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ENSURING THE FUTURE

Understanding the Importance of Toronto's Financial Services Sector.

TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

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Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector
by *Michael Burt, Kristelle Audet,* and *Greg Sutherland*

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Preface

Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector discusses the size and importance of Toronto's financial sector, both to the metro area's economy and Canada's as a whole. It includes an assessment of the economic impact of Toronto's financial services sector, and how it compares to other major sectors in the region. The report also reviews the sector's structure and composition. We conclude with a discussion of the sector's place in the world and how it is changing. This includes a comparison of Toronto's financial services sector with other major financial centres around the world. As well, we look at the growing role of international trade and investment in the sector.

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ABOUT THE TORONTO FINANCIAL SERVICES ALLIANCE

The Toronto Financial Services Alliance (TFSA) is a unique, public-private partnership dedicated to growing Toronto region's financial services cluster and building it as a global financial services centre. Established in 2001, TFSA is a collaboration involving three levels of government, the financial services industry, and academia.

Executive Summary

Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector

At a Glance

- In 2012, the financial services sector employed 229,380 people directly in Toronto and supported 191,210 indirect jobs across Canada.
- In terms of GDP, the sector is the second-largest in Toronto.
- Financial services employment in Toronto has risen by 24.9 per cent since 2002.
- Toronto is a major global financial centre. As it is the location of many multinational financial institutions, the concentration of financial services employment in Toronto is above that of London and New York.

Financial services are an integral part of Toronto's economy; the sector directly accounts for about 1 out of every 13 jobs in the Toronto metro area. As well, the sector indirectly supports activity in a variety of other sectors, such as professional services and administrative services. The importance of the sector has grown in recent years, as it has outperformed other sectors of Toronto's economy. Since 2002, financial services employment has risen by 24.9 per cent, equivalent to average annual growth of 2.2 per cent, versus 1.5 per cent for all sectors. Given the size and importance of Toronto's financial sector, both to the metro area's economy and Canada's as a whole, it is important to understand its state, structure, composition, and economic contribution. That is the objective of this report.

ECONOMIC IMPACTS OF FINANCIAL SERVICES

Toronto's financial services sector directly employed 229,380 people in 2012. This figure includes everyone from tellers and insurance agents in local offices to the headquarters staff of multinationals in the metro area. This is equivalent to 7.6 per cent of the metro area's employment, which is the highest share among all of Canada's metro areas. It is even higher than the share in major global financial centres, such as New York and London.

Underscoring Toronto's status as Canada's financial centre is the fact that the metro area accounted for 29.3 per cent of national financial services employment in 2012; Montréal was a distant second at 12 per cent. What is more, nearly every component of the financial services sector had an above-average degree of concentration in Toronto. Toronto accounted for 17.1 per cent of employment in Canada but over 40 per cent of Canadian employment in industries such as asset management, back office operations, and exchanges.

Toronto's financial services sector also generated supply-chain or indirect effects. In fact, the sector indirectly supported an additional 191,210 jobs. Thus, the sector sustained a total of 420,590 jobs. The indirect effects occurred largely in Toronto, but benefits did accrue across the country. Of the 191,210 indirect jobs, 97,070 occurred in Toronto, 63,500 occurred in the rest of Ontario, and 30,640 occurred in the rest of Canada. These indirect jobs were primarily found in the professional services (consulting, computer, legal, and accounting services) and administrative services (services to buildings, security services, and business support services) sectors. In fact, in some of these industries, 10 per cent or more of their Toronto employment could be attributed to the financial services sector.

Finally, the direct and indirect effects associated with Toronto's financial services sector have significant fiscal implications for the City of Toronto, for Ontario, and at the federal level. The sector generates federal and provincial government revenues in several key areas, including the personal income taxes that employees pay on their wages and salaries; corporate taxes on the profits that financial services firms generate; and indirect taxes, which include things such as sales taxes and fuel taxes. At the municipal level, the employees of financial services firms require office space, and property taxes are paid on this space. In total, we estimate that Toronto's financial services sector generated a combined $13 billion in fiscal benefits in 2012 for the Canadian, Ontario, and City of Toronto governments.

HOW DOES THE FINANCIAL SERVICES SECTOR COMPARE WITH OTHER SECTORS OF TORONTO'S ECONOMY?

The financial services sector is one of Toronto's major clusters. In terms of direct effects, the sector ranks second behind manufacturing in terms of GDP and is fifth in terms of employment. Its GDP share is much larger than its employment share partly because of the high wages it pays and its high degree of capital intensity. Once the indirect effects are included, financial services become even more important relative to other sectors in the region. For example, for every direct job in financial services in 2012, another 0.42 jobs were supported locally. Among the major sectors of Toronto's economy, only the information services sector had a higher ratio. Broadly speaking, only the manufacturing and public sectors rivalled the financial services sector in terms of their total impact on Toronto's economy.

THE STRUCTURE OF TORONTO'S FINANCIAL SERVICES SECTOR

Although the lines between the different industries that make up Toronto's financial services sector are blurring, there are seven industries within the sector:

- banking
- credit unions
- insurance
- asset management
- securities
- exchanges
- back office operations

Three industries—banking, insurance, and securities—account for most of the activity in the sector. They accounted for a combined 93.5 per cent of Toronto's financial services employment and 90.7 per cent of the businesses in the sector in 2012. Despite the preponderance of the banking, insurance, and securities industries in terms of the sector's employment, the sector is well-diversified in Toronto. All of the industries except credit unions have an above-average degree of concentration in the metro area.

Small businesses are common in most of the industries that make up Toronto's financial sector. In 2012, 87.5 per cent of enterprises had fewer than 20 employees versus 89.1 per cent for all industries. However, some segments are more concentrated than others. Large businesses are most common in segments such as retail and commercial banking, insurance carriers, credit card issuance, and exchanges. These are the segments where larger businesses are most likely to incur significant benefits, such as economies of scale, reputation benefits, and network effects.

TORONTO VERSUS OTHER GLOBAL FINANCIAL CENTRES

Toronto is a major global financial centre. Although New York and London remain the undisputed global leaders, Toronto is an important second-tier centre. In global league tables, such as those produced by *The Banker* magazine, Toronto ranks behind Singapore and Hong Kong. However, depending on what measures are used, Toronto is part of a group of cities such as Frankfurt, Sydney, and Zurich. Certainly, all of these cities are national leaders, but they are also important global players in different parts of the financial services sector. Toronto has a higher concentration of employment in the financial services sector than other global centres, including New York and London. And in terms of the absolute number of financial services jobs, it lags behind only a few large financial centres.

Toronto's status as a global financial centre is founded on its core strengths. These include its diversity and its scale. As well, Toronto is home to the headquarters of 4 of the world's 50 largest banks, 2 of the world's 15 largest life and health insurers, a top 10 global equity market, and 3 of the world's 40 largest pension funds. Finally, the sector has structural strengths, such as its skilled, sizeable, and multicultural workforce, and a well-regarded regulatory system, as reflected in the fact that the World Economic Forum has named Canada's banking system the world's soundest for five consecutive years.

However, despite these strengths, some people perceive Toronto's financial services sector to be more of a regional player than a global player. Much of this perception may be driven by Toronto's securities industry. Its importance in Toronto is smaller than that in some other major global financial centres, and foreign companies play a much larger role in this industry than in any of the others in Toronto's financial sector. Add the fact that securities is a more internationally focused portion of the broader financial sector, and that it is a "marquee" industry due to the very high wages it pays, and one can see how perceptions of this one industry may be erroneously applied to the sector as a whole.

THE IMPORTANCE OF FOREIGN TRADE AND INVESTMENT TO FINANCIAL SERVICES

The importance of global markets to Toronto's financial services sector is apparent when we consider Canada's foreign trade and investment figures. For example, exports account for one-quarter of sector revenues; this is well above the average for all service sectors. As well, Canada is a large net exporter of financial services capital, consistently ranking among the top four countries globally in terms of outward foreign direct investment. In fact, financial services are so important to Canada's international investment that the sector accounts for half of the country's total stock of outward foreign direct investment.

Not only are the financial sector's levels of foreign trade and investment high; they are also growing and outpacing the average for all sectors. In the past decade, our financial services exports have doubled and the stock of Canadian outbound foreign direct investment has risen by over 70 per cent. Not all of this activity has originated in Toronto, but as the headquarters location for most of Canada's major financial institutions, Toronto has been an integral part of this growth.

SUMMARY

Although Toronto's financial services sector has an important and growing global footprint, policy-makers and the institutions that make up the sector should not become complacent. Financial services is a high-paying sector that many countries are trying to further develop. This is evidenced by the growing importance of financial centres in emerging markets, such as Dubai, Shanghai, Sao Paulo, and Mumbai. Understanding and leveraging Toronto's strengths are the keys to meeting this challenge.

Chapter 1

Introduction

Chapter Summary

- Financial services are an integral part of Toronto's economy, accounting directly for 1 out of every 13 jobs in the metro area.
- The sector has been a source of growth for Toronto, with employment growth outpacing the average for all sectors.
- A key strength of the sector is its diversity. Every industry in the financial services sector, except credit unions, has an above-average degree of concentration in Toronto.
- Given the size and importance of Toronto's financial sector, it is important to understand its state, structure, composition, and economic contribution.

Financial services are an integral part of Toronto's economy; the sector directly accounts for about 1 out of every 13 jobs in the Toronto metro area. As well, the sector indirectly supports activity in a variety of other sectors, such as professional services and administrative services. What is more, the importance of the sector has grown in recent years, as its growth has outperformed that of many other major sectors of Toronto's economy, such as manufacturing.

The importance of Toronto's financial sector goes beyond Canada's borders. Toronto is commonly ranked among the top financial centres of the world, and the international presence of our financial institutions has grown recently. For example, in the past decade, our financial services exports have doubled and the stock of Canadian outbound foreign direct investment has risen by more than 70 per cent.[1] Not all of this activity has originated in Toronto, but as the headquarters location for most of Canada's major financial institutions, Toronto has been an integral part of this growth.

Part of the sector's strength is its depth and diversity. Banking and insurance constitute the largest parts of the sector, but a wide variety of other activities—including securities issuance and trading, asset management, and back office operations—are also important. (See box "Defining the Sector.") In fact, among all of the industries that make up the sector, Toronto accounts for an above-average share of Canada's total employment in that industry, except in the case of credit unions. As such, Toronto remains Canada's largest and dominant financial centre.

Given the size and importance of Toronto's financial sector, both to the metro area's economy and Canada's as a whole, it is important to understand its state, structure, composition, and economic contribution. That

1 Based on data from Statistics Canada's CANSIM tables 376-0108 and 376-0052.

Defining the Sector

For the purposes of this report, the financial services sector is defined as North American Industry Classification System (NAICS) code 52.[1] This sector includes businesses primarily engaged in financial transactions or in facilitating financial transactions. Major industries in the sector include banking, insurance, securities, credit unions, back office operations, asset management, and exchanges. Relevant chapters of this report discuss each of these industries in detail. As well, Appendix A provides detailed definitions of each industry.

1 For a formal definition of the sector, see the following link: http://stds.statcan.gc.ca/naics-scian/2007/ts-rt-eng.asp?criteria=52.

is the key objective of this report. To do so, we start with a discussion of the economic impacts of Toronto's financial services sector. This includes a discussion of the direct employment and GDP effects, the secondary economic effects, and the fiscal effects. We also examine how the sector's economic footprint has changed over time and how it compares with that of other major sectors in the Toronto metro area. A definition of the Toronto metro area is included in Appendix A.

We then turn to an overview of the sector's structure and composition. This includes estimates of the sector's employment breakdown among its constituent industries, and how this has changed over time. As well, we examine the number of businesses operating in the sector, and how they break down in terms of size and industry. This allows for a discussion and analysis of factors such as the concentration and competitive environment in each industry, as well as the major players in each segment.

We conclude with a discussion of the sector's place in the world and how it is changing. This includes a comparison of Toronto's financial services sector with other major financial centres around the world. As well, we look at the growing role of international trade and investment in the sector. Financial services have been an export success story for Canada in recent years. Understanding why is an important part of ensuring future success.

Chapter 2

The Economic Impacts of Toronto's Financial Services Sector

Chapter Summary

- Toronto's financial services sector directly employed 229,380 people in 2012. It indirectly supported another 97,070 jobs in Toronto and 94,140 jobs across the rest of Canada, bringing its total Canadian direct and indirect employment to 420,590.
- Financial services are a key source of demand for a variety of services in the metro Toronto area, including many professional services, administrative services, data processing, couriers and messengers, and telecommunications.
- The sector generated significant fiscal effects in 2012, including $13 billion in combined revenues for the federal, Ontario, and City of Toronto governments. The effects for Ontario in particular were sizeable; at $5.9 billion, they were equivalent to 5.2 per cent of the province's budget.

When assessing the economic footprint of a sector, one can consider a variety of effects. In this report we consider the following three economic effects associated with Toronto's financial sector:

- **Direct effects.** These are the economic effects directly associated with the day-to-day operations of Toronto's financial services sector. Essentially, they include all of the economic activity of the sector itself in Toronto.
- **Indirect effects.** The indirect or supply-chain effects are the economic effects associated with the financial services sector's use of intermediate inputs or other support services, both in Toronto and in the rest of the country.
- **Fiscal effects.** Finally, we measure the fiscal impact associated with the direct and indirect economic effects at the federal, provincial, and municipal levels.

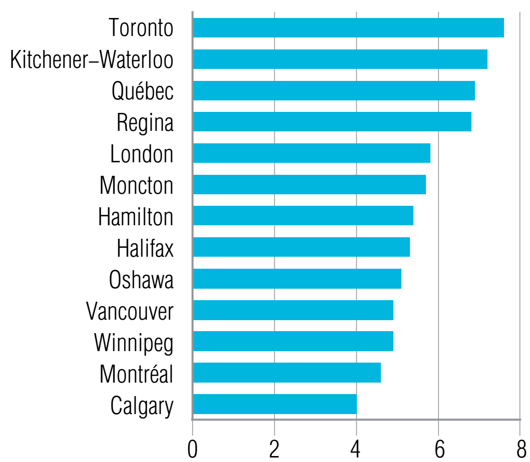
This chapter discusses each of these three effects in more detail.

DIRECT EFFECTS

According to Statistics Canada's Labour Force Survey, Toronto's financial services sector directly employed 229,380 people in 2012. This figure includes everyone from tellers and insurance agents in local offices to the headquarters staff of multinationals in the metro area. What is more, the sector has been a significant source of growth in recent years. In 2002, the sector employed 183,680 people in Toronto. This represents average annual growth of 2.2 per cent, which compares favourably with 1.5 per cent for all sectors in the Toronto metro area over the same period.

Because employment growth in the sector has outpaced the average for all sectors, financial services have grown as a share of Toronto's economy. Between 2002 and 2012, the sector's share of the metro area's employment rose from 7.1 per cent to 7.6 per cent. In fact, the concentration of financial services employment in 2012 was higher in Toronto than in any other Canadian metro area. (See Chart 1.)

Chart 1
Concentration of Financial Services Employment Was Highest in Toronto Among Canadian Metro Areas
(share of employment in financial services for select metro areas, per cent, 2012)



Sources: Statistics Canada; The Conference Board of Canada.

Toronto's share of Canada's financial services employment has also risen over the past decade. In 2002, Toronto accounted for 27.9 per cent of Canadian financial services employment; this share had risen to 29.3 per cent by 2012. By way of comparison, Toronto's share of total Canadian employment changed little over that period, rising from 16.9 per cent to 17.1 per cent. This indicates that Toronto has solidified its position as Canada's leading financial centre.

Of course, an increase in Toronto's share of Canada's financial services employment indicates a decline elsewhere. Over the past decade, most other major financial centres in Canada, such as Montréal (0.8 per cent) and Vancouver (1.6 per cent), have experienced below-average growth and have seen their share of Canadian financial services employment shrink. One exception is Calgary, where financial services employment has averaged annual increases of 3.9 per cent. However, Calgary's financial services sector remains much smaller than Toronto's, or even Montréal's or Vancouver's; Calgary's financial sector employment totalled 30,100 people in 2012.

Toronto's share of Ontario's financial services employment has been more stable than its national share, averaging 62 per cent over the last decade. In comparison, Toronto accounted for 44.2 per cent of Ontario's total employment in 2012. However, there has been strong growth in financial services employment in other regions of the province as well.

For example, the Hamilton and Oshawa metro areas border Toronto, and economic activity from Toronto can spill over into these regions. In terms of financial services employment, Hamilton experienced average annual growth of 2.2 per cent between 2002 and 2012, on par with the pace in Toronto. Oshawa experienced even stronger average growth of 3.5 per cent over the same period. As Oshawa is often considered part of the Greater Toronto Area (GTA), the growth in Oshawa may be linked to Toronto's financial services sector.

As well, there are secondary financial centres in Ontario. For example, Kitchener–Waterloo ranked second to Toronto in 2012 among Canadian metro areas in terms of the financial services sector's share of total employment. This is largely due to the significant presence of Manulife Financial and Sun Life Financial in the region. London is another secondary financial centre, where TD Canada Trust and London Life Insurance are major employers. Over the past decade, financial services employment in Kitchener–Waterloo has risen by an average of 5.6 per cent per year, while the sector averaged growth of 2.2 per cent in London. As a result, Toronto's share of Ontario's financial services sector employment did not increase.

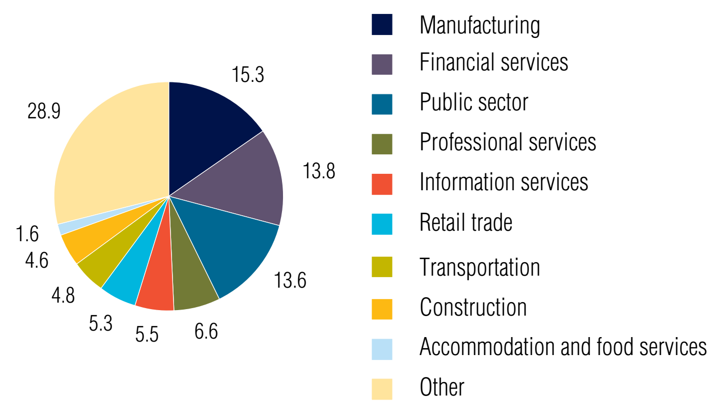
As large as the employment impacts are, the GDP impacts of Toronto's financial services sector are even larger. On a GDP basis, financial services accounted for 13.8 per cent of the metro area's economy in 2011; this is second only to manufacturing. (See Chart 2.) For the City of Toronto, financial services were even more important, accounting for 19.1 per cent of GDP, the highest among all sectors. What is more, since the sector has experienced above-average growth in recent years, its share of the metro area's economy has risen over time. In 2000, it accounted for 12.2 per cent of GDP. Finally, the sector's share of Toronto's economy in 2012 was well above its average for Ontario (9.0 per cent) and Canada (6.6 per cent).

