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At Indiana State University

NFI Report

2007-NFI-02
March 2007

The Indiana Insurance Industry: An Engine of Employment Growth

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The Indiana Insurance Industry: An Engine of Employment Growth

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Executive Summary: The Indiana Economic Development Corporation (IEDC) asked Networks Financial Institute (NFI) to craft a project that would assist the IEDC in documenting and quantifying the Hoosier insurance workforce talent pool, so that the IEDC can speak more authoritatively to current and prospective insurance employers about the strengths of the Indiana insurance workforce and the short-term horizon of employment change. NFI surveyed insurance employers throughout the state. NFI looks at the functional areas in which companies currently employ people and at how many people companies plan to hire in a range of functional areas within the next year. Additionally, the survey examines how many and what category of new employees companies have hired in the last year. Comparing recent hires and job losses, the survey shows which functional areas should experience net gains and which ones are experiencing high turnover rates. The survey also documents how companies find new hires.

Specific research objectives of the survey are to:

- Identify current employment trends in the insurance industry in Indiana.
- Determine how many people companies plan to hire and in what functional areas they plan to hire within the next year.
- Estimate how many new employees companies have hired in the past year and their functional areas.
- Assess the number of employees who left in the past year and their functional areas.

Survey results indicate that the greatest employment needs of the insurance industry in Indiana are in customer service and sales positions, followed by clerical and claims positions. Gross new hires are estimated in 2006-07 to equal 12.5 percent of existing employment in part due to replacement of departing workers. Indiana insurance companies increased their workforce in 2005-06; both years of increase follow several years of decline. Companies use an array of resources to find new hires, but especially employee referrals. They also use resources including Monster.com, college fairs, and other insurance related websites, but career fairs were the least popular means.

For purposes of the IEDC's insurance initiative, this study of the present status of insurance employment in Indiana and short-term projected employment needs reveals that Indiana's insurance workforce requires an assortment of insurance industry positions, with a noted strength in the customer service function. Given turnover in insurance employment, the results suggests that the state has a large potential employee base with prior or current experience in the insurance industry, particularly in the Indianapolis area, thus verifying the IEDC's claim to a skilled Indiana workforce. With Networks Financial Institute's emphasis on promoting growth and best practices in the financial services sector, we are pleased to present this study of Indiana's current and future insurance employment trends and opportunities and to support the efforts of the IEDC's Insurance Initiative.

Introduction

In an effort to more effectively develop Indiana as home to a growing and prospering insurance market, the Insurance Industry Working Group was formed in 1998, under then-Governor Joe Kernan, to partner with the industry to address the financial, regulatory and workforce needs facing the insurance industry. To further that aim, Mike Chrysler, Director of Insurance Initiatives for the Indiana Economic Development Corporation (IEDC), asked Networks Financial Institute (NFI) to craft a project that would assist the IEDC in documenting and quantifying the Hoosier insurance workforce talent pool, so that the IEDC can speak more authoritatively to current and prospective insurance employers about the strengths of the Indiana insurance workforce and the short-term horizon of employment change and need. NFI Graduate Fellow and Indiana State University MBA student Rebecca Shorter spearheaded this project both as a response to Director Chrysler's request and NFI's commitment to help the financial services industry transform itself through better leadership, creative collaboration, and applied research supporting the financial services sector in Indiana.

In order to better understand the current and impending employment needs of the insurance industry in Indiana, NFI surveyed 61 insurance companies. One of the objectives of this study is to determine emerging employment trends in the insurance industry. In order to do this, the survey examines the geographic and functional areas of insurance employment in Indiana and further explores how many people companies plan to hire and in what functional areas they plan to hire within the next year. Additionally, the survey documents how many new employees companies have hired in the last year and in which functional areas they were hired. Comparing survey findings with the number of employees who left companies and from what types of positions they left shows which functional areas have net gains in terms of the number of employees and which ones are experiencing high turnover rates. The survey also inquires about how companies find new employees, since it is important to learn about what resources companies are using to hire new employees.

The Insurance Industry in Indiana

State government in Indiana has established that the insurance industry is one of the priority clusters targeted for development by the IEDC.¹ The IEDC intends to build on a strong base: "[w]ith our skilled workforce, top-rated educational institutions, efficient and consistent regulatory climate and competitive tax structure, Indiana offers an unparalleled environment for our insurance

¹ See the IEDC's website at <http://www.in.gov/iedc/initiatives/> for a list of initiatives. In addition to insurance, these include advanced manufacturing, agriculture, film, information technology, life sciences, logistics and motor sports.

industry.”² According to the IEDC, benefits that the Hoosier state extends to insurance operations include:

