

FEDERAL PRE-BUDGET BRIEF

Submitted To:
The House of Commons
Standing Committee on Finance

Submitted By:
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August 15, 2008
Toronto, Ontario

MEETING THE HUMAN RESOURCE NEEDS OF CANADA'S FINANCIAL SECTOR IN ORDER TO DRIVE ECONOMIC GROWTH

Executive Summary: The financial services sector provides the Canadian economy with a source of relatively stable economic growth that has steadily exceeded the national average over the past two decades. Benchmarking Canada's financial sector against that of the United States and the UK suggests that there is still room for the sector to lead the economy in long-term economic growth. Despite the current turmoil in global credit markets, Canada's financial institutions have weathered the storm relatively well. As the Bank of Canada has put it, Canadian FIs tend to have healthier balance sheets than their American counterparts and are less exposed to the American sub-prime mortgage market. Consequently, the sector can continue to be a driver of economic growth in Canada for years to come.

But financial services are very footloose. The services they provide to local customers can be produced, in whole or in part, at remote locations and even in other jurisdictions. Policy-makers and advocacy organizations in other jurisdictions recognize this full well and many of them are actively competing for financial institutions to locate within their borders. And the Toronto Financial Services Alliance (TFSA) is doing the same, from a Canadian perspective.

The TFSA is actively engaged in enhancing the global competitive position of the Toronto region as a location for financial services activity. Doing so generates benefits for the entire country, not just the city and the province.

One of the most important factors that define a region's competitiveness is access to a highly-educated workforce that has the skills needed by the industry. Working in partnership with all levels of government, the financial sector, the educational sector and other private-sector partners, the TFSA has undertaken a number of initiatives to make sure that the financial sector has access to the human capital that is needed for it to thrive and succeed. The TFSA would like to take this opportunity to inform the House of Commons Standing Committee on Finance of the actions it has taken to date to make sure that the human capital needs of the sector are met and to urge the Committee to recommend that the federal government actively participate in and support this important initiative.

Introduction: The Toronto Financial Services Alliance (TFSA) welcomes the opportunity to once again submit our views to the House of Commons Standing Committee on Finance as part of its Pre-Budget Consultations. As requested, we have limited our submission to only one issue, that of meeting the human resources needs of financial institutions in order to foster an internationally competitive financial services sector. This is not to suggest to the Committee that this is the only issue that needs to be addressed in order to improve the competitiveness of our financial sector - there are a number of other broad issues that must also be addressed.

Who we are: The TFSA is a public/private initiative representing over 30 organizations involved in the financial sector. Its mandate is to enhance and promote the competitiveness of Toronto as a premier North American financial services centre. It was created in 2001 by the City of Toronto in partnership with the financial services industry, and with the support of the federal and provincial governments. Our supporters also include academic institutions and major providers of legal, accounting, consulting and human resources services to the financial sector. While our goals are focused locally, building awareness of the industry and its contribution to the city's economy, the positive effect of such advocacy is felt nationally. Helping the financial sector become even more efficient and competitive has positive economic benefits that spread across the country.

The Financial Sector as a driver of economic growth: The financial services sector is one of the largest sectors in the Canadian economy. The industry employs over 750,000 Canadians directly, representing over 4% of total employment, at wages and salaries well above the national average. Moreover, the industry relies upon, and supports, a number of ancillary, high value-added services that are important contributors to the economy in their own right; and in the GTA, the financial sector creates approximately one indirect job for every direct job.

The financial sector is an important and growing part of modern economies. It facilitates the way in which the rest of the economy functions. It matches savers with borrowers and investors with entrepreneurs. It pools risk and facilitates payments. Financial services make the economy more efficient and hence enhance the international competitive position of Canadian firms. Moreover, these functions are increasingly important to the economy, as witnessed by the fact that financial services are becoming a bigger part of the economy. In the United States, the financial sector accounts for 8% of GDP and 5% of all jobs. In the UK, it accounts for 10% of GDP and one-fifth of all new jobs. In Canada, the financial sector accounts for 6% of GDP, up from 4% twenty years earlier. The experience in the United States and the UK suggests that the sector can continue to grow in Canada faster than the economy as a whole and can continue to be a driver of economic growth.

The benefits of a competitive financial services cluster go well beyond these macroeconomic numbers. Policy-makers are learning that a successful cluster leads to a virtuous circle whereby innovative and dynamic skilled professionals create an environment that attracts others. It helps to reinvigorate and revitalize cities making them exciting places to live and work and visit.