The high GDP per employee in the financial services sector reflects the fact that it pays above-average wages, is investment-intensive, and is highly profitable.

Financial services account for a larger share of Toronto's GDP than its employment because GDP per employee in the sector is significantly above average. Several factors determine a sector's GDP, including the wages and salaries that it pays, the amount of depreciation of its assets, and the profits that it earns. For all three factors, the financial services sector's numbers are above average.

For example, in Ontario, the sector's average weekly earnings per employee in 2012 were $1,129 versus the overall industrial average of $908.[1] As well, the sector's depreciation expense per employee in Ontario was $17,600 versus $11,900 for all industries in 2012.[2] Although the sector's capital stock per employee is below average, much of it consists of information technology equipment and software, which depreciates quickly. The result is an ongoing need for a high rate of

Chart 2
The Financial Services Sector Was a Major Contributor to the Toronto Metro Area's GDP in 2011
(share of Toronto GDP, per cent)



Source: The Conference Board of Canada.

investment per employee in the sector. Finally, nationally, the sector's profit margin was 17.8 per cent in 2012 versus 6.5 per cent for all industries.[3]

Ultimately, the high GDP per employee in the financial services sector reflects the fact that, in general, it generates a high degree of value-added for the economy. In Toronto, the presence of many financial services headquarters amplifies this effect, since many of the sector's highest value activities occur in Toronto. In fact, one Statistics Canada survey found that Toronto was home to 30.6 per cent of the head offices in Canada's financial services sector and 43 per cent of the sector's head office employment.[4] In comparison, Toronto accounted for only 17.1 per cent of national employment.

INDIRECT EFFECTS

In addition to employing people directly, the financial services sector also generates secondary or indirect effects in the economy. Indirect effects are economic benefits associated with the financial services sector's use of intermediate inputs or other support services. In

1 Derived from Statistics Canada, CANSIM table 281-0026.

2 Derived from Statistics Canada, CANSIM table 031-0002 and the Labour Force Survey.

3 Derived from Statistics Canada, CANSIM table 187-0001.

4 Statistics Canada, *Annual Head Office Survey, 2011*.

Table 1
Financial Services Employment and GDP Effects, by Region

	Toronto				Rest of Ontario		Rest of Canada		Total	
	Direct		Indirect		Indirect		Indirect			
	Value	Share of effects (%)	Value	Share of effects (%)	Value	Share of effects (%)	Value	Share of effects (%)	Value	Share of effects (%)
Employment	229,380	54.5	97,070	23.1	63,500	15.1	30,640	7.3	420,590	100.0
GDP (2002 $ millions)	32,954	65.6	7,513	15.0	6,894	13.7	2,869	5.7	50,230	100.0

Sources: Statistics Canada; The Conference Board of Canada.

effect, the indirect effects describe the sector's supply chain, highlighting all of the inputs necessary to conduct financial activity.

In aggregate, Toronto's financial services sector indirectly supported an additional 191,210 jobs in 2012. Thus, the sector accounted for a total of 420,590 jobs, once the direct effects are added to the indirect effects. The indirect effects occurred largely in Toronto, but benefits did accrue across the country. Of the 191,210 indirect jobs, 97,070 occurred in Toronto, 63,500 occurred in the rest of Ontario, and 30,640 occurred in the rest of Canada. (See Table 1.)

Toronto's financial services sector supported a total of 420,590 direct and indirect jobs in 2012.

The indirect effects of a sector are often expressed as a multiplier, which is the ratio of the combined direct and indirect effects to the direct effects. In this case, the financial services sector had a multiplier of 1.83, meaning that for every direct job in the sector, it supported another 0.83 jobs in Canada. We can break those results down further by region. Thus, for every direct job in Toronto, there were another 0.42 indirect jobs in Toronto, 0.28 indirect jobs in the rest of Ontario, and 0.13 jobs in the rest of Canada.

The sector also has indirect GDP effects across Canada. In fact, for every $100 of GDP the sector directly generated in Toronto, it indirectly generated an additional $23 in Toronto, $21 in the rest of Ontario, and $9 in the rest of Canada. This resulted in a total GDP multiplier of 1.52 for the sector.

The GDP multiplier for the sector was lower than its employment multiplier, because the sector had a high GDP per employee. Essentially, since the sector's direct GDP effects were above average, a large denominator was used to calculate the multiplier. As a result, the GDP multiplier was smaller than the employment multiplier. Other sectors with a high GDP per employee, such as mining and utilities, experience a similar effect.

INDIRECT EFFECTS ON PROFESSIONAL SERVICES IN TORONTO

If we turn our focus to the indirect effects in Toronto, we can gain some additional insights into which industries are supported by activity in the financial services sector. In 2012, the single largest impact was in the professional services industry, where financial services activity supported 26,030 jobs. (See Chart 3.) Indeed, the relationship is so strong that some professional services, such as legal and accounting services, are sometimes considered to be part of the financial services sector. In fact, if we add the direct effects of the financial services sector and its indirect effects in the professional services sector, the total of 255,410 jobs equated to 8.5 per cent of Toronto's total employment.

Within the professional services sector, the consulting industry experienced the largest impact; financial services activity supported 7,250 jobs in this industry. (See Chart 4.) This was equivalent to 17.4 per cent of consulting employment in Toronto. Significantly, the financial services sector also supported 5,220 legal services jobs (11.5 per cent of local industry employment) and 3,480 accounting services jobs (9.7 per cent of local industry employment).

The second-largest indirect effects in Toronto occurred in the administrative services sector, which primarily supports the day-to-day operations of other organizations.

The financial services sector also had a sizeable effect on the computer services industry, supporting 6,660 jobs, or 7.1 per cent of local industry employment. This reflected the sector's heavy use of information technology. In fact, 45.1 per cent of total financial sector investment in Canada was related to information technology equipment and services in 2012.[5] (See box "Financial Services and Information Technology.")

INDIRECT EFFECTS ON ADMINISTRATIVE SERVICES IN TORONTO

Professional services were not the only sector where financial services activity had a major impact. The second-largest indirect effects in Toronto occurred in the administrative services sector. This sector is primarily engaged in activities that support the day-to-day operations of other organizations. Financial services activity supported 17,340 administrative services jobs in Toronto in 2012.

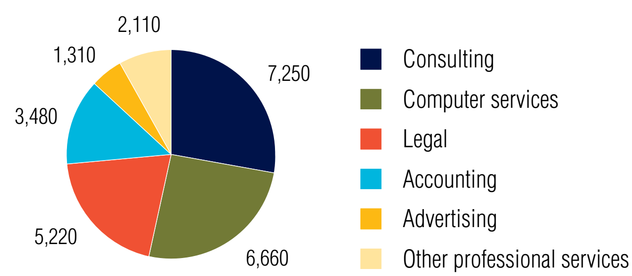
The industry that provides services to buildings was the single largest beneficiary, with 4,140 jobs being supported by the financial services sector, equivalent to 9.6 per cent of the industry's total local employment. (See Chart 5.) This industry provides services such as janitorial, cleaning, pest control, and landscaping services. The large impact of financial services on this industry reflects the sector's heavy use of office and retail space, and the outsourcing of activities needed to maintain this space.

Security services experienced the second-largest employment effect in this sector; financial services activity supported 3,750 jobs, equivalent to 16.3 per cent of the industry's total employment in Toronto. This industry includes armoured car services, which banks use frequently to service their branches. The financial services sector also uses security guard services.

Chart 3
Professional Services Experienced the Largest Indirect Employment Effects in Toronto in 2012
(indirect employment effects in Toronto by sector, 000s)

Sources: Statistics Canada; The Conference Board of Canada.

Chart 4
Financial Services Supported a Variety of Professional Services Industries in 2012
(professional services employment effects in Toronto, by industry)



Sources: Statistics Canada; The Conference Board of Canada.

5 Derived from Statistics Canada, CANSIM table 031-0003.

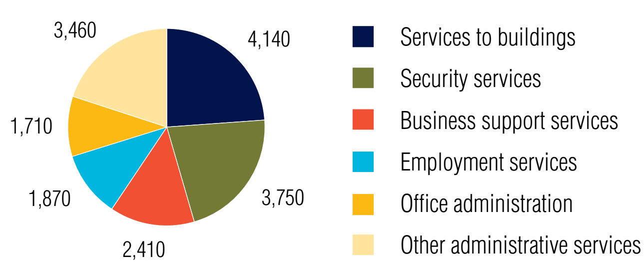
Financial Services and Information Technology

The financial services sector is a major user of information technology (IT) goods and services. In fact, 45.1 per cent of the sector's 2012 investment went into computers, telecommunications equipment, and software. Across Canada, the sector accounted for 10.3 per cent of total expenditures on these three products. Thus, the sector is a significant driver of national trends in IT-related investments.

Beyond the sector's investments, its day-to-day operations also require significant inputs from IT industries. This is apparent in the sector's indirect effects. Key industries that experienced large indirect employment impacts in 2012 included computer services, telecommunications, data processing services, and software publishers. The combined indirect employment impacts in those four industries totalled 17,150 across Canada, equivalent to 9 per cent of the sector's total indirect impacts.

IT has increasingly become part of the competitive advantage for specific financial services firms. Whether financial services firms use it to improve the speed and accuracy of transactions processing, change the way they interact with customers, manage and analyze large volumes of data, or develop and promote products, IT has become a major part of the financial business. As well, as the sector has become more international in focus, its environment has grown increasingly competitive. The result is that IT is now a key part of the way financial institutions conduct their business and distinguish themselves from their competitors.

Chart 5
Financial Services Supported a Variety of Administrative Services Industries in 2012
(administrative services employment effects in Toronto, by industry)



Sources: Statistics Canada; The Conference Board of Canada.

The financial services sector also frequently uses other types of administrative services, including business support, employment, and office administration services. Business support services that are important to financial services providers include call centre, credit bureau, and collection agency services. In 2012, financial services activity supported 2,410 business support jobs, or 18.8 per cent of the industry's local employment.

In the case of employment services, financial services activity supported 1,870 jobs, or 6 per cent of the industry's local employment. Employment services firms include temporary help providers and placement agencies.

Finally, the office administration industry is heavily dependent on the financial services sector, with 1,710 jobs—equivalent to 62 per cent of the industry's employment—supported by the sector in 2012. The office administration industry provides services such as billing, record keeping, personnel management, and other day-to-day business services.

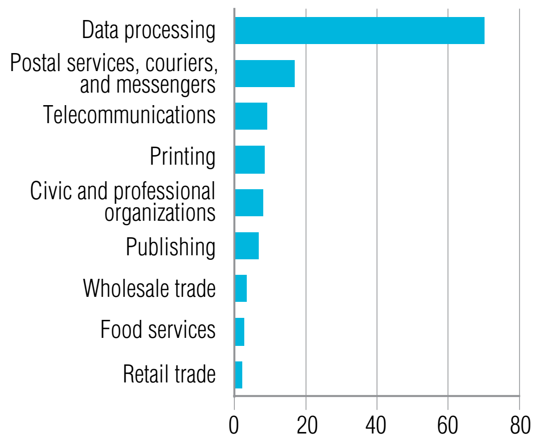
INDIRECT EFFECTS ON OTHER SECTORS IN TORONTO

Beyond the professional and administrative services sectors, a variety of other industries benefit significantly from financial services activities. For example, the single largest effect in the manufacturing sector in 2012 occurred in the printing industry, at 1,610 jobs, or 8.5 per cent of total printing industry employment in Toronto. (See Chart 6.) Financial services firms print a wide variety of materials, from advertising materials to cheques and bills.

Within the transportation sector, the postal service, courier, and messenger industry was the most affected industry in 2012. In fact, financial services activity supported 5,040 jobs, or 16.8 per cent of the industry's local employment. This partly reflects the importance of direct mail advertising to the financial services sector. We estimate that about one quarter of the sector's ad spending was directed toward direct mail, well above the average of 8.4 per cent for all industries.[6] As well, although there is an ongoing shift toward electronic billing and correspondence, mailings of things like bank and investment statements, proxy statements, bills, and payments affected this result. Finally, the sector makes significant use of couriers to deliver time- and security-sensitive documents.

6 Burt, Audet, and Armstrong, *Marketing's Influence in Canada.*

Chart 6
Financial Services Were a Key Customer for Some Industries in 2012
(indirect employment effects' share of Toronto employment for select industries, per cent)



Sources: Statistics Canada; The Conference Board of Canada.

In the information services sector, telecommunications companies were the largest beneficiaries of financial services activity, which in 2012 supported 3,600 jobs, or 9.2 per cent of the industry's total local employment. As previously stated, the financial services sector is a major user of IT equipment and services, and telecom operators are major providers of these services. Other information services industries with significant effects include publishing (1,410 jobs) and data processing (1,380 jobs). In publishing, this reflects the importance of information as an input into sector activities such as asset management, investing, and trading. The effects in the data processing industry reflect the data-intensive nature of the financial services sector, particularly those segments that are transaction-oriented, such as exchanges and banking.

Although the financial services sector accounted for a smaller share of their total employment, sectors such as retail and wholesale trade also experienced significant employment effects, at 7,090 and 3,930 jobs, respectively. These industries see economic effects from most industries, because they connect businesses and consumers across the economy.

FISCAL EFFECTS

The direct and indirect effects associated with Toronto's financial services sector also have significant fiscal implications for the City of Toronto, for Ontario, and at the federal level. The sector affects federal and provincial government revenues in several key areas, including the personal income taxes that employees pay on their wages and salaries; corporate taxes on the profits that financial services firms generate; and indirect taxes, which include things such as sales taxes and fuel taxes. At the municipal level, the employees of financial services firms require office space, and property taxes are paid on this space. In total, we estimate that Toronto's financial services sector generated a combined $13 billion in fiscal benefits in 2012 for the Canadian, Ontario, and City of Toronto governments.

The direct and indirect effects associated with Toronto's financial services sector generated $13 billion in fiscal benefits for the City of Toronto, for Ontario, and at the federal level in 2012.

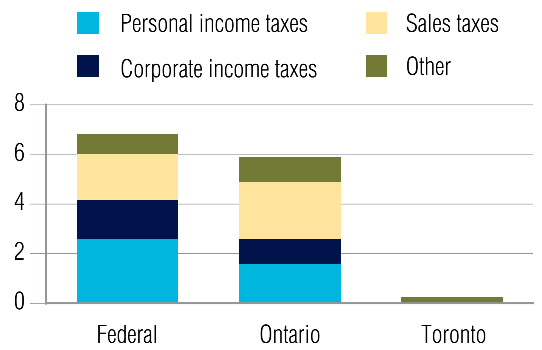
FEDERAL

Among the different levels of government, Toronto's financial services sector had the largest impact on the federal government. The sector generated $6.8 billion in revenue for the federal government in 2012. This was equivalent to 2.7 per cent of the federal government's $254.2 billion in reported revenues for fiscal 2012–13.[7] Personal income taxes were the single largest source of these revenues, accounting for $2.6 billion, or 37.8 per cent of the total. (See Chart 7.) Toronto's financial sector generated $29.5 billion in labour income directly and indirectly in 2012, which in turn supported considerable personal income tax revenues.

The second-largest source of federal tax revenues in 2012—at $1.8 billion, or 27 per cent of the total—was the goods and services tax (GST) on sales transactions in the financial services sector's supply chain. The last major source of federal government revenues was corporate profits taxes, which came to $1.6 billion,

7 Government of Canada, *Jobs, Growth and Long-Term Prosperity.*

Chart 7
Toronto's Financial Services Sector Generated Significant Fiscal Effects for Governments in 2012
($ billions)



Source: The Conference Board of Canada.

or 23.5 per cent of the total. Including the direct and indirect effects, we estimate that Toronto's financial services sector supported $16.6 billion in operating profits (earnings before interest, depreciation, and taxes) in 2012.

The rest of the fiscal benefits for the federal government came from a variety of other sources, such as withholding taxes paid by foreign residents and import duties. One other notable source of revenues was the $374 million generated from employment insurance premium payments. Since Toronto's financial services sector supported 420,590 jobs, directly and indirectly, it also generated a significant amount of employment insurance premiums.

PROVINCIAL

The fiscal impact of Toronto's financial sector in Ontario was smaller than the national impact, but it was more significant as a share of the province's budget. We estimate that the province received $5.9 billion in revenues in 2012 as a result of economic activity supported by the sector. This was equivalent to 5.2 per cent of the province's total revenues of $114.2 billion in fiscal 2012–13.[8] The single largest benefit came from sales taxes ($2.3 billion), followed by personal income taxes ($1.6 billion) and corporate income taxes ($986 million).

Although the vast majority of the economic effects associated with Toronto's financial sector occurred in Ontario, another $514 million in fiscal effects did accrue in other provinces. Quebec was the single largest beneficiary outside of Ontario, garnering $205 million in fiscal benefits, followed by British Columbia and Alberta. As well, depending on how the federal fiscal effects were spread across the country, the other provinces would receive additional benefits associated with federal spending.

MUNICIPAL

The final fiscal impact associated with the financial services sector comes from the office space that its employees occupy. We found that the sector supported 326,450 jobs in the Toronto metro area in 2012, both directly and indirectly. However, not all of these jobs were in the City of Toronto, nor did all of them require office space. In fact, we estimate that 152,350 of those jobs were in the City of Toronto and required some form of commercial space (office or retail space). This was equivalent to 18.9 per cent of the total employment in the City of Toronto that used commercial space.

Using these employment figures and City of Toronto data on property tax collections, we estimate that $251 million in municipal taxes in 2011 can be directly and indirectly linked to Toronto's financial services sector. That was equivalent to 6.4 per cent of Toronto's total property taxes and 2.2 per cent of the city's total revenues of $11.3 billion in 2011.[9] Of course, the other municipalities that make up the Toronto metro area—such as Mississauga, Oakville, and Markham—would have also received fiscal benefits.

8 Ontario Ministry of Finance, *Ontario's 2013 Budget: Revenue Outlook*.

9 City of Toronto, *2011 Statistical Information*.

SUMMARY

In 2012, the financial services sector directly employed 229,380 people in Toronto, equivalent to 7.6 per cent of the metro area's total employment and 29.2 per cent of Canada's total financial services employment. No other metro area in the country rivalled the size of Toronto's financial services sector, in either absolute or relative terms. The sector also generated significant secondary effects, both within Toronto and across the rest of the country, with the largest indirect effects occurring in the professional services and administrative services sectors. In aggregate, the sector directly and indirectly supported 420,590 jobs across Canada. Finally, the sector generated significant fiscal effects at the federal, provincial, and municipal levels. In aggregate, Toronto's financial services sector generated a combined $13 billion in fiscal benefits in 2012 for the Canadian, Ontario, and City of Toronto governments.