- Taxation
 - Indiana has one of the lowest premium tax rates in the nation, at 1.3%, and domestic carriers have an option of either paying the premium tax or the corporate flat income tax at 8.5 percent.
 - Surplus lines carriers are taxed at 2.5 percent.
 - Insurance companies in Indiana do not pay any surplus income, single business, or fire marshal’s taxes or financial regulation fees.
 - Ernst & Young’s latest annual study conducted for the Council on State Taxation (COST) and released in February 2007, noted that Indiana ranks 4th lowest nationally for businesses share of all state taxes.³
- Education/Workforce Quality
 - Indiana offers a strong existing pool of talent, qualified new hires and a state that is collectively partnering with the insurance industry and higher education to address the impending shortage of talented employees in the insurance industry.
 - Both Indiana State University and Ball State University offer insurance and risk management degrees. Additionally, Purdue and Ball State offer actuarial degrees, with Ball State being one of the few universities offering a graduate actuarial degree.
 - The Gongaware Center at Indiana State University provides executive development, student support and industry research for future leaders in the financial services industry, specifically in insurance and risk management. In addition, ISU, in collaboration with NFI, is developing a financial services major, leading the trend toward educating tomorrow’s integrated financial services workforce. Networks Financial Institute’s Scholars’ program provides four-year scholarships to Indiana State University’s College of Business for students pursuing a career in the financial services industry.
 - Ivy Tech, Indiana’s community college system, allows tomorrow’s insurance employees to study insurance. Indiana employers can find training courses for their employees at 23 campuses across the state.
 - The IEDC’s INdiana Specific Insurance Related Education (INSPIRE) program devotes \$2 million annually to a comprehensive insurance training program, partnering with employers to increase the skills of the Hoosier insurance workforce.

² See <http://www.in.gov/iedc/initiatives/insurance/>.

³ Cline, R., T. Neubig and A. Phillips (2007). “Total State and Local Business Taxes: 50-State Estimates for Fiscal Year 2006.”

[http://www.statetax.org/Template.cfm?Section=Studies, Articles and Special Reports&template=/ContentManagement/ContentDisplay.cfm&ContentID=7978](http://www.statetax.org/Template.cfm?Section=Studies,ArticlesandSpecialReports&template=/ContentManagement/ContentDisplay.cfm&ContentID=7978).

- Regulation
 - The Indiana Department of Insurance has improved the efficiency of new product approval.
- Judicial/Legislative
 - Indiana's legal system was ranked 6th most fair by the U.S. Chamber of Commerce. Indiana's Personal Responsibility Act caps punitive damages at three times compensatory or \$50,000, whichever is less.
 - In 2006, the Indiana legislature enacted legislation to improve Indiana's commercial rate approval process from file and use to informational filings. For health carriers, Indiana's pre-existing exclusion requirements for association plans changed from a six month to a one year look back, and a tax code improvement for farm mutuals now allows them (like other carriers in the state) to pay either the corporate income or the premium tax.

According to the U.S. Bureau of Labor Statistics data, there were 43,600 people working in Indiana's insurance industry in 2006. The latest figures from the Indiana Department of Insurance (IDI), however, claim that there were 60,400 employed in the Indiana insurance sector in 2004. This larger IDI number includes workers that were not on payrolls; the insurance sector includes a large number of independent contractors. In addition neither number includes a large number of independent agents, brokers. As Table 1 indicates, employment in the insurance industry peaked in 1998, followed by 7 years of contraction in the industry. Increases in the 2006 employment numbers and the findings of this survey may be an indication that the insurance industry is growing again in Indiana.

Table 1: Insurance carriers and related activities employment in Indiana

Year	Employees (in 000s)	Percentage Change
1995	44.4	2.3
1996	45.7	2.9
1997	47.9	4.8
1998	48.5	1.3
1999	48.4	-0.2
2000	47.3	-2.3
2001	47.1	-1.04
2002	46.3	-1.7
2003	45.6	-1.5
2004	44.2	-3.1
2005	43.5	-1.6
2006	43.6	0.15

Source: Bureau of Labor Statistics, US Department of Labor

Indiana boasts a number of very well know insurance companies. Twenty five Indiana insurance companies have assets of \$200 million or more, including multiple life/health and property-casualty insurers with assets topping \$1 billion. WellPoint is by far the largest insurance company in the state, and with the merger with Anthem, one of the biggest health insurance companies in the United States, with more than 28 million members and with \$51.4 billion in assets. Table 2 lists Indiana’s top insurance employers by sales.

