

Managing Performance for Business Development: The Case of LIC of India

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Abstract:

The insurance sector in India has a long history as an established financial intermediary mobilizing great amount of savings for infrastructure development and more productive activities. One of the important activities of the financial system is to mobilize savings and channelize them into productive activities. Managing performance is a continuous process which involves making sure that the performance of employees contributes to the goals of their teams and the business. One of the latest strategies being followed in all the sectors throughout the world for retention and talent management is proper management of performance and linking it to the pay. Therefore, periodic performance reviews play a vital role and provide not just the basis of performance related pay but also ensures the growth of the organization as a whole. This paper examines the contribution of the Development Officers towards Business Development and also analyses their contribution to the company after the newly opened channels.

Key Words: Performance, LIC, Business Development, competition, Insurance

I. INTRODUCTION

There is always some difference between the quality and quantity of the same work on the same job being done by two different people. Performance appraisals of Employees is necessary to understand each employee's abilities, competencies and relative merit and their worth for the organization. Performance measurement without suitable reward to the performer has little meaning both to the appraisee and to the organization. One of the latest strategies being followed in all the sectors throughout the world for retention and talent management is linking compensation to performance. It links the compensation of the employees to their performance and their contribution to the organizational goals.

II. BACKGROUND AND PERFORMANCE OF THE ORGANIZATION

Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost. LIC had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Today LIC employs 120388 persons and has approximately around 11,95,916 agents on roll. As on 31st March 2014 LIC has 34,36,418.00 crore total sum assured on policies in force. Table 1 and 2 show the business Growth of LIC in terms of New Business and the Life Fund

TABLE:1 BUSINESS GROWTH OF LIC OF INDIA (NEW BUSINESS DURING THE YEAR)

Year	Number of Policies in Lakhs	Sum Assured In Crores
1981 - 1982	21.06	3,492.89
1985 - 1986	32.94	7,088.45
1990 - 1991	86.53	28,239.10
1995 - 1996	110.34	52,071.53
2000 - 2001	196.65	1,24,950.00
2001 - 2002	225.00	1,92,785.00
2002 - 2003	242.79	1,79,811.20
2003 - 2004	269.63	2,02,898.10
2004 - 2005	239.74	1,87,132.40
2005 - 2006	315.86	2,88,522.60
2006 - 2007	382.20	3,03,213.10
2007 - 2008	376.01	2,79,692.58
2008 - 2009	359.03	3,95,754.62
2009 - 2010	388.59	4,34,775.23
2010 - 2011	357.36	5,10,731.26

2011 – 2012	370.26	4,73,989.13
2012 – 2013	367.67	5,15,247.41
2013 – 2014	344.80	5,14,636.40

Source: LIC Annual Reports

Table 2: LIFE FUND OF LIC

YEAR	TOTAL SUM ASSURED In force	LIFE FUND In Crore
2003 - 2004	9,05,233.33	3,21,759.55
2004 – 2005	10,29,839.55	3,85,691.21
2005 – 2006	12,80,159.24	4,63,147.62
2006 – 2007	13,97,468.14	5,60,806.33
2007 – 2008	14,85,379.90	6,86,616.45
2008 – 2009	17,84,879.93	8,07,317.43
2009 – 2010	20,61,033.71	9,99,517.59
2010 - 2011	23,31,412.77	11,51,200.58
2011 – 2012	26,72,402.28	12,83,990.72
2012 – 2013	29,93,747.89	14,33,103.14
2013 - 2014	34,36,418.00	16,07,024.98

Source: LIC Annual Reports

During the period 2000-2001, 10 new players came into the life insurance business which increased to 22 in 2008-2009. Today LIC competes with 24 other players who are offering competitive products and services but LIC is still showing a constant growth in the business. LIC has always kept the competition in mind and has been constantly adopting various practices to adapt to this changing scenario. However it would have never been possible for LIC to function without its personnel responsible for Business development. i.e. the Development Officers.

In the year 1978 Life Insurance Corporation of India is probably the first organization in India to introduce such a performance appraisal and variable compensation scheme for the Development Officers who are directly responsible for generating the life insurance business. Along with introduction of performance appraisal, branches were recognized and decentralized, as a result of which business of LIC steadily picked up from 2000 crore sum insured in 1979 – 1980 to reach 1,24,950.63 crore sum insured in the year 2000 – 2001, the year of denationalization with a first premium income of 6,26,39 crore with 2 crore new policies sold as depicted in Table 3

Table 3: Sum Assured on New Policies

YEAR	Sum Assured on New Policies(in cr rupees)
1957-1958	200
1969-1970	1000
1979-1980	2000
1985-1986	7000
2000-2001	1,24,950.63
2004-2005	1,35,909.8

Source: LIC Annual Reports

Introducing such a performance linked compensation scheme for Development Officers was a necessity of time for this mammoth Corporation which was in its early stages of development. The peculiarity of the industry and the job also contributed towards the development of such a scheme. Though it was early time for LIC and the world had not seen much of Business Management as a subject, LIC could understand that life IT is always sold and is seldom bought. In recruiting agents and selling life IT policies the job of a Development Officer is a vital link between the Life IT Company and its prospective and current customers.