This chapter discussed the economic and fiscal footprint of Toronto's financial services sector. The next chapter will compare the growth performance and economic footprint of Toronto's financial services sector with those of some of the other major sectors of Toronto's economy. The objective is to put the economic impacts of the financial services sector into context.

Chapter 3

How Does the Financial Services Sector Compare With Other Major Sectors in Toronto?

Chapter Summary

- Financial services is Toronto's fifth-largest sector in terms of employment and second-largest in terms of GDP.
- The sector's secondary economic impacts are large compared with those of Toronto's other major sectors. In terms of relative local and national indirect employment effects, financial services ranks second among major sectors.
- Over the past decade, employment in Toronto's financial services sector has risen by 24.9 per cent, equivalent to average annual growth of 2.2 per cent. This was above the average of 1.5 per cent for all sectors. Only a handful of other sectors—including the public sector, construction, and professional services—outperformed financial services over this period.

Although the financial services sector is a major cluster and growth driver for Toronto, it is far from the only one. Indeed, in 2012 it ranked second, behind manufacturing, in terms of GDP and fifth in terms of employment. (See Table 2.) As such, it is important to understand how the financial services sector compares with other major sectors in Toronto. In this chapter, we examine how and why the financial services sector's GDP per employee, employment growth performance, secondary employment impacts, and secondary GDP impacts vary in comparison with those of other major sectors.

GDP PER EMPLOYEE

One of the ways that Toronto's financial services sector stands out is its high degree of GDP per employee. At $143,665 in 2002 dollars, it is the highest among all of the sectors examined here. (See Chart 8.) As noted in the previous chapter, the key reasons for this are that the sector pays above-average wages and salaries, has a high degree of ongoing investment, and is highly profitable. Employee income, profitability, and depreciation of existing assets all contribute to a sector's GDP. The financial services sector's high GDP per employee also influences the ratio of indirect to direct GDP effects, which we discuss later in the chapter.

Other sectors with high GDP-to-employee ratios exhibit characteristics similar to those of financial services. For example, the information services sector also has a high GDP-to-employee ratio, a high degree of capital intensity, high profit margins, and high profits per employee. In the case of manufacturing, the sector does pay above-average wages and is capital-intensive; however, its profitability is much lower. As a result, it ranks below financial and information services in terms of GDP per employee. However, since manufacturing

Table 2
The Financial Services Sector Was an Important Component of Toronto's Economy in 2011 and 2012

	2012 employment		2011 GDP	
	number	**share** (%)	**2002 $ millions**	**share** (%)
Financial services	229,380	7.6	32,954	13.8
Manufacturing	343,150	11.4	36,636	15.3
Public services	613,310	20.4	32,430	13.6
Professional services	326,920	10.9	15,787	6.6
Information services	100,640	3.3	13,116	5.5
Retail trade	328,090	10.9	12,683	5.3
Transportation	150,180	5.0	11,403	4.8
Construction	170,120	5.7	11,019	4.6
Accommodation and food services	176,630	5.9	3,864	1.6
Other sectors	569,750	18.9	68,929	28.9
Total	**3,008,170**	**100.0**	**238,822**	**100.0**

Sources: Statistics Canada; The Conference Board of Canada.

Chart 8
The Financial Services Sector Had a Very High GDP per Employee in 2011
(2002 $ 000s)

Sources: Statistics Canada; The Conference Board of Canada.

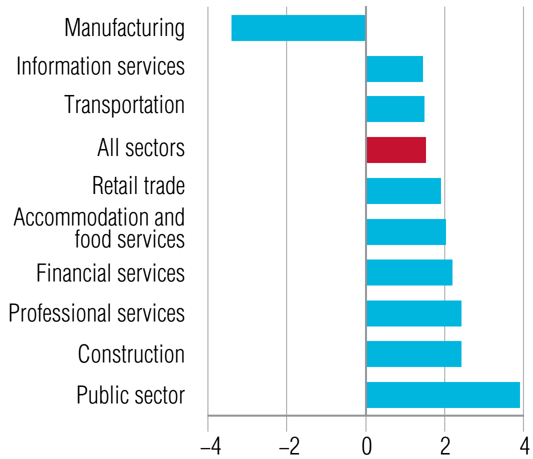
employs more people than financial services does, its total GDP effect in Toronto is larger. In fact, manufacturing is the largest sector in Toronto in terms of GDP, with financial services placing second.

With the exception of retail trade and accommodation and food services, most of the sectors discussed here pay above-average wages. This is a key reason why these two sectors have very low levels of GDP per employee. However, as we see with other sectors, such as construction and public services, it is possible for a sector to pay above-average wages but still have below-average GDP per employee. The labour-intensive nature of construction and its low profits per employee reduce its GDP. A key limitation on the GDP the public sector generates is that, by definition, it does not generate profits. As well, it has a below-average degree of capital intensity. As a result, wages and salaries drive most of the public sector's direct GDP impact.

EMPLOYMENT GROWTH

Between 2002 and 2012, employment in Toronto rose by an average of 1.5 per cent per year. Of course, some sectors outperformed this benchmark, while others underperformed. Financial services employment rose by 24.9 per cent over this period, equivalent to average annual growth of 2.2 per cent per year, making the sector an above-average performer. However, other major sectors have experienced even stronger growth. For example, among the major sectors identified here,

Chart 9
Financial Services Experienced Above-Average Employment Growth
(average annual employment growth, by sector, per cent, 2002–12)



Sources: Statistics Canada; The Conference Board of Canada.

the public sector has experienced the strongest growth, at 3.9 per cent per year over the past decade. (See Chart 9.)

Not only has public services experienced the strongest employment growth in recent years, but it is also the largest employer in the Toronto metro area. If we include all levels of government (municipal, provincial, federal), health, and education, the sector employed 613,310 people, which is equivalent to 20.4 per cent of the region's total employment. All three segments—health, education, and government—have experienced above-average growth over the last decade, driven by the region's growing and aging population. However, it is unlikely that the sector will be able to continue growing at this pace, given the fiscal restraint at the federal and provincial levels.

Other sectors that have experienced above-average growth include construction and professional services. The construction sector includes all types of building activity, including renovations and repairs, construction of residential and non-residential buildings, and public and private infrastructure development. The construction sector experienced strong growth from 2002 through 2008, but employment today in the sector is similar to that in 2007 and is actually below its 2008 peak. The financial services sector experienced a similar slowdown in growth after the 2008 financial crisis. However, despite the recent weakness, the construction sector has averaged annual growth of 2.4 per cent over the past decade. Although residential construction activity remains healthy in Toronto, it was non-residential construction activity that drove the sector's growth in the mid-2000s and its subsequent slowing.

The professional services sector has also experienced average annual growth of 2.4 per cent over the past 10 years. Most of the sector's major industry groups have grown over this period, but the largest employment gains have occurred in the engineering, legal, and computer services industries. Rising exports of some professional services and strong gains in domestic demand have driven these increases.

Toronto's financial services sector has experienced above-average growth over the past decade, outperforming many other major sectors, such as manufacturing.

At the opposite end of the spectrum is manufacturing. The importance of manufacturing to Toronto's economy has shrunk over the past decade, with employment falling from a peak of 487,410 in 2004 to a low of 337,400 in 2009, during the depths of the recession. Sector employment has risen modestly since then, climbing to 343,150 in 2012, but a full recovery to its previous peak is not expected. Increased import competition and weak exports have both contributed to this performance. Despite the decline in the sector's employment, it remains an important contributor to the metro area's economy. The sector was the single largest source of GDP for Toronto in 2011 and the second-largest source of employment in 2012.

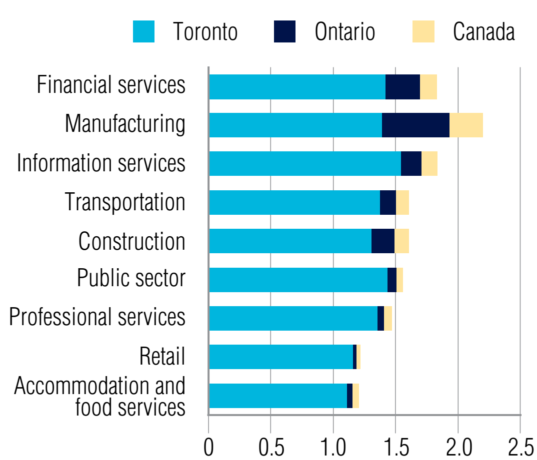
EMPLOYMENT MULTIPLIERS

The indirect effects of a particular sector are often expressed as a multiplier, which is the ratio of the combined direct and indirect effects to the direct effects.

This allows for easier comparisons across sectors, as it scales the results to the direct size of the sector. In 2012, the financial services sector had an employment multiplier of 1.83 when all of the Canada-wide effects were included. Thus, for every direct job in Toronto's financial services sector, another 0.83 jobs were supported in other sectors across Canada. This ratio drops to 1.42 if only the local effects in Toronto are considered.

These ratios are sufficiently high that financial services ranks second among the major sectors considered in this report, both in terms of local and national indirect effects. (See Chart 10.) The manufacturing sector had the highest national employment multiplier, although financial services had a slightly higher local multiplier. Contributing to manufacturing's high employment multiplier is the fact that manufacturing tends to have longer supply chains than most other sectors. More steps in the production process mean more opportunities to create indirect effects. However, the relative ease with which manufactured products are traded means that fewer of these inputs are sourced locally, thus the smaller local multiplier.

Chart 10
Financial Services Had One of the Highest Employment Multipliers in 2012
(ratio of total employment to direct employment)



Sources: Statistics Canada; The Conference Board of Canada.

The information services sector also had high employment multipliers. It ranks third in terms of its national multiplier, just behind financial services, and first in terms of its local multiplier, just ahead of financial services. A contributing factor to the high employment multipliers is the fact that, like financial services, information services are capital-intensive. Since multipliers are the ratio of the total effects to the direct effects, this means that capital-intensive industries have a smaller employment denominator relative to labour-intensive sectors.

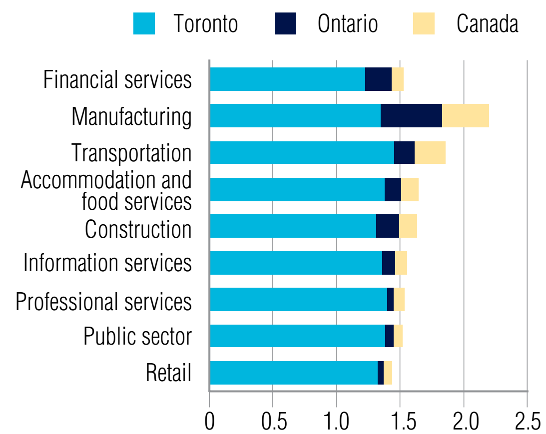
The opposite of this effect is apparent in the retail sector, as well as the accommodation and food services sector. Both sectors are more labour-intensive; thus they had much larger relative direct employment effects. As a result, they both had very low local and national employment multipliers. The national multiplier for the retail sector was 1.22, and the accommodation and food services sector's was marginally lower at 1.21.

GDP MULTIPLIERS

Of course, capital-intensive sectors tend to have higher GDP-to-employment ratios, which can mean their GDP multipliers differ greatly from their employment multipliers. That is exactly the situation in the financial services sector. Since the sector had a very large direct GDP effect, its GDP multiplier was considerably lower than its employment multiplier. Nationally, every $100 of direct GDP in Toronto supported an additional $52 of GDP, with $23 of those effects occurring in Toronto. This was actually lower than the multipliers for most of the other sectors considered in this report. (See Chart 11.) In fact, the financial services sector's local GDP multiplier was the lowest among all the sectors.

Information services, another capital-intensive industry, saw a similar effect; its GDP multiplier was considerably below its employment multiplier. However, this trend affected manufacturing to a much smaller extent. In fact, Toronto's manufacturing sector had the highest national GDP multiplier among the sectors considered

Chart 11
Financial Services' High Direct GDP Led to a Lower GDP Multiplier in 2012
(ratio of total GDP effects to direct GDP)



Sources: Statistics Canada; The Conference Board of Canada.

in this report. Coincidentally, the sector's national GDP multiplier of 2.2 was the same as its employment multiplier. A key reason for the difference between manufacturing and financial services multipliers is the much longer supply chain for manufacturers. More steps in the supply chain lead to more opportunities to generate GDP. As well, the manufacturing sector's suppliers tend to be GDP-intensive. Key suppliers to the financial services sector, such as professional and administrative services, have much lower levels of GDP per employee.

Transportation is another sector with high relative GDP multipliers. In fact, its local GDP multiplier was the highest among the sectors considered in this report. That is not overly surprising, given that transportation is a capital-intensive sector that uses considerable material inputs. As well, many of the transportation sector's key inputs, including fuel and transportation equipment, are GDP-intensive. The industries that make these inputs have high GDP-to-employee ratios; thus the indirect GDP effects were proportionately larger than the employment effects.

Retailing is at the opposite end of the spectrum. It had both a low employment multiplier and a low GDP multiplier. A key reason for its low multipliers is the way the model accounts for the products that the sector sells. Since retailers do not alter the products they sell, those products are not considered inputs into their production process. As such, retailers' cost of goods sold, which was equivalent to three-quarters of sector sales in 2011, did not generate supply-chain effects.[1] With the cost of goods sold accounting for most expenditures in the sector, this approach limits the potential economic impacts of the sector.

SUMMARY

The financial services sector generally compared favourably with other major sectors of Toronto's economy. Financial services experienced above-average employment growth, had the highest GDP per employee, and had a high employment multiplier. In fact, among the sectors considered in this report, financial services had the second-highest local and national employment multiplier. The one area where financial services compared less favourably with other sectors was its GDP multiplier, largely because the sector is very GDP-intensive; its large direct GDP effects led to a lower GDP multiplier. As well, some of the key industries that supply financial services, such as professional and administrative services, have below-average GDP intensity.

We have discussed the economic and fiscal footprint of Toronto's financial services sector, as well as how the sector compared with other major sectors of Toronto's economy. The next chapter will examine Toronto's financial services sector in more detail by discussing the performance and structure of its major industries.

1 Derived from Statistics Canada, CANSIM table 080-0023.

Chapter 4

The Composition of Toronto's Financial Services Sector

Chapter Summary

- The lines between the industries that make up financial services are increasingly blurred, making cross-industry comparisons more difficult.
- Toronto accounts for an outsized share of Canadian employment in every financial services industry except credit unions.
- Three industries—banking, insurance, and securities—account for most of the employment and businesses in Toronto's financial services sector.
- The sector has many small businesses, but large firms are common in areas such as banking and insurance, where scale can provide benefits such as lower risk premiums and network effects.

Toronto's financial services sector is made up of many constituent parts that offer a variety of services. The characteristics of these organizations vary widely. Some are large multinationals that offer an array of services domestically while deriving a significant share of their revenues from foreign markets. Others are small niche players that may employ only a handful of people and offer highly specific services.

The key industries within the sector include the following (see Appendix A for definitions):

- banking
- credit unions
- insurance
- asset management
- securities
- exchanges
- back office operations

However, the distinctions between these industries have blurred over time. In 1991, regulatory changes ended the policy of separating the sector into "four pillars" (banks, insurance, trusts, and investment dealers). As a result, different industries in the sector offer many similar products and services. For example, many of the largest banks in Canada offer insurance and asset management services. As well, some large insurance providers offer asset management or banking services.

Because of the way industry statistics are compiled, the blurring of the lines between industries can make cross-industry comparisons difficult. Employees of an organization that earns most of its revenues from banking would generally be recorded as banking industry employees, even if the services they provide might be better classified under a different industry. This problem affects the asset management industry the most. (See box "Measuring the Size of Toronto's Asset

Measuring the Size of Toronto's Asset Management Industry

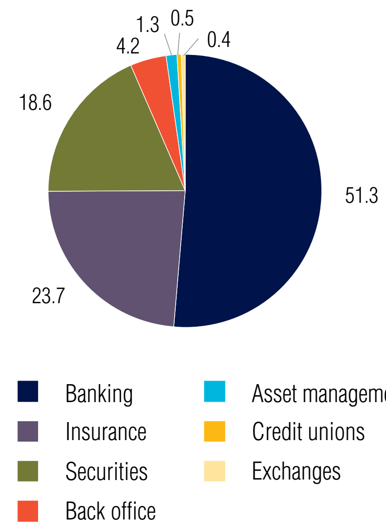
Perhaps more than any other industry in the financial services sector, the asset management industry is challenging to measure, mainly because banks and insurance companies conduct a large share of asset management activity. According to data from Lipper, only 3 of the 20 largest mutual funds by asset size were not managed by a bank or insurance company.[1] Official statistics may attribute some of this activity to banking or insurance, rather than asset management.

Another issue is that Statistics Canada makes a distinction between the funds themselves and the activity associated with managing those funds. We have defined the asset management industry in this report as the industry that includes the funds themselves. This industry has a large asset base but employs few people directly. The management portion of the asset management industry is captured in a different industry sub-segment that we have defined as being part of the securities industry. This segment includes other things as well, such as investment advisors and venture capital funds.

As a result, this report undercounts employment in the asset management industry. To address this, we look at some alternative research and definitions of the sector to assess the potential size of the industry.

1 Carrick, "Invested in Canada's Largest Mutual Funds?"

Chart 12
Banking, Insurance, and Securities Were the Largest Employers in the Financial Services Sector in the Toronto CMA in 2012
(per cent)



Sources: The Conference Board of Canada; Statistics Canada.

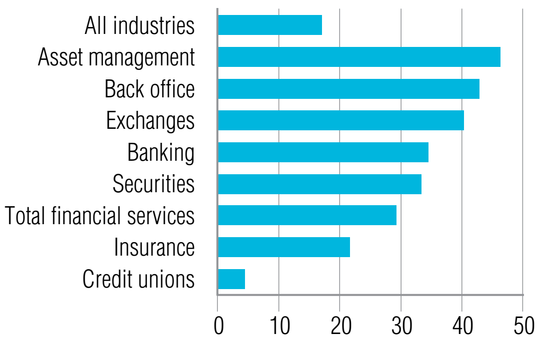
Management Industry.") With this caveat in mind, it is still instructive to look at the structure of the industries that make up the financial services sector.