Table 2: Indiana’s largest insurance companies by sales in 2005

	Company Name	Sales (millions \$)
1.	WellPoint	\$45,136
2.	Lincoln National Life Insurance Co.	\$11,701
3.	Conseco	\$4,418
4.	American General Finance Inc.	\$2,459
5.	American United Life Insurance Co.	\$2,313
6.	Clarian Health Partners Inc.	\$2,011
7.	Medical Protective Co. Inc.	\$701
8.	Waterfield Mortgage Co. Inc.	\$414
9.	United Farm Family Mutual Insurance	\$397
10.	Lafayette Life Insurance Co.	\$393

Source: D&B's Million Dollar Databases

In 2006, there were 185 Hoosier-domiciled insurance companies and an additional 1,539 licensed companies operating in Indiana.⁴ Life/Health and Property/Casualty insurance companies constituted about 60 percent of the local insurance companies. The Indiana insurance industry’s positive impact on the state's economic health includes the following:

- Insurance premium tax receipts and retaliatory fees totaled more than \$179 million in 2004.
- Indiana's insurance sector and its employees contributed nearly \$3.8 billion to the Gross State Product in 2001.⁵
- Indiana was recently ranked the best commercial lines insurance market in the nation.⁶
- Indiana ranks in the top 15 states for lowest homeowner insurance premiums.

⁴ “In the Spotlight: Indiana’s Insurance Industry.” *INContext: Indiana’s Workforce and Economy* vol. 5, issue 6 (Nov/Dec 2004): 1.

⁵ Indiana Department of Insurance; Bureau of Economic Analysis.

⁶ Indiana Department of Insurance

- Indiana ranks in the top 20 states for lowest automobile insurance premiums.⁷

At 60,240 employees in 2005, the insurance sector ranks as one of the largest employers in the state, just behind farm employment and outranking other large sector, such as building construction, chemical manufacturing and food manufacturing. Indiana insurance carriers pay \$2.9 billion in direct income to Hoosiers and \$1.6 billion in indirect or induced income. The average wage paid to Hoosiers by carriers is more than \$10,000 above the state's average wage for all industries and outranks salaries for the construction and hospital industries, for example.⁸ In fact, the insurance industry in Indiana is the highest paying nonmanufacturing sector and, overall, is the state's third best paying sector.⁹

Table 3 shows the major tax and regulatory costs of undertaking an insurance business in Indiana compared with neighboring states. Taxation, regulatory costs and domestication administration fees are generally lower than in neighboring states, except for Illinois, where lower premium taxes are more than offset by miscellaneous income and other taxes.

Table 3: Insurance business costs in Indiana compared to other states

Insurance Business Costs	Indiana	Illinois	Michigan	Ohio	Kentucky
Premium Tax Rate Accident & Health	1.30%	0.40%	1.30%	1.00%	2.00%
Premium Tax Rate Other Lines	1.30%	0.50%	1.30%	1.40%	1.70%
Misc. Income tax	NO	YES (up to 1.5% of premiums)	YES (Single Business Tax 0.25% of adj. receipts)	NO	Local Premium Taxes
Fire Marshal's Tax	NO	YES (1%)	NO	NO	Fees Per Run
Financial Regulation Fee	NO	YES (up to \$250,000 per company)	\$250 min.	NO	NO
Admission Fees Domestic	\$350	\$5,000	\$500	\$2,500	\$600

Source: Indiana Economic Development Corporation

⁷ Insurance Information Institute; National Association of Independent Insurers.

⁸ Center for Rural Development at Purdue University, 2004 Study.

⁹ Covered Employment and Wage (CEW) data, as reported in "In the Spotlight: Indiana's Insurance Industry." *INContext: Indiana's Workforce and Economy* vol. 5, issue 6 (Nov/Dec 2004): 1.

In 2004, per capita premium volume in Indiana was \$3,802, which is lower than the national average of \$4,323 (Table 3). Indiana had lower premium volume per capita than neighboring states, except for Kentucky. Per capita premium volume of Life/Health and Property/Casualty insurance lines was higher than the nation's average and higher than in neighboring states. However, with only \$298 per capita premium of health insurance lines, Indiana was well below the national average of \$808. Indiana ranked 20th and 16th respectively for Life/Health and Property/Casualty insurance lines when ranked by their per capita premium volume in 2004.

Table 4: Per capita premium volume by type of insurer in 2004

	Total	Life-Health	Property-Casualty	Health
Indiana	3,802	1,826	1,626	298
Illinois	4,199	2,194	1,581	373
Kentucky	3,424	1,157	1,332	877
Michigan	4,470	1,563	1,553	1,265
Ohio	4,046	1,932	1,495	517
US	4,323	1,854	1,545	808

Source: National Association of Insurance Commissioners, Bureau of Economic Analysis

The Survey

Given Indiana's position in the insurance industry and the state's interest in bolstering and promoting insurance as a growth sector in the state economy, this study of the employment picture in the Indiana insurance sector is intended to present a clear snapshot of what the insurance employee base is in Indiana, the range of workplace skills that insurance sector employees possess, the recent shifts that have occurred in insurance industry employment, and what the short-term anticipated hiring needs of employers is likely to be.

Specific research objectives of the survey are to:

- Better understand the current and impending employment needs of the insurance industry in Indiana. The insurance industry is defined as all forms of businesses that provide insurance, sell insurance or are in the insurance consulting business.
- Identify current employment trends in the insurance industry in Indiana.
- Determine how many people companies plan to hire and in what functional areas they plan to hire within the next year.
- Estimate how many new employees companies have hired in the past year and their functional areas.
- Assess the number of employees who left in the past year and their functional areas.

