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# Partners in Growth.

2017 Report Card on Canada and Toronto's Financial Services Sector



## **Partners in Growth: 2017 Report Card on Canada and Toronto's Financial Services Sector**

Michael Burt and Richard Forbes

### **Preface**

Financial services are a critical component of the Canadian economy. The sector directly accounted for 4.5 per cent of Canadian employment and 7.2 per cent of GDP in 2016 and has been a source of growth for Canada in recent years. This report examines how the financial services sector supports small and medium-sized enterprises in Canada. The report also considers the sector's international trade and investment performance. Finally, Toronto's role in Canada's financial services sector is assessed. This includes examining the sector's importance to Toronto's economy, as well as how Toronto compares with other international financial centres.

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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

# Partners in Growth: 2017 Report Card on Canada and Toronto's Financial Services Sector

### At a Glance

- Small and medium-sized enterprises (SMEs) are the backbone of the Canadian economy and rely on financial institutions for an array of services. The financial services sector is a key part of SMEs fully realizing their potential.
- Financial services are a large and growing part of Canada's international trade and investment profile. They are Canada's largest and fastest-growing services export category and account for 48 per cent of Canada's stock of outward foreign direct investment.
- Toronto is Canada's leading financial centre and its relative importance in Canada has grown.
- Toronto ranks highly relative to other global financial centres. For example, the Global Financial Centres Index ranked Toronto's financial sector seventh in the world.

**Financial services are a critical component of the Canadian economy. The sector directly accounted for 4.5 per cent of Canadian employment in 2016, at 808,100 jobs, and 7.2 per cent of Canadian GDP. What is more, the sector has been a source of growth for Canada in recent years. For example, sector employment has risen by 10.5 per cent since 2006; only a handful of sectors, such as mining, oil, and gas; health care; and professional services, have experienced stronger growth.**

But the sector's role goes well beyond the jobs it supports and the GDP it generates. A well-functioning financial services sector is a critical ingredient in a successful economy, as it links the economy together in a unique way. Financial services are a necessary input for every single business across the country and are used by essentially every adult individual. Only a few other sectors, such as telecommunications and transportation, have the same impact on the day-to-day functioning of the economy.

Given the importance of the sector, the purpose of this report is threefold. First, we examine the role of the sector in enabling the growth and prosperity of SMEs. These businesses are core drivers of employment and economic growth. Second, we consider the sector's international trade and investment performance. Finally, we assess Toronto's role in Canada's financial services sector. This includes examining the sector's importance to Toronto's economy, as well as how Toronto compares to other international financial centres.

## **Financial Services' Role Among SMEs**

SMEs comprise 99.7 per cent of all businesses in Canada and are often considered to be the backbone of the Canadian economy. Much of Canada's reputation as a global leader in innovation is attributed to the opportunity that SMEs are given to prosper here. Financial institutions

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Financial firms play a critical role in helping SMEs raise the capital they need.

are often a key part of the successful exploitation of the opportunities that Canadian SMEs represent.

First and foremost, financial firms play a critical role in helping SMEs raise the capital they need for day-to-day operations and growth-oriented investment. Debt is the most common way for SMEs to raise the capital they need, with credit cards and lines of credit being the instruments most commonly used to fund working capital and purchase needed machinery and equipment. Available credit for SMEs has steadily expanded in recent years, reaching \$243 billion at the end of 2016.

Although equity financing is far less frequently sought by SMEs, the amounts raised tend to be much larger. Financial institutions often play a role in facilitating the transaction when firms seek to raise equity, and they may themselves take equity stakes in firms. Combined, private equity, the TSX venture exchange, and venture capital supplied \$21 billion in equity financing to Canadian SMEs in 2016. In addition, although the values are much smaller, angel investing and crowdfunding are other forms of equity financing for SMEs that are growing in importance.

Insurance products are also important, as they help SMEs to assess and mitigate their risks. Beyond standard property and liability products, there are a variety of products, such as professional liability, crop, and business continuity insurance, that are more likely to be used by SMEs. As well, benefits provided by insurance firms, such as life and health insurance, and group RRSPs assist SMEs in attracting and retaining the workers they need.

Financial institutions also provide other services beyond the core banking and insurance offerings. Transaction processing, trade facilitation, hedging, and succession planning are examples of other services that are important to SMEs. Ultimately, these activities are about helping SMEs to be successful by expanding their markets, reducing their volatility, and managing their costs.

