



# Halifax's Finance and Insurance Industry: Our Opportunity

Halifax, Nova Scotia

June 2007

**GreaterHalifax**  
— P A R T N E R S H I P —

This analysis was undertaken with the assistance of:  
Nova Scotia Business Inc.  
Foreign Affairs and International Trade Canada  
Investors of the Greater Halifax Partnership

Report Completed by:





## Table of Contents

1.	<b>Introduction</b>	1
2.	<b>HRM – Regional Financial Hub</b>	3
2.1	Summary profile	3
2.2	Sub-Sector: Chartered Banks	5
2.3	Sub-Sector: Insurance	7
2.4	Sub-Sector: Securities	8
3.	<b>Major Strengths of the HRM Financial Services Cluster</b>	9
3.1	Company attitudes towards HRM	9
3.2	Training infrastructure	9
3.3	Magnet for talent	10
3.4	HRM operating cost structure	11
3.5	Protecting information	11
3.6	Air access	12
3.7	Nova Scotia’s unique public company structure for foreign firms	12
4.	<b>Building HRM as a Global Financial Services Hub</b>	13
4.1	Characteristics	13
4.2	Traditional locations are under stress	13
4.3	Financial back office outsourcing on the rise	14
4.4	Specific growth opportunities	15
4.4.1	Leverage existing FIRE sector for growth	15
4.4.2	Attract more Canadian firms	15
4.4.3	Attract more global firms	16
4.4.4	Attract and grow allied business	17
4.4.5	Grow the cluster	18





## 1. Introduction

Since its incorporation in 1841, Halifax has always been a significant financial centre in Canada. In recent years, the community has been positioned as the regional financial hub for the Canadian financial services industry. The Halifax Regional Municipality (HRM) is home to the regional offices of all five big banks in Canada. Over 50% of all insurance firms with operations in the Maritime Provinces are located in HRM and all but one of the region's investment dealers are based in Halifax. In total, there are some 14,000 people employed in the finance, insurance and real estate (FIRE) sector in HRM.

This regional sector dominance makes the Greater Halifax financial services cluster one of the most impressive in Canada. The five big banks employ more people in Nova Scotia (as a percentage of the labour market) than all other provinces in Canada except Ontario. Most of this employment is concentrated in HRM. The insurance sector employment figures are even more impressive. According to the Insurance Bureau of Canada, there are some 4,400 people employed in Nova Scotia in the insurance sector – the highest concentration of insurance sector employment among the 10 provinces in Canada. Again, the vast majority of this employment is centred in HRM.

Increasingly, the Halifax financial services cluster is becoming international in scope. Six major, international financial services industry players have either established in HRM or have announced they will be establishing a Canadian operation in the near future.

### Summary business case for the financial services cluster in HRM

- » **Cost benefits of between 15 per cent and 56 per cent** compared to other major urban centres with large financial services industries (2006 KPMG Competitive Alternatives report).
- » **Access to an ongoing pool of labour.** Highest concentration of universities of any urban centre in Canada. 200+ accounting graduates each year, demonstrated ability to attract workers from across Canada and beyond, a deliberate and focused immigration strategy to attract foreign workers here.
- » **An existing cluster of financial services firms.** Highest concentration of insurance industry workers in Canada. Eighth highest concentration of FIRE industries workers in Canada. Many of the top national and international firms have regional offices here. Many national industry associations have a presence in HRM.
- » **A growing cluster of international firms and expertise.**
- » **A supportive network of government and industry stakeholders.**
- » **A positive environment for the industry** (based on recent local industry surveys).
- » **Strong information privacy legislation** (aligned with European laws and considered to be an advantage over U.S. jurisdictions facing the U.S. Patriot Act).
- » **An international airport with daily direct flights** to Boston, Atlanta, Washington, New York, Chicago, London, etc.
- » **Language, cultural and social affinities** not offered by many offshore locations.

The Halifax financial services cluster is getting attention. There have been over 100 stories mentioning the growth of the Halifax financial services cluster in the past 12 months in newspapers and industry publications. The chart below summarizes some of the press:

### Recent selected media references to the Greater Halifax Financial Services Cluster

<p>The Royal Gazette Bermuda November 30, 2006</p>	<p><i>"Halifax is becoming a source of skilled labour for the Island's [Bermuda's] financial institutions."</i></p>
<p>Bizoffshore.com November 22, 2006</p>	<p><i>"We see Halifax as a strategic centre to develop our Canadian operations," said William Keunen, global director of Citco Fund Services.</i></p>
<p>International Custody and Fund Administration (ICFA) Magazine February 2007</p>	<p><i>"Hedge funds are also increasingly seeking local [Canada] opportunities – particularly in the commodities sector – and their growth is already spawning the development of local support clusters in Toronto and regional cities such as Halifax."</i></p> <p><i>"Beyond Toronto, Halifax in Nova Scotia has emerged as a thriving centre for hedge fund administration operations – with Citco and Olympia Capital amongst the most recent arrivals."</i></p>
<p>Halifax Chronicle Herald November 22, 2006</p>	<p><i>"Nova Scotia's well-educated workforce and its relatively low costs keep attracting financial services companies to the province."</i></p>
<p>Financial Post November 29, 2006</p>	<p><i>"Hedge funds to set up shop in Halifax: They have referred to city 'as the next Dublin'"</i></p>
<p>The Daily News (Halifax) November 22, 2006</p>	<p><i>"'Buzz' bringing firms to Halifax"</i></p>
<p>Globe &amp; Mail November 16, 2006</p>	<p><i>"Halifax, a centre for international finance? It's no fish tale"</i></p>
<p>Hedge Week November 30, 2006</p>	<p><i>Citco Fund Services, a leading global provider of administrative services to the hedge fund industry, is opening a new office and training centre in Halifax, Nova Scotia.</i></p>
<p>FINAlternatives November 20, 2006</p>	<p><i>"The city [Halifax], where temperatures in January rarely top freezing and residents enjoy almost 20 inches of snow a year, may yet challenge its more temperate competitors, such as Jersey and Bermuda."</i></p>