Initial development of a survey instrument for this task was completed early in 2006 by NFI graduate fellow Rebecca Shorter. Ozer Erdem, NFI Research Associate, assisted with the generation of the sample pool for the survey. Training in survey design and instrument development was provided to NFI's graduate fellows by Market *Vibes*, an Indiana-based market research firm. Once it was determined that the survey would be web-based, Market *Vibes* programmed and hosted the survey and provided NFI with compiled data and survey results. Participation in the survey was recruited via means of promotional mailings in the Spring of 2006 to approximately 700 employers in the state but early results showed a low participation rate. As summer approached, it was determined that Market *Vibes* would be retained in the Fall of 2006 to bolster participation rates to insure the validity of results. Using a telephone survey to supplement the initial web-based survey results, Market *Vibes* completed 45 phone surveys by the end of October 2006, adding to the 16 completed online surveys for a total of 61 respondents.

The survey asks questions about the number of current employees and new hires planned, as well as employees that had left the company in the last year. The timeframe of the "last year" or the "next year" varied depending on when the insurance employer completed the survey during the period from Spring to Fall of 2006. Consequently, the "last year" may refer to a timeframe from the beginning of 2005 through October of 2006 and the "next year" may extend from early 2006 through 2007. For purpose of discussion, we will date the "present" as mid-2006. The survey also inquires about specific functional areas involved at each business location, such as, "how many employees are employed in the accounting function" or "what functional areas do you plan to hire within in the next year?"

The survey participants had the following characteristics, which were considered be representative;

- The surveyed insurance companies have an average of 111 employees.
- The majority of the companies are located in Indianapolis (57.3%).
- About 5% of companies are located in Carmel and South Bend (4.9% each).
- 3.2% were based in Fort Wayne and Merrillville.
- Only 1.6% of companies were found in each of the 15 cities of :
Bloomington, Lafayette, Evansville, Santa Claus, Vevay, Munster, Goshen, Vincennes, Fishers, Tipton, Marion, Tell City, New Haven, Noblesville, and Ferdinand.
- Thirty-nine percent of the respondents completing the survey are in human resources, 21 percent are in management, and 16 percent are in an

executive position. The remainder of respondents are in sales, risk management, finance, clerical, claims, accounting, and other positions.

Keeping in mind that the average number of employees per company is 111, the following discussion details the relative importance of the functional areas of employees at each company. Most companies have several different functions performed at their location. The most frequent function is management, with 85 percent of respondents saying the function is performed, and the least frequent function is actuarial, with only 18 percent of respondents saying the function is performed in their current location. As an example, 85 percent of respondents stated that clerical and management functions are performed at the company's location. An additional 79 percent of respondents stated that their location has customer service representatives and another 75 percent stated they are involved in claims. Due to the degree of specialization in the insurance industry, certain function types are more likely to be seen in corporate headquarter (e.g. actuaries) and in branch locations on special facilities (e.g. adjusters).

Chart 1 describes findings on new hires. In the last year, each company hired on average 11 percent of their total workforce. On the other hand, 7.6 percent did not hire any new employees. By looking at the total number of employees in our sample and the number of employees hired, and based on IDI's estimate of total industry employment, we estimate that 6,652 new employees have been hired in 2005 in the insurance industry. Further analyzing the survey data revealed that 15 percent of the companies added new employees in their customer service departments followed by 13 percent of the companies indicating that they made new hires in their sales departments. As insurance companies grow, and given turnover, these are the functional areas in which the largest numbers of new hires will occur. Therefore, these are fields where ongoing training must be concentrated.

Chart 1: More companies hired employees into their sales and customer service departments than in other areas.

