the importance of effective HRM policies after privatization (in time) and implemented plans and programs to improve the performance of its employees. There is no need to emphasize that it is the people, people and people that make an organization achieve competitive advantage. The people (Human Resources) in an organization, when looked after and provided with, will certainly pay back in terms of better results, better performance and enhanced productivity. So, this study has practical and policy implications for the organizations. Organisations can certainly make significant improvements to their performance by emphasizing excellent HR practices. Globalisation has become one of the buzzwords in business and academia. In a fast-paced, globally competitive economy, efforts to boost productivity and quality never end. The Indian companies need to learn from the practices adopted by the multinational companies

especially with regard to workforce diversity practices, competitive compensation, and selection and socialization of employees. Gone are the days when experience was the basis for deciding seniority, which in turn was the basis for deciding compensation. Age and experience is no bar, gender is no bar, and above all culture is no bar when we talk of globalization. A correctly selected and well socialized employee can be expected to exhibit organizational citizenship behavior which leads to more commitment towards the organization, better retention, lower absenteeism and hence increased productivity.

## The Challenges

HRM plays a vital role in Insurance Industry. Presently more than 23 private sector and one Public Sector (LIC) Life Insurance companies are operating in India. Together with banking services, insurance services add about 7% of the country's Gross Domestic Product (GDP). A well developed and evolved insurance sector is a boon for economic development as it provides long-term funds for economic and infrastructure development at the same time strengthening the risk taking ability of the country. The Life Insurance Industry expanded tremendously from 2000 onwards in terms of number offices, number of agents, new business policies, premium income and so forth.

People are not boxes or IT programs-they are human beings. They have their own thought process. They are die entities who have different sets of backgrounds, cultures and are expensive suitable Human Resource Management practices helps in tackling the present days challenges of Insurance industry namely :

- Talent Crunch
- Mounting Attrition Rate
- Difficulty in retention management
- Stressful Job
- Stiff Market Competition
- Managing Workforce Diversity
- Rising training and replacement cost
- Determining and designing appropriate training programs for offices supervisors and agents.
- Increasing rate of job dissatisfaction and deciding competitive pay structure etc.

By taking steps to implement key HR practices, Insurance companies can increase employee management and retention, sad as a result, boost their competitiveness in the growing Indian market, enabling them to address changing market conditions quickly and nurture a pool of talent that will give them the liabilities they need in the future.

## Suggestions

Despite remarkable growth, Indian Insurance industry is going to face many challenges such as under market penetration, risk management, multi-channel distribution network management, customer relationship management, fund management, knowledge management, convergence management, stakeholders' conflicts management, corporate governance and regulatory challenges. Both the Government and insurers have to formulate suitable strategies to meet these challenges so that the insurance industry is able to achieve its mission of insuring people in every nook and corner of the country. In fact, there is going to be tremendous increase in demand of insurance products in future.

### For effective management of Human Resources in Insurance Sector in General and Life Insurance Corporation of India in Particular

- HRM must aim to bring about a paradigm shift in the organizational structure and outlook of management from reactive to proactive response and from a managerial mindset under protected environment to a mindset under competitive environment. Recasting the organization with information and knowledge based structure which is flat, non hierarchical, decentralized with empowerment and cross functional or the order of the day.
- Competitive business environment has made the organization today quickly realize that it is people's motivation and interest which would sustain the business and its growth. Ensuring people contribution continuously, match the business demands therefore becomes the responsibility of HR professional. HR professional will thus have to select the best, retain the best, develop the best, provide the best.
- In the changing time there is a need for a cultural shift in the attitude towards training. The existing training culture needs to be replaced by a learning culture. Our managers need to change themselves from learned managers to learning managers.
- In buoyant economic and flexible climate the flight of talent is imminent. The commitment to self and profession is going to be more important than commitment to organization and therefore retention of talent has become a more challenging task for HR. HR has to evolve a long term retention strategy. He will be needed to clearly identify and recognize key people. Traditional compensation plans must be challenged, bureaucratic channels to be eliminated and entrepreneurial opportunities provided.
- There has to be a lot of focus on quality of HR services and customers' satisfaction. The services have to be delivered at a lower cost, better quality within the stipulated time frame to the satisfaction of the internal customer. Critical HR services shall include compensation wage revision, talents scouting, benefits, employees' welfare programme and training. The way in which compensation is linked to individual/team performance, company performance, market value of skill, special competencies would perhaps become more important than the quantity of compensation.
- HR professionals now deal with knowledge employees rather skilled employees. Knowledge employees are different, far more demanding and direct. These knowledge employees are also more positive, passionate and persisting. He thus has the responsibility of ensuring these employees are understood properly and their needs are met and facilitate them to contribute their best to the business operation. Every move of HR professionals make has an impact on business and hence he has to carefully but vigorously ensure his contributions to make better business sense.
- Modern HR is concerned with value addition. Hence, routine HR administration tasks are being outsourced and HR professionals are concentrating on core aspects of HR. He spends time and discussing and analyzing the core areas of business where HR could contribute and spends time in finding newer ways of supporting

business with strategic action plans. So, value added HR is the need of the hour.

- In order to ensure that the HR is stronger in organizations need IT savvy HR professionals who are pro active, capable of planning, innovative strategies and contribute significant to the business operation. E-based HR systems should be developed to provide online support to other executives and employees. HR must be more web centric today.
- HR will remain responsible for evolving value based management in business organization. In the new era the corporate governance and ethical issues shall form an integral part of the overall strategy. The governance should be based on evaluation of leadership with clear vision, credibility, conviction, character followed by sound styles of participative management, shared organizational value and belief system, consensus approach to problem solving and constructive issue resolution and an environment of trust of openness.
- No individual organization will be able to move or survive the wave of change alone. Sharing and learning through each other has become necessity today. Therefore, benchmarking has to be a continuous process. It is all about linking beyond the beaten path and is a very important element of competitive business strategy.
- People influence environment and performance of the organization through their behaviours. Therefore, there is a need for developing strategic competencies among employees and motivating them for higher performance. In the light of these employees' resultant behaviours tend to be highly productive.

### Conclusion

The Life Insurance Corporation of India (LIC) came into existence on 1<sup>st</sup> September, 1956 after nationalization of all the 245 companies engaged in Life Insurance business, from its very inception, the corporation has made impressive growth and constantly striving for further improvement. The Government Policy of adopting the process of liberalization, privatization and globalization has made insurance industry competitive. Life Insurance sector is no exception. As organizations are established by the people and for the people, in this manner the management of human resources becomes very crucial. The present study on HRM practices in insurance companies has been undertaken to take care of different facets of HRM practices in Insurance sector with special focus on LIC.

For almost four decades, LIC (Life Insurance Corporation of India) was the sole player, with a virtual monopoly in the life insurance sector. Due to this opening up of the insurance industry by the year 2001-02, the life insurance public sector giant, that is LIC, which never faced competition earlier, had to compete with the private players who boasted of the rich and long term experience of their partners from the developed countries of the world. In order to fight the competition, LIC brought changes in working.

Human Resources is one of the four resources of men, money, materials and manpower (4 M's) of these, the most important since, effective utilization of all other upon the efficient functioning of this resource i.e. manpower deployed in every department like, operations, sales, marketing, finance, material management and Research

Development etc. Thus, the deployment of suitable manpower in every functionary department is the essence of Human Resource Management. This is possible only when the Human Resource Management activities are effectively accomplished.

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