Toronto has established itself as a major, successful financial services cluster serving not only Canada but international markets as well. It is the third largest concentration of financial sector employment in North America, ranking below New York and Chicago, two cities much larger than Toronto. Indeed, according to the Institute for Competitiveness and Prosperity, the financial sector is relatively more important to Toronto's economy than the sector is to New York, and on this basis it beats the financial sectors of Chicago, Boston and San Francisco by a significant margin. And when Forbes recently ranked Toronto as one of the world's most economically powerful cities, it noted that Toronto is, alongside London, the fastest growing financial services centre in the G-7.

But financial services can be provided from anywhere. The services that are provided to local customers can be produced, in whole or in part, at remote locations and even in other jurisdictions. Policy-makers and advocacy organizations in other jurisdictions recognize this full well and many of them are actively competing for financial institutions to locate within their borders. The task of the TFSA and its partners is to maintain and increase the extent to which these activities are located in Toronto and in Canada.

What makes a globally competitive financial services centre: Analysts have identified a number of ingredients that make a jurisdiction successful as a global financial services centre. Financial institutions are highly regulated, so a regulatory environment that supports innovation and efficiency is important. Financial capital is highly mobile so a competitive tax system is also important. National and international financial institutions tend to cluster in large urban areas, so a city that works (well functioning infrastructure) and where individuals and families want to live (safe, clean, good schools and hospitals) are important.

But one factor, namely human capital, stands out as a particularly crucial ingredient. While a large stock of human capital is important for the economy as a whole, it is particularly important for the financial sector. According to Z/Yen, a UK based consulting firm that has developed the Global Financial Centres Index, "human capital [is] the single most important factor in financial centre competitiveness."

The TFSA recognizes this as well and has taken a number of steps, in partnership with government and other public and private sector players, to ensure that Canada can use its human capital stock to grow the industry rather than having human capital issues be one of the challenges that impede growth.

What is the competition doing: As noted above, many jurisdictions are pursuing a policy agenda to enhance the international attractiveness of their locations to financial services providers and to make them more competitive vis a vis other locations. Whether it be the acknowledged financial sector leaders such as London and New York, well-placed second tier centres such as Dublin or Sydney, or aspiring newcomers, policy-makers recognize that there are real economic benefits from an expansion of their financial sectors. And they recognize the importance of human capital in making that happen.

To provide just a few examples, the Bloomberg-Schumer Report (Sustaining New York's and the US' Global Financial Services Leadership) identified a high-quality workforce as one of the most important ingredients for a successful financial centre. It recognized the need for public and private partnerships to produce that workforce and recommended the establishment of a world-class centre for applied global finance. This centre would be a joint venture between financial institutions and local educational institutions and it would concentrate on developing skills needed for such high-end financial services as derivatives and securitization. The City of London has established an employer-led Financial Services Skills Council that provides leadership for training and education in the industry. In addition, the City and financial institutions have provided in excess of £5 million to fund the establishment of a Centre of Excellence on Financial Regulation. In Australia, policy-makers are looking at ways to enhance Sydney's international competitiveness by conducting a review of higher education to make sure it is responsive to employer needs and has established a Financial Sector Advisory Council and the Financial Industry Council of Australia, both of which are tasked with improving the competitive position of the industry in Australia. In Switzerland, the Swiss Finance Institute is a foundation created by the financial community and universities to support doctoral level research and executive education in the financial industry. And in Dublin, the Expert Group on Future Skills Needs recently released a report analysing the current and future skills needs of the industry. It called for a number of initiatives including building a flexible and attractive immigration system that minimizes the burden on individuals and employers and the creation of a Centre for Financial Services Skills, which would form a central support for the industry in areas of education, training and research.

Tapping directly into the global pool of human capital is also recognized internationally as an important strategy. In New York in particular, the American restrictive approach to immigration is generally viewed as a serious challenge for the industry.

A Canadian Approach: The TFSA, amongst others in Canada has recognized the challenges and opportunities associated with ensuring the industry has access to the appropriate level and quantity of skilled employees that the industry needs. The process was started when financial support by HRDC enabled the TFSA to commission an analysis of the skills needs of the industry to identify where and when potential shortages might arise. Further research by the Institute for Competitiveness and Prosperity supported the conclusion that more highly specialized employees are needed to ensure the industry's international success. The landmark analysis undertaken by Deloitte recommended that a three-pronged approach be taken to enhancing access to skilled employees. The approach includes:

- Eliminating barriers to the hiring and integration of new immigrants,
- Improving financial services education and,
- Enhancing the Toronto financial services brand.