In terms of employment, three industries—banking, insurance, and securities—accounted for a combined total of 93.5 per cent of Toronto's financial services employment in 2012. (See Chart 12.) This share declined modestly over the past decade. Although banking employment experienced above-average growth, insurance and securities employment did not. As a result, these two industries now account for a smaller share of Toronto's financial services sector. In their place, the banking and back office operations industries now account for a growing share of the sector. A detailed table of sector employment by industry can be found in Appendix B.

Despite the predominance of the banking, insurance, and securities industries in terms of the sector's employment, the sector is well-diversified in Toronto. In fact, Toronto's share of Canadian employment is above average in every industry except credit unions. Toronto accounted for 17.1 per cent of Canadian employment in 2012, yet for most financial services industries, Toronto's share was higher. (See Chart 13.) For example, Toronto accounted for over 40 per cent of Canadian employment in the asset management, exchanges, and back office operations industries. This highlights Toronto's role as Canada's financial centre.

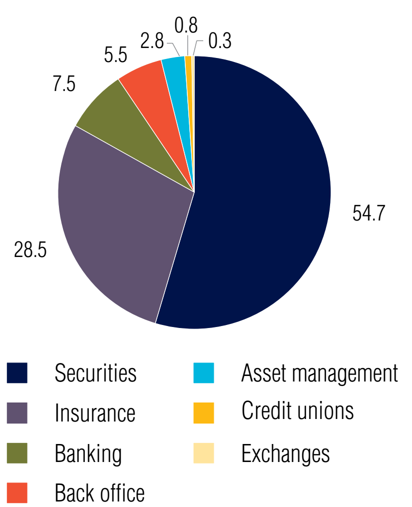
We see somewhat different patterns when we look at the number of financial services businesses. According to Statistics Canada's business registry, 6,272 financial services businesses were operating in Toronto at the end of 2012. Over half of these were in the securities industry (54.7 per cent), followed by insurance (28.5 per cent), and banking (7.5 per cent). (See Chart 14.) Because the securities industry is sizeable and includes many small businesses, it has a high share of the sector's businesses. In fact, in 2012, nearly

Chart 13
Almost Every Financial Services Industry Had an Above-Average Concentration in Toronto in 2012
(Toronto CMA's share of Canadian employment, by industry, per cent)



Sources: The Conference Board of Canada; Statistics Canada.

Chart 14
Securities Firms Accounted for Over Half of Toronto's Financial Services Businesses at the End of 2012
(per cent)



Sources: Statistics Canada; The Conference Board of Canada.

90 per cent of securities enterprises in Toronto had fewer than 20 employees. A detailed table of financial services establishments by employment can be found in Appendix B.

Small businesses are common in most of the industries that make up Toronto's financial sector. In 2012, 87.5 per cent of enterprises had fewer than 20 employees versus 89.1 per cent for all industries. However, some segments have more large businesses than others. For example, nearly 6 per cent of banks had more than 200 employees. This may sound like a small share, but it is actually well above average. In fact, only 1.2 per cent of all businesses across all industries in Toronto had more than 200 employees.

The sector is well-diversified; Toronto's share of Canadian employment is above-average in every industry except credit unions.

Within the financial services sector, large businesses are most common in segments such as retail and commercial banking, insurance carriers, credit card issuance, and exchanges, where larger businesses are most likely to incur significant benefits. For example, capital-intensive businesses can benefit from economies of scale. As well, size can improve the perceived safety of a financial institution, leading to real benefits, such as lower borrowing costs and reduced counterparty risk premiums when dealing with other financial institutions. Finally, some segments, such as retail banking, can benefit from the network effects that come with scale. Larger banks generally have more locations where customers can conduct transactions, improving customer convenience and service.

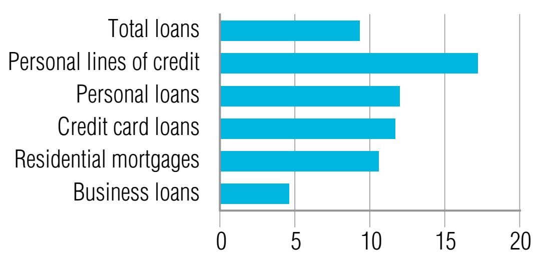
BANKING

For the purposes of this report, banking includes a variety of activities. The largest components of the industry include traditional deposit-taking institutions (excluding credit unions) that use these deposits to make loans. However, it also includes other types of non-deposit-taking firms that conduct activities such as issuing credit cards, financing sales, lending to consumers, and even providing pawnbroker services and payday loans. As well, we include any activity associated with the Bank of Canada in the banking industry.

As previously stated, banking is the largest industry within the broader financial services sector, directly employing 117,650 people in Toronto in 2012. This is equivalent to 74 per cent of the 159,440 people that the Canadian Bankers Association reported employing in Ontario in 2012.[1] One of the reasons for this high share is the fact that we define the industry more broadly than the Canadian Bankers Association does, as we include non-deposit-taking providers of credit intermediation services.

What is more, banking was a source of above-average growth over the past decade; industry employment has risen by an average of 3.1 per cent per year since 2002. A key factor driving the industry's expansion was an increase in lending. Total loans held by chartered banks increased by an average of 9.3 per cent per year over the past decade.[2] Consumer-oriented products—such as personal loans, residential mortgages, and personal lines of credit—accounted for much of the increase. (See Chart 15.) Deposits also experienced strong gains over this period, with total chartered bank deposits rising by an average of 7.4 per cent per year since 2002.[3]

Chart 15
Bank Loans Rose Sharply Across Canada
(average annual growth in select chartered bank loans, per cent, 2002–12)



Sources: Statistics Canada; The Conference Board of Canada.

Another factor driving growth may be that the banking industry has captured market share from the asset management industry. Employment growth in the asset management industry was more modest, averaging 1.1 per cent per year between 2002 and 2012, despite strong growth in the assets being managed by investment funds. According to The Investment Funds Institute of Canada, assets under management rose from $426.4 billion at the end of 2001 to $924.4 billion in July 2013.[4] However, this figure includes assets managed by the major banks as well as the stand-alone asset management firms. Banks are increasingly offering asset management services to their customers.

Although the Big Five banks headquartered in Toronto (Royal Bank of Canada, Toronto-Dominion Bank, Scotiabank, Bank of Montreal, and Canadian Imperial Bank of Commerce) garner much of the attention in Toronto's banking industry, they are not the only firms operating in the region. In fact, there were 469 firms in the metro area's banking industry in 2012. Of these, 27 had more than 200 employees, equivalent to 5.8 per cent of the total. As such, banking had the second-highest degree of employment concentrated among large employers within Toronto's financial services sector, after exchanges.

Banking was a source of above-average growth over the past decade; industry employment has risen by an average of 3.1 per cent per year since 2002.

Most of the firms operating in what we have defined as Toronto's banking industry are not what people would traditionally think of as banks. In fact, traditional deposit-taking firms accounted for only 64 of the firms operating in the industry, but they accounted for 16 of the 27 large firms. (See Chart 16.) Sales finance companies and credit card issuers accounted for nearly all of the remaining large firms in the industry. The rest of the industry was generally made up of smaller providers of lending services that were not supported by deposits. For example, there were 288 firms in the "other non-depository credit intermediation" segment, which consisted primarily of businesses such as pawnbrokers and payday loan providers.

1 Canadian Bankers Association, *Bank Employment Statistics*.

2 Derived from Statistics Canada, CANSIM table 176-0011.

3 Derived from Statistics Canada, CANSIM table 176-0011.

4 The Investment Funds Institute of Canada, *Monthly Statistics*.

INSURANCE

Insurance is the second-largest industry within Toronto's broader financial services sector. It employed 54,280 people in Toronto in 2012, equivalent to 23.7 per cent of total financial sector employment. However, among the industries within the financial services sector, it had one of the lowest degrees of concentration in Toronto, with only 21.6 per cent of Canada's insurance employment located in the metro area. What is more, the insurance industry in Toronto has been experiencing below-average growth.

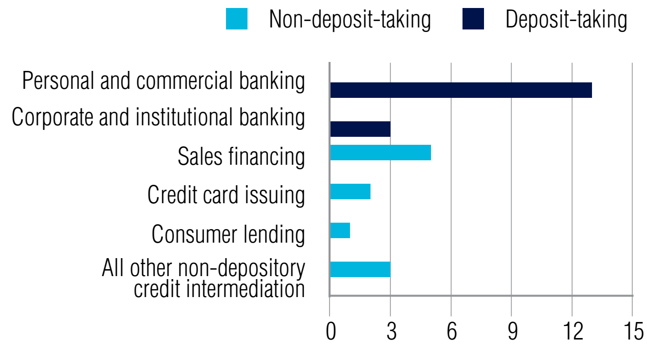
In terms of employment, insurance became less important relative to other segments of Toronto's financial services sector between 2002 and 2012.

Between 2002 and 2012, insurance employment in Toronto expanded by an average of 1.1 per cent. This was below both the average for Toronto's financial sector over this period (2.2 per cent) and the national average for the insurance industry of 1.9 per cent. Thus, in terms of employment, insurance became less important relative to other segments of Toronto's financial services sector, and Toronto's share of Canada's insurance industry shrank. This may reflect the fact that several of Canada's largest insurance companies—such as Great-West Life, London Life Insurance, The Insurance Corporation of British Columbia, and The Co-operators Group—are headquartered outside of Toronto. As well, among the insurance companies headquartered in Toronto, some (such as Sun Life Financial and Manulife Financial) maintain much of their employment outside of the metro area.

The insurance industry is divided among three broad segments. The first consists of insurance providers that focus on life and health insurance. Major companies headquartered in Toronto include Manulife Financial, Sun Life Financial, and Canada Life (a subsidiary of Great-West Life). In fact, the Canadian Life and Health Insurance Association (CLHIA) reports that 50 of the 95 firms in the industry were headquartered in Toronto in 2012.[5] We estimate that the segment employed 10,045 people in Toronto in 2012, which represents a modest drop over the past 10 years. This is below CLHIA's estimate of 31,900, but its figure includes agents, which we estimate separately. As well, the CLHIA figure includes bank-owned insurance operations, whose employees may be classified as bank employees in the official statistics.

There were 58 life and health insurers operating in Toronto at the end of 2012, of which 7 were large firms with more than 200 employees. Thus, 12.1 per cent of firms were large, one of the highest degrees of concentration in Toronto's financial services sector, after exchanges, deposit-taking institutions in the banking sector, and property and casualty insurers. (See Chart 17.) This high degree of concentration is not surprising when one considers that the primary service that insurers provide is to pool the premiums they collect and build up financial assets against the risk or expectation of future loss. If they are not large enough, their ability to pool assets against the risk of future losses is limited. With this in mind, it is likely that most of the smaller life and health insurers in Toronto are the local offices of larger companies.

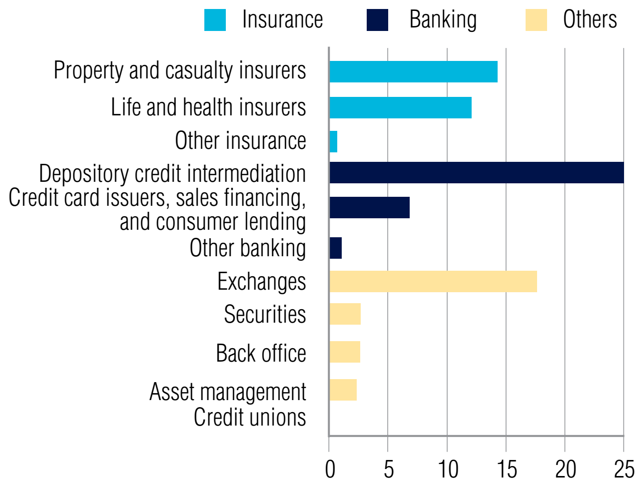
Chart 16
Traditional Deposit-Taking Banks Accounted for Most of Toronto's Large Banking Firms, 2012
(firms with more than 200 employees, number)



Sources: Statistics Canada; The Conference Board of Canada.

5 Canadian Life and Health Insurance Association, *Life and Health Insurance Industry Fact Sheet.*

Chart 17
Insurance Firms Generally Consisted of Larger Companies in 2012
(firms with 200 or more employees, per cent)



Sources: Statistics Canada; The Conference Board of Canada.

The second segment consists of property and casualty insurance providers. Major companies headquartered in Toronto include Intact Financial, AVIVA Canada, RSA, and Dominion. We estimate that property and casualty insurers employed 23,585 people in Toronto in 2012, which is little changed from the number 10 years earlier. In comparison, the Insurance Bureau of Canada estimates that the industry employed 77,180 people in Ontario in 2011.[6] However, this figure includes agencies, brokerages, and independent insurance adjusters, which are all considered separately in this analysis.

According to Statistics Canada's business registry, 119 property and casualty insurance firms were operating in Toronto at the end of 2012. As was the case with life and health insurers, the industry was concentrated among large employers, with 14.3 per cent of firms having more than 200 employees. The magnitude and frequency of the industry's claims payouts may be more volatile than those of life and health insurers, but that doesn't change the industry's fundamental role of pooling risk. Indeed, the higher volatility in the property and casualty segment would underscore the need for larger firms to absorb unexpectedly large losses.

The last segment of the insurance industry, "other insurance," consists of insurance agencies and brokerages, independent claims adjusters, and other insurance-related services, such as claims processing and investigation. The characteristics of these firms are very different than those that actually underwrite insurance policies. For one thing, they are far less concentrated. There were 1,609 firms operating in the other insurance segment in Toronto at the end of 2012, and only 11, or 0.7 per cent, of these had more than 200 employees. The benefits of scale are far less pronounced for agencies and brokerages than for insurance providers.

As well, the other insurance segment's employment performance was considerably better than that of the insurance provider segments. Between 2002 and 2012, other insurance employment rose from 13,110 to 20,650 in Toronto, an average annual increase of 4.6 per cent. A likely explanation for this is that the other insurance segment is much more local in its orientation; essentially, it is primarily providing services for the local population of Toronto. As such, the steady growth of Toronto's population over this period would support growth in the other insurance segment.

SECURITIES

Securities is the other major industry within Toronto's financial services sector. It accounted for over half of all financial services businesses in Toronto in 2012 and 18.6 per cent of the metro area's financial services employment. The industry comprises a wide variety of services, including investment banking, dealers in various types of securities, and brokerages, as well as investment advisors, portfolio managers, and trust administrators.

Securities employment in Toronto rose from 40,917 people in 2002 to 42,555 in 2012, an average annual increase of only 0.4 per cent. This is below the

6 Insurance Bureau of Canada, *Facts of the Property and Casualty Insurance Industry in Canada*.

average for the financial services sector as a whole, and as a result, the industry's share of employment in Toronto's financial sector fell from 22.3 per cent to 18.6 per cent over the past decade. The decline resulted from falling employment in the securities intermediation segment, which includes activities such as investment banking, derivatives dealing, and brokerage services. Between 2002 and 2012, employment in this segment fell from 19,642 to 15,795, an average annual decline of 2.2 per cent and the worst performance in the financial services sector.

A likely reason for the decline in segment employment was that the major commercial banks became major providers of these services,[7] thus potentially leading to a shift in securities employment to the banking industry. International competition may have also been a factor. No Canadian bank was ranked among the top 10 internationally for investment banking fees.[8] As well, RBC Capital Markets, Canada's largest investment bank, seldom ranks among the top 10 globally for specific types of investment bank services.[9]

Toronto's employment in the securities intermediation segment, which includes activities such as investment banking and brokerage services, declined between 2002 and 2012.

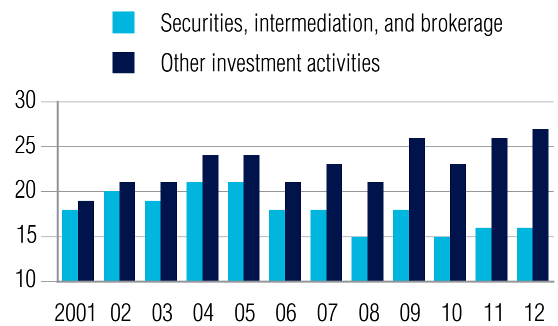
In comparison, the "other investment activities" segment, which makes up the rest of the securities industry, performed much better, averaging growth of 2.3 per cent per year over the past decade, on par with the average for the financial services sector as a whole. (See Chart 18.) This segment includes areas such as venture capital, private equity, portfolio management, and investment advice. The difference in employment growth is only one of the differences between the two segments of the securities industry.

7 Wall Street Journal, *Investment Banking Scorecard.*

8 Financial Times, *Investment Bank League Tables.*

9 RBC Capital Markets, *League Table Rankings.*

Chart 18
Securities Intermediation Employment Has Fallen
(000s)



Sources: Statistics Canada; The Conference Board of Canada.

The other investment activities segment also accounts for the vast majority of the businesses operating in the securities industry. At the end of 2012, of the 3,433 securities firms in Toronto, 3,007 were in the other investment activities segment. Of these, 79, or 2.6 per cent, had more than 200 employees. Within the segment, large firms are most common in areas such as venture capital, private equity, and portfolio management. Portfolio management includes activities such as pension and mutual fund management. Thus, the large pension and mutual fund businesses headquartered in Toronto—such as CPP Investment Board, Ontario Teachers' Pension Plan, and OMERS, as well as CI Financial, Invesco, and Fidelity Investments Canada—would be included here. Smaller firms are most common among investment advisors, where economies of scale are limited.

The securities intermediation segment had far fewer businesses, with 426, and it had an above-average degree of concentration, with 3.1 per cent of firms having more than 200 employees. The average for all industries in Toronto was only 1.2 per cent. Most of the large firms were in the investment banking and brokerages portions of the segment, where size can generate significant benefits through network effects. However, there were also many small businesses providing niche services.

BACK OFFICE OPERATIONS

Toronto's back office operations industry consists of firms that provide support services to other financial services businesses, such as transaction settlement, clearances, record maintenance, and regulatory compliance. For the purposes of this report, it also includes mortgage and loan brokers. Since the public generally does not deal directly with back office firms, the industry is less visible than other parts of the financial services sector, but it still serves an important role in facilitating financial services sector operations.

The industry has experienced significant growth in recent years. Between 2002 and 2012, industry employment rose from 3,230 to 9,714, representing average annual growth of 11.6 per cent. This was the fastest pace of growth within Toronto's financial services sector over that period. (See Chart 19.) A key reason for this may have been increased outsourcing of back office services by major financial institutions. Increasingly, many traditional back office activities—such as credit card processing and payment processing activities—must be carried out on a large scale to be efficient.[10] If financial institutions cannot achieve sufficient scale themselves, they may purchase these services from an outside firm.