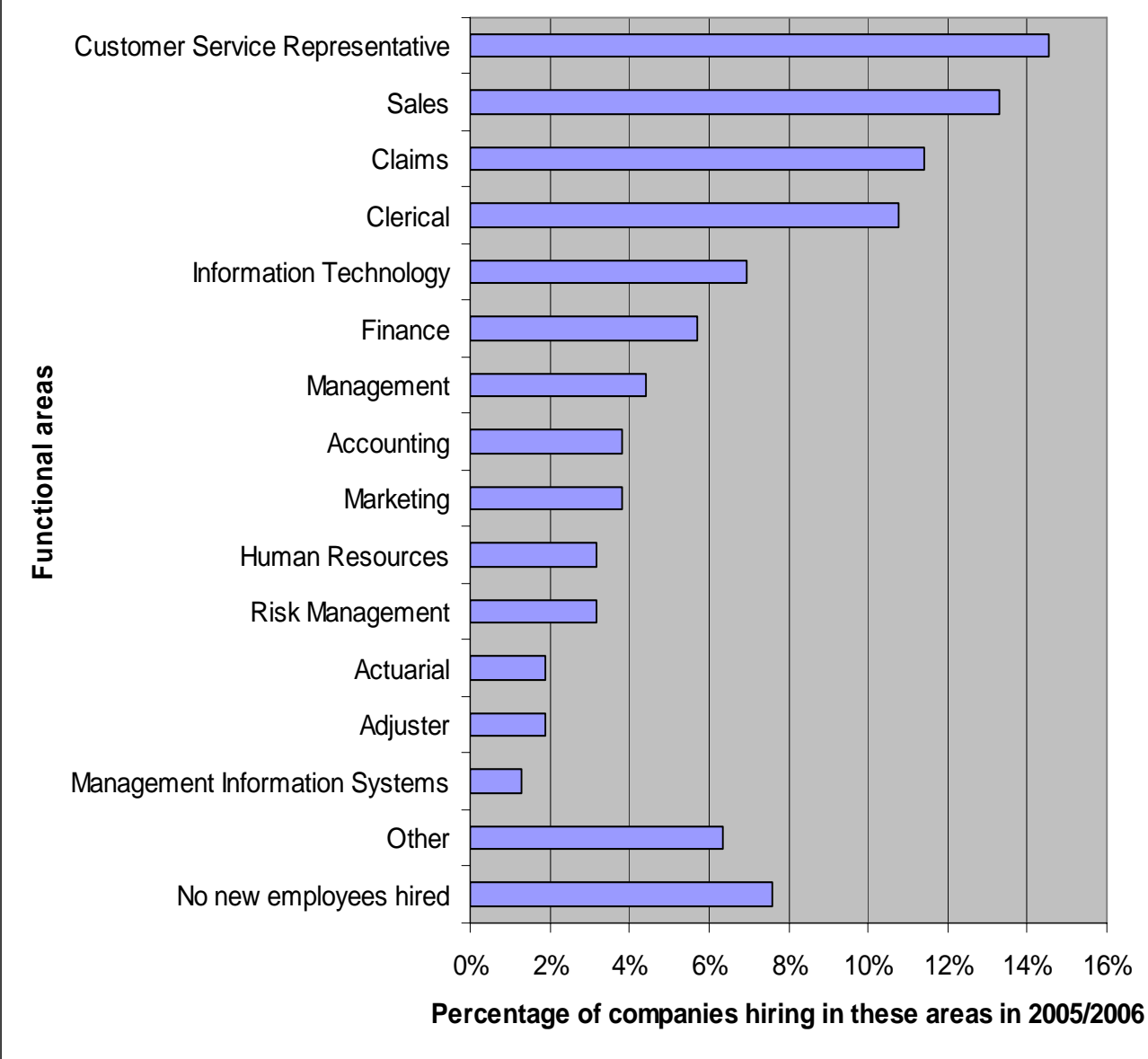
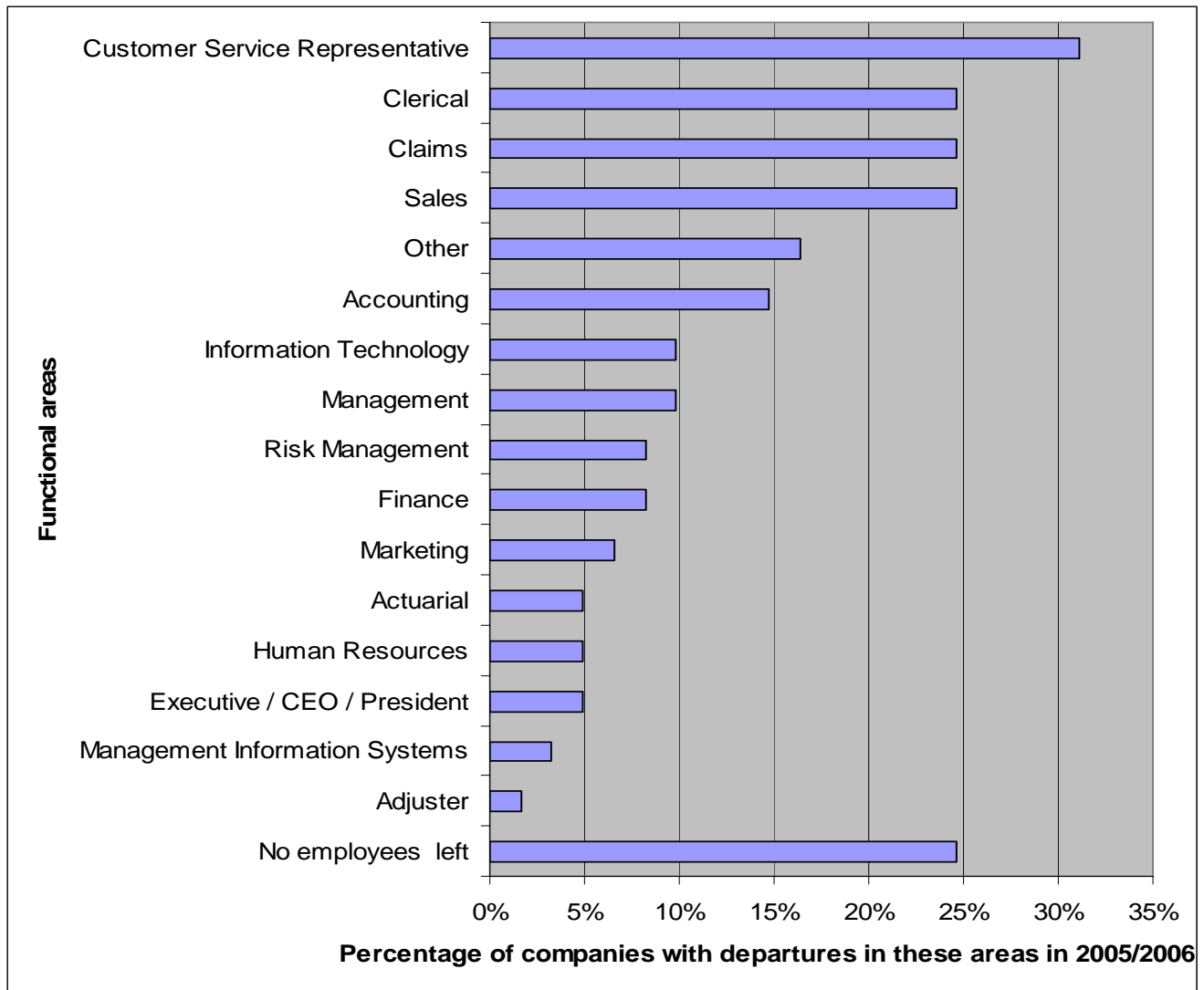


