

# The Insurance and Financial Services Cluster:

## Polishing the Crown Jewels of Connecticut's Economy

By Harry. J. Lew, MBA

Until this May, Cisco networking training wasn't available in Connecticut, forcing insurance and financial services companies to send people out of state for courses, which disrupted their businesses and increased costs. Today, thanks to a partnership between Connecticut's new Insurance and Financial Services Cluster (IFS), Capital Community College, Cisco Systems, and Skyline Computer (the leading Cisco training vendor), several thousand IFS network professionals can now hone their skills close to home at the new Cisco Business Training Center at Capital Community College in Hartford, Connecticut. "Local training provides more flexibility in terms of who we can send and when," says Raul Matamoros, Vice President of Engineering, Travelers Property Casualty.

This is music to the ears of Robert Flynn, the cluster's new (and first) executive director. "Having a continuing education infrastructure for IT workers is critical for IFS companies in the region," says Flynn, who joined the cluster at the end of last year. "Since these companies are so large, they often employ 100 to 200 people in networking alone. To train them, companies had to send their people to California, Colorado, Utah, or Georgia. That's just not cost-efficient. Now they can train them here, producing cost-savings and creating institutionalized educational support for IFS cluster members."

The CISCO Business Training Center is just one part of Flynn's strategy to promote Connecticut's multi-faceted IFS industry. His goal: to create a "center of excellence" in which existing IFS companies stay here and grow, outside firms relocate here more often, start-ups launch like rockets, and service providers of all stripes benefit from easy access to potential IFS clients and skilled knowledge workers. Also key is building relationships between cluster members, government, educators, and community groups, all with an eye to strengthening the community, providing minority jobs, and growing the state's economy.

"Connecticut is home to the nation's largest and oldest insurance companies and banks as well as to a wealth of asset management talent," said Governor Rowland last fall in announcing the cluster. "We value our leadership in this industry and through the formation of the IFS cluster and an initial \$100,000 in funding from the Department of Economic and Community Development (DECD), we underscore the viability of this sector and our commitment to its continual growth in the state."

Jim Smith, chairman and CEO of Webster Financial Corporation and co-chair of the Governor's Council on Economic Competitiveness, echoed the Governor's thinking. "The insurance and financial services industry is one of Connecticut's most enduring clusters. It's a large, highly concentrated industry, which over generations has created a sizeable, statewide pool of specialized knowledge, and draws significant revenue to its companies from outside the region . . . The Governor's Council believes in the value of the cluster, and we anticipate that the result of its formation will be better, higher paying jobs and an enhanced quality of life for the cluster's growing employee base."

IFS is the state's ninth economic development cluster, a concept created by Dr. Michael Porter of Harvard Business School. In his view, clusters—concentrations of companies and industries in a region connected by markets served and products produced—require nurturing in order to improve their competitiveness and ultimately grow a state's economy. However, applying the cluster concept to the local IFS industry took about five years. Reason, say some observers, is that state leaders may have taken the IFS industry for granted due to its long and successful history here. Another reason: economic development efforts may have focused more on establishing new industries such as biotechnology than on supporting long-time industries. "I'm surprised IFS wasn't one of the first clusters set up, given its history and background in Hartford," notes Corine T. Norgaard, Ph.D., Dean of the Barney School of Business at the University of Hartford. Norgaard's colleague, Susan Coleman, Ansley Professor of Finance, agrees. "We can't take this cluster for granted," she said. "We need to maintain our competitive advantage and find ways to strengthen its position because it's so vital in terms of employment and of the economic health of the region."

But what a difference a year makes. Governor Rowland and other key economic development officials such as Jim Abromaitis of the DECD and Oz Griebel of the Metro Hartford Regional Economic Alliance have pushed hard for an IFS cluster, securing the commitment of 18 IFS company CEOs and hiring Bob Flynn as executive director. "What's changed is we now have activist members in government and in the insurance and business community who are prepared to make this work," says Robert Patricelli, chairman of Women's Health USA and Evolution Health, LLC, in Avon, Connecticut. "The need has

been there for some time, but we now have people in place who are prepared to do something about it.”