## Trade and Investment Performance

Financial services are a large and growing part of Canada's international trade and investment profile. The principal means by which Canadian financial institutions expand their international footprint is by undertaking investments to establish foreign affiliates. In fact, 48 per cent of Canada's stock of outward foreign direct investment (FDI) is attributable to the financial services sector. At \$505 billion in 2016, Canada's stock of financial services outward FDI has more than doubled since 2006 and is now more than twice as large as our inward stock. In other words, Canada is a large and growing net exporter of financial services capital.

As a result of these investments, Canada's financial services foreign affiliate sales have steadily grown; they now account for 18 per cent of Canada's total foreign affiliate sales. At \$95 billion in 2014—the most recent year with available data—the sector's foreign affiliate sales were about 10 times the size of its exports. However, the sector's exports have also grown significantly, more than doubling in the past decade and driven in large part by “other financial services,” which include items such as securities issuance and trading and asset management services. In fact, financial services are Canada's largest and fastest-growing services export category.

## Toronto's Role in Canada's Financial Services Sector

Toronto is the major hub for financial services in Canada. For example, the metro area accounts for 33.7 per cent of Canada's financial services employment. What is more, the sector has become more concentrated in Toronto over the past decade. As a result, at 272,280 employees, the sector directly accounts for 8.5 per cent of the metro area's employment and 13.8 per cent of its GDP. Only the public services sector has a larger GDP footprint in Toronto.

In addition to the direct impacts that financial services have on Toronto's economy, the sector generates secondary (or indirect) and fiscal impacts. For example, the sector supports another 226,940 indirect jobs, with 115,224 of those occurring in Toronto and the rest occurring elsewhere



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Toronto is highly ranked among other major global financial centres.

in Canada. Key industries that indirectly benefit in Toronto include consulting, accounting, legal services, and computer services. As well, Toronto's financial services sector generated a combined \$18.1 billion in fiscal benefits in 2016 for the Canadian, Ontario, and City of Toronto governments.

Toronto's role as Canada's major financial services hub is reinforced by the results of global rankings such as *The Banker* magazine's list of top global financial centres, which ranks Toronto eighth in the world, and the Global Financial Centres Index, which ranks Toronto seventh. Key strengths identified for Toronto include its reputational strength, its human capital, and its government and regulatory components. Toronto is also highly ranked among other major global financial centres in terms of the number of people who work in financial services, the share of the region's employment that depends on financial services, and the growth of the sector.



## CHAPTER 1

# Introduction

### Chapter Summary

- Canada's financial services sector has been a source of growth for the economy over the past decade; it now directly accounts for 808,100 jobs and 7.2 per cent of GDP in Canada.
- In addition, a well-functioning financial services sector is a critical ingredient in a successful economy. It links the economy together in a unique way.
- Toronto is Canada's largest and dominant financial centre. The metro area accounts for one-third of the sector's employment and 37.8 per cent of its GDP.

**Financial services are a critical component of the Canadian economy. For example, the sector directly accounted for 4.5 per cent of Canadian employment in 2016, at 808,100 jobs,<sup>1</sup> and 7.2 per cent of Canadian GDP.<sup>2</sup> What is more, the sector has been a source of growth for Canada in recent years. For example, sector employment has risen by 10.5 per cent since 2006. In terms of GDP, the sector's growth has been even stronger, rising by 28 per cent over the same period, nearly double the average for the Canadian economy.**

But the sector's role goes well beyond the jobs it supports and the GDP it generates. A well-functioning financial services sector is a critical ingredient in a successful economy. Key functions that the sector provides that essentially all consumers and business require include access to credit, transaction processing, and risk management services. Without these services, a modern, dynamic, and resilient economy is impossible.

Thus, the financial services sector links the economy together in a unique way. Financial services are a necessary input for every single business across the country and are used by essentially every adult individual. Only a handful of other sectors, such as telecommunications and transportation, have the same impact on the day-to-day functioning of the economy.

Within Canada's financial services sector, Toronto plays an important role. This is reflected in the fact that the metro area accounts for 33.7 per cent of Canada's financial services employment, and an even larger share of the sector's headquarters employment. Indeed, Toronto comprised 43 per cent of Canada's financial services headquarters employment in 2012—the latest year with available data. For both

1 See Statistics Canada, CANSIM table 282-0008. In this report the financial services sector is defined as NAICS 52 unless otherwise noted.

2 See Statistics Canada, CANSIM table 379-0031.

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The depth and diversity of Toronto's financial sector and its international success are reflected in its high ranking.

measures, these shares are more than twice as large as the next metro area in Canada. Financial services are also an integral part of Toronto's economy; the sector directly accounts for about one out of every 12 jobs in the Toronto metro area. As well, the sector indirectly supports activity in a variety of other sectors, locally and across Canada.