Performance Management of the Development Officers in LIC

Development Officers in LIC are the Class-II employees of the Corporation earning fixed regular monthly salary. There was no clear cut definition of the job that the Development Officers were to carry out. But it is normally understood that the job of a Development Officer in LIC of India is to recruit and train agents, who directly brings business to the corporation. This scheme helped in defining their job clearly as recruitment of agents, selling LIC policies through them and retaining these agents and the policies procured by them.

To appraise the performance of a Development Officer both quantitatively and qualitatively the performance appraisal scheme aimed at calculating their cost to the corporation in comparison to the volume of business brought by their agents.

Cost of a Development Officer

It is the cost of the Development Officer to the Corporation. It includes : Salary + All Allowances + Arrears if any + Fixed Conveyance Allowance + Telephone/Mobile expenses + Vehicle related expenses.

Eligible Premium

It is the Scheduled first year premium income (SFYPI) brought by a Development Officer through his supervised agents. There is a difference between the total premium brought by the Development Officer in a particular year through his agents and the credits given to him. It is as per a schedule provided by the Corporation depending on the plan and term of the policies sold.

Net Eligible Premium/NET SFYPI

It is derived by deducting the Lapsed Premium from the eligible premium. Lapsed Premium means the scheduled first year premium income received and adjusted under such policies that stand lapsed on the first policy anniversary, but have not been revived by the end of the relevant appraisal year out of the policies secured by the Development Officer in the previous appraisal year. This concept introduced the importance of retention of business generated by the Development officers in the previous years.

COST RATION - Cost x 100 / SFYPI

QUALIFIED AGENT – a qualified agent is one who has completed during his agency years, such minimum amount of business as is required of him under regulation 9 of LIC of India (Agents) Regulation, 1972 as amended from time to time. During the first scheme the qualified agent was defined as an agent who procures 1 lakh sum assured under 12 different lives. Subsequently during the GOIB scheme it was changed to 1 lakh first year premium under 12 different lives.

It can be safely concluded that the first appraisal scheme followed by LIC of India, developed the concept and calculated the cost of an employee to the organization in the year as early as 1978. Through the same scheme the Corporation wanted its Development Officers to have some agents and through them bring and retain the business of Life IT at a certain level : 5 times over their cost to be eligible for incentives to be earned. Further this incentive so arrived are modified by depending on the number of lives, to whom the sales are made and number of agents who achieved the sale. The purpose behind this two additional factors are to encourage the Development Officer to increase the number of sales through higher number of agents.

III. INCENTIVE BONUS SCHEME –

Eligibility – A Development Officer whose cost ration did not exceed 20% in the appraisal year was eligible for grant of incentive bonus in respect of that appraisal year.

Table 4: Basic Incentive Bonus

STIPULATION	BASIC INCENTIVE BONUS
Net SFYPI in excess of 5 times the cost.	6 % of such excess, plus
Net SFYPI in excess of 7 times the cost.	4 % of such excess, plus
Net SFYPI in excess of 9 times the cost.	2 % of such excess.

The basic incentive bonus so arrived were further increased or decreased depending on (i) the number of lives, (ii) the agency organization and (iii) the minimum number of agents.

Disincentives

Since there is a provision of incentives for good performance, poor performance cannot be over looked as a matter of principle. The Schedule – III of the Staff Regulations, 1960 of the LIC of India lays down that Development Officer is required to work within a prescribed cost ration specified according to the area of his operation. If the appraisal shows that the cost ratio of the Development Officer exceeds the prescribed limit, he becomes liable to one or more disincentives.

Termination of service

The services of Development Officer become liable for termination in either of the following contingencies.

- a. If the cost ration in appraisal year is more than 50% and the ration of the aggregate of the expense in that year and the two immediately preceding years to the aggregate of the SFYPI in those appraisal years exceeds 50%.
- b. If as a consequence of the application of the decrements the basic pay falls, on a second occasion, to be fixed below the minimum of the scale prescribed for post.