The importance of having an involved and activist governor and other officials can't be overstated, observers say. But equally important is the fact that many people inside and outside the industry simply started viewing things in a new light. First, they realized the IFS industry is of crucial economic importance to the state. Second, they grew increasingly worried that the state was losing ground attracting IFS headquarters to the state compared to competitive metropolitan areas such as Des Moines and Chicago. And third, they came to appreciate the significance of a complex mix of trends reshaping the IFS industry, forcing companies to rethink how—and where—they do business today.

The first realization is inescapable considering the sheer economic might of Connecticut's IFS industry. In 2000, IFS companies accounted for 67,600 jobs in Metro Hartford—or for one in ten jobs overall. When one factors in the multiplier effect—that each IFS job spawns other jobs in ancillary or related fields—the IFS industry accounts for 22 percent of all employment in the Metro Hartford area. What's more, IFS jobs are the highest paying in the state (about \$66,100), much higher than the state average for all jobs (\$42,200) or for the average for manufacturing jobs (\$55,400). And IFS payroll in the region totaled \$4.5 billion in 2000, accounting for 17 percent of total payroll. Overall, the industry accounted for 7 percent of the state's gross product—\$11 billion in 1999, up from 4.2 percent in 1992. And it achieved impressive gains in productivity, producing \$120,000 in real output per worker vs. \$115,000 for the state and \$80,000 for the U.S. overall.

Solid numbers notwithstanding, it was hard not to notice the state losing ground to other metros in the race to attract IFS company locations and jobs. A study conducted by the Connecticut Economic Resource Center (CERC) found that when it came to insurance carrier employment (SIC 63) in 2000, Hartford Metro ranked fifth behind Chicago, Philadelphia, New York, and Boston, although adding Springfield data boosted Hartford to the number two slot. In terms of location quotient, a measure of industry concentration in a region versus the nation as a whole, Hartford ranked a respectable second for insurance carriers, behind only Bloomington Illinois, with Des Moines, Iowa trailing closely at third.

However, the kicker was the degree to which insurance carrier employment grew as a percentage of total metro employment from 1992 to 2000. Here the numbers were troubling. Hartford ranked 315<sup>th</sup> or near the bottom compared with other metros, largely due to significant job losses in the early part of the decade. The result was much the same for the Insurance Agents, Brokers, and Services segment (SIC 64), but better for Securities Brokers and Services (SIC 62), where Hartford ranked 35<sup>th</sup> among competing metros. The results improved when productivity gains were factored in, but the fact remained that Metro Hartford wasn't attracting its fair share of IFS companies and jobs. "This is the first time we saw a decline in IFS employment," says Jeff Blodgett, CERC's Vice President, Research. "During the last recession and during every post-World War II recession, IFS employment either remained stable or continued to grow."

The third realization—that industry forces had changed the IFS game—further galvanized support for a cluster. Some segments have suffered from overcapacity (i.e., life insurance), triggering company mergers and acquisitions. Cost and margin pressures have produced waves of company downsizing in most lines, particularly among middle-management workers. The need to rationalize IT systems with new ways of operating (read: the Web) have sparked layoffs of traditional mainframe COBOL programmers and the outsourcing of IT projects and jobs offshore. And the convergence of the insurance, financial services, and banking industries has people thinking it's time for a level playing field, consistent with regulatory frameworks abroad. Says Richard A. Cohn, professor of finance, at the University of Hartford, “American firms have to compete with the rest of the world, which never had borders drawn between banking and insurance.”

Put it all together and what have you got? Fertile ground for a new state economic cluster. After an extensive analysis, the Insurance and Financial Services Task Force, a group formed by the MetroHartford Regional Economic Alliance and co-chaired by Fred Eppinger, executive vice president of field and service operations, The Hartford Financial Services Group, Inc., and Shaun Mathews, ING's chief marketing officer and president of ING Financial Horizons, strongly urged the state to officially form a cluster, led by industry and supported by civic, educational, and government institutions. Given the concentration of the IFS industry in Greater Hartford, it recommended using Greater Hartford as the initial focus, with the goal of extending the programs and experience developed in the cluster to the balance of the state.