Chart 2: High employee departures are usual for customer service representatives and sales positions.



On average, each company in our survey lost 5.4 percent of their total workforce over the past year, although 24.5 percent of respondents stated they did not have any employees leave the company during the same period. Using the number of hires and departures over the same time period, we can estimate the net number of job gains in the Indiana insurance industry. As it can be seen in Table 5, we estimate 3,264 people left their current position. Using the number of new hires over the same period, number of net job gains was 3,388. This indicates that insurance industry employment in Indiana grew 5.6 percent in 2005-06.

Table 5: Estimated Employment Growth in the Indiana Insurance Sector 2006-07

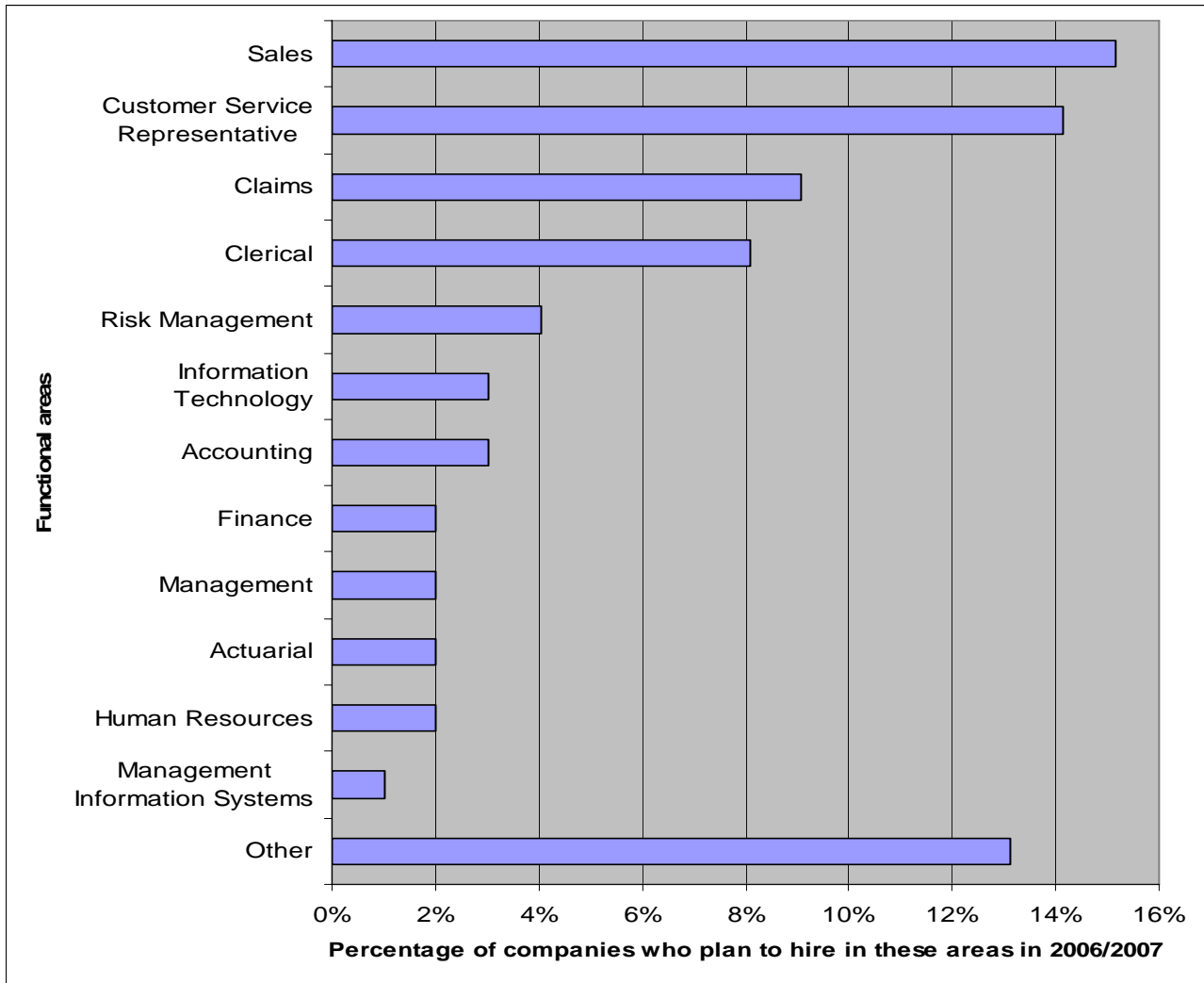
	Percent of industry employment	Number of jobs
New hires	11.0	6,652
Departures (quit or terminated)	5.4	3,264
Net new hires (difference in new hires and separations)	5.6	3,388