The depth and diversity of Toronto's financial sector and its international success are reflected in its high ranking on international league tables for financial centres, such as those produced by *The Banker* and the Global Financial Centres Index. As well, among all 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.

This is The Conference Board of Canada's fifth annual report card about Toronto's financial sector.<sup>3</sup> The purpose of the report is threefold. First, we examine the role of the sector in enabling the growth and prosperity of Canada's small and medium-sized enterprises (SMEs). Second, we consider the sector's international trade and investment performance. Finally, we update our annual scorecard on the performance of Toronto's financial services sector. The scorecard looks at the role of the sector in Toronto's economy as well as how Toronto compares to other international financial centres.

To achieve these objectives, we consider information from a variety of sources. Many of these are external data sets or surveys from government or private organizations. However, in this report we also reference the results of a survey conducted in the spring of 2016 as part of the report *Stronger Together: The Strengths of Canada's Four Global Financial Centres*.<sup>4</sup> In this survey 112 individuals provided input on the major strengths and significance of Canada's four major financial centres.

3 For the 2016 report, see Burt, *An Engine for Growth*.

4 Crawford and Renner, *Stronger Together*.

## CHAPTER 2

# Financial Services' Role Among SMEs

### Chapter Summary

- The financial services sector provides many services to SMEs. In addition to the core services of banking and insurance, key services include transaction processing, trade facilitation, and asset management.
- Debt financing is one of the most common ways that financial institutions help SMEs. Available credit for SMEs has steadily expanded, reaching \$243 billion in 2016.
- Although equity financing is less frequently sought by SMEs, private equity, the TSX venture exchange, and venture capital combined supplied \$21 billion in equity financing to Canadian SMEs in 2016.
- Insurance is an essential way for SMEs to mitigate risks. Property and casualty insurance payments provide billions of dollars of benefits annually, and health and pension benefits provided by insurers are key to attracting and retaining employees.

**The services that Canada’s financial services sector provides are a key part of allowing all businesses to grow and prosper. However, because of their limited scale, small and medium-sized enterprises often require additional services from the sector. Where SMEs are in their life cycle can also lead to further needs.**

Defined as companies that have fewer than 500 employees, SMEs comprise 99.7 per cent of all businesses in Canada and are often considered to be the backbone of the Canadian economy. Much of Canada’s reputation as a global leader in innovation is attributed to the opportunity that SMEs have to prosper.<sup>1</sup> However, financial institutions are often a key part of the successful exploitation of the opportunities that Canadian SMEs represent.

First and foremost, SMEs often use financing from the sector for a variety of activities related to operating their business. This financing can be broadly categorized into either debt or equity financing, and financial institutions can play a role in providing private firms directly with financing or facilitating the provision of capital from third parties.

Another key service that financial institutions provide to SMEs is insurance. Insurance products allow firms to mitigate risk from damages and loss of business while reducing liability. In addition to coverage for property, benefits provided by insurance firms, such as medical coverage and life insurance, often play an important role in attracting and retaining employees, enabling SMEs to be competitive.

Beyond the core banking and insurance functions, the financial services sector supports SMEs in other ways. These can range from mitigating market risk by providing access to derivatives, to other employee benefits like group RRSPs, to management mentoring from venture capitalists

<sup>1</sup> Canada ranked 18th in the 2017 Global Innovation Index rankings and routinely ranks in the top 20. For more information, see [globalinnovationindex.org](http://globalinnovationindex.org).

and succession planning for owner/operators who are looking to sell their business or retire. The rest of this chapter discusses these issues in more detail.

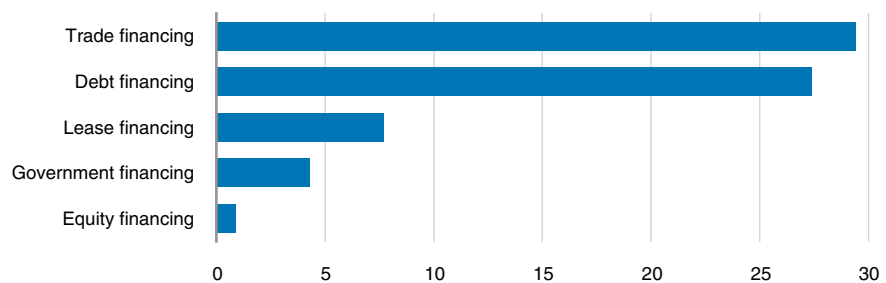
## Debt Financing

Aside from simple services like bank accounts, which almost all businesses need, debt financing is perhaps the most common way that SMEs interact with their financial institutions. For example, Statistics Canada's most recent survey about SME financing found that 51.3 per cent of SMEs requested some sort of external financing, and of those, more than half requested debt financing.<sup>2</sup> (See Chart 1.) High-growth firms (HGFs)—those with sales growth of 20 per cent or more per year—were particularly likely to request debt financing, at 43.3 per cent. As such, access to sufficient credit is an important factor supporting the growth of these firms, and consequently the broader economy. One Canadian study found that HGFs were responsible for nearly half of the net increase in employment from the mid-1980s to the early 2000s.<sup>3</sup>