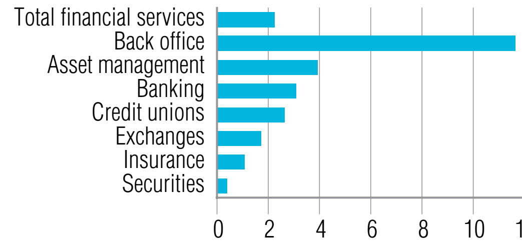
The economies of scale in traditional back office operations are apparent in Statistics Canada's business registry data. There were 344 firms operating in Toronto's back office industry at the end of 2012. The vast majority of these were small firms, with only 9 having more than 200 employees. The mortgage and loan brokers segment was the most fragmented; it accounted for 238 of the firms, but only 3 of those had more than 200 employees. In comparison, 5 of the 50 firms in the transactions processing segment (the portion most commonly thought of as back office operations) had more than 200 employees. Thus, the high concentration of large firms in transaction processing indicates significant economies of scale.

10 Freedman and Goodlet, *The Financial Services Sector.*

Chart 19

Back Office Employment Experienced the Largest Gains in the Financial Services Sector

(average annual employment growth, per cent, 2002–12)



Sources: Statistics Canada; The Conference Board of Canada.

ASSET MANAGEMENT

The asset management industry consists of funds, trusts, and other financial vehicles organized to hold portfolios of assets for the benefit of others. Major types of fund vehicles include pension, mutual, and exchange-traded funds. Because the industry captures only the investment vehicles and not the revenues associated with managing those vehicles, it tends to have low levels of direct employment. In 2012, industry employment stood at 3,016, versus 2,051 in 2002, an average annual gain of 3.9 per cent.

However, this number significantly understates the employment associated with asset management. For example, much of the employment in the "other investment activities" segment of the securities industry is associated with asset management. Employment in the other investment activities segment totalled 26,759 people in Toronto in 2012. Thus, if the other investment activities segment were included in the asset management industry, its employment would rise to 29,775.

As well, some of the employment in banks and insurance companies associated with asset management may be captured in those industries rather than in the asset management industry. For example, in a study conducted for The Investment Funds Institute of Canada, The Conference Board of Canada found that mutual fund activity directly employed 63,242 people in Canada in 2012, regardless of what type of firms was managing the funds.[11] Even if Toronto's share of the national figure was only 17.1 per cent of that figure (equivalent to Toronto's share of Canada's total employment), that would mean 10,814 jobs associated with mutual fund activity in Toronto. If we instead use Toronto's share of Canadian asset management employment (at 46.3 per cent), 28,281 jobs in Toronto would be associated with mutual fund activity. Of course, there would be additional employment associated with pension funds in the metro area.

Credit unions tend to be smaller and more locally oriented—among the 50 credit unions located in Toronto, none had more than 200 employees, and only 3 had more than 100.

Because of the way the asset management industry is defined, there are very few large companies.[12] In fact, there were only 4 businesses, among the 173 in the industry, with more than 200 employees, and they were all trusteed pension funds. At the opposite end of the spectrum, 86.7 per cent of asset management firms had fewer than 10 employees. Thus, asset management had the lowest degree of employment concentration in Toronto's financial services sector.

CREDIT UNIONS

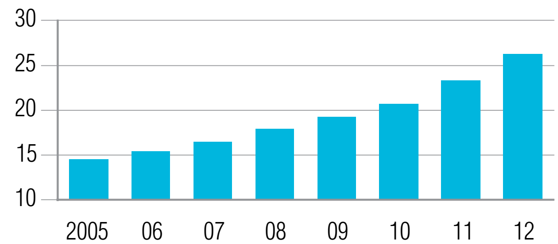
Credit unions are a specialized form of deposit-taking financial institution that use their deposits to underwrite loans. They differ from banks in the way their ownership is structured. Banks are organized as corporations, with shareholders owning the bank. Credit unions are owned by their depositors. In practical terms, this means that the motivations of credit unions may differ somewhat from those of banks. Credit unions also tend to be smaller and more locally oriented. Among the 50 credit unions located in Toronto, none had more than 200 employees and only 3 had more than 100 employees.

11 MacDonald and Antunes, *Making Dollars and Sense.*

12 See previous box "Measuring the Size of Toronto's Asset Management Industry."

The credit union industry includes both credit unions and caisses populaires. In Toronto, employment in the industry rose by an average of 3.6 per cent per year over the past decade, from 846 in 2002 to 1,200 in 2012. This was an above-average rate of growth and was reflected in the steady increase in the deposit and loan base for credit unions. For example, deposits at Ontario credit unions rose by an average of 9 per cent per year between 2005 and 2012. (See Chart 20.) Although the number of credit unions shrank, as consolidation in the industry continued, membership gradually rose. Major credit unions based in Ontario with locations in Toronto include Meridian, Alterna Savings, and Duca Financial Services.[13]

Chart 20
Ontario Credit Unions Have Continued to Grow Their Deposits
($ billions)



Source: Credit Union Central of Canada.

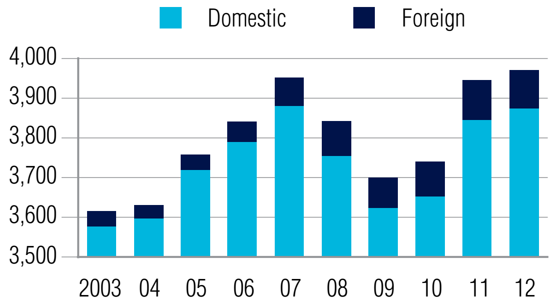
EXCHANGES

Exchanges are the smallest industry in Toronto's financial services sector; however, their role is still important. Exchanges provide the marketplaces that facilitate the trading of securities, such as stocks, bonds, and derivative contracts. Key offerings include listing services, securities trading, and the provision of market data.

The industry employed 965 people in Toronto in 2012, up modestly from where it stood in 2002, at 813. This is equivalent to an average annual gain of 1.7 per cent. This gain reflected increases in indicators of industry

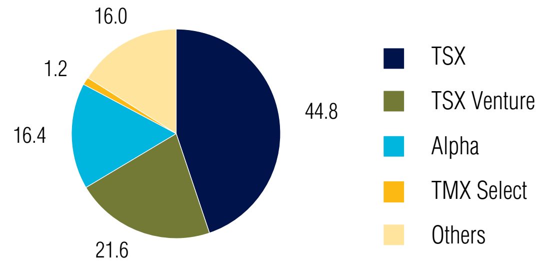
13 Credit Union Central of Canada, *Largest 100 Credit Unions.*

Chart 21
Equity Listings Rose on TMX Group Exchanges
(number)



Source: World Federation of Exchanges.

Chart 22
TMX Group Exchanges Accounted for Most of the Equity Transactions in Canada
(equity volume traded in the four quarters ended March 28, 2013, per cent)



Sources: *The Globe and Mail*; Investment Industry Regulatory Organization Canada.

demand, such as the number of listings, the number of trades, and the market capitalization of listed companies. (See Chart 21.)

The TMX Group is by far the largest exchange operator in Canada. It is headquartered in Toronto and operates several exchanges, including the three largest equity exchanges in Canada: the Toronto Stock Exchange (TSX), the TSX Venture Exchange (which focuses on small cap listings), and Alpha (an alternative equity trading marketplace). (See Chart 22.) However, there are several other exchanges in Toronto. In fact, according to Statistics Canada business registry data, there were 17 exchanges operating in Toronto in 2012, nearly all of which had fewer than 200 employees. These included operations such as CHI-X, the Canadian National Stock Exchange (CNSX), and Liquidnet Canada.

SUMMARY

Toronto's financial services sector is made up of a diverse array of industries. Banking, insurance, and securities account for much of the activity in the sector, but nearly all industries have an above-average degree of concentration in the metro area. Back office operations, banking, and the "other insurance" segment accounted for much of the growth in Toronto's financial services sector over the past decade. Small firms are common in the sector, but a number of large multinational financial institutions are headquartered in Toronto. The next chapter will examine how the presence of these large multinationals allows Toronto to compete with other major global financial centres.

Chapter 5

Comparing Toronto With Other Global Financial Centres

Chapter Summary

- Toronto is a major global financial centre. Although not in the same league as London and New York, it is a leading second-tier city on par with centres such as Frankfurt, Zurich, and Sydney.
- Toronto is home to many of the country's largest banks, life insurers, hedge fund administrators, pension funds, securities firms, mutual fund companies, and investment management firms.
- The share of employment in financial services in Toronto is actually the highest among major global financial centres. Even New York and London are less reliant on financial services than Toronto.

The global financial crisis that erupted in 2008 had a profound impact on the global financial services sector. However, the Canadian financial system survived the crisis in better shape than most. Perhaps one of the most visible indicators of this was the World Economic Forum's ranking of Canada's banking system as the world's soundest for five consecutive years, both before and after the financial crisis.[1]

1 World Economic Forum, *The Global Competitiveness Report: 2012–13*.

At the centre of Canada's financial services sector is the Toronto region. In 2012, Toronto accounted for 29 per cent of Canada's financial services employees, more than double the proportion for its closest Canadian competitor (Montréal, at 12 per cent). Toronto is home to many of the country's largest banks, life insurers, hedge fund administrators, pension funds, securities firms, mutual fund companies, and investment management firms. In addition, most foreign-based banks operating in Canada have their Canadian head offices in the Toronto region.

Toronto is also the mine financing capital of the world, with the Toronto Stock Exchange (TSX) ranking first in the world in terms of the number of mining companies listed and mining equity capital raised.[2] Well over half of the world's publicly listed mining companies are listed on the TSX. More broadly, the TSX has the seventh-largest market capitalization in the world.[3] The TSX has also been performing very well among global stock exchanges in terms of new listings. In 2012, the TSX and TSX Venture Exchange ranked first among all global exchanges, with the highest number of new listings for the fourth consecutive year. And the TSX finished third in terms of international new listings, just behind the London Stock Exchange Group and NYSE Euronext.[4]

2 Toronto Financial Services Alliance, *Toronto—Globally Connected and Growing*.

3 Pavoni, "New York Tops IFC Rankings Again."

4 TMX Group, *2012 Annual Report*.

Toronto's advantages are numerous. For example, it has a skilled, sizeable, and multicultural workforce. As well, Canada has a high degree of financial sector liberalization and solid corporate governance, further benefiting Toronto.[5] Supporting the sector is a vibrant network that includes many of Canada's top lawyers, accountants, administrators, technology firms, and academic institutions.

Canadian banks are leveraging their domestic strength to continuously increase their presence in international markets. Indeed, four of the five major Canadian banks headquartered in Toronto (RBC, TD Bank Group, Scotiabank, and Bank of Montreal) are among the 50 largest banks globally in terms of assets.[6] As well, all five of these banks now earn a significant share of their revenues outside of Canada. For example, RBC, Canada's largest bank, earned one-third of its revenues in foreign markets in 2012.[7] RBC is the second-largest bank in the English Caribbean in terms of assets, with 121 branches in 19 countries and territories, and the tenth-largest global investment bank by net revenue.[8]

Meanwhile, Scotiabank, the most internationally focused of Canada's major banks, reported that it earned 46 per cent of its income outside of Canada in 2012.[9] In Mexico alone, Scotiabank employed 11,000 people. Also in 2012, *The Banker* magazine recognized Scotiabank as the Global Bank of the Year—the first time this recognition had been given to a Canadian bank—as well as the Bank of the Year in the Americas.[10]

The major life and health insurers based in Toronto are even more globally focused than the large banks. For example, Manulife Financial ranked sixth in the world among public life insurers in terms of assets[11] and derived 71 per cent of its revenues from foreign sources.[12] Sun Life Financial has a smaller international presence, but it ranked 11th among global public life insurers and earned 54 per cent of its revenues abroad. Both companies have a long-standing international presence in both the United States and Asia.

One final area where Toronto's financial services sector stood out internationally was pension funds. The three largest funds headquartered in the region—CPP Investment Board, Ontario Teachers' Pension Plan, and OMERS—were all ranked among the top 40 pension funds in the world in terms of assets under management and all three invested internationally.[13] For example, the CPP Investment Board had 63.3 per cent of its assets outside of Canada in 39 different countries.[14] It also had employees in London and Hong Kong.

In 2012, Toronto accounted for 29 per cent of Canada's financial services employees, more than double the proportion for its closest Canadian competitor (Montréal, at 12 per cent).

But, along with these strengths, the region also has some challenges. While several major multinational financial services companies are based in the region, there may be a perception that Toronto's financial services sector is less global than it is. Indeed, a report on the Toronto financial services cluster suggests that most of Toronto's success comes from domestic markets.[15] Securities is one area in particular where Canadian success is somewhat limited on a global scale.

One potential reason for this is that foreign firms have a much stronger presence in securities than in other financial services industries; 7 of the top 10 international underwriters of Canadian companies were foreign securities firms.[16] As well, average wages in Toronto's securities industry lag behind those in places like New

5 World Economic Forum, *The Financial Development Report: 2012*.

6 Global Finance, *World's 50 Biggest Banks 2012*.

7 Royal Bank of Canada, *Royal Bank of Canada Annual Report 2012*.

8 Royal Bank of Canada, *RBC at a Glance*.

9 Scotiabank, *2012 Scotiabank Annual Report*.

10 Scotiabank, *Scotiabank Named Global Bank of the Year*.

11 Forbes.com, *The World's Biggest Public Companies*.

12 Manulife Financial, *Manulife Financial Corporation 2012 Annual Report*.

13 The Economist, "Maple Revolutionaries."

14 Canada Pension Plan Investment Board, *2013 Annual Report*.

15 Milway and others. *Assessing Toronto's Financial Services Cluster*.

16 Ibid.

York and Chicago.[17] Finally, the securities industry comprises a smaller portion of the sector in Toronto than in some other global financial centres. The result is that the smaller size and lower pay of this "marquee" industry in Toronto may be influencing perceptions of the sector as a whole.

HOW DOES TORONTO RANK GLOBALLY?

Despite the perception that Toronto is more of a regional than global financial centre, it generally ranks well compared with other global financial centres. For example, *The Banker* magazine ranked Toronto a respectable seventh, behind cities such as New York, London, and Singapore.[18] Toronto ranked eleventh in the *Global Financial Centres Index* (GFCI) conducted by Long Finance.[19] One of the reasons for Toronto's lower ranking in this report is that it was partially based on a survey of global financial services professionals and, outside of North America, respondents generally perceived Toronto as less global. Toronto is unique among major global financial centres in this regard.

If we look at other global studies that rank cities based on different indicators, we may gain some clues as to what is affecting perceptions of Toronto. For example, the Global Power City Index ranks several international cities on *magnetism*, or the "power to attract creative people and excellent companies from around the world amidst accelerated interurban competition." In the 2011 version, Toronto ranked 25th, due in large part to a lower ranking in the cultural, environment, and accessibility domains.[20] Meanwhile, financial powerhouses such as New York and London have been at the top of the rankings for the past four years. Smaller but still important global financial centres, such as Seoul, Sydney, and Zurich, also ranked ahead of Toronto. That Toronto ranked lower on magnetism definitely affected the perception of Toronto on an international scale.

Another study, the Global Cities Index, focuses on a city's influence on and integration with global markets, culture, and innovation. Coincidentally, the top financial centres also ranked at the top of the Global Cities Index. New York and London led the way, while Toronto finished in 14th place.[21] Other global financial centres—such as Tokyo, Hong Kong, Chicago, and Singapore—also ranked ahead of Toronto. Again, this is an indication that Toronto may be less globally integrated than some of the other major financial centres.

In the Global City Competitiveness Index, Toronto scored highly (second place) in terms of financial maturity (breadth and depth of the city as a financial cluster).[22] However, it fell behind on the index's global appeal indicator, which measures the presence of globally renowned institutions headquartered in the city, and its international orientation. All in all, U.S. and European cities (New York and London, especially) were at the top of the rankings. Despite the financial crisis, which hit New York and London particularly hard, these cities still have the ability to attract capital and talent. Smaller financial centres—such as Singapore, Hong Kong, Tokyo, Zurich, and Chicago—also ranked ahead of Toronto. Better performance on measures of physical and human capital, as well as environment, are the reasons these centres ranked higher in this study.

Finally, when it comes to image, once again Toronto lags behind many other global financial centres. According to KPMG's *Global Cities Investment Monitor*, New York and London had the best image on an international scale, while Toronto ranked ninth.[23] In this case, other second-tier cities—such as Hong Kong, Singapore, and Tokyo—ranked ahead of Toronto, but Toronto fared better than some others, such as Frankfurt, Sydney, and Zurich.

17 Milway and others. *Assessing Toronto's Financial Services Cluster.*

18 Pavoni, "New York Tops IFC Rankings Again."

19 Long Finance, *The Global Financial Centres Index 14*.

20 Institute for Urban Strategies, *Global Power City Index 2011*.

21 AT Kearney, *2012 Global Cities Index and Emerging Cities Outlook*.

22 Economist Intelligence Unit, *Global Cities Competitiveness Index*.

23 KPMG, *Global Cities Investment Monitor 2012*.

Taken together, these surveys indicate that Toronto consistently ranks behind other major financial centres in terms of global influence, appeal, and image. This makes it more difficult for the city to compete with larger financial centres around the globe.

UNDERSTANDING OTHER GLOBAL FINANCIAL CENTRES

To better understand Toronto's strengths as a global financial centre, we can compare it with other major finance centres around the world. We have chosen to highlight a variety of cities with different characteristics, including some that are major global players and others that are different types of regional hubs. Appendix A defines these cities, as well as the data sources used in the analysis in this chapter. The cities we will compare with Toronto include the following:

- London and New York (large global players)
- Tokyo, Singapore, and Hong Kong (strong regional hubs in Asia)
- Mumbai and Shanghai (emerging Asian hubs)
- Sao Paulo (emerging Latin American hub)
- Chicago (strong niche centre)

New York arguably remains the top financial centre in the world, and its financial services sector is very diverse and very deep. It is ranked number one on *The Banker* magazine's list of international financial centres and number two on the GFCI, after London. (See Table 3.) It is home to six major stock, commodities, and futures exchanges: the American Stock Exchange, International Securities Exchange, NASDAQ, New York Board of Trade, New York Mercantile Exchange, and New York Stock Exchange. As well, 8 of the world's top 10 securities firms have headquarters in New York.[24] A variety of large multinational banks and insurance companies are also headquartered in New York, including Citigroup and AIG. Finally, New York is a major centre for the professional services industries that support financial services, such as information technology, legal, and accounting services.