## 2. HRM – Regional Financial Hub

### 2.1 Summary profile

The financial, insurance, and real estate sector (FIRE<sup>1</sup>) in the Halifax Regional Municipality is a major economic engine for the community. There are over 2,600 firms in the FIRE sector in the Greater Halifax region. Despite the fact that HRM represents only 20 per cent of the Maritime Provinces' total population, almost 30 per cent of all FIRE firms are located here. In addition, the community has a dominant share of specialized financial services firms such as:

- » 60 per cent of all mortgage investment fund companies
  - » Almost 50 per cent of the Maritimes' insurance firms
- Among larger firms, HRM is even more dominant with almost 50 per cent of all Maritime firms with at least 50 employees.

The FIRE sector has a considerable impact on the provincial gross domestic product (GDP).

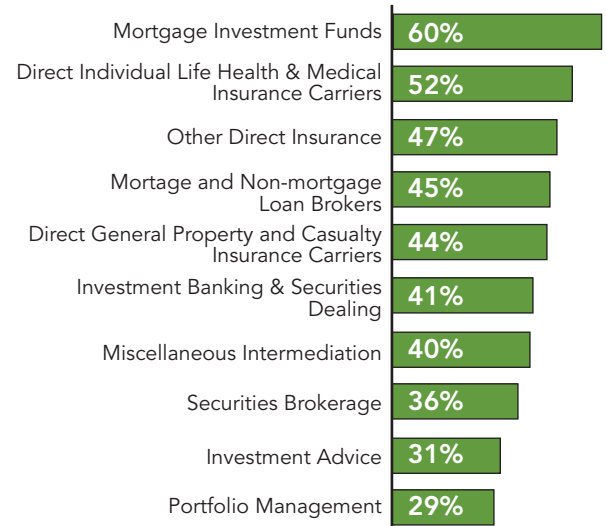
According to the 2006 Nova Scotia Statistical Review published by the Department of Finance, the FIRE sector makes up almost 22 per cent of provincial GDP. Across the province, FIRE GDP was estimated to be \$5.1 Billion in 2005 up 12.4 per cent over 2001.

The FIRE sector is one of the most important in the province representing 21.7 per cent of Nova Scotia' total GDP. The breakdown of the sector by major category is as follows (out of 100 per cent):

- » monetary authorities and depository credit intermediation - 12.7 per cent;
- » insurance carriers, 6.5 per cent;
- » lessors of real estate, 15.8 per cent;
- » owner-occupied dwellings, 51.7 per cent;
- » rental and leasing services and lessors of non-financial intangible assets, 3.6 per cent;
- » and other financial, insurance and real estate, and management of companies, 9.5 per cent.

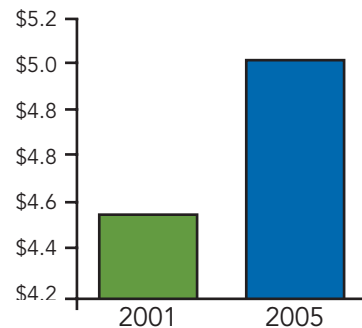
1. Please note that this report primarily focuses on the financial services and insurance sectors. There are only limited references to the real estate sector.

**HRM Financial Services Cluster % of Maritime Industry based in HRM Selected Six-Digit NAICS Codes**



Source: Canadian Business Patterns, July 2006

**FIRE GDP in Nova Scotia 2001-2005 (\$Billion)**



\*Source: Nova Scotia Statistical Review 2006

## Employment Impact

The industry is also an important employer with almost 14,000 people employed in the FIRE sector during 2006. This is 37 per cent of all persons living in the Maritimes and employed in this sector.

And the Greater Halifax FIRE industry compares well with some of the top financial hubs in Canada. There are some 364 people employed in the FIRE sector per 10,000 population living in the HRM. This is eighth among Canada's 27 metropolitan regions. However, four of the communities ahead of Greater Halifax are clustered in southern Ontario. Only this region, Regina and Vancouver have a higher percentage of total financial services industry employment.

However, there has been some consolidation of the sector over the past decade. Total industry employment is off its historic high of 15,500 total employment in 1998.

However, in the past few years, the sector has been adding employees. The five major Canadian banks (see section 1.2 below) have added almost 500 new employees in HRM in the past three years. In addition, in the recent SmartBusiness survey of companies in HRM, 57 per cent of FIRE firms indicated employment expansion in the past 12 months and 62 per cent indicated plans to expand employment in the next 12 months.

In the last 12 months, HRM has witnessed one of the most exciting developments in the sector in years. Five new global financial services firms providing a variety of services ranging from hedge fund management to customer support have announced they will be establishing in Greater Halifax. In total, the five new companies will be hiring over 1,200 professionals in the Halifax region and adding an estimated \$84 million in new annual payroll to the local economy<sup>2</sup>.

An estimated 76.3 per cent of all persons working finance-related occupations in Nova Scotia are working in HRM. The FIRE sector in HRM contributes an estimated \$512 million per year in direct annual payroll in the local economy<sup>3</sup>. This is 68 percent of the total estimated payroll for all of Nova Scotia.

