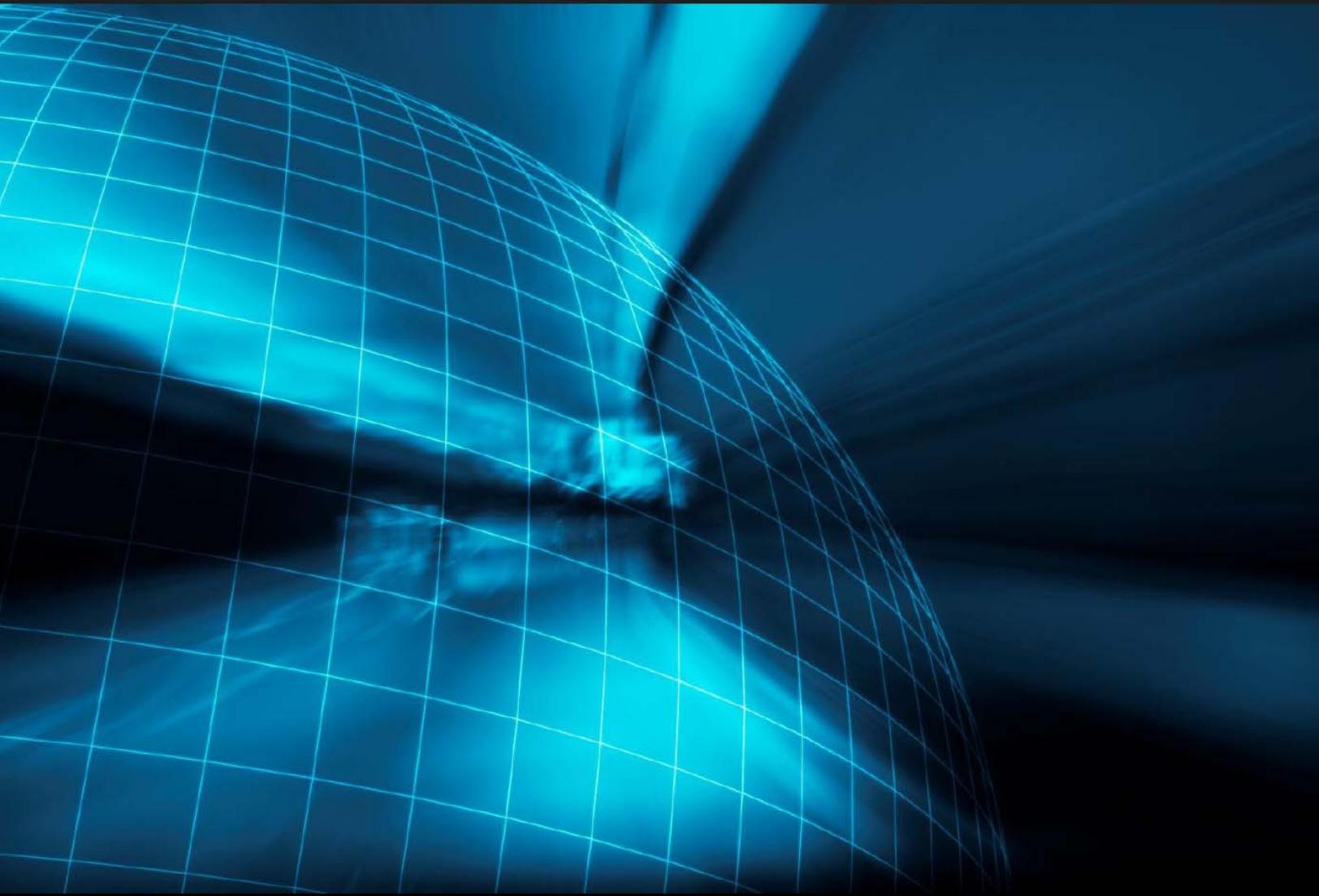


Business in Motion Report

Insurance Technology and Services South Carolina

A case study on iTs|SC and Columbia's emerging leadership in the global insurance technology industry





A Program of New Carolina – South Carolina's Council on Competitiveness



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BACKGROUND



Founded in 2008, Insurance Technology and Services South Carolina (iTSC) is a New Carolina cluster dedicated to promoting the Greater Columbia area's wealth of opportunities within the insurance technology and services industry. Its mission is to foster a collaborative environment where the private sector, government, and higher education work to strengthen industry competitiveness, a world class talent pool, and South Carolina's reputation as a premier destination for insurance and technology.