The percentages of hires and departures are estimated by sample averages from the survey data. The number of jobs affected are found from the sample percentages and the IEDC estimate of industry employment of 60,240. Estimates of the number of jobs based on payroll employment data from the U.S. Bureau of Labor Statistics would be about two-thirds as large. The percentages and growth rates reported here are not sensitive to the estimate of industry employment.

Chart 2 shows which functions were impacted by employee departures. More companies indicated job losses in customer service representative, sales and clerical positions than in other areas. Coupled with the unusual hiring frequency in these areas, this is an indication of high turnover. Recall that job losses refers to employees who left voluntarily or involuntarily, without regard to whether they took another job in insurance elsewhere or whether their position was replaced by another employee. The least affected functional areas include adjuster, actuary, human resource, management information systems, and executive positions.

Further insight into gross hiring can be obtained from firms' hiring plans (Chart 3). Many new hires result from unanticipated departures, so planned hiring is only suggestive of expansion plans. On average, employers plan to hire 10 new employees in the next year within each company, about 9 percent of their existing employment level. This level of planned hiring is similar to practices over the past year. 15 percent of the companies reported that they are planning to hire in sales and 14 percent in customer service. Twenty one percent of the total respondents do not plan to hire new employees within the next year.

Chart 3: Functional areas of potential employment in insurance companies

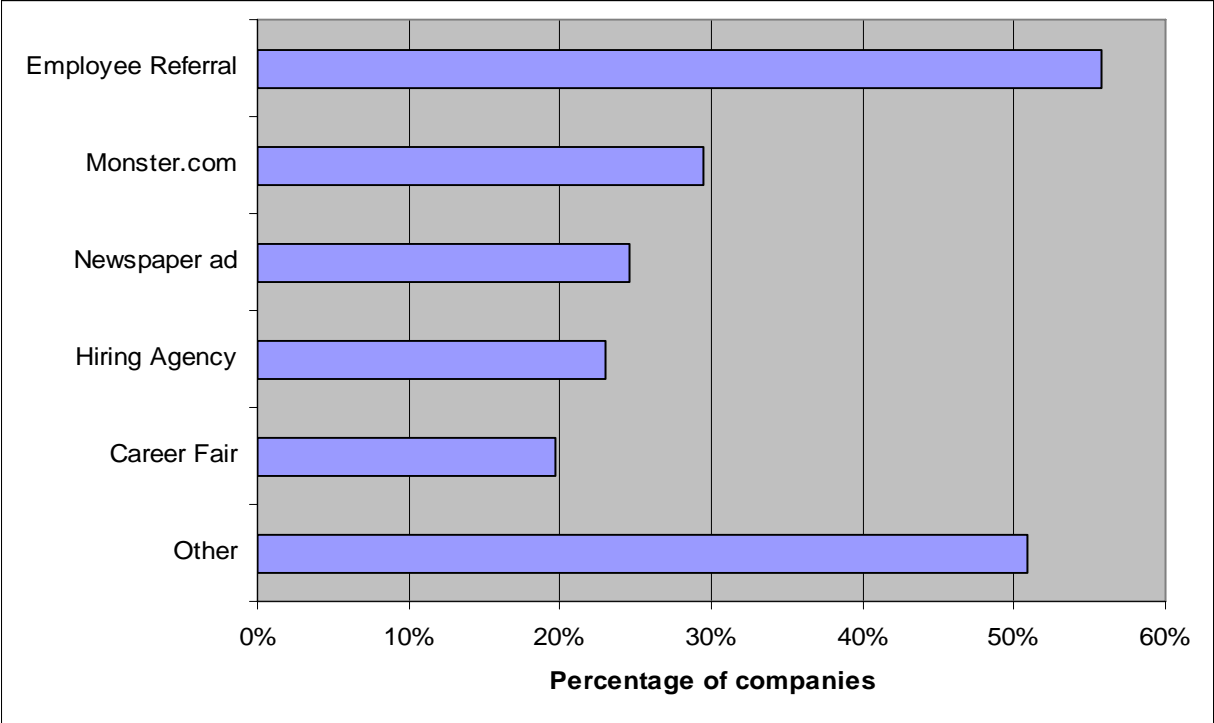


As Chart 3 shows, actuarial, human resources and management information systems positions have the least percentage of planned new hires. However, this could be due to low turnover in those functional areas. As was the case with actual hiring in the past year, most companies plan to add new employees in the next year to their sales, customer service representative, claims and clerical functions. More companies are planning to hire in the risk management function, but a smaller percentage of companies are planning to hire in their Information Technology departments compared to the previous year.

Within the next year, employers plan to use employee referral for the majority of their hiring needs. In addition to employee referral (55%), employers will also use online resources such as Monster.com, newspaper ads, and career fairs. As Chart 4 shows, 51 percent will use other resources. These resources include

company Internet postings, the National Association of Colleges and Employers website, personal contacts, and other insurance related websites such as www.greatinsurancejobs.com. However, companies may use a combination of these resources to fulfill recruitment needs.

Chart 4: Using variety of means will help job seekers in the insurance industry, especially employee referrals.



Conclusions