Table 3
Rankings of Global Financial Centres for Select Cities

Banker Survey		GFCI	
New York	1	London	1
London	2	New York	2
Singapore	3	Hong Kong	3
Frankfurt	4	Singapore	4
Hong Kong	5	Tokyo	5
Dubai	6	Zurich	6
Toronto	7	Boston	7
Sydney	8	Geneva	8
Amsterdam	9	Frankfurt	9
Paris	10	Seoul	10
Zurich	11	Toronto	11
Tokyo	14	Chicago	14
Chicago	15	Sydney	15
Boston	18	Shanghai	16
Geneva	19	Dubai	25
Seoul	28	Paris	29
Shanghai	37	Sao Paolo	38
Sao Paolo	46	Amsterdam	45
Mumbai	49	Mumbai	72

Sources: *The Banker*; GFCI.

Although Chicago's financial services sector is quite a bit smaller than New York's, it is the geographic centre of global derivatives trading. Over US$4 billion in global derivatives trading takes place in Chicago, which amounts to about 16 per cent of global derivatives trading.[25] This is more than New York (13 per cent) and nearly as much as all of the exchanges in Europe combined (20 per cent). Chicago is also home to some of the largest financial institutions in the U.S., including JPMorgan Chase and Allstate Insurance.

London remains the top European financial centre and continues to vie with New York for the top spot globally. In *The Banker* magazine's survey, London ranked second, while it ranked first in the GFCI. Due to its very business-friendly climate, foreign investors flock to London. Three of the United Kingdom's largest

24 *Encyclopaedia Britannica.*

25 World Business Chicago, *Economy.*

banks (Barclay's, HSBC, and Lloyds Banking Group) are headquartered there. Apart from traditional banking activities and insurance, London also thrives as a centre for foreign exchange and bond trading. The city has many trading facilities and is a hub for foreign exchange, futures, global insurance, and bonds.[26]

Hong Kong and Singapore are the leaders in Asia. In Singapore, liberalization of the domestic banking market, numerous mergers, and the expansion of foreign banks into Singapore have contributed to the success of the banking industry. However, Singapore is not just about banking. Emphasizing growth in bond markets, Singapore has matured into a key international debt-arranging hub in Asia and has emerged as a leading private banking destination for international investors.[27]

Toronto ranks seventh in *The Banker* survey and eleventh on the GFCI among global financial centres.

Meanwhile, after the 1997 handover to China, Hong Kong's economy generally maintained its laissez-faire policies, allowing its financial services sector to remain very global and very modern. It offers a breadth of services surpassed only in London and New York. Due to the economy's emphasis on growth in equity markets, Hong Kong's financial relationship with the rest of China is strong.[28] Despite the emergence of domestically oriented financial centres in China, Hong Kong's financial sector is a major financial entry and exit point for a booming greater China.

Shanghai is a rapidly expanding financial centre in mainland China but should be viewed as a complement to Hong Kong, not a competitor. Whereas Hong Kong's equity markets are well-developed, open, and competitive, Shanghai's equity markets are shallower and centrally controlled.[29,30] Shanghai and other local exchanges are mechanisms used to propel domestic economic growth, not to undermine Hong Kong's external role. However, the city still plays a prominent role in domestic bond financing, and its market for domestic equities is vibrant and growing.

Japan's financial system is largely centred on commercial banking, specialized government-owned financial institutions, and capital and money markets. In 1990, the five largest banks in the world (measured by total assets) were Japanese banks.[31] However, only one Japanese bank is now in the top 10 (Mitsubishi UFJ Financial Group), according to *The Banker* magazine's list of the top 1,000 global banks.[32] As well, a growing number of foreign banks are shrinking their operations in Japan. As a result, Tokyo's status as a financial centre is under threat. As a regional centre, it is losing ground to Hong Kong and Singapore.

Sao Paulo is the hub in Latin and South America, boasting the largest stock market in the area. Traditionally, local banks were generally under government control. However, deregulation has allowed banks to diversify into other areas.[33] As a result, Sao Paulo is home to most of Brazil's private capital and is the preferred location for the Brazilian headquarters of major industrial, commercial, and financial companies. However, the city is not yet close to being a top-level financial services provider. Sao Paulo ranked 38th on the GFCI and 46th on *The Banker* magazine's list.

Finally, Mumbai is another regional financial centre that ranks well down the lists of major global financial centres. However, Mumbai has emerged as the preferred location for financial services in India. Mumbai is home to the country's two largest stock exchanges, as well as the headquarters of many of India's major banking institutions. Many of the world's largest multinational

26 UNCSBRP, *The London Economic Plan and Major Industries*.

27 Pauly, "Hong Kong's Financial Center in a Regional and Global Context."

28 Ibid.

29 Luo, "Shanghai as an International Finance Center."

30 Pauly, "Hong Kong's Financial Center in a Regional and Global Context."

31 U.S. Library of Congress, *A Country Study: Japan*.

32 The Banker, *The Banker Top 1000 World Banks 2013 Rankings*.

33 Clark, *Sao Paulo—the Future Capital of the Southern Hemisphere*?

banking institutions now have a presence in Mumbai. As well, as one of the centres of India's information technology services industry, Mumbai is a growing global player in the provision of outsourced back office services.

COMPARING GLOBAL FINANCIAL CENTRES

According to the most recent version of the GFCI, London, New York, Hong Kong, and Singapore are the most attractive financial centres in the world. Toronto was in 11th position, behind the top four, as well as Tokyo, but ahead of Chicago.[34] Toronto also finished ahead of Mumbai, Shanghai, and Sao Paulo, which are known more as emerging financial centres. Even though Toronto was considered a broad and deep global financial centre in the report, it ranked lower than many other global centres.

From a North American perspective, the GFCI survey ranked Toronto behind New York and Boston. Although North American respondents viewed Toronto very favourably, respondents from elsewhere in the world gave it less-favourable ratings, indicating that Toronto's reach is mainly North American. Conversely, New York is viewed favourably around the globe.

However, it appears that Toronto has a good reputation and plenty of potential. Along with rising Asian centres, such as Hong Kong, Singapore, and Shanghai, the GFCI mentions Toronto as a centre that is likely to become more significant over time. It also identified Toronto as a top 10 global centre for investment management and professional services. Still, centres such as London, New York, Hong Kong, and Singapore tend to have a better reputation.

In *The Banker* magazine's survey,[35] Toronto fared better, being ranked seventh globally and second in North America, after New York. Key areas of identified strength for Toronto included high levels of outward foreign direct investment, assets under management, and new foreign listings. As well, Toronto did well in terms of stock market capitalization, business friendliness, and sector profitability.

On all of these measures, Toronto generally lagged well behind the major global financial centres. For example, total assets under management were US$6.7 trillion in New York, US$4.7 trillion in London, and only US$1.2 trillion in Toronto.[36] As well, there were just under US$7 trillion worth of international debt securities in New York versus US$745 billion in Toronto. However, if we compare Toronto with other second-tier cities, the gap is smaller. For example, in terms of assets under management, Toronto ranked behind Chicago and Sydney, on par with Amsterdam and Paris, and ahead of Boston. In terms of international debt securities, Toronto ranked behind many European centres, but that reflects the multi-country nature of the European Union. Toronto ranked ahead of all the second-tier cities outside of Europe, including major Asian centres, such as Hong Kong.

Also of note, Toronto had the third-largest stock market capitalization in North America, behind New York and Chicago. Market capitalization in New York was US$12.4 trillion, while it was US$2.0 trillion in Toronto. In terms of market capitalization, Toronto ranked behind Tokyo, London, Shanghai, Hong Kong, and even Mumbai, but it ranked above all other second-tier financial centres.

Given the difference in the results, it is clear that *The Banker* and GFCI rankings are not completely comparable. For instance, the GFCI pulls together separate sources of data, split into five categories: people, business environment, market access, infrastructure, and general competitiveness.[37] Scores from these five categories are combined with the results of a survey of global finance industry professionals to create an overall ranking. Alternatively, *The Banker* compiles financial data ranging from economic potential to business environment.[38] All in all, the rankings provided

34 Long Finance, *The Global Financial Centres Index 14*.

35 Pavoni, "New York Tops IFC Rankings Again."

36 Ibid.

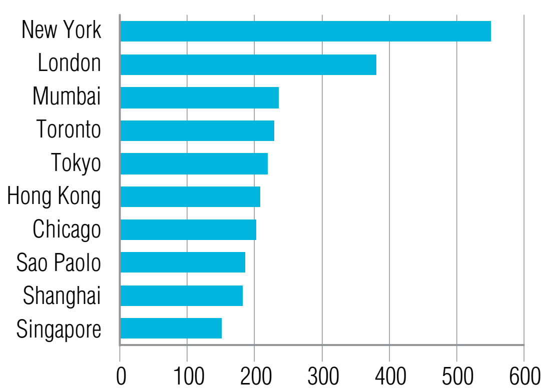
37 Long Finance, *The Global Financial Centres Index 14*.

38 Pavoni, "New York Tops IFC Rankings Again."

by *The Banker* are more data-driven, while the GFCI's also reflect survey responses. Interestingly, it is in the survey responses that Toronto loses ground in the GFCI rankings.

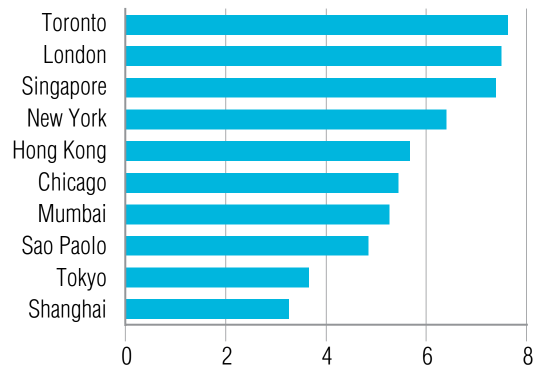
Beyond these surveys, Toronto ranked highly compared with other global financial centres in terms of employment. Indeed, 229,380 people worked in Toronto's financial services sector in 2012, meaning the city ranked fourth on this measure, behind New York, London, and Mumbai. (See Chart 23.) In terms of the sector's share of the region's employment, at 7.6 per cent, no other city among the ones considered here is ranked higher. (See Chart 24.) Thus, Toronto's proportional reliance on its financial services sector is even higher than that in major global financial centres such as London and New York, which have much larger populations.

Chart 23
Toronto Had a Significant Number of Financial Services Employees in 2012
(000s)



Sources: National statistical agencies; The Conference Board of Canada.

Chart 24
Financial Services Employment Was More Important to Toronto Than to Other Financial Centres in 2012
(share of total local employment, per cent)



Sources: National statistical agencies; The Conference Board of Canada.

SUMMARY

Toronto is a major global financial centre. Although New York and London remain the undisputed global leaders, Toronto is an important second-tier centre. It clearly ranks behind Singapore and Hong Kong but, depending on what measures are used, Toronto is part of a group of cities such as Frankfurt, Sydney, and Zurich. Certainly, all of these cities are national leaders, but they are also important global players in different portions of the financial services sector.

The last chapter of this report examines the international trade and investment performance of Canada's financial services sector. Although the international trade and investment data are national in scope, much of this activity originates in Toronto, Canada's leading financial centre.

Chapter 6

The Role of Foreign Trade and Investment in the Financial Services Sector

Chapter Summary

- Canadian exports of financial services more than doubled over the past decade. This was the best performance of any sector over this period.
- Canada is a major net exporter of financial services capital. Roughly half of the Canadian stock of outward foreign direct investment originates in the financial services sector.
- Canadian banks and life insurers generate a significant portion of their revenues from their operations outside of Canada.

Many people may think Canada's financial institutions operate only domestically. However, this is far from the reality. Many Canadian financial institutions sell services to clients abroad and some of them even have a physical presence in foreign markets, established through foreign direct investment (FDI). Doing business in international markets not only benefits the Canadian financial services sector; it also benefits the Canadian economy as a whole. Like exports of goods, exports of financial services directly contribute to economic growth and job creation in Canada. Also, sales made by Canadian financial institutions' foreign subsidiaries raise the revenues and profits of the parent companies, thus benefiting all Canadians holding shares in those institutions. Finally, having a presence abroad enhances the international reputation of Canadian financial institutions and of the Canadian financial system.

FOREIGN TRADE

When a Canadian financial institution provides services to non-residents through its Canadian operations, it is essentially providing an export, which is a source of income and job creation for Canada. In contrast to manufacturing, for which the average Canadian content of exports is 60 per cent, over 80 per cent of service exports consist of Canadian content;[1] the corresponding share for financial services exports is likely to be similar. For example, according to an estimate reported by Stephen Poloz—the current governor of the Bank of Canada—around 84 per cent of banking services exports consist of Canadian content.[2] Therefore, a large share of the economic benefits generated through financial services exports remains in Canada.

The ratio of exports to sales indicates the importance of trade. In the case of financial services, exports accounted for one-quarter of sales in 2012 ($84 billion out of $327 billion), which is well above the average

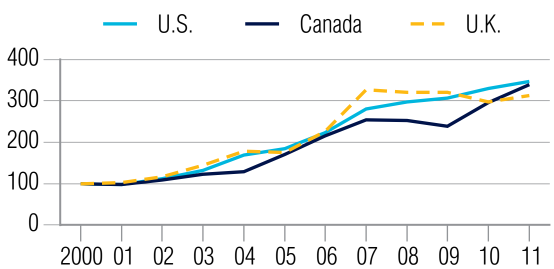
1 Vesselovsky, *Canada's State of Trade.*

2 Poloz, "Foreign Operations Benefit Banks, Canada."

for all service sectors.[3] It is likely that foreign trade supports a similar share of the sector's employment, implying that up to 200,000 financial services jobs in Canada are related to exports. Since Toronto is Canada's financial centre, it is very likely that many of these export-related jobs are found in Toronto.

Over the past decade, Canadian exports of financial services more than doubled. In fact, no other major sector in the Canadian economy experienced such a strong performance over this period. What is more, Canada's export performance compared favourably with that of the U.S. and the U.K.—two countries renowned for their competitive advantage in the financial services sector. When we convert exports for all three countries to U.S. dollars, we find that sector exports from all three countries more than tripled between 2000 and 2012. (See Chart 25.)

Chart 25
Canada's Financial Services Exports Have Kept Pace With Those of Global Leaders
(US$ value of exports index, 2000 = 100)

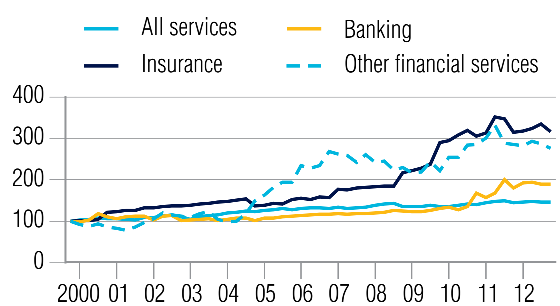


Sources: UN Service Trade Database; Statistics Canada; The Conference Board of Canada.

Exports of financial services can be split into three broad categories: banking, insurance, and other financial services. A decade ago, exports of banking services accounted for over 40 per cent of all financial services exports. Since then, however, this share has fallen to less than a third, as exports of other financial services have grown much more rapidly. Exports of other financial services, which are mainly composed of commissions and fees related to securities and asset management transactions, now account for 45 per cent of the total. By contrast, the share related to insurance exports remained relatively unchanged, averaging 22 per cent during that period.

Export growth for all three segments outperformed that of the broader services sector over the past decade. (See Chart 26.) As a result, financial services' share of total Canadian services exports rose steadily, from 6.4 per cent a decade ago to nearly 11 per cent in 2012. However, despite this robust increase in financial services exports, Canada only had a trade surplus in the banking segment. In the case of insurance services, 90 per cent of our trade deficit was caused by our imports of reinsurance services; the remaining 10 per cent was due to our trade deficit in the life and non-life insurance sub-segment. Since 2009, our trade deficit in the insurance services has deteriorated, as imports of both life and non-life insurance, and reinsurance, rose at a faster pace than exports. By contrast, in the case of other financial services, our trade deficit almost entirely vanished in the past two years. (See Chart 27.)

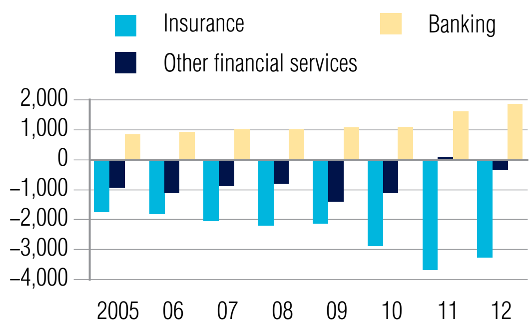
Chart 26
Financial Services Exports Have Outperformed Those of the Service Sector
(exports index, 2000 Q1 = 100)



Sources: Statistics Canada, CANSIM table 376-0108; The Conference Board of Canada.

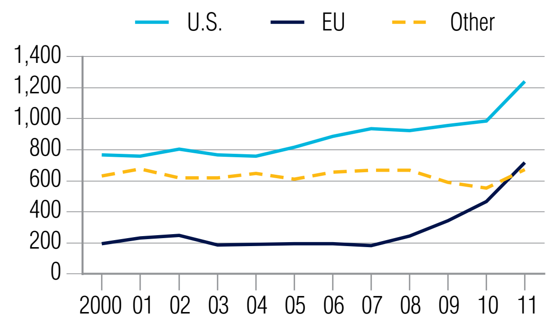
3 Calculations are based on Statistics Canada's financial data by industry and CANSIM table 376-0108.

Chart 27
Canada Has Been a Net Exporter of Banking Services
(trade balance, $ millions)



Sources: Statistics Canada, CANSIM table 376-0108; The Conference Board of Canada.

Chart 28
Banking Exports to the EU Have Surged Since 2007
($ millions)



Sources: Statistics Canada, CANSIM table 376-0033; The Conference Board of Canada.

BANKING

Banking service exports account for close to a third of total financial services exports and are mainly composed of intermediary service fees associated with letters of credit, bankers' acceptances, lines of credit, financial leasing services, and foreign exchange transactions. After remaining essentially flat for close to a decade, banking exports soared over the past three years, increasing by 44 per cent between the first quarter of 2010 and the same period in 2013. It is difficult to clearly identify the main driver behind that steep increase, since data are not available at a more detailed level. However, looking at exports by destination country offers a possible explanation.