### Chart 1

#### Trade and Debt Financing Are Common Financial Services Requested by SMEs

(share of respondents requesting each service, 2014, per cent)



Sources: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises; The Conference Board of Canada.

2 See Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises, 2014. This is the survey referred to throughout Chapter 2.

3 Halabisky, Dreessen, and Parsley, "Growth in Firms in Canada, 1985–1999."

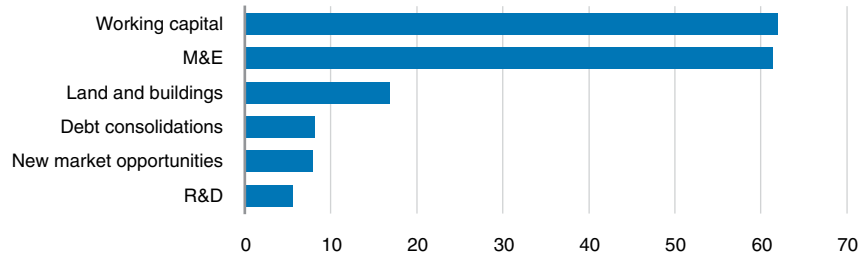


There are several reasons why SMEs seek out debt financing. In most cases, firms intend to increase their working capital for day-to-day operations like inventory purchases and paying suppliers. (See Chart 2.) The other key reason is to allow businesses to finance the purchase of new machinery and equipment (M&E) or buildings. Additionally, some SMEs use debt financing to expand the scope of their business. For example, expansion into a new market or investing in research and development are important ways that SMEs grow their business.

**Chart 2**

**Working Capital Is Most Common Use of Debt Financing**

(share of respondents' intended use of debt financing, 2014, per cent)



Sources: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises; The Conference Board of Canada.

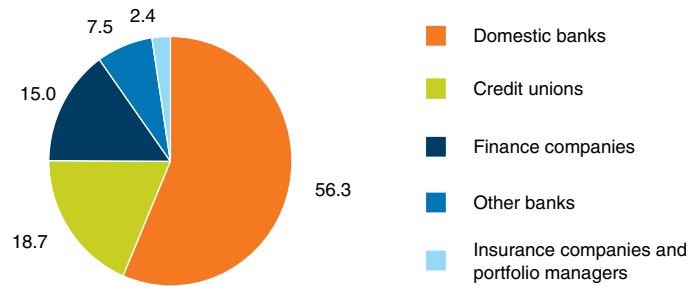
Financial institutions are the main source of debt financing for SMEs. For example, although there are various programs in place for governments to support the growth of SMEs, only 6.2 per cent of approved firms claimed they used a government institution for debt financing. Among financial institutions, banks are the most common way that SMEs secure credit, but credit unions and finance companies are also significant sources of capital. (See Chart 3.)

The amount of credit that financial institutions extend to SMEs has risen steadily in recent years, climbing from \$194 billion in the first half of 2011 to \$243 billion by the end of 2016. However, essentially all of these gains have occurred for mid-sized firms; the credit outstanding for accounts with authorizations of less than \$250,000 has actually declined modestly over this period. (See Chart 4.) It is also worth noting that SMEs

Chart 3

**Banks Are the Primary Source of Debt Financing for SMEs**

(share of SME credit outstanding by institution, 2016, per cent)



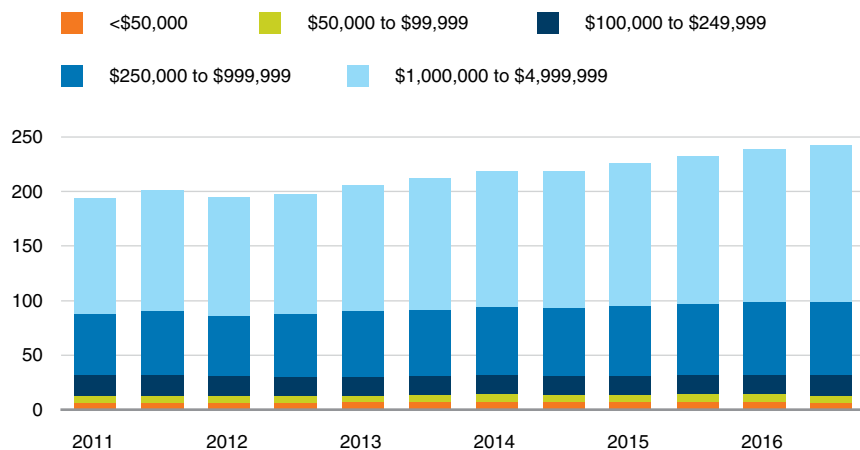
Note: "SME" is defined here as accounts with credit outstanding of less than \$5 million.  
 Sources: Statistics Canada, Biannual Survey of Suppliers of Business Financing; The Conference Board of Canada.