The above research shows that the greatest employment needs of the insurance industry in Indiana are in customer service and sales positions, followed by clerical and claims positions. From 2005 to 2006, companies hired about 13% of their labor force. Of these employees, the majority of new hires were in sales, customer service, clerical and claims positions, with customer service representatives having the largest percentage of new hires during the year. These are the areas with the highest turnover.

During the last year, each company lost on average 5.4 percent of their total workforce before accounting for new hires. The majority of employees who left were customer service representative, clerical, claims, and sales positions with customer service representatives having the largest percentage of lost employees. It is projected that new hires in 2006-2007 will be on average 9.1 percent of existing employment. On average, Indiana insurance companies increased their workforce in 2006; the increase in 2005 was somewhat larger, but both years of increase follow several years of decline. New hires actually exceeded departures; there is a large net increase. These employees will more than likely be in customer service representative positions, but will also be in sales or "other" not specified positions. Based on employees who departed in 2005-2006, and based on employer projected needs, the employment growth areas in the Indiana insurance sector are in the customer service representative and sales functions. It is also fair to conclude that companies will use an array of resources to find new hires, but especially employee referrals. They will also use resources including Monster.com, college fairs, and other insurance related websites, but career fairs were the least popular means.

For purposes of the IEDC's insurance initiative, this study of the present status of insurance employment in Indiana and short-term projected employment needs reveals that Indiana's insurance workforce requires an assortment of insurance industry positions, with a noted strength in the customer service function. Given a moderate level of turnover in insurance employment, the survey results indicate that the state has a large potential employee base with prior or current experience in the insurance industry, particularly in the Indianapolis metropolitan area, thus verifying the IEDC's claim to a skilled Indiana workforce. With Networks Financial Institute's emphasis on promoting growth and best practices in the financial services sector, we are pleased to present this measure of Indiana's current and future insurance employment trends and opportunities, in order to support the efforts of the IEDC's Insurance Initiative.

Further information about Indiana's insurance industry may be gathered from the following sources:

- **Indiana Association of Insurance and Financial Advisors, Inc.**
317.844.6268
<http://209.61.156.20/main-pub.cfm?usr=170000>
- **Indiana Department of Insurance**
317.232.2385
<http://www.in.gov/idoi/>
- **Indiana Economic Development Corporation Insurance Initiative**
317.234.2084
<http://www.in.gov/iedc/initiatives/insurance/>
- **Insurance Institute of Indiana**
317.464.2450
www.insuranceinstitute.org
- **Independent Insurance Agents of Indiana, Inc.**
317.824.3780
www.bigi.org
- **Association of Indiana Life Insurance Companies**
317.684.5402
www.ailic.org
- **Professional Insurance Agents of Indiana, Inc.**
800.555.9742
www.indianapia.com
- **Indiana State Association of Health Underwriters**
317-844-6268
www.indyahu.org