In addition, HRM is in the top ten among the 27 CMAs across Canada for payroll contribution from the FIRE sector.

### Intensity of Financial Services Industry Employment

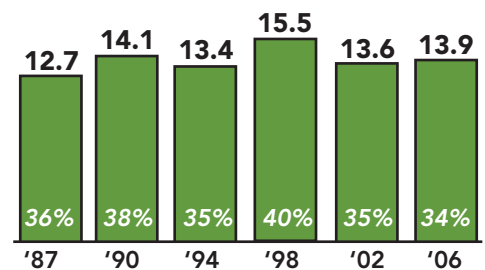
Persons employed per 10,000 population and rank out of 27 CMA regions

CMA	PER 10,000 POPULATION	RANK
Toronto, ON	531	1
Regina, SK	439	2
Vancouver, BC	394	5
<b>Halifax, NS</b>	<b>364</b>	<b>8</b>
Calgary, AB	363	9
Montreal, QC	353	11
Saint John, NB	246	19
St. John's, NL	193	26

Source: Statistics Canada – 2007 estimates

### Total Employment (000s)

Finance, Insurance, Real Estate and Leasing Industries  
% of Total Maritime Province Employment in Italics



Source: Statistics Canada Labour Force Survey

2. Based on published information on the expected wage rates and total employment of the firms.

3. Source: Employment data – Statistics Canada Labour Force Survey. HRM salary data for 2006 extrapolated using available provincial income estimates.

### Capital Investment

Another sign of the health of this sector involves capital investment. Province-wide capital investment in the Finance & Insurance sector<sup>4</sup> started picking up in the late 1990s and has remained strong. There has been a total of \$3.6 billion invested in capital and repair expenditures from 1996-2005 – the third highest amount among the 10 provinces in Canada (adjusted for population) and more than 50 per cent higher than in neighbouring New Brunswick.

And this growth is expected to continue. From the SmartBusiness survey, 58 per cent of FIRM firms are increasing their investment in facilities and 92 per cent of surveyed FIRM firms are increasing their investment in equipment (compared to 56 per cent among all firms).

### International Linkages

The FIRE industry in HRM has considerable ties to the global financial industry. Compared to other industries in Greater Halifax, the FIRE industry is the second most international (as measured by location of the company's headquarters). 44 per cent of FIRE firms in the recent SmartBusiness survey reported having their headquarters outside of Nova Scotia. In addition, 46 per cent of all FIRE revenues are generated from business outside Nova Scotia – well above the total SmartBusiness survey figure of 31 per cent.

## 2.2 Sub-Sector: Chartered Banks

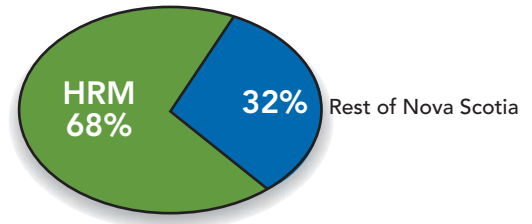
Greater Halifax is the regional head office location for the majority of Canada's chartered banks. All of the major banks have a regional office in HRM with the exception of the National Bank.

Employment numbers specifically in the HRM for the chartered banks are not publicly available. However, each of the major banks publishes employment data by province in Canada in their annual corporate social responsibility reports.

4. Source: Nova Scotia Statistical Review 2006.

### Total Provincial Payroll

(2006 estimate)  
FIRE Industry (\$millions)



Source: Statistics Canada (2006)

### New Additions to the Greater Halifax Financial Services Hub

- Citco Fund Services (New York) – hedge fund administration
- Marsh (New York) – insurance services
- Olympia Capital (Bermuda) – hedge fund administration
- Butterfield Fund Services (Bermuda) – fund services
- West End Capital (Bermuda) – hedge fund administration
- Admiral Group pic (United Kingdom) – insurance services

### Capital and repair expenditures

Finance & Insurance Sector  
Total Expenditures (per capita) 1996 - 2005

Ontario	\$5,742
Quebec	4,132
<b>Nova Scotia</b>	<b>3,877</b>
Alberta	3,723
British Columbia	3,577
Manitoba	3,339
Saskatchewan	2,904
New Brunswick	2,574
Newfoundland and Labrador	1,992
Prince Edward Island	1,790

Source: Statistics Canada (2006)

In total, the five banks employ almost 5,400 people in the province. The table below shows that on average, the five big banks in Canada employ 11.5 Nova Scotians per 10,000 population. Only Ontario has a higher intensity of employment. However, there are significant variations between the banks. Scotiabank, for example, employs more people (adjusted for population size) in Nova Scotia than in Ontario. On the other side, TD Bank employs only 6.8 per 10,000 in Nova Scotia compared to almost 26 per 10,000 in Ontario.

In the past few years, the major banks have been adding employment in Nova Scotia. From 2003 to 2006, total employment grew by 475 in Nova Scotia compared to less than 100 in New Brunswick.