represent a significant source of business for financial institutions. SMEs accounted for 31 per cent of total outstanding business credit at Canadian financial institutions at the end of 2016. They are particularly important to finance companies and credit unions, where they account for half or more of the total business credit outstanding.

Chart 4

**Credit Growth Has Been Strongest for Medium-Sized Firms**

(credit outstanding by size of account, 2016, \$ billions)



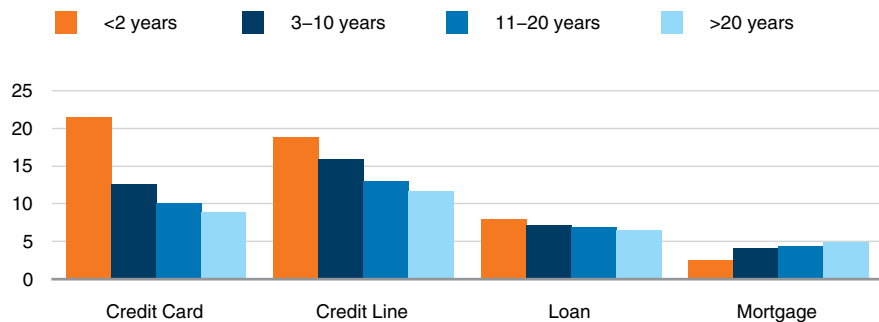
Sources: Statistics Canada, Biannual Survey of Suppliers of Business Financing; The Conference Board of Canada.

While access to debt financing can be important to a business at any stage of its development, it can be especially important during the initial start-up phase. In fact, 44.9 per cent of small businesses report that credit from financial institutions was a source of capital for the start-up of their business. This was second only to personal financing at 84.3 per cent. Thus, financial institutions are an important part of supporting the creation of the more than half a million new businesses that are started in Canada each year.<sup>4</sup>

There are four main financial instruments used by SMEs to acquire debt financing: term loans, lines of credit, non-residential mortgages, and credit cards. Of these products, lines of credit and credit cards are the two that SMEs most commonly use. This is particularly true during the start-up stage of a business. Indeed, 21.5 per cent of SMEs in business for less than two years requested a credit card, well above the rate for all other business age cohorts. (See Chart 5.)

**Chart 5**  
**Credit Cards a Common Source of Debt Financing Among Start-Ups**

(request rate by instrument type and age of business, 2014, per cent)



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.

Emerging SMEs often do not have ample cash on hand or a strong enough reputation to acquire trade financing from suppliers, and are thus more likely to use a credit card to finance purchases. Credit cards

<sup>4</sup> See Statistics Canada, CANSIM table 527-0013.

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SMEs are much less likely to seek equity than debt financing, but generally raise much more money with equity.

are also attractive for emerging companies because the approval rate is highest among the four debt products considered here. The result is that credit cards can be an easy way for SMEs to finance their day-to-day activities until they can acquire lower interest financing like credit lines or loans.

## Equity Financing

Another way in which SMEs can obtain financing is by acquiring equity, which involves raising capital through the sale of partial ownership in the company. SMEs are much less likely to seek equity than debt financing in any given year. Reasons for this include the fact that equity financing is generally more expensive than debt, and many business owners are reluctant to dilute their ownership through the issuance of new shares.

However, equity financing does have benefits as well. For example, debt financing imposes fixed costs on firms that can increase the chance of bankruptcy; equity financing does not. As well, SMEs can generally raise much more money through equity financing than they can with debt, providing firms with more options for investment and expansion. In 2014, the average amount that SMEs who sought equity financing acquired was \$571,354, nearly twice as much as mortgages and much more than other types of debt financing. It is also worth noting that start-ups and HGFs are more than twice as likely to seek equity financing. Thus, this source of financing can play an important role in the growth and innovation of SMEs and the economy.