The industry has a 100 year history of innovation and grew around companies such as Seibels Bruce Group, Policy Management Systems Corp., and Blue Cross Blue Shield of South Carolina that developed locally and expanded globally. As these businesses continued to grow, some spun out new companies while other insurance technology and service providers began moving into the area to take advantage of the growing pool of skilled workers with knowledge of the insurance business. Today, the Greater Columbia region and South Carolina are home to some of the nation's most innovative insurance technology and services companies, such as BlueCross BlueShield of South Carolina, Colonial Life, Advanced Automation Consulting, AFLAC, TM Floyd, DP Professionals, StoneRiver, Seibels, EagleEye Analytics, Duck Creek Technologies (acquired by Accenture), Dovetail Insurance, CGI, CSC, ATSC, Trumbull Services, and many others.

In 2010, New Carolina, EngenuitySC, the City of Columbia, and the Greater Columbia Chamber of Commerce formed a strategic partnership to establish and deploy a business retention and expansion initiative around the insurance technology and services industry. The initiative led to this summary report.

PURPOSE

While iTSC had a broad based knowledge of the cluster, there was a need to survey the industry to gain deeper insight into the cluster, how it is developing, and the overall impact it has on the local economy. This report was commissioned to:

- Develop a deeper and more thorough understanding of the insurance technology and services cluster and the impact it has on the local economy
- Get a current view of the strengths, weaknesses, opportunities, and threats to the cluster to support the competitiveness and growth of local companies
- Develop a solid base of information about the cluster that can be used to position the cluster as a world class industry hub for insurance technology and services
- Establish a platform to support the recruitment of new companies into the area
- Build and develop relationships with existing insurance technology and services businesses that are currently not involved with the cluster

METHODOLOGY

iTs|SC utilized the expertise of the City of Columbia and Greater Columbia Chamber of Commerce's business retention and expansion program, Business in Motion. Program representatives were provided a list of 40 prospective insurance technology and services companies to contact. Face-to-face visits were made with key company executives during which they were asked a broad range of questions regarding the company's products and services, sales, workforce, perceptions of the local community/business environment, and plans for the future. The survey focused particularly on the number of employees the firm maintained, wage rates, and annual sales. This information was entered into a database and aggregated to create an overview of the

industry while maintaining the confidentiality of the individual businesses. The data was analyzed for the current status of the cluster for short term industry development, identification of barriers to growth, and opportunities the industry could seize to improve development. Surveys were conducted from March 2011 through July 2011. The survey team identified 40 companies. Of those 40, the data collected represents information gathered from 22 businesses. Of the remaining 18 companies, three declined to participate, seven companies were eliminated from the list due to a lack of significant local presence, and eight companies did not respond despite various attempts to contact them. The eight unresponsive companies were provided surveys. None were returned.

SUMMARY OF FINDINGS

\$6.7 BILLION
TOTAL ECONOMIC IMPACT

TOTAL NUMBER EMPLOYED IN REGION
14,900 (EST.)

AVERAGE SALARY
\$62,000

TOTAL ANNUAL SALES
\$4.9 BILLION

DIRECT ECONOMIC IMPACT
\$4.2 BILLION

% GROSS STATE PRODUCT
2.5%

The following represents key findings from an extensive 150 question survey and interview process conducted with 22 individual insurance technology and services companies in the region. The results represent the most significant, quantifiable statistics on current status, performance, perceptions, and prospects for growth to date in the region's industry. Estimates and data were validated by the Dr. Joseph Von Nessen, Research Economist at the Moore School of Business.

Economic Impact

The impact of insurance technology and services to the economy of both Columbia, SC, and the state of South Carolina is significant. Insurance technology and services is a perfect example of an innovation cluster in the state. The industry boasts a significant share of the labor market, creates high wage jobs, has high growth potential, and serves a national and international market. These characteristics represent the four critical elements to supporting robust economic growth in any economy. The following is an overview of the industry from the standpoint of economic impact and job creation.

Competitive Position

Competitive position seeks to understand where companies stand within the industry and where they stand on a number of competitive issues such as ownership, investment, product offerings, growth prospects and other details that address how competitive these companies are in the industry and in Columbia.

70% OF COMPANIES PLAN TO EXPAND LOCALLY IN THE NEXT 12-18 MONTHS

- 65% are headquartered locally
- 71% are privately owned
- 27% are minority owned
- 82% reported they are growing
- 33% anticipate sales growth of 50-99% over the next 12 months
- 70% derive revenues from both SC and the US, 40% from abroad.
- 71% derive direct revenue from information technology as a product.
- Overall product and service development was seen by most companies as their greatest achievement over the last 5 years
- 75% have increased investments in their facilities in the past 18 months
- 80% plan to introduce new products, services or capabilities during the next two years
- 100% are expecting sales growth over the next year.