#### Total Employment in Nova Scotia (2006)

BNS	1,870
RBC	1,295
CIBC	982
TD	634
BMO	602
<b>Total</b>	<b>5,383</b>

Source: Corporate Responsibility Reports

Total Employment per 10,000 Population (2006)							Total Employment Growth/Decline (2003-2006)					
Prov	TD	CIBC	BMO	BNS	RBC	AVG	TD	CIBC	BMO	BNS	RBC	ALL
AB	13.6	8.1	7.5	10.3	12.2	10.3	682	43	-282	1391	253	2087
BC	9.5	9.7	7.3	7.4	15.3	9.9	-53	261	127	1226	-655	906
MAN	5.9	7.1	4.6	6.5	17.6	8.3	-34	-10	-94	269	-188	-57
NB	4.9	8.8	4.5	12.2	16.2	9.3	-59	-10	-11	354	-175	99
NL	3.1	5.0	5.7	15.8	5.9	7.1	31	-10	9	298	-46	282
NS	6.8	10.5	6.4	20.0	13.9	11.5	130	-103	29	582	-163	475
ONT	25.7	19.1	14.4	17.8	23.9	20.2	2746	2176	302	5812	2555	13591
PEI	6.4	8.0	4.9	12.4	6.8	7.7	22	-14	6	58	-16	56
QC	5.0	4.5	6.5	2.8	9.7	5.7	1651	60	-16	560	-259	1996
SK	5.4	10.0	5.2	7.2	12.9	8.1	-7	-130	3	288	-290	-136

Source: Compiled using annual corporate social responsibility reports for each of the banks and 2006 population estimates from Statistics Canada

In addition to its other banking services, CIBC operates an inbound contact centre in HRM. Scotiabank also has an Atlantic Service Centre in HRM which is an inbound/outbound contact centre.

The five big banks paid a total of \$35.5 million in income and corporate tax in Nova Scotia during 2006 (2 per cent of total provincial income and corporate taxes paid). 64 per cent was paid in Ontario alone. Overall taxes paid in Nova Scotia by the five banks has been declining since 2003.

#### Income & Capital Taxes Paid (2006) \$Millions

Prov:	Income	Capital
AB	\$77.0	\$11.4
BC	88.5	71.1
MAN	16.4	22.8
NB	9.9	5.9
NL	10.5	5.7
NS	18.1	17.4
ONT	843.5	297.8
PEI	2.3	1.8
QC	156.1	100.7
SK	14.5	18.5
<b>ALL</b>	<b>\$1,236.7</b>	<b>\$553.2</b>

Source: Same as above

## 2.3 Sub-Sector: Insurance

The insurance sector in Greater Halifax is impressive. There are over 170 firms in the sector and for the majority of industry sub-sectors; HRM is home to between 33 per cent and 52 per cent of total firms in the Maritime Provinces (as shown in the chart).

### Number of Insurance-Related Firms in HRM by Six-Digit NAICS (2006)

(and percentage of total firms in the Maritimes)

Industry Description (NAICS):	#	% of Maritimes
524111 - Direct Individual Life, Health and Medical Insurance Carriers	13	52%
524129 - Other Direct Insurance (except Life, Health and Medical) Carriers	8	47%
524121 - Direct General Property and Casualty Insurance Carriers	16	44%
524299 - All Other Insurance Related Activities	19	43%
524112 - Direct Group Life, Health and Medical Insurance Carriers	5	33%
524210 - Insurance Agencies and Brokerages	111	21%

Source: Statistics Canada Business Registry (2006)

Many of Canada's top companies have a base in HRM including: Manulife Financial, Aviva, ING, Allstate, Dominion, Lombard, Royal & SunAlliance, Portage LaPrairie Mutual and Meloche Monnex. Employment figures published by the Insurance Bureau of Canada confirm the importance of this sector to the overall Nova Scotia economy. There are 4,400 people working in insurance-related activities (2006). Adjusted for population, this makes the insurance sector in Nova Scotia the most employment intensive in Canada. As indicated above, the vast majority of this activity is based in HRM.

### Canadian Insurance Industry: Employment by Region (2006)

Province	Employees of Insurance cos.	Brokers and employees/agents	Independent adjusters and appraisers	Total Employment	Per 10,000 population
Newfoundland	109	1,240	218	1,567	30.7
PEI	26	173	45	244	17.6
<b>Nova Scotia</b>	<b>1,262</b>	<b>2,968</b>	<b>170</b>	<b>4,400</b>	<b>47.1</b>
New Brunswick	907	1,248	560	2,715	36.2
Quebec	10,219	10,356	2,398	22,973	30.0
Ontario	23,773	15,212	1,230	40,215	31.7
Manitoba	853	2,862	84	3,799	32.3
Saskatchewan	99	2,565	98	2,762	28.0
Alberta	4,746	8,635	611	13,992	41.4
British Columbia	1,408	10,893	514	12,815	29.7
Yukon/NWT/Nunavut	–	274	18	292	
Canada Sub-Total	43,403	56,426	5,946	105,775	
Reinsurers				1,500	
<b>Total 2005-2006</b>				<b>107,275</b>	

Source: IBC Fact Book, 2006

## 2.4 Sub-Sector: Securities

31 per cent of all securities industry-related companies in the Maritimes are based in HRM. Sub-sectors such as investing banking and fund management are considerably over-represented.

Three of the four Maritime Provinces-based investment dealers<sup>5</sup> are based in HRM: Acadian Securities, Beacon Securities and Ocean Securities Inc. In addition, there are 326 Dealers, Advisers and Underwriting firms registered with the Nova Scotia Securities Commission.

Several of the larger players such as Scotia Capital, TD Waterhouse Private Client Services and RBC Dominion Securities Inc. and Edward Jones all have offices in HRM as well.