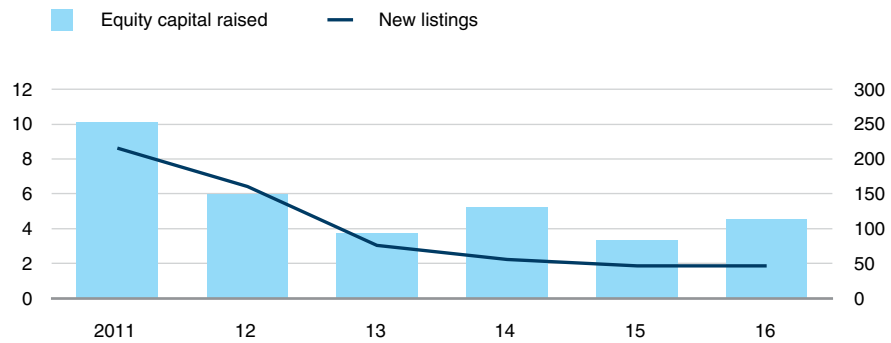
Financial institutions often play a role in facilitating the transaction when firms seek to raise equity, and may themselves take equity stakes in firms. In fact, helping businesses to raise equity capital is a key function of the underwriting process at investment banks. In some cases, investment banks may bring together private investors, such as angel investors, with firms that are seeking equity financing. For example, according to the National Angel Capital Organization, angel investors made 418 investments totalling \$157 million in Canada in 2016.<sup>5</sup> Crowdfunding is a fintech solution that is currently being used only

5 Mason and Tjahjaktana, *2016 Report on Angel Capital Investing*.

sparingly to raise equity in Canada—in 2015, only \$8 million in business equity was raised this way—but it has significant growth potential.<sup>6</sup>

In other situations, financial institutions may assist SMEs in going public. The TSX Venture Exchange (TSXV) is the primary way that Canadian SMEs raise equity capital in public markets. Although the number and value of new listings on the TSXV has trended down in recent years, it remains a significant source of capital for Canadian SMEs. In 2016, 47 new companies were listed on the TSXV (including 18 initial public offerings) and companies (both new and those already listed) raised a total of \$4.6 billion on the TSXV. (See Chart 6.) As of year-end 2016, it had 1,658 listed companies with a quoted market value of \$38.7 billion. Key industries that list on the TSXV include energy, mining, and technology.

**Chart 6**  
**TSXV Plays an Important Role in Raising Equity Capital for SMEs**  
 (equity capital raised, \$ billions [left]; new listings, number [right])



Source: TMX Group.

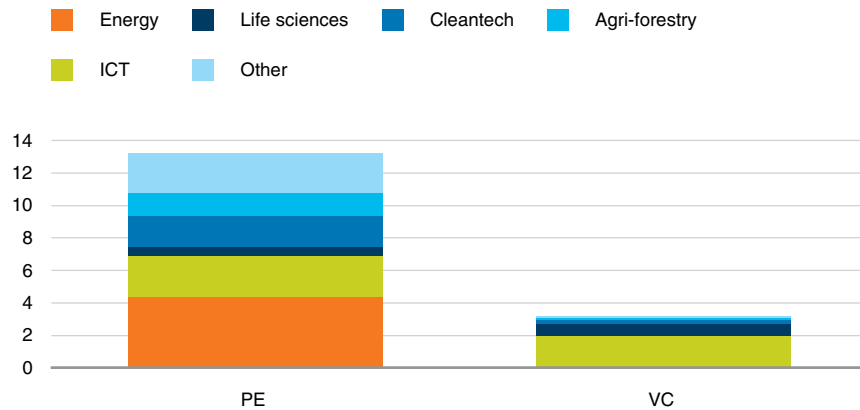
When financial institutions take an ownership stake in an existing firm, this is referred to as venture capital (VC) or private equity (PE). VC investments generally involve smaller sums and partial ownership and target young firms, while PE tends to involve larger sums and total ownership and target established firms. For example, the average

6 National Crowdfunding Association of Canada, *2016 Alternative Finance Crowdfunding*.

value for a VC investment in Canada in 2016 was \$6 million versus \$25.6 million for PE.<sup>7</sup>

Canadian VC experienced its strongest year since the turn of the century in 2016, with \$3.2 billion in investments being undertaken across 530 transactions. Information and communication technology (ICT) and life sciences were the two key industries where VC investments took place. The profile for PE was considerably different. A total of \$13.7 billion in investments was made in 536 organizations in 2016, with energy, ICT, and cleantech being the leading destinations for these investments. (See Chart 7.) It is also worth noting that Toronto was the leading administrative centre for both VC (30 per cent of the total value) and PE (34 per cent) deals.