The creation of a centre of excellence for financial services education would go a long way to achieving these three goals.

Building a centre of excellence in financial services requires that there be a core base of resources and expertise from which a suitably sized initiative can be built. Research conducted by the Immersion Lab for the TFSA indicated that Toronto already has the building blocks to lever the creation of such a centre of excellence. Toronto is home to Canada's largest cluster of financial services providers, employing over 220,000 individuals locally. Seven local post-secondary institutions (three universities and four community colleges) have a combined foreign student population that exceeds 15,000. And Toronto has been home since 1998 to the Toronto International Leadership Centre for Financial Sector Supervision, an international school for financial sector regulators. Over 1,600 regulators from around the world have improved their skills by participating in the Centre's programs.

The TFSA was very pleased when the Ontario government this year committed \$4 million over three years to help establish the Centre of Excellence for Education in Financial Services, with the goal of attracting and developing the best and brightest financial sector talent, promoting innovation and technology, attracting more international students to Toronto, and facilitating export of Ontario financial educational services. The TFSA would also like to gratefully acknowledge the ongoing financial support from the City of Toronto for this initiative.

This Centre of Excellence will address the industry's human capital needs in a number of ways. Through close cooperation between the numerous post-secondary education institutions and the financial community, this initiative will help to ensure that students are acquiring the skills that the industry needs. By attracting foreign students, the initiative will expose them to Canadian industry and culture and increase the attractiveness of Canada as a place for them to live and work. Indeed, it is well recognized that a large proportion of foreign students end up working in the places where they study. They would already be acclimatized to Canada and by being educated here, there would not be any issue in recognizing educational and professional credentials acquired elsewhere. And finally, such a Centre would enhance the brands of Toronto, Canada and Canada's financial sector in a way that no individual institution or promotional campaign can.

The initiative outlined above is focussed on Toronto and the financial services sector. It is, however, entirely consistent with the recommendations of the recently released report of the Competition Policy Review Panel. As the report notes, for Canada to create a knowledge advantage, we must ensure that Canada has a sufficient stock of human capital with the right characteristics to support competitiveness. This requires appropriate policies with respect to education and training and immigration. As the Competition Policy Review Panel noted, three-quarters of all workforce growth now comes from immigration and that is soon expected to reach 100%. Yet Canada faces a number of challenges in terms of immigrant integration, in which the recognition of foreign credentials is a notable but not the only factor. We have been pleased that the federal government is taking some important steps in this area which will be of benefit to key sectors like financial services.

In addition, the Panel recognized that, whether we are looking at educating Canadian students or educating international students, it is important that economies of scale be achieved so that educational institutions can aspire to be the best and can attract top notch foreign students and faculty.

A Centre of Excellence for Education in Financial Services would be the first of its kind in Canada and could serve as a pilot project for other such centres, focused on other industries and other parts of the country. To make it work, it must be of sufficient scale, work closely with private sector partners, be adequately financed and promoted, and be supported by other policy initiatives, including immigration reform to ensure that its full potential is achieved.

Canada has an opportunity to take advantage of the fact that the United States is taking a more restrictive approach to immigration. The location of Microsoft's Development Centre in British Columbia is, in part, due to Canada's more open immigration policy. As one analysis of global financial centres put it clearly, "...skills can either be grown or bought. Centres that invest in financial skill development at the university level create conditions for ongoing financial services skills development. Other centres lower administrative barriers to 'importing' skilled personnel, as another way of acquiring the necessary calibre of personnel." A Centre of Excellence for Education in Financial Services does both.

In conclusion, the TFSA supports the recommendations of the Competition Policy Review Panel as they relate to attracting and developing talent. We believe they are entirely consistent with the objectives of the TFSA and entirely consistent with the establishment of the Centre of Excellence for Education in Financial Services. Given the fact that the process for this Centre has already commenced, implementation of policies that support the Centre would be a good way in which the recommendations of the Panel could be implemented quickly and could serve as a model for other sectors of the economy.

Consequently, we recommend that the federal government express its support for a Centre of Excellence for Education in Financial Services and commit to working closely with this new entity to build upon the government's current immigration and international talent policies to ensure that they meet the human resources needs of Canada's financial sector.