### Number of Securities Industries-Related Firms in HRM by Six-Digit NAICS (2006)

(and percentage of total firms in the Maritimes)

Industry Description (NAICS):	#	% of Maritimes
522112 - Corporate and Institutional Banking Industry	1	100%
526920 - Mortgage Investment Funds	30	60%
521110 - Monetary Authorities - Central Bank	1	50%
523210 - Securities and Commodity Exchanges	3	50%
526989 - All Other Miscellaneous Funds and Financial Vehicles	6	43%
523110 - Investment Banking and Securities Dealing	30	41%
523910 - Miscellaneous Intermediation	23	40%
523120 - Securities Brokerage	19	36%
523930 - Investment Advice	39	31%
523920 - Portfolio Management	490	29%
523990 - All Other Financial Investment Activities	28	27%
523140 - Commodity Contracts Brokerage	2	20%
523130 - Commodity Contracts Dealing	1	17%
Totals	673	31%

Halifax is also the regional base for a number of specialized financial industry service firms. For example, the global firm, Computershare Investor Services provides transfer agent and other services from its Halifax office. Canada's national securities clearing and depository services organization, CDS, also has an office in Halifax along with other major Canadian centres. CIBC Mellon Trust Company also offers transfer agent services.

In addition, as mentioned above, HRM has attracted five international financial services back offices.

5. Those registered with the Investment Dealers Association of Canada.

### 3. Major Strengths of the HRM Financial Services Cluster

#### 3.1 Company attitudes towards HRM

Overall, the FIRE industry in HRM has a good perception of the business climate. From the recent SmartBusiness survey, 100 per cent of firms stated that the climate was improving and all of financial services firms said they would recommend HRM as a place to do business.

Specifically related to their business in HRM, the overall opinion of these firms and their relationship to HRM was strong. All of the firms indicated having a 'positive' attitude about the community and 88 per cent of the firms' headquarters have a 'good to excellent' affinity with HRM.

The SmartBusiness survey also looked at perceptions of the workforce in HRM. The FIRE industry in HRM has an overall positive opinion about the quality of the workforce:

- » 71 per cent rated the quality of the workforce as 'Good' to 'Excellent' – well above the survey average.
- » Only 14 per cent of FIRE firms reported annual turnover of 10 per cent or higher well below the survey average of 25 per cent.

#### 3.2 Training infrastructure

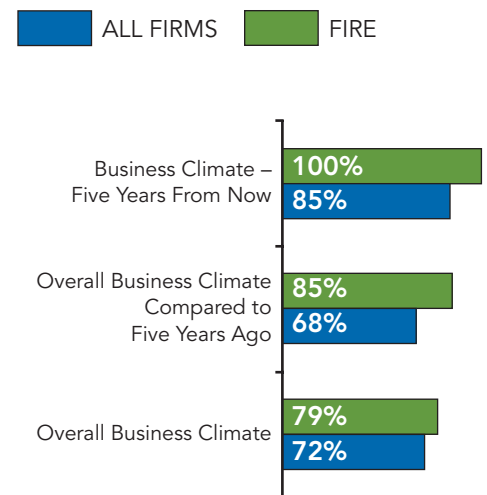
HRM has the most university students per capita of any major metropolitan area in Canada. There is considerable university and college level infrastructure that provides graduates into the financial services industry. And firms in the financial services sector appreciate this infrastructure. From the recent SmartBusiness survey, 85 per cent of FIRE firms rated the quality of universities as 'Good' to 'Excellent'.

HRM's universities have strong core business and accounting programs at both undergraduate and graduate levels. Three of HRM's universities graduate over 200 persons per year with an accounting concentration. In addition, other provincial universities such as Saint Francis Xavier and Acadia University enhance the talent pool for the industry.

The table on the following page provides a summary of the degree programs offered at HRM-based universities that have a concentration in accounting. The information is taken from the Association of Universities and Colleges of Canada directory of certificate and degree programs available at Canadian universities. Given the expansion of the HRM FIRE industry there is potential for additional training infrastructure in the community. That potential is discussed below in Section 1.6 below.

#### Perception of the Business Climate in HRM

% of firms rating Good to Excellent



Source: SmartBusiness survey, August 2006

#### Turning out MBAs ready for the world

The Institute of Canadian Bankers offers a Master of Business Administration in Financial Services degree in partnership with Halifax-based Dalhousie University and the University of Québec at Montréal.

### Certificate/Degree Programs with a Concentration in Accounting

University	Credential	Program Name	Level
Saint Mary's University	Degree	MBA with Concentration in Accounting	Master's degree
Saint Mary's University	Degree	BComm with Co-op in Accounting	Bachelor's degree
Mount Saint Vincent University	Certificate	Certificate in Accounting	Undergraduate level certificate/diploma
Mount Saint Vincent University	Degree	Bachelor of Business Administration with Concentration in Accounting	Bachelor's degree
Dalhousie University	Degree	Bachelor of Commerce Co-op with Major in Accounting	Bachelor's degree
Cape Breton University	Degree	BBA with Concentration in Accounting	Bachelor's degree
St. Francis Xavier University	Degree	BBA with Major in Honours in Accounting	Bachelor's degree

Source: Association of Universities and Colleges of Canada

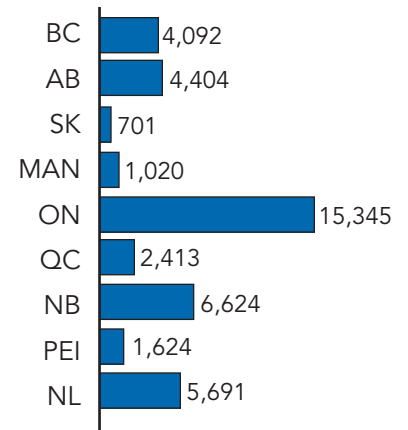
### 3.3 Magnet for talent

As a dynamic and growing urban centre on the east coast, Greater Halifax has a long history of being able to attract people from other parts of Canada to work in its industries.

From 2000-2004, almost 42,000 people moved into HRM from outside Nova Scotia. They came from all across Canada but Ontario and New Brunswick have been the largest sources of migrants.