**Chart 7**  
**VC and PE Are Other Important Sources of Equity Capital for SMEs**  
 (\$ billions, 2016)



Source: Canadian Venture Capital and Private Equity Association.

In addition to the equity capital they provide, VC and PE investments also generally include other forms of assistance. Perhaps most importantly, external investors can bring managerial skills and access to networks that will assist an SME to grow and improve its financial performance. For financial institutions, an additional benefit beyond

7 Canadian Venture Capital and Private Equity Association, *VC & PE Canadian Market Overview*.

the potential returns on their investment is the potential for the sale of ancillary services, such as subsequent loans.<sup>8</sup>

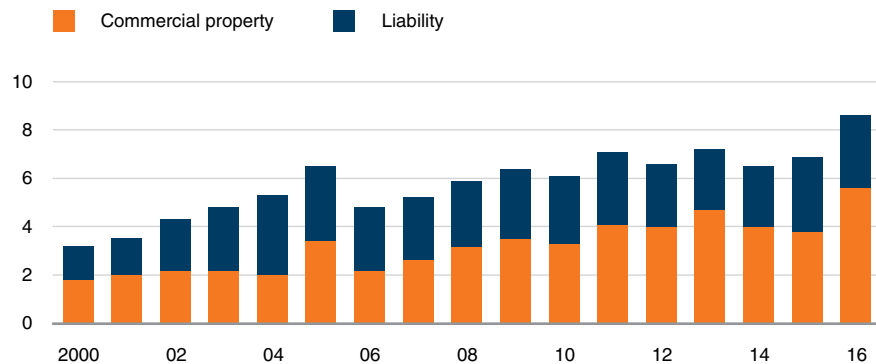
## Insurance

Many insurance products are an integral part of SME business operations. On the property and casualty (P&C) side, commercial property insurance is designed to cover physical assets like machinery and equipment, buildings, and inventory. Commercial liability insurance protects businesses and employees from actions resulting in injury, property damage, legal liability, and other types of third-party losses. In 2016, P&C insurers paid out \$5.6 billion and \$3.0 billion in commercial property and liability claims, respectively, helping Canadian businesses to mitigate the effects of property and liability losses.<sup>9</sup> (See Chart 8.) Although these figures include payments to all businesses, SMEs are estimated to account for about 90 per cent of private sector employment.<sup>10</sup> As such, they likely are the recipients for most of these payments.

Chart 8

### P&C Insurers Pay Out Billions in Claims to Canadian Businesses

(net claims incurred, \$ billions)



Source: Insurance Bureau of Canada.

8 Hellmann, Lindsey, and Puri, “Building Relationships Early.”

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

10 Innovation, Science and Economic Development Canada, *Key Small Business Statistics*.

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There appears to be correlation between the prevalence of SMEs in an industry and the amount an industry spends on insurance.

Life and health (L&H) insurance products are also critical to SMEs, as they are generally an important part of a business attracting and retaining its workforce. For example, according to Sanofi Canada's 2015 health care survey, 77 per cent of respondents said they would not move to a job that did not include health benefits, indicating that health coverage is essential for firms to attract employees.<sup>11</sup> Further, employers are the main source of health coverage for individuals, as 90 per cent of all health insurance is purchased through group plans provided by employers.<sup>12</sup>

An interesting question is whether SMEs are more likely than larger firms to purchase insurance. SMEs certainly have a major incentive to buy insurance. Their limited financial resources mean that they are less able to self-insure and that when an event occurs that requires an insurance payment, their business's survival is more likely to depend on timely insurance payments. SMEs are also less likely to have sophisticated risk management practices in place, which we would expect would lead to an increased need for risk assessments from insurers and insurance products.

In general, there does appear to be some correlation between the prevalence of SMEs in an industry and the amount an industry spends on insurance. For example, the Conference Board estimates that the retail industry accounts for 11.5 per cent of all SMEs in Canada, and for 10.2 per cent of all insurance payments made by businesses and governments. (See Chart 9.) Other industries where there is a high prevalence of SMEs and insurance payments include wholesale trade, truck transportation, and the residential construction industry. Of course, factors other than size will influence the amount and types of insurance that companies buy. For example, use of accident- and sickness-related insurance products is higher in industries where the risk of employee injury is above average.