100% OF COMPANIES SURVEYED ARE EXPECTING SALES GROWTH OVER THE NEXT 12 MONTHS AND 40% OF COMPANIES DERIVE A PORTION OF REVENUES FROM ABROAD

Workforce/Talent

Columbia's ability to attract, engage, and retain talented workers is the competitive fuel that propels industries like insurance technology and services forward. This is a people-intensive industry and our ability to provide a superior workforce for it will help shape the future of the industry's growth in Columbia. This portion of the report focuses on workforce issues such as availability, qualifications, recruiting, professional development, and other critical workforce issues.

100% OF COMPANIES INDICATED THAT THEY WERE EITHER MAINTAINING OR INCREASING THEIR EMPLOYMENT IN THE NEXT 18 MONTHS – 55% INCREASING, 45% MAINTAINING

- 49% of employees are administrative/customer support, 32% are IT/R&D, 12% are management, 7% are marketing/sales
- 78% are hired from the local area, 10% from in state, and 12% are from out of state
- 35% of companies primarily utilized online and staffing services to recruit new talent. 19% of firms reported recruiting through four-year universities and 11% reported recruiting directly within the industry. None surveyed reported recruiting through the technical college system.
- 93% of companies described their staff as middle age

- 43% of respondents utilize interns. 91% of respondents indicated interest in having a formal internship program.
- 47% of companies had issues recruiting and retaining employees. The majority of companies indicated issues with recruiting qualified IT workforce. Companies indicated a need for programmers, specifically those with a background in insurance.

ALMOST 50% OF ALL COMPANIES INDICATED THEY HAD ISSUES RECRUITING AND RETAINING EMPLOYEES, BUT ONLY 12% OF EMPLOYMENT IS RECRUITED FROM OUTSIDE THE REGION

Business Climate

In order for the Columbia region to thrive, it must have an environment conducive to business growth and must address how the government interacts with existing and new businesses. This section sought to uncover perceptions about Columbia as a place to do business. In addition, this section addressed macro issues that might be affecting ability of the industry to grow and remain competitive.

- 64% rated local government as good or excellent
- 54% rated local and/or state tax structure as fair or poor
- 73% rated economic development support as good or excellent
- 87% rated the quality of local colleges/universities as excellent or good
- 93% rated the quality of technical training institutions as excellent or good
- 73% rated workforce quality as good or excellent ; however
- 54% rated workforce availability as fair or poor.
- 64% anticipate federal, state or local legislation that will adversely affect their business in the next five years
- 100% cited changes in healthcare as a specific issue that will adversely affect their business in the next five years

Quality of Life

Quality of life is quickly becoming one of the most important assets for regions seeking to attract, engage, and retain top talent. Our physical, educational, cultural, and social infrastructures provide the framework by which citizens and employees live, learn, work, and play. Companies were asked specific questions relative to their perception of Columbia's quality of life to determine what could be done to improve this metric.

- 63% rated public transportation as fair or poor
- 91% rated cultural/recreational amenities as good or excellent
- 91% rated housing as good or excellent

SUMMARY AND CONCLUSIONS

Key Takeaways

The following key takeaways were identified through the nine month survey process and represent critical opportunities for this industry and the key issues preventing it from increasing its competitive position.

1. THE INSURANCE TECHNOLOGY AND SERVICES INDUSTRY REPRESENTS A SIGNIFICANT ECONOMIC OPPORTUNITY FOR THE COLUMBIA REGION AND THE STATE OF SOUTH CAROLINA:

- a. The industry is significant and represents over \$3 trillion dollars in activity globally
- b. The cluster is large and growing with more than 12,000 jobs directly attributable to insurance technology and or services;
- c. The cluster boasts average wages of more than twice the state average;
- d. The local industry is incredibly diverse with a range of carriers, technology companies, and service providers spanning multiple market segments.

2. LACK OF ACCESS TO SKILLED TALENT IS CREATING BOTH A SHORT-TERM AND A LONG-TERM CHALLENGE FOR CONTINUED GROWTH:

- a. The local talent base is not large enough to sustain long-term growth in this market;
- b. A fractionalized diversity of skills is required because of the complexity of the cluster (i.e.: confluence of insurance, technology, and services);
- c. A perceived disconnect exists between skills required by industry and the skills that are being developed through the region's higher education system;
- d. Existing organizations, such as IT-oLogy and Midlands Technical College, are not being fully utilized and can provide critical access to well educated information technology and insurance services talent.