In addition, Nova Scotia has been ramping up its repatriation and immigration efforts which should help support the requirement for workers in the financial services industry.

### Total Inter-Provincial In-Migrants into HRM (2000 - 2004)



Source: Statistics Canada. Does not include migrants from inside Nova Scotia.

### 3.4 HRM operating cost structure

One of the key benefits that HRM offers the financial services sector is its cost competitiveness relative to other urban centres in North America and the OECD.

The 2006 KPMG Competitive Alternatives report looked at the cost structures associated with operating a back office operation in over 100 countries around the world. The report looked at costs such as labour, facilities, utilities, taxation, etc.

HRM was the lowest cost location in the report for the location of a back office among metropolitan areas of 250,000 or more population.

When compared to ten locations known for their status as financial centres<sup>6</sup>, HRM offers a minimum operating cost advantage of 15 per cent (compared to Vancouver) and a high end cost advantage of 56 per cent (compared to Frankfurt, Germany). On a cost component basis:

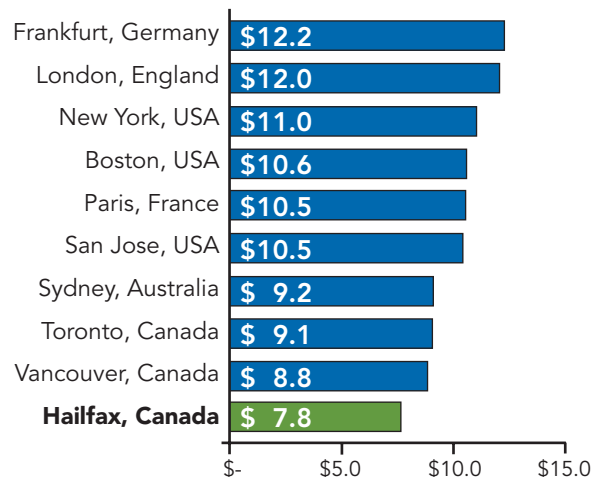
- » Lowest cost area for salary and wages, statutory and other fringe benefits
- » Lowest cost area for facility lease costs and among the lowest cost areas for utilities costs such as electricity and telecommunications.
- » In this example, total corporate taxes paid in HRM were \$357,000 per year well below the 10 jurisdiction average of \$490,000.

Financial services companies can benefit from Class A space gross rents that are less than half the cost they would pay in many of the leading urban centres.

### 3.5 Protecting information

Another important feature of Canada environment for the financial services industry is its strong personal information/privacy protection laws. The Personal Information Protection and Electronic Documents Act (PIPEDA) governs how private sector organizations collect, use and disclose personal information in the course of commercial business. It is one of the strongest in the West and was written to ensure that Canada-based companies could meet the European Union's standards for personal information protection. Many offshore locations such as India are at a considerable disadvantage in this area. Also the U.S. Patriot Act is considered by many European countries to be highly invasive and may offer another advantage for HRM when competing against U.S. jurisdictions for European financial back offices.

**Total Operating Costs (\$Millions USD)**  
Sample Back Office Operation\*



Source: KPMG Competitive Alternatives Report (2006). Based on a 145-person, 2,090 sq. m. facility in each location.

6. Neither Dublin, Ireland nor Edinburgh, Scotland were included in the original KPMG study.

### 3.6 Air access

Studies have shown that competitive tax regimes and air access are two of the top site selection criteria for the financial services sector (see Section 3.1 below). The Halifax Robert L. Stanfield International Airport has made great strides in recent years to expand its international exposure. For its size the Halifax International Airport is one of the best served in the world.

The airport is the only one east of Montreal to have a U.S. preclearance facility. In addition, the airport has been adding international destinations including Iceland and Belfast, Northern Ireland to its list of international destinations. These are:

- » New York (Newark, JFK & Laguardia)
- » Boston
- » Detroit
- » Chicago
- » London (UK)
- » Washington, DC

Starting June 7th, Delta Airlines is adding a direct flight from Atlanta to Halifax. There is also a seasonal flight between Bermuda and Halifax.

The Halifax Robert L. Stanfield International Airport also has multiple direct daily flights into Toronto and Montreal which is an important benefit to the financial services industry.

### 3.7 Nova Scotia's unique public company structure for foreign firms

Nova Scotia offers a unique public company structure for foreign firms. It is the only jurisdiction in Canada where it is possible to incorporate an unlimited-liability company. Incorporating a Nova Scotia unlimited-liability company is a device that permits foreign corporations to move assets into a Canadian company in a way that allows them to write off any tax losses on their books under United States law.

## 4. Building HRM as a Global Financial Services Hub

### 4.1 Characteristics

The Centre for the Study of Financial Innovation in London recently published research on the characteristics and importance of a 'financial centre'. Initially establishing six key attributes, they surveyed 350 institutions to determine how important each is in 'determining the competitiveness of a financial centre'. In addition they ranked each of the major financial centres (London, New York, Frankfurt and Paris) on each of the attributes. The results of this survey are shown in the table.

A pool of skilled labour is perceived as the most important attribute in determining the competitiveness of a financial centre. This is followed by a 'competent regulator'; however, results are more mixed here with a 'light regulatory touch' scoring further down the list.

Given recent corporate scandals it may be the case that the market values a regulator who understands what they are regulating and enforces appropriately, even if this is at the cost of a light regulatory touch.

In general New York and London dominate the first five attributes scoring significantly above the other two major locations. In terms of overall competitiveness, a weighted measurement of the locations' individual attribute scores allows the centres to be measured against a single yardstick. Based on this, New York slightly shades London given because of better scores on the availability of skills, the responsiveness of government and the living environment.