Era of Competition

Since the inception of the scheme in 1978 the scheme continued by annual extensions without any modification till the year 2004. Though in the initial years the scheme served its purpose, with passage of time the scheme lost its luster as the provisions of modifications were capped at only 12,500/- and the disincentive scheme was too liberal. With the introduction of privatization to the IT market it was due for LIC to replace this old war horse with a new scientific appraisal scheme. As a result the new scheme was rolled out as

Growth Oriented Incentive Bonus Scheme for Development Officers

In the year 2004 to the much opposition of the union of the Development Officers called National Federation. Under the call of the federation all the Development Officers of the Corporation opposed the introduction of the new scheme by a series of mass activities which continued for almost a year and there after which spoiled the relationship of the Development Officers with the management. As a result the Federation lost its bargaining power and the management of the Corporation unilaterally imposed this scheme on the Development Officers. The new scheme in additions to the existing are of consideration of the performances of a Development Officer, opened many other new fields in their work area to be considered for the appraisal. This scheme appeared to be more comprehensive than the previous scheme and tried to touch much minute functionality in the performances of a Development officer. This scheme brought with it the new system of Graded Credit to the Development Officers on the premium brought by the agents who have served for more than 7 years. This concept forced the Development Officer to continuously add and increase his agency organization. Introduced in the year 2004 the scheme went on with a number of modifications and served the Corporation till the year 2011 in which year another GOIB Scheme was lunched and is serving till date. The scheme of 2011 is understood to be little bit liberal than the scheme of 2004.

BUSINESS PERCENTAGE CNTRIBUTED BY DEVELOPMENT OFFICERS (TIED CHANNEL) TO TOTAL BUSINESS OF LIC OF INDIA SINCE THE INTRODUCTION OF ALTERNATE CHANNELS

YEAR	% OF CONTRIBUTION	
	NOP	FIRST PREMIUM
2006 - 2007	98.54	94.34
2007 – 2008	97.87	91.54
2008 – 2009	90.24	93.74
2009 – 2010	87.56	91.31
2010 – 2011	91.68	90.43
2011 – 2012	79.80	87.36
2012 – 2013	78.57	85.71
2013 - 2014	81.94	85.38

DETAILS OF RECRUITMENT, TERMINATIONS, AND RESIGNATION OF DEVELOPMENT OFFICERS

YE A R (2000)	No.of DO	Other entrie s	New Recruit s	Total		Voluntary		Resigna tion	Termi nation	Others		Numb er at the year end
				Additio n	Retired	Retired	Death			Exits	Tota l	
05-06	19230	93	33	126	89	2	52	24	19	322	508	18846
06-07	18846	136	2746	2882	86	13	41	112	25	148	425	21303
07-08	21303	722	2956	3678	84	21	44	602	205	1011	1970	23011
08-09	23011	364	3825	4189	123	24	53	1068	349	636	2250	24987
09-10	24987	153	263	416	154	16	49	711	455	384	1796	26634
10-11	23556	292	1804	2096	194	12	54	324	198	323	1105	24517

Source: LIC

III. CONCLUSION

Introduction of an Alternate Channel in to the existing business domain is sharing the business, as certain percentage is automatically diverted to the new channel. But after the introduction of many other Alternate Channels by LIC; Banc assurance, CLIA, Direct Marketing and Micro IT the share of business contribution by the Development Officers, the tied channel to the total business of LIC of India is very significant and praiseworthy. Over the years the tied channel has proved itself to be the mighty contributor in the business of LIC. LIC must take proper care and deal with issues that may destabilize the business generating prowess of the tied channel.

The scope of the present study is to try and find out the forces behind this continuous and sustained success of the tied channel and to study the importance given by LIC in handling this channel. Though before the opening of the IT industry LIC was solely dependent on the business generated by the tied channel, the new market dynamics opened up new channels of business generations like Banc assurance, Chief Life IT Advisor, Micro IT, Direct Marketing, and the latest being On-line Sales creating in house competitions to the tied channel. After the opening of all these channels though LIC has put in substantially behind all these alternate channels none of the channels have been able to grow satisfactorily.

After around 7 years of existence all these channels have been able to contribute 18% of the NOP and 15% of the First Premium generated by LIC.

The present study revealed that the business generated by LIC is principally dependent by two forces; the 1st being the market dynamics and the second being the incentive scheme of the Development Officers. Though largely the business volume of LIC is dependent on the market behavior the tied channel has been able to grasp all the opportunities available in the market. The incentive scheme prepares the tied channel to encash all the opportunities available in the market.

The current research has also shown that the incentive scheme is a substantial force in business generation of LIC, LIC must take due care and caution in implementing any changes in such a system, which has not happened in reality. Though the incentive scheme makes the job of a Development Officer very lucrative, statistics with LIC shows that around 80% of the total Development Officers are Non Incentive or minimal incentive earners; earning less than 1 lakh incentive. The rate of resignations and terminations are also a matter of concern for LIC. The present study has revealed that the awareness of the Development Officers about the different aspects of the incentive scheme is very low. Most of the non performers amongst the confirmed Development Officers and Probationary Development Officers are not properly aware about the scheme. Lack of awareness about the performance appraisal and incentive scheme has resulted in high attrition rate amongst the Probationary Development Officers.

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