The next step was to recruit an executive director. Late last year, Robert Flynn became the cluster's first director—and only employee. Flynn came with serious credentials. He had a distinguished background in financial services and management consulting. Prior to joining the cluster, he had been vice president of strategic business development at DirectAdvice, a financial software development firm. He also served as director of strategy and capital management services at Aetna Financial Services, and was a manager at Deloitte Consulting, where he ran strategy-consulting projects. Flynn also has 12 years of experience as an intelligence officer with the Central Intelligence Agency. The upshot: Flynn had the industry background, connections, and diplomatic savvy to work with the various cluster constituencies. “Bob has a great perspective based on his wide variety of experiences,” says Brian O’Connell, managing partner of Accenture's Insurance Practice in the Northeast and Canada, which will provide pro bono services to the cluster. “His consulting and government experiences make him well-suited to understand the many different issues that need to be addressed. In addition, he has shown a great ability to work with member companies and to engage them and focus them on some core early initiatives.”

After a crash phase of interviewing more than 100 people – in cluster companies, government, education, and the community—Flynn developed a clear vision and strategy for the cluster, focused on several fundamental objectives.

The first is what Flynn calls “promoting for growth.” This involves making sure everyone in the state is aware of the scope and value of the IFS industry here. “We need to promote what we already have,” Flynn says. “The insurance carriers, the banks, the asset management

companies—the so-called product manufacturers—as well as the technical support companies such as software, accounting, tax, and actuarial providers. For example, there are 14,000 actuaries in the U.S., and one thousand of them are here in Connecticut.”

In addition to being the IFS industry’s walking, talking public ambassador, Flynn will also work hard to both retain existing IFS companies and to attract companies from other states. Retaining the existing players will largely depend on making sure Connecticut’s tax and regulatory systems are business friendly. How? By evaluating the best regulatory practices in other states, by line of business, and then by identifying the gaps between model states and Connecticut. Flynn and cluster members will then work with the governor, legislators, and regulators to draft and enact appropriate laws and regulations that plug the gaps.

This will be a complex challenge in part due to the varying agendas each IFS segment will bring to the table. For example, ConnectiCare’s CEO Gus Gamache feels strongly about mandated health coverages. “Health insurance costs in Connecticut are among the highest in the country today. I also believe we are the highest in the country in terms of regulated health mandates. This comes at a time when affordability has become an issue for most companies, with health premiums rising 15 to 20 percent a year. Now is a good time to tackle this issue.” Medical malpractice reform is also a huge concern to health insurers and HMOs in the state. Life insurers, on the other hand, may push for modernizing a regulatory system they say hampers their ability to quickly develop new products to compete more effectively with banks and brokerage houses in the converged insurance and financial services marketplace.

Whatever the company perspective, Flynn believes understanding how IFS CEOs in other states view our regulatory climate—and fixing problem areas—will be crucial to the cluster’s success. “I’ve asked CEOs, ‘Does the state draw a blank in site selectors’ minds because we just draw a blank or because our regulations aren’t attractive to them?’ We don’t have the answer to this yet, but we need it soon,” Flynn says.

Attracting new players will depend on how well Flynn and others refine the IFS cluster’s value proposition in the state. “This is the first time IFS companies have come together to determine this,” Flynn says. “From this proposition will come greater focus, clarity, and power in the state’s external marketing effort.” Flynn doesn’t see the cluster replacing the state’s current economic development mechanisms. DECD will continue to recruit new companies to the state. “What the cluster will add to DECD’s efforts is a pronounced understanding of what IFS business leaders think is important. We will explain to CEOs outside the state that we understand their business—that we understand what the drivers are and how important regulation is to their success.”

The second fundamental objective of the cluster is workforce development. As with all other businesses in the state, IFS companies have complex and ever-changing workforce development needs. Flynn is trying to build linkages to area colleges and universities in which businesses make those needs known and educators respond with existing, revised, or new programs. “I’m trying to explain to educators the value of being involved in the cluster,” Flynn says. “We’re going to create business for them, but we need them to

understand their differentiators and to start thinking about how they can respond to industry needs.”

Apparently, that process has already begun. At the University of Hartford’s Barney School of Business, the dean and several faculty members are intrigued with the possibilities.

“Traditionally, the stereotype of higher education is that we don’t have a lot to offer business because we’re a bunch of pointy-headed people who do obscure research,” says Finance Professor Susan Coleman. “But at the University of Hartford, our primary mission is to teach and prepare young people for the world of work. So there’s a real opportunity here for a partnership between the IFS cluster and institutions like University of Hartford that will enable us to satisfy overlapping goals: We want good jobs for our students and IFS companies want more qualified workers.”