This survey is applicable to HRM's efforts to grow an international financial services sector because these attributes will remain when firms look to find the best locations for financial services back offices.

#### What Makes a Financial Centre?

Average score: 1 = Unimportant, 5 = Very Important

Attribute	Score
A pool of skilled labour	4.29
A competent regulator	4.01
A favourable personal/corporate tax regime	3.88
A responsive government	3.84
A light regulatory touch	3.54
An attractive living and working environment	3.45

Source: Centre for the Study of Financial Innovation

### 4.2 Traditional locations are under stress

The rapid growth of the financial services industry globally has put considerable strain on traditional financial services hubs both in terms of operating cost escalation and availability to qualified workers. In the U.S. over the last five years alone, 1.5 million jobs have been created in the financial services sector. 143,000 have been created in Canada.

The world's largest mutual fund firm, Fidelity, announced recently that they were moving 1,500 back office financial jobs to North Carolina from Boston. The average wage in the sector has escalated to over \$95,000 per year and basic customer contact centre workers were being hired at \$60,000 and up. This tremendous pressure led to Fidelity's move and a McKinsey report published in 2007 suggests that there will be further losses particularly in the back office area.

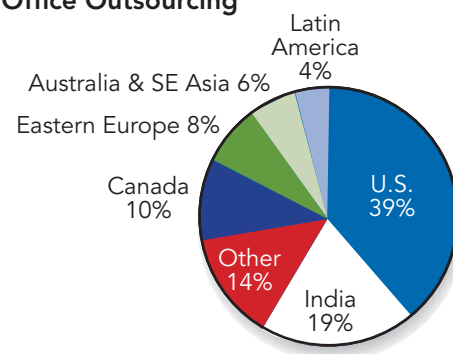
As mentioned above, Toronto is also facing a talent crunch. The Toronto Financial Service Alliance recently published a report prepared by management consulting firm Deloitte Inc. that “Many major banks and securities organizations, in particular, could face critical deficiencies with approximately two-thirds of all front-line employees being either less than 30 years old or within five years of retirement”.

### 4.3 Financial back office outsourcing on the rise

It is important to understand the emerging role of outsourcing in the financial services back office sector. At least two of the international financial services firms that have set up in HRM provide outsourced back office services.

The trend for traditional banks and large financial services firms to outsource back office functions is on the rise. A recent Branham survey found that the outsourcing of banking back office services is now the fifth most outsourced business function. In addition the survey found that Canada is the second most popular outsourcing destination behind India for outsourcing banking back office services outside the United States.

**Location of Banking Back Office Outsourcing**



Source: Branham Group survey (2007)

### Outsourcing Trends by Business Function

Activities Outsourced	% of Firms
ICT Information Communication Services	87
Professional Services	86
Human Resources (HR)	78
Supply Chain Management	43
<b>Banking Back-Office Services</b>	<b>41</b>
Technical Services & Engineering	30
Finance & Accounting	30
Manufacturing	29
Knowledge Process	29
Customer Relationship Management	27
Operations Support Services	21
Medical Diagnostics & Laboratory Outsourcing	12

Source: Branham Group survey (2007)

It is clear that there is significant opportunity for HRM to expand its role as an international hub of financial services activity.

## 4.4 Specific Growth Opportunities

### 4.4.1 Leverage existing FIRE sector for growth

As outlined above, HRM is home to the majority of regional head offices for the financial services sector in the Maritime and the base of a number of successful local firms. From the SmartBusiness survey, it is clear that there is considerable potential to grow this base of firms. Over 60 per cent of existing FIRE firms indicated they were planning to grow their employment base over the next 12 months.

### 4.4.2 Attract more Canadian firms

The Canadian financial services industry is growing strongly. The big five banks alone added almost 20,000 employees from 2003 to 2006. Over the period 2000 to 2006, finance, insurance, real estate and leasing industries in Canada added over 182,000 workers – an impressive 17.5 per cent increase. The vast majority of these jobs were created in Ontario –specifically in the Greater Toronto region. At the same time, employment growth in the Maritimes has been very limited.

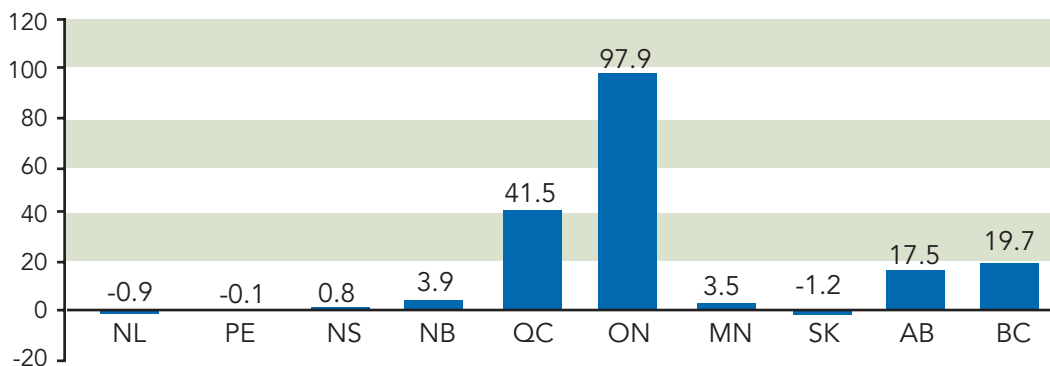
The rapid growth of the financial sector in southern Ontario has led to what a recent Deloitte report is calling “pronounced shortages” in some areas such as account management, accounting and actuarial, credit risk and compliance, financial analysts, planners, advisers and technical specialists.