3. WHILE A HIGHLY COMPETITIVE LOCAL ENVIRONMENT IS A FACTOR FOR CREATING STRONG INDUSTRY CLUSTERS, COMPETITION WITHIN COLUMBIA'S INSURANCE TECHNOLOGY AND SERVICES CLUSTER SOMETIMES PREVENTS COLLABORATION TOWARDS SOLVING COMMON INDUSTRY ISSUES.

- a. There is a lack of firm-to-firm collaboration and cooperation to solve common problems throughout the region's industry.

- b. Industry-wide participation in support mechanisms (ie. iTs|SC) is not in place;
- c. Industry-wide tools available for companies in this space are insufficient. There is a lack of resources that can be used to the benefit of multiple companies.

Additional Insights

The following additional key conclusions and trends were identified from the research.

- Insurance technology and services is a cluster of businesses that spans multiple industry segments from insurance carriers to software development companies, to technology suppliers and service providers to the insurance industry. More needs to be done to identify all companies that are tied into this cluster in the Columbia region.
- Workforce availability is a primary challenge for this industry. Because of the mobility of this type of work, companies have the potential to hire across the country to fill these positions. If Columbia had a qualified and available workforce, (i.e. programmers) those jobs could be filled locally through existing pipelines such as IT-oLogy or Midlands Technical College.
- Firms consistently stated they are in need of experienced programmers. Firms specifically seek programmers with a background in insurance as the second most important need.
- There is a need to connect member companies to the IT-oLogy jobs matrix, based on ITIL, standards to help businesses identify their Information Technology related skills gaps.
- Interviews indicate that companies are considering how to re-onshore previously outsourced tasks due to quality of work and increasing costs overseas.
- Technical training was highly rated by respondents, but no one indicated the technical school system as a primary recruiting source. This indicates there is a disconnect that can be eliminated to supply a well-trained workforce to insurance technology companies.
- College level education programs were requested by several companies. Companies specifically requested an actuarial science program as well as a degree and certificate programs focused on both insurance and IT training.
- Many respondents commented on the condition and perception of K-12 education. Most think the school systems need to be improved. Even those that are satisfied with the schools agree the national perception of our state education system creates difficulty when trying to recruit employees outside of South Carolina.
- While significant interest exists in creating formal internship programs, lack of time and available staff members were cited as the main barriers to creating internship programs. Growing companies will likely find it difficult to put together and maintain those programs.
- The project team has concluded that there are many more potential companies that are or could be a part of the insurance technology and services industry in the region.

RECOMMENDATIONS

The following key recommendations were formulated by the iTs|SC project team, based on information collected by the Business in Motion survey project team. These recommendations should be considered, prioritized, and put into action by cluster members to maximize the impact of cluster support activities.

- Continue coordinated investment in existing pipelines for a skilled talent pool of professionals.
- Due to a shortage of local skilled labor in the marketplace, consider recruiting external talent through a collaborative, industry-wide vehicle such as IT-oLogy.
- Work with existing organizations, such as IT-oLogy and the region's universities, to simplify how companies find, evaluate, and hire student-level talent.
- Establish a vehicle for matching employer needs with current potential employee skills.
- Work with the University of South Carolina and business community to identify key skills needed at four year universities and establish centers of excellence to focus on developing those skills.
- Focus investments on establishing a connection between the workforce needs of the insurance technology and services business community and the training programs in the technical college system.
- Consider a formal cluster industry analysis project that establishes what industries and sub-industries represent insurance technology and services.
- Work with the USC Division of Research and Business in Motion to establish a formal mechanism for evaluating baseline and ongoing performance metrics for the industry.
- Focus local industry engagement on companies in the cluster that could benefit from getting involved with insurance tech and services companies
- Leverage the relationships built through the Business in Motion project to engage and recruit additional firms into the cluster.
- Consider a recurring senior level engagement program that connects insurance technology and services CEOs to the cluster and to each other.
- Engage economic development partners in a supply chain expansion program to extend the reach and impact of the cluster on the local economy
- Actively recruit external firms by targeting complementary industry segments that do not directly compete with one another and promoting the expansion of firms headquartered outside of the region.
- Engage economic development partners in creating a business expansion assistance program geared towards local firms with headquarters outside of the region that will grow in the Greater Columbia region.



INDUSTRY MEMBERS



STRATEGIC PARTNERS



iTs|SC IS A COMPETITIVENESS INITIATIVE OF