The breakdown by destination country is only available up to 2011, just as banking exports were beginning to accelerate. We can see a rapid increase in exports of banking services to the European Union between 2008 and 2011, following the global financial crisis. In contrast, banking exports to other countries actually declined over that period. (See Chart 28.) During the global financial crisis, the European financial system came under a lot of stress, and the turbulence continued in the following years as a result of the European sovereign debt crisis. Therefore, it is likely that European banks used the services of Canadian banks to secure financing during those difficult times.

Also, a lot of banking deposits fled the EU in recent years. Between the end of 2008 and mid-2011, banking deposits in the eurozone fell by 20 per cent.[4] Therefore, given Canada's sound financial system and the fact that a large number of Canadians are of European origin, a portion of the money that left the EU might have been transferred to Canada, thus leading to increased foreign exchange transaction fees paid by non-residents to Canadian banks. Therefore, the ongoing woes affecting the European financial system might partially explain the considerable increase in banking services exports in recent years. Reduced tensions related to the European debt crisis might explain why Canadian banking services exports have remained more or less flat for the past 18 months.

INSURANCE

In 2012, insurance services accounted for almost a quarter of all financial services exports. Insurance services exports consist of premiums that Canadian insurers receive from abroad and claims that non-Canadian insurers pay to clients in Canada.[5] Therefore, only premiums that Canadian insurers receive from abroad actually contribute to Canadian insurers' revenues. However, Statistics Canada does not publish the split between those two types of exports.

4 European Central Bank, Balance Sheet Items Dataset.

5 Statistics Canada, *Estimation Methods and Data Sources*.

Also, this official definition of exports does not include sales by companies with a commercial presence abroad (that is, foreign affiliate sales). Thus, although companies such as Manulife Financial and Sun Life Financial earn over half of their revenues abroad, these foreign sales are not considered exports. However, foreign affiliate sales can actually be much larger than exports, particularly for services industries. Data on foreign affiliate sales are limited, but we know that foreign affiliate sales by non-bank financial services totalled \$62 billion in 2009.[6] In comparison, non-bank financial services exports totalled \$4.6 billion in 2009.

Life and non-life insurance exports to countries other than the U.S. and those in the EU now account for three-quarters of total life and non-life insurance exports.

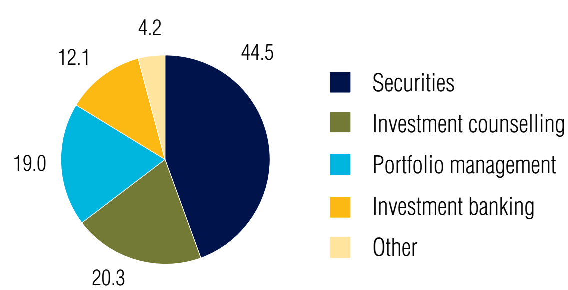
Exports of insurance services can be split into two segments: life and non-life insurance, and life and non-life insurance reinsurance. Life and non-life insurance was the fastest growing segment; its share of total insurance exports rose from 20 to 42 per cent between 2000 and 2010. Rapid growth in exports to countries other than the U.S. and those in the EU were behind this increase. Within a decade, life and non-life insurance exports to those countries grew from \$31 million to \$626 million, and now account for three-quarters of total life and non-life insurance exports.

Reinsurance exports data are split into three sub-segments: life reinsurance, reinsurance commissions, and non-life reinsurance. Canadian exports of the latter were somewhat negligible in the past decade, so the bulk of our reinsurance exports was evenly split between life reinsurance and reinsurance commissions. Exports of life reinsurance services rose at the fastest pace in the past decade. As a result, their share of total reinsurance exports increased from 30 to 45 per cent between 2000 and 2010. By contrast, reinsurance commissions remained somewhat flat through that period. As with life and non-life insurance, reinsurance commissions from countries other than the U.S. and the EU accounted for almost three-quarters of all reinsurance commissions.

OTHER FINANCIAL SERVICES

"Other financial services" are the largest segment of financial services exports. They accounted for 45 per cent of the total value of financial services exports in 2012. They mainly include commissions and fees related to transactions of securities (stocks, swaps, options, commodity futures, etc.), investment counselling, asset management, and investment banking services. (See Chart 29.) Because of their nature, exports of other financial services are much more affected by stock market fluctuations than are exports of banking and insurance services. As a result, they fell considerably between 2007 and 2009 during the global financial crisis.

Chart 29
Securities and Asset Management Accounted for Most Other Financial Services Exports in 2009
(other financial services exports, by segment, per cent)

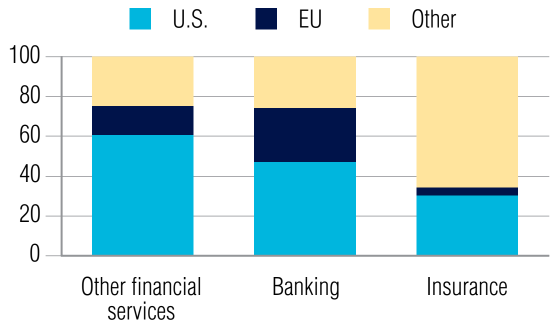


Sources: Statistics Canada, CANSIM table 381-0023; The Conference Board of Canada.

Unlike banking and insurance exports—which rely significantly on countries other than the U.S. and the EU—nearly two-thirds of other financial services transactions took place with the United States. (See Chart 30.) This is not surprising, given the concentration of securities transactions undertaken in North America by Canadian banks, mutual funds, insurers, and pension funds. As well, the Toronto Stock Exchange and the TSX Venture Exchange play a key role in securities transactions between the U.S. and Canada, especially in the mining and energy industries. And along with those two exchanges, Canada is also the home of NGX, an energy

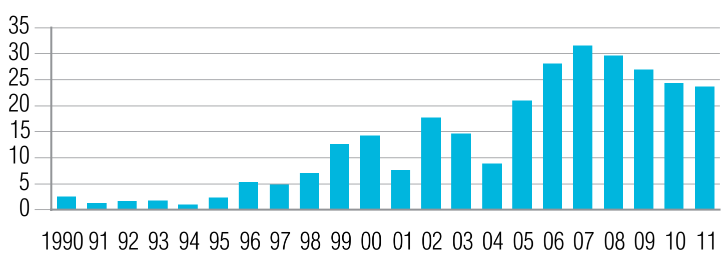
6 Foreign Affairs and International Trade Canada, *Canada's State of Trade 2012*.

Chart 30
Nearly Two-Thirds of Canadian Exports of Other Financial Services Went to the U.S. in 2011
(export share, by region, per cent)



Sources: Statistics Canada, CANSIM table 376-0033; The Conference Board of Canada.

Chart 31
Nearly One-Quarter of Other Financial Service Exports Were Transactions With U.S. Foreign Affiliates
(transactions with U.S. foreign affiliates as a share of total exports of other financial services, per cent)



Sources: Statistics Canada, CANSIM table 376-0033; The Conference Board of Canada.

exchange specializing in natural gas and electricity contracts known as "North America's largest physical clearing and settlement facility."[7] So those exchanges are key sources of transactions fees and commissions that lead to money inflows from the U.S. to Canada.

Another factor contributing to other financial services transactions with the United States are mergers and acquisitions (M&A) advisory services provided by Canadian financial services firms. For example, RBC Capital Markets was an advisor in 104 deals taking place in the United States in 2012, occupying the 15th rank among all investment banks involved in M&A deals in terms of transaction volumes.[8]

Although the U.S. is the dominant destination for exports of other financial services, exports to countries other than the U.S. and those in the EU grew the fastest. Between 2002 and 2011, they nearly quadrupled, from $266 million to $1.1 billion. Growth is likely to continue as Canadian financial institutions continue to make forays into Asian markets. For example, two Toronto-based fund managers (RBC Global Asset Management and AGF Investments) both won contracts to oversee natural resource mandates for China's National Council for Social Security Funds.[9]

Exports of other financial services also stand out in that close to 40 per cent of them consisted of transactions with foreign affiliates, as opposed to less than 20 per cent for insurance services and none in banking. The U.S. is the leading location for Canadian transactions with foreign affiliates. In fact, transactions with foreign affiliates based in the U.S. accounted for almost a quarter of exports of other financial services in 2011, up from less than 2 per cent two decades earlier. (See Chart 31.)

One of the key drivers of the volume of transactions with U.S. foreign affiliates is the growing presence of Canadian financial institutions south of the border, established through foreign direct investment. In fact, the U.S. accounted for 40 per cent of Canadian financial services' FDI stock abroad. Canadian firms need FDI to grow their operations in foreign markets. FDI also contributes to the sector's exports, since foreign affiliates generally have close ties with their headquarters' operations. The next section examines the importance of FDI to the Canadian financial services sector.

7 TMX Group, *2012 Annual Report*.

8 Bloomberg, *Global Financial Advisory Mergers and Acquisitions Rankings 2012*.

9 Investment Executive, *RBC GAM Awarded Natural Resources Mandate for China Social Security Fund*.

FOREIGN INVESTMENT

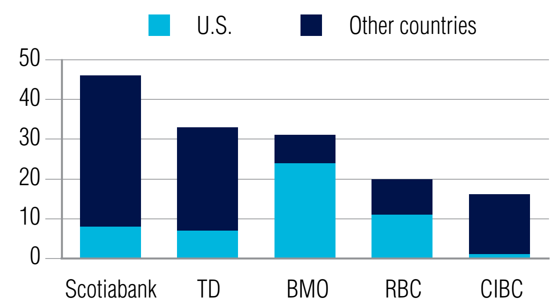
Along with selling banking, insurance, and other financial services to non-residents from their Canadian offices, several Canadian financial services firms also operate directly in international markets, through their foreign subsidiaries or affiliates. To establish those subsidiaries, Canadian firms need to undertake FDI, which "allows an investor to have a significant voice in the management of an enterprise operating outside his or her own economy."[10] Investors and companies can undertake FDI in two ways: by establishing a new company in a foreign country or by investing in an existing business through M&A. In both cases, an investment is classified as FDI if the investor owns a minimum of 10 per cent of the voting equity in the foreign enterprise.[11] Since official trade data do not capture the sales of foreign affiliates, we can look at FDI to gain insights into the overseas activities of Canada's financial institutions.

Thanks to foreign subsidiaries, Canadian financial services firms can diversify their activities and grow their customer bases and revenues. Also, foreign affiliates undertake various transactions with their headquarters, which translates into increased foreign trade in financial services. In recent years, Canadian banks and life insurers, in particular, have been extensively involved in foreign M&A to expand their presence in international markets. For example, Canadian banks alone made more than 100 acquisitions following the financial crisis.[12]

In particular, Scotiabank, which has operations in 55 countries, has continued its expansion in the Latin American market. The bank already has operations in Peru, Chile, Mexico, Brazil, and Colombia. In Mexico alone, Scotiabank employs 11,000 people in 700 branches. The bank's latest key transactions include the acquisition of a 51 per cent stake in Colombia's fifth-largest bank, Banco Colpatria, and a 51 per cent stake in Colfondos AFP, Colombia's fourth-largest pension fund.

Among other recent key transactions are BMO Financial Group's acquisition of CTC Consulting in Oregon, a firm providing investment advice to high-net-worth clients, as well as RBC Wealth Management's acquisition of the Latin American, Caribbean, and African operations of Coutts, Royal Bank of Scotland's wealth division. Overall, Canadian banks derived nearly a third of their revenues from their operations in the U.S. and other international markets in 2012. In the case of Scotiabank, this share reached 46 per cent, followed by TD with 34 per cent. (See Chart 32.)

Chart 32
Canada's Largest Banks Generated a Large Share of Their Revenues From International Operations in 2012
(share of revenues from the U.S. and other countries, per cent)



Sources: Banks' 2012 financial reports; The Conference Board of Canada.

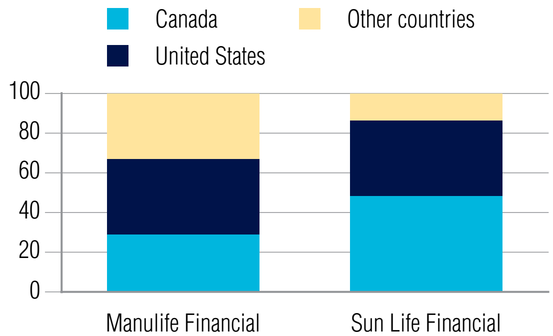
For the two main Toronto-based insurance companies with major international operations—Manulife Financial and Sun Life Financial—the share of revenues from international operations was even greater. According to their 2012 financial reports, Manulife Financial and Sun Life Financial generated 71 and 52 per cent of their revenues, respectively, from countries other than Canada. (See Chart 33.) And those revenues were not only generated in the United States. Both companies have been operating in Asia for more than 100 years. In 2012, Manulife Financial derived a third of its core earnings from this continent, compared

10 Statistics Canada, *Canada's Balance of International Payments.*

11 Ibid.

12 Pasternak and Alexander, "Canadian Banks on Hiring Spree as Global Peers Slash Jobs."

Chart 33
Over Half of Revenues Came From Outside Canada for Toronto's Largest Life Insurers in 2012
(share of revenues, by region, per cent)



Note: The revenue breakdown for Sun Life Financial excludes revenues from MFS Investment Management.
Sources: Companies' 2012 annual reports; The Conference Board of Canada.

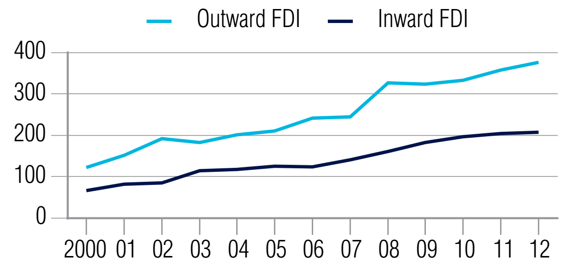
with less than 30 per cent from Canada. And Sun Life Financial is present in six Asian markets, which include 70 per cent of the total Asian population.

KEY TRENDS IN THE CANADIAN FINANCIAL SERVICES SECTOR'S FDI

To examine the evolution of Canadian financial services' FDI, we can look at Statistics Canada's data on FDI stock. Before 2012, Statistics Canada's FDI data included holding companies in the financial services sector. Those two sectors are now reported separately. But for the purpose of this section, we group FDI data for both financial services (NAICS 52) and holding companies (NAICS 55) together, and refer to the combined sector as financial and management services.[13] We do this because the financial services sector often carries out FDI through financial firms' holding companies. Over the past decade, holding companies' FDI stock averaged 25 per cent of the total for the combined financial and management services sector.

Financial and management services companies are a major driver of Canada's international investment activity. In fact, in 2012, the sector accounted for 52.8 per cent of Canada's total FDI stock abroad, up from 44 per cent a decade earlier. In addition, the sector's stocks of outward FDI have been consistently higher and have been increasing faster than the inward stocks of FDI owned by foreign financial firms in Canada. (See Chart 34.) In other words, Canada is a large and growing net exporter of financial and management services capital.

Chart 34
Canada Has Been a Large Net Exporter of Financial Services Capital
(stock of FDI for financial and management services, $ billions)



Sources: Statistics Canada, CANSIM table 376-0052; The Conference Board of Canada.

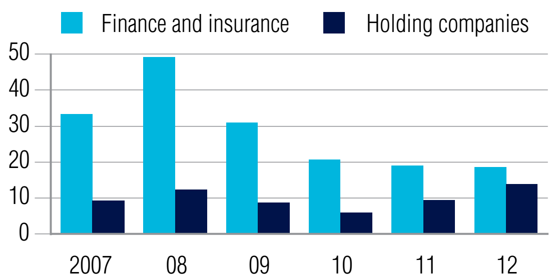
This is also apparent when we look at how Canada ranks versus other countries in terms of financial and management services investment. Between 2007 and 2011, Canada ranked in the top four globally in terms of outward FDI flows in the financial and management services sector. In addition, in 2010 (the last year for which data on FDI stock are available across countries), Canada ranked fourth—after only the U.S., Switzerland, and France—in terms of financial and management services outward FDI stock. This confirms that Canadian financial services firms are global players and are thus in a good position to invest abroad and develop their physical presence in foreign markets.

Although they are more volatile than FDI stocks, it is also useful to look at changes in FDI flows. Since the end of the global financial crisis, FDI outflows from the Canadian financial services sector have been following a different trend than those of holding companies. Therefore, it is interesting to look at them separately. Between 2007 and 2010, financial services

13 For the rest of the section, "the financial and management services sector" will refer to the combined FDI data for NAICS 52 and NAICS 55.

FDI outflows were always more than three times those of holding companies, and both fluctuated in the same direction. However, this pattern changed in 2011 and 2012. Holding company FDI outflows increased, while those of the financial services sector fell slightly. (See Chart 35.)

Chart 35
Financial Services' FDI Outflows Have Been Declining, While Those of Holding Companies Have Been Rising
($ billions)



Sources: Statistics Canada, CANSIM table 376-0122; The Conference Board of Canada.

This recent trend is not surprising, as global M&A activity in the banking industry declined significantly in the years following the global financial crisis, and Canadian financial firms were not immune. What explains this phenomenon, when many banks in the developed world are still having financial difficulties and could be easy targets for foreign acquisitions? According to PwC, the main factor behind the fall in banking M&A deals was the rapidly changing regulatory environment.[14]

To prevent a financial crisis like the recent one from occurring again, several countries extensively changed their financial regulations. For example, two years ago, member countries of the Basel Committee on Banking Supervision adopted Basel III, a regulatory standard increasing banks' capital requirements. Therefore, banks are now a lot more cautious when making foreign investments, due to the unpredictable impact of regulatory change on their operations. PWC expects this regulatory pressure on banks to be the new norm, resulting in fewer M&A deals in the financial sector than before the crisis.[15]

SUMMARY

The Canadian financial services sector's international operations contribute to economic growth and job creation in Canada. Canadian exports of financial services more than doubled over the past decade, on par with the increases recorded in the U.S. and the U.K., home to the two largest financial centres in the world. Moreover, exports of all three industry segments (banking, insurance, and other financial services) grew faster than total services exports. And, in the case of banking exports, Canada saw its trade balance rise significantly in recent years, reaching close to $2 billion in 2012.

Along with selling services to non-residents from their Canadian offices, the industry also does business directly in foreign markets, through foreign affiliates and subsidiaries. On average, the five largest Canadian banks generate nearly a third of their revenues from markets other than Canada, and this share is well above 50 per cent for Manulife Financial and Sun Life Financial. Moreover, the financial services industry has been extensively involved in international M&A in recent years, making Canada a large and growing net exporter of financial and management services capital.