The school also wants more efficient communications with IFS companies than they’ve had in the past. “Before, if we had a program to promote or ideas for building one, we’d have to do it one firm at a time,” says Dean Norgaard. “Now we will be able to discuss such matters with the entire IFS group. That’s very healthy and from my point of view, a good reason to be pleased with the formation of the cluster.”

Ann Costello, Associate Professor of Insurance, hopes for greater cluster awareness of the school’s insurance and risk management major, which she says does a good job of teaching students principles and practices used by many cluster companies today. She also will push for internship opportunities for the school’s finance and insurance majors (a requirement for

graduation) and for jobs that provide a real career path for her graduates. “Students who complete a four-year degree don’t get excited about going to work in a call center,” Costello warns. “They might take such jobs for a year, but they need to see a career path.”

At the University of Connecticut in Storrs, Finance Department Chairman Thomas J. O’Brien, Ph.D., sees the cluster as bridging the gulf between the School of Business Administration, its Finance Department, and Connecticut’s IFS industry. He views the cluster as a great source of feedback on courses currently offered, as well as a possible solution to the school’s lack of a dedicated professor in risk and insurance. The university currently offers risk and insurance courses, he says, but the lack of a full-time professor to teach multiple class sections, to do research, and to counsel students is a problem, particularly given the needs and proximity of IFS firms in the state. The university’s current budget crunch means hiring such a person will be hard unless a consortium of industry players helps with funding. However, with a nascent risk and insurance program in place, companies will have access to well-rounded business graduates with specialized knowledge in areas like underwriting and risk pricing. What’s more, Uconn’s actuarial students, housed now in the math department, will have a great opportunity to round out their actuarial knowledge with insurance and risk management courses, which will make them doubly attractive to IFS employers.

Promoting for growth and developing the IFS workforce in partnership with local colleges and universities will keep Bob Flynn plenty busy in his initial months on the job. But a third

and final objective will provide a deeper and perhaps, more fundamental, satisfaction—increasing the industry’s diversity.

According to Flynn, the minority share of the population in Metro Hartford increased 34 percent from 1990 to 2000. Today, minorities account for 27 percent of the Metro Hartford population and for over 50 percent of Hartford and Bloomfield. “When I look at the diversity figures for our IFS companies, they have not increased accordingly. So one of my goals will be to address the level of diversity in our companies, both from a minority perspective, as well as from a ‘differences’ point of view.”

The problem Bob sees is that large financial institutions have trouble letting people be different. They don’t hire enough minorities, young people, or others who represent different points of view. The result is that prospective IFS candidates view the industry as boring and not “up with the culture,” Flynn says. Companies also complain about not having enough workers, but they’re not really taking advantage of the sizeable worker pools already here. The Customer Service Institute of Connecticut, formed by a number of insurers companies several years ago and housed at Capital Community College, is a great example of addressing this need and of getting local people trained and placed, Flynn notes.

Flynn has also opened discussions with community groups such as the Urban League of Greater Hartford and the South Arsenal Neighborhood Development Corporation (SAND) to figure out how the cluster can do a better of recruiting, training, and employing minority

youth. “We’re not at the point of having real meat here,” says Flynn. “But we recognize we have to do something.”

Which is exactly what the new IFS cluster is all about. Industry and government leaders experienced an epiphany, realizing that the insurance and financial services industry, long a crown jewel in Connecticut’s economy, had lost a bit of luster in recent years. But they are now united in an effort to polish, promote, and expand their industry, a brilliant effort that should pay huge dividends in the years ahead.

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## Connecticut's IFS Cluster: A Multi-Faceted Initiative

“Some of the strongest insurance and financial services companies in the world are right here,” says Susan Coleman, Professor of Finance, at the University of Hartford. So the challenge for Connecticut new Insurance and Financial Services (IFS) cluster isn't to jumpstart a moribund industry, but rather to protect and nurture existing firms and to find ways to catalyze future growth. Put another way, the challenge is to identify the best players and practices of the current industry as a way to spark tomorrow's winners.

To this end, look for the cluster to . . .