As a result, many firms are starting to offshore many of their back office functions. Manulife and Sun Life have been leading in this area with their activities in India. However, for a number of important reasons (including those cited by the five Bermuda-based firms), HRM is well positioned as a ‘nearshore’ option for financial services firms.

Also, a number of HRM university graduates now have senior roles in the industry. TD Bank CIBC, Bank of Montreal and Royal Bank all have Senior Vice Presidents that graduated from HRM schools. These individuals, along with the regional VPs based in HRM, could be important ambassadors within the large financial services firms in Canada.

### Total Employment Growth

Finance, insurance, real estate and leasing industries 2000 - 2006 (in 000s)



Source: Statistics Canada Table #282-0008

As mentioned above, the big banks are in strong growth mode and see further growth in the future. Scotiabank, for example, wants to significantly increase the services it can offer hedge funds and brokerages. In a recent investor presentation, vice-chairman Sabi Marwah said there will be “an increased focus on the alternative asset segment” in 2007 and beyond. Is HRM a potential location for this work?

In addition, other sectors of the Canadian financial services industry are in growth mode including mutual fund management, hedge fund management and structured products development.

#### 4.4.3 Attract more global firms

In addition to fostering more local growth and attracting more Canadian business, HRM is also well positioned to attract more global business into the financial services sector. The aforementioned new hedge fund administration and insurance firms based in Bermuda and U.K. provide credible examples of international firms locating in Greater Halifax.

There are a number of important reasons why global firms are looking to places such as Halifax to put their back office and customer service functions. First, the traditional areas for this type of work are facing considerable labour shortages and rising cost pressures. Second, financial services companies are starting to rethink the value of having integrated front office and back office operations. Third, there is a global trend towards outsourcing back office functions to lower cost offshore or nearshore locations.

Halifax is well positioned to attract international financial services firms for several important reasons:

- » Existing track record. This industry likes to cluster. Traditionally, the front and back offices were clustered together but increasingly alternative locations are emerging as back office hubs. Fidelity recently announced they were moving 1,500 back office jobs from Boston to North Carolina. HRM has a proven ability to attract international firms.
- » Many local HRM and regional university graduates are well positioned inside multi-national financial services firms.
- » HRM has connections to the global financial services sector. As mentioned above, many of top financial services companies in HRM have international head offices including firms such as ING, Aviva, Allstate, Admiral, etc. The local HRM office could be a good channel into the parent company's expansion plans.
- » Time zone advantage. HRM is on the same time zone as Bermuda and only one hour behind the major financial centres of Boston and New York. In addition, the time zone is favourable for European firms looking to service clients after hours. U.K.-based Admiral Insurance stated one of the major reasons why it established in HRM was to service after hours market in the U.K.
- » The industry is rapidly repositioning itself to locations such as HRM. As mentioned above, there is a currently a fundamental restructuring of the global financial services sector.



#### 4.4.4 Attract and grow allied business

The financial services industry has a considerable supply chain from recruiters to lawyers to accountants. For example, according to a recent report published by the Toronto Financial Services Alliance, one in three accountants and lawyers in Toronto have financial services industry experience. A successful financial services back office cluster in HRM could give rise to considerable opportunities for allied businesses such as:

- » IT services to the financial services sector.
  - » CGI and xwave have strong financial services IT practices in HRM and could benefit from the new cluster.
- » Business process outsourcing for the sector. A key trend in the restructuring of the sector is not just moving back office functions to alternative locations. It also involves fully outsourcing these functions to firms specializing in financial service back office activity. HRM could attract these financial services back office providers.
- » Professional services firms servicing the sector
  - » Lawyers, accountants, recruiters, etc. could generate more business from the growth of this sector. For example, HRM is already home to several law firms that specialize in foreign company registration and operation in Canada (as a result of the Nova Scotia Unlimited Liability company structure mentioned above). These law firms could become experts in the complex legal environment facing hedge funds.

#### 4.4.5 Grow the cluster

It was identified above that a number of Canadian communities have wider access to financial services industry training both at the practitioner and university levels. Several of the companies interviewed for this project indicated that some services such as industry training that used to be handled in the Halifax area had been moved elsewhere in recent years (i.e. Toronto or Montreal). If HRM is to grow a significant international financial services back office industry, having broader 'cluster' activities would generate direct economic benefits to the community and support its ability to attract investment.

In addition to growing allied industry activity as mentioned above, there are a number of potential cluster enhancing activities that could be pursued including:

- » Increase specialized training infrastructure in HRM
  - » Graduate level (e.g. taxation & actuarial)
  - » Certificate level – training on specific areas of interest.
  - » Internal company training
  - » International focus
- » Regional, national and international conferences
  - » There are hundreds of global conferences (hedge funds, new products, boomer market, etc.) targeting practitioners in the financial services sector. Having this type of conference in HRM would benefit the local economy and build the region's image as a financial services hub.
- » Attract key industry support services
  - » Industry regulatory bodies (government-run or self-governing): IDA, IFIC, MDFA, etc.
  - » Industry groups (associations, etc.)
  - » Junior exchange or variant for access to equity markets

# GreaterHalifax

— P A R T N E R S H I P —

Greater Halifax Partnership  
1969 Upper Water Street, Suite 2101  
Purdy's Wharf, Tower II  
Halifax, NS B3J 3R7

phone: (902) 490-6000  
fax: (902) 490-6010  
[www.greaterhalifax.com](http://www.greaterhalifax.com)