14 PwC, *The Journal—Brave New World.*

15 Ibid.

Chapter 7

Conclusion

Chapter Summary

- Toronto is Canada's dominant financial centre, and the metro area ranks among the largest financial centres in the world.
- Toronto's financial services sector supports significant economic and fiscal effects, both locally and across the country.
- Canada is a major net exporter of financial services capital and has witnessed strong growth in financial services exports over the past decade. Not all of this trade originates in Toronto, but Toronto has been a major part of this growth.
- Toronto is a major second-tier global financial centre and is part of a group of cities such as Frankfurt, Sydney, and Zurich.

Toronto is Canada's dominant financial centre, and the metro area ranks among the largest financial centres in the world. As a result, the sector is a major contributor to the local economy. Financial services directly accounted for 7.6 per cent of the metro area's employment and 13.8 per cent of its GDP in 2012. In addition to 229,380 direct jobs, the sector supported another 97,070 jobs in the metro area through its indirect or supply-chain effects, bringing its total share of the region's employment to 10.8 per cent. Finally, we estimate that the sector contributed $251 million to the City of Toronto's budget, equivalent to 2.2 per cent of the city's total revenues. Only a handful of other sectors, such as public services and manufacturing, had such a large impact on the metro area's economy.

In addition to the local effects, Toronto's financial services sector also generated economic benefits for the rest of Ontario and Canada. For example, Toronto's financial services sector supported a total of 389,950 jobs in Ontario, equivalent to 5.7 per cent of the province's total employment. As well, the sector generated $5.7 billion in fiscal benefits for the province, equivalent to 5 per cent of Ontario's total revenues.

Nationally, the employment impact of Toronto's financial services sector totalled 420,590, equivalent to 2.4 per cent of national employment. In addition, the sector's economic activity generated $6.8 billion in federal government revenues, equivalent to 2.7 per cent of the total federal budget. Finally, over the past decade, when Canada's export performance was weak, Canada's exports of financial services more than doubled. Not all of this trade originated in Toronto, but as Canada's leading financial centre and as the home of many of Canada's largest multinational financial institutions, Toronto played a major part in this growth.

The economic implications of the sector are founded on its core strengths. These include its diversity, with nearly every major financial services industry having an above-average presence in Toronto, and its scale, with nearly one in three Canadian financial services employees working in Toronto. As well, Toronto is the headquarters for 4 of the world's 50 largest banks, 2 of the world's 15 largest life and health insurers, a top 10 global equity market, and 3 of the world's 40 largest pension funds. Finally, the sector has structural strengths, such as its skilled and sizeable workforce, and a well-regarded banking system and regulatory system, as reflected in the fact that the World Economic Forum named Canada's banking system the world's soundest for five consecutive years.

Although Toronto's financial services sector has an important and growing global footprint, policy-makers and sector institutions should not become complacent.

However, despite these strengths, some may perceive Toronto's financial services sector as more of a regional than a global player. Much of this may be driven by Toronto's securities industry. Its importance in Toronto is smaller than that in some other major global financial centres, and foreign companies play a much larger role in this industry than in any of the others in Toronto's financial sector. Add the fact that securities is a more internationally focused industry than others in the broader financial sector, and that it is a marquee industry due to the very high wages it pays, and one can see how the perceptions of this industry may be erroneously applied to the whole sector.

The truth is that Toronto is a major global financial centre. Although New York and London remain the undisputed global leaders, Toronto is an important second-tier centre. It clearly ranks behind Singapore and Hong Kong, but depending on what measures are used, Toronto is part of a group of cities such as Frankfurt, Sydney, and Zurich. Certainly all of these cities are national leaders, but they are also important global players in different portions of the financial services sector.

The importance of financial services in the way Canada relates to the world is most apparent when we look at the data on foreign direct investment. Canada is a large net exporter of financial services capital. It consistently ranks among the top four countries globally in terms of outward FDI. As well, financial services and holding companies combined accounted for 52.8 per cent of Canada's total stock of outward FDI in 2012.

Although Toronto's financial services sector has an important and growing global footprint, policy-makers and the institutions that make up the sector should not become complacent. Financial services is a high-paying sector that many countries are trying to further develop. This is shown by the growing importance of financial centres in emerging markets, such as Dubai, Shanghai, Sao Paulo, and Mumbai. Understanding and leveraging Toronto's strengths are the keys to meeting this challenge.

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Appendix A

Data Definitions

To conduct the analysis in this report, we needed to define both the regions we would include and the industries we would cover. This appendix provides additional details on how we defined financial services industries in the report. As well, we discuss the definitions and sources for the metro area employment data we used when comparing global financial centres.

INDUSTRY DEFINITIONS

As discussed in the introduction of the report, we define the financial services sector as North American Industry Classification System (NAICS) code 52.[1] The NAICS codes were developed by the statistical agencies of Canada, Mexico, and the United States. They provide common definitions of the industrial structure of the three countries and a common statistical framework to facilitate analysis of the three economies. NAICS is based on production-oriented principles. We use the Statistics Canada definition of the sector since it provides a wealth of indicators that allow us to analyze the sector's performance.

In this report, we divided the financial services sector into seven industries, each with component segments. The definitions of each of the seven industries follow.

Banking: As defined, the banking industry covers all credit intermediation activities, whether conducted by deposit-taking or non-deposit-taking institutions. Credit intermediation refers primarily to the lending of funds raised from depositors or by issuing debt. The only exclusion is credit unions, which we categorize as a separate industry. We also include central bank activity in the banking industry. More specifically, the following NAICS codes are included in the industry:

- NAICS 521—Central Banking
- NAICS 52211—Banking
- NAICS 52219—Other Depository Credit Intermediation (excludes credit unions)
- NAICS 5222—Non-Depository Credit Intermediation (includes firms such as credit card issuers, sales financing companies, payday loan businesses, and pawnbrokers)

Credit unions: Credit unions are a specialized form of deposit-taking credit intermediation organization. The key distinction between credit unions and traditional banks is ownership; credit unions are owned by their depositors, while banks are organized as corporations and are owned by their shareholders. In this report, we define credit unions as NAICS 52213.

Back office operations: Back office firms provide services that are closely related to credit intermediation but do not act as intermediaries. Key industry activities include mortgage and loan broker services, transaction processing, and clearing house services. In this report, the back office industry is defined as NAICS 5223.

1 For a formal definition of the sector, see http://stds.statcan.gc.ca/naics-scian/2007/ts-rt-eng.asp?criteria=52.

Securities: The securities industry comprises establishments primarily engaged in putting capital at risk to underwrite securities issues or to make markets for securities and commodities; acting as intermediaries between buyers and sellers of securities; facilitating the marketing of financial contracts; managing portfolios of securities; and providing investment advice, trust, fiduciary, custody, and other investment services. There are two broad segments in the industry:

- NAICS 5231—Securities and Commodities Intermediation and Brokerage
- NAICS 5239—Other Financial Investment Activities (including portfolio management, investment advice, and venture capital and private equity firms)

Exchanges: Exchanges are primarily engaged in providing marketplaces and mechanisms to facilitate the buying and selling of stocks, stock options, bonds, or commodity contracts. In this report, the industry is defined as NAICS 5232.

Insurance: The insurance industry includes both insurance carriers (businesses that are primarily engaged in underwriting annuities and insurance policies and in reinsurance) and other insurance activities (businesses such as agencies, brokerages, and independent claims adjustors). The insurance carrier business is commonly divided further between providers of life and health insurance and providers of property and casualty insurance. In this report, we define insurance as NAICS 524. Where possible, we further subdivide the industry in the following way:

- Life and Health Insurance and Reinsurance (NAICS 52411, 524131, 524132)
- Property and Casualty Insurance and Reinsurance (NAICS 52412, 524133, 524134, 524135, 524139)
- Other Insurance Activities (NAICS 5242)

Asset management: We define asset management as NAICS 526, which comprises funds, trusts, and other financial vehicles organized to hold portfolio assets for the benefit of others. These entities earn interest, dividends, and other property income, but have little or no employment and no revenues from the sale of services. The value associated with managing these funds is captured in NAICS 52392 (portfolio management), which we define as part of the securities industry.

CITY DEFINITIONS

We compare Toronto with nine other global financial centres in the report in a variety of ways. Of course, when we look at factors such as employment in each region, it is important to understand how those regions are defined. The definitions of the regions and their sources are provided below.

Toronto: In this report, we use Statistics Canada's census metropolitan area (CMA) definition to describe Toronto unless otherwise noted. The CMA includes Metro Toronto, York, Peel, Halton (except Burlington), Pickering, Ajax, Uxbridge, and several smaller municipalities north of York. The definition is based on commuting patterns in the metro area. The employment data we report for Toronto come from Statistics Canada's Labour Force Survey.

New York and Chicago: For the U.S. metro areas in this report, we use employment data produced by the U.S. Bureau of Labor Statistics for the New York and Chicago metropolitan statistical areas (MSAs). The U.S. data have a high degree of compatibility with the Canadian data. MSA definitions are also based on commuting patterns, and both countries use the NAICS system for industry data.

London: London employment data come from the Labour Force Survey compiled by the U.K. Office for National Statistics. London's boundaries are defined using the first level of the Nomenclature of Territorial Units for Statistics (NUTS), which includes the city of London and 32 boroughs. Also known as Greater London, it is smaller than the London metropolitan area.

Tokyo: Employment data for Tokyo are taken from the 2010 Census of Japan, covering the entire Tokyo prefecture, also known as the Greater Tokyo area. This area is larger than the city of Tokyo but smaller than the vast Tokyo metropolitan area.

Shanghai: Employment data for Shanghai come from the 2012 version of the Shanghai Statistical Yearbook. The region the yearbook covers is commonly referred to as the Shanghai Municipality and generally covers only the urban portion of Shanghai.

Hong Kong: The Census and Statistics Department continues to publish employment data for the Government of the Hong Kong Special Administrative Region. The boundaries of Hong Kong are identical to the classic city-state boundaries before the region's handover to China and include Hong Kong Island, Lantau Island, numerous smaller islands, and the New Territories.

Singapore: Employment data for Singapore also cover the entire city-state, which is heavily urbanized. The data are published in the Yearbook of Statistics Singapore 2012.

Sao Paulo: Brazil's 2010 Census, available from the Instituto Brasileiro de Geografia e Estatística, includes employment data for Sao Paulo city proper. More generally known as the Municipality of Sao Paulo, it is smaller than the Sao Paulo metropolitan area.

Mumbai: It is very difficult to find city-level data in India. As a result, two reports were used to estimate employment by sector in Mumbai. The first is *Employment Situation in Mumbai: An Analysis* by D.P. Singh, and the second is *Employment and Unemployment Situation in India*, released by the Government of India's Ministry of Statistics and Programme Implementation. The data were estimated for the Metropolitan City of Mumbai, which is smaller than the metropolitan area of Mumbai.

Appendix B

Data Tables

Table 1
Toronto Financial Services Employment, by Industry

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average annual growth (2002–12, %)	Share of Toronto's financial services employment (%) 2002	2012
Total financial services	183,680	179,780	192,050	207,830	218,860	211,420	221,290	228,220	220,680	222,380	229,380	2.2	100.0	100.0
Banking	87,053	88,688	87,126	98,789	112,385	103,867	114,263	113,782	117,917	108,939	117,650	3.1	47.4	51.3
Credit unions	846	885	941	975	1,016	1,067	1,097	1,094	1,128	1,164	1,200	3.6	0.5	0.5
Insurance	48,770	43,470	51,900	54,220	55,830	54,530	57,790	57,940	51,520	57,740	54,280	1.1	26.6	23.7
Property and casualty insurers	25,009	22,435	25,886	22,127	23,473	26,173	26,713	27,716	25,921	27,744	23,585	–0.6	13.6	10.3
Life and health insurers	10,651	9,555	11,024	9,423	9,997	11,147	11,377	11,804	11,039	11,816	10,045	–0.6	5.8	4.4
Other insurance	13,110	11,480	14,990	22,670	22,360	17,210	19,700	18,420	14,560	18,180	20,650	4.6	7.1	9.0
Asset management	2,051	1,953	2,030	2,138	2,191	2,265	2,517	2,738	2,778	2,924	3,016	3.9	1.1	1.3
Securities	40,917	40,028	44,661	44,996	39,358	41,651	36,466	43,138	37,220	41,831	42,555	0.4	22.3	18.6
Securities intermediation and brokerage	19,642	18,996	20,948	20,857	18,027	18,395	15,491	17,577	14,501	15,527	15,795	–2.2	10.7	6.9
Other investment activities	21,275	21,032	23,713	24,138	21,331	23,256	20,975	25,561	22,719	26,304	26,759	2.3	11.6	11.7
Exchanges	813	742	769	714	572	669	644	832	780	949	965	1.7	0.4	0.4
Back office	3,230	4,014	4,623	5,998	7,508	7,371	8,513	8,696	9,337	8,833	9,714	11.6	1.8	4.2

Sources: Statistics Canada; The Conference Board of Canada.

Table 2
Number of Firms Operating in Toronto, by Employment Size

	Number of enterprises, by employment size						Share of enterprises (%)				
	Total	1–9	10–19	20–99	100–199	200+	1–9	10–19	20–99	100–199	200+
All industries	171,082	136,710	15,747	14,631	2,000	1,994	79.9	9.2	8.6	1.2	1.2
All financial services	6,272	5,020	465	512	105	170	80.0	7.4	8.2	1.7	2.7
Banking	469	340	35	51	16	27	72.5	7.5	10.9	3.4	5.8
Depository credit intermediation	64	18	2	19	9	16	28.1	3.1	29.7	14.1	25.0
Credit card issuers, sales financing, consumer lending	117	81	11	14	3	8	69.2	9.4	12.0	2.6	6.8
All other banking	288	241	22	18	4	3	83.7	7.6	6.3	1.4	1.0
Credit unions	50	17	15	15	3	0	34.0	30.0	30.0	6.0	0.0
Insurance	1,786	1,421	152	155	23	35	79.6	8.5	8.7	1.3	2.0
Life and health insurers	58	32	7	6	6	7	55.2	12.1	10.3	10.3	12.1
Property and casualty insurers	119	53	13	25	11	17	44.5	10.9	21.0	9.2	14.3
Other insurers	1,609	1,336	132	124	6	11	83.0	8.2	7.7	0.4	0.7
Asset management	173	150	8	7	4	4	86.7	4.6	4.0	2.3	2.3
Securities	3,433	2,801	232	255	53	92	81.6	6.8	7.4	1.5	2.7
Securities intermediation and brokerage	426	300	45	57	11	13	70.4	10.6	13.4	2.6	3.1
Other investment activities	3,007	2,501	187	198	42	79	83.2	6.2	6.6	1.4	2.6
Exchanges	17	10	0	3	1	3	58.8	0.0	17.6	5.9	17.6
Back office	344	281	23	26	5	9	81.7	6.7	7.6	1.5	2.6

Sources: Statistics Canada; The Conference Board of Canada.

Appendix C

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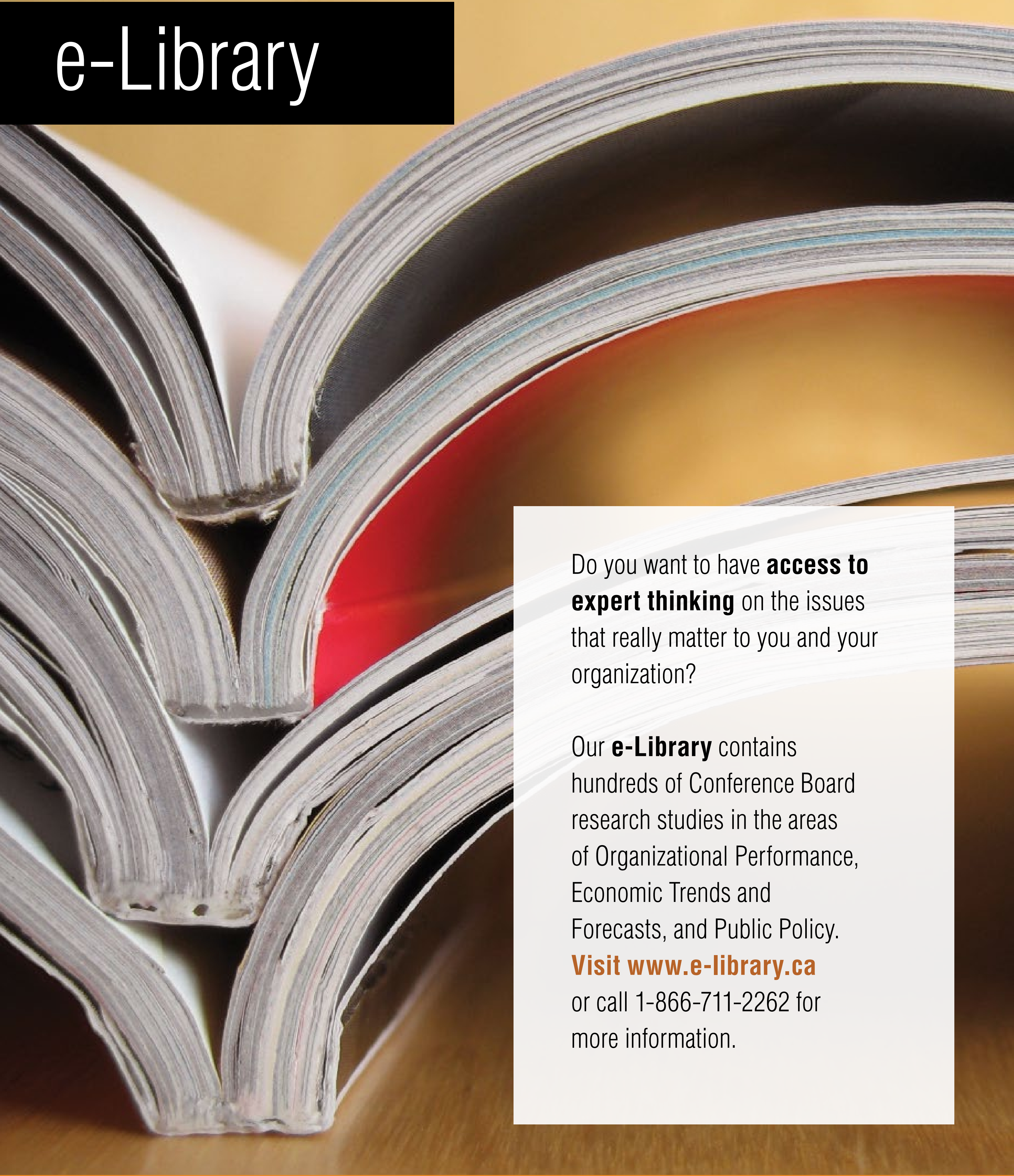

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