- **Support the creation of new businesses by existing IFS firms.** A success model: ING's Financial Horizon's business, which went public last fall and now has roughly 80 employees. The business focuses on the addressing the retirement planning needs of pre-retirees, especially those who are changing jobs and, perhaps, rolling over their 401 (k) money. The company is high on the future success of this business model, and is looking at exporting it to other ING companies abroad.
- **Work hard to bring new IFS companies to the state.** Example: Lincoln Life, America's 8<sup>th</sup> largest life insurer, which relocated to Hartford several years ago. Lincoln Life is a market leader in developing life insurance solutions for high net

worth individuals (investable income of \$1 million and up) and business owners. It offers a complete portfolio of life insurance products, including variable universal life, universal life, whole life, and term life insurance. It employs 850 people at the MetroCenter building at 350 Church St.

- **Support the birth of start-up firms that serve the IFS industry.** Example: Insurity (in Hartford and East Hartford), which has grown from four employees at its inception to 300 today. The company's forte is business process software and services for the property-casualty industry. It basically supports the whole insurance business cycle from policy quoting and underwriting to issue, billing, and claims. It began in 1984, locating in Greater Hartford for the explicit purpose of leveraging the large pool of expert insurance workers in the area. And it has grown 15 to 20 percent a year ever since, currently serving 100 insurers across the country and a number of major ones in the region.
- **Encourage innovative partnerships between IFS companies and colleges and universities across the state.** Case in point: the recent development of a Cisco Business Center at Capital Community College in Hartford, which will provide cost-effective training to several thousand networking and IT specialists across the region, on everything from the foundations of data networking, switching, routing, and security to other forms of communications such as voice and video. Students can also attain various levels of Cisco certification, including the Cisco Certified Networking Associate (CCNA), the Cisco Certified Networking Professional (CCNP), and the Cisco Certified Internet Working Expert (CCIE), at a discounted cost and without

having to travel outside the state. Cisco donated equipment worth several hundred thousand dollars; the College provided classroom space and administrative expertise, and local IFS companies helped to define training needs. The result, according to Tom Kennedy, Education Solutions Manager: the only Cisco training center in the nation to be housed in a community college, staffed by a fully certified training partner (Skyline), and supported by the local business community. Asks Linda Guzzo, Capital's dean of continuing education, "Why not have this at the heart of our business community? Why send people out of state?"

## Doing Business in Connecticut: IFS Executives Sound Off

“Connecticut has a highly skilled labor force, particularly in financial services. And it’s a high-tech work force. IFS companies sometimes have a higher percentage of tech workers than do technology companies themselves. This creates a vibrant technology culture—not the high-flying culture of technology firms, but still a very productive culture that solves harder, more complex business problems.”—Louis Hernandez, CEO, Open Solutions

“Three things make Connecticut very attractive for service firms such as mine. First is the availability of a trained workforce. Second is the presence of a market in the form of other insurance and financial services companies to whom you hope to sell product. And third is the proximity of funding sources in New York, Fairfield County, and Boston. In addition, the fact that Connecticut is a relatively high-cost place to do business is a less important consideration for the types of knowledge businesses I’ve been involved in. That’s because the teams of people involved don’t want to move their homes. They’re looking to create a business where they live.”—Robert Patricelli, CEO, Women’s Health USA and Evolution Health, LLC

“Why do business here? The first reason is the workforce in financial services and insurance. Clearly in this community, we not only have the talent, but also the industry experience. That’s essential in a global economy. Then add the fact that IFS productivity here is head

and shoulders about the national averages. That speaks volumes in my opinion. There's also a supportive tax and regulatory environment. The Rowland Administration has done a lot of work in the last 10 years to make it easier to do business here. Finally, this is a great place to live and to raise a family, while still providing easy access to New York and Boston."—Shaun Mathews, chief marketing officer of ING and president of ING Financial Horizons.

Being located near the large insurance companies in Hartford facilitates our working with them every day. The ability to sit face to face with customers and go through the day's issues is critical. Plus, Hartford is where insurance happens. When new rules or regs, or even a new marketplace are developing, this is where it will initially surface. Being here gives us early intelligence on what's going on in the business."—Jeff Glazer, President, Insurity

"Being in the corridor between Boston and New York is a great location to be in. A large number of insurance, banking, and financial services companies are located here, which facilitates workforce development and efficiencies through shared operations."—Brian O'Connell, managing partner of the Insurance Practice for the Northeast and Canada, Accenture.