11 Sanofi, *The Sanofi Canada Health Care Survey*.

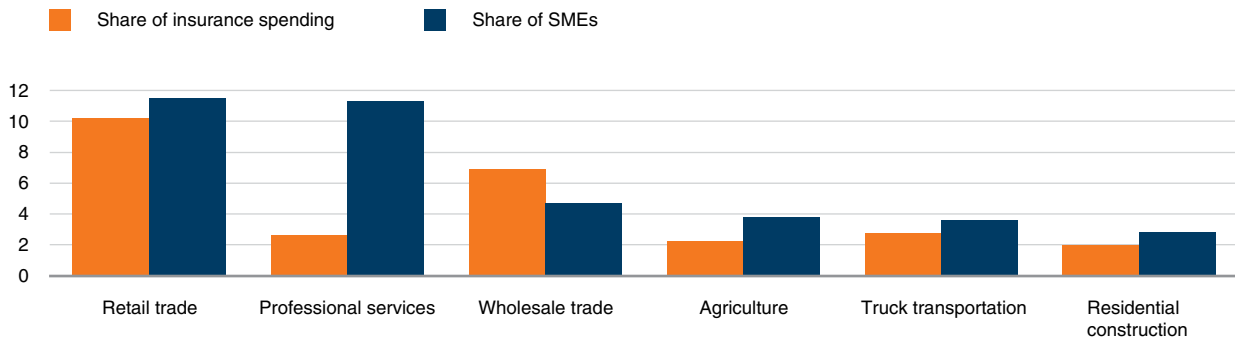
12 Canadian Life and Health Insurance Association, *Canadian Life and Health Insurance Facts*.



Chart 9

**Industries With More SMEs Are Often Significant Users of Insurance Products**

(for select industries where SMEs are more common, per cent)



Sources: The Conference Board of Canada; Statistics Canada.

In addition to the broad types of insurance coverage listed above, there are many types of speciality insurance that may be of interest to SMEs. Professional liability insurance, which protects individuals and organizations that provide advice from client damage claims related to inaccuracies, misrepresentations, and negligence, is one such example. This type of insurance is common in the professional services sector, which includes activities like legal services, accounting, engineering, and consulting. SMEs account for 99.9 per cent of firms in this sector.<sup>13</sup>

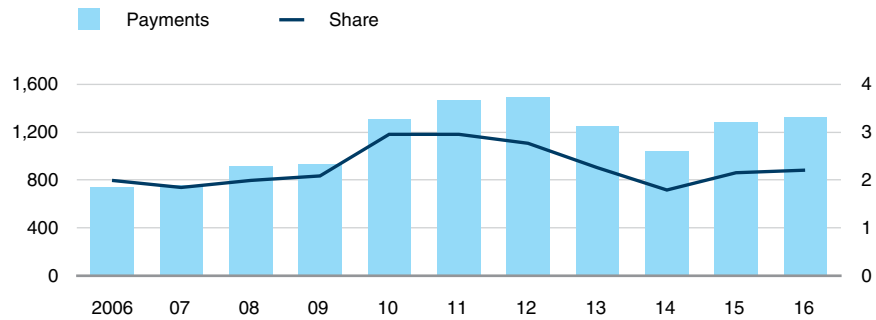
Crop insurance would be another example of specialty insurance that is particularly important for SMEs. This is an insurance product used almost exclusively by the agriculture sector, where SMEs again account for essentially all the firms. Crop insurance serves to protect farmers from the loss of crops due to weather or other events or from the loss of revenue due to pricing declines in their commodities. In 2016, crop and hail insurance payments totalled about \$1.3 billion, or 2.2 per cent of farm receipts, suggesting that it is a significant source of revenue for farmers. (See Chart 10.)

13 See Statistics Canada, CANSIM table 552-0005.

Chart 10

**Crop Insurance Represents a Significant Share of Farm Receipts**

(crop insurance payments, \$ millions [left]; share of farm receipts, per cent [right])



Source: Statistics Canada, CANSIM table 002-0001.

Business interruption insurance, which insures against lost earnings during periods of unforeseen shutdowns or unforeseen operational costs, is another type of specialty insurance that would likely appeal to SMEs. Although large enterprises often have this type of protection, business interruption coverage serves as a safety net for small business owners who rely on their day-to-day operations for their income. Without business interruption coverage, small enterprises would be much more likely to fail in the event of a disaster, making them much riskier and dampening their overall impact on the Canadian economy.

Finally, apart from insurance coverage, insurer carriers and brokers also provide advisory services for SME clients. Firms may be unaware of their risks and thus benefit from such services. This is especially true for SMEs that are less likely to employ sophisticated risk management practices or to be aware of the insurance products that could mitigate their risks. Thus, the insurance industry helps to reduce the volatility of businesses' revenues and costs, ultimately improving survival rates and the viability of SMEs.

## Additional Services

Beyond the core banking and insurance services they provide, financial institutions offer a variety of other services that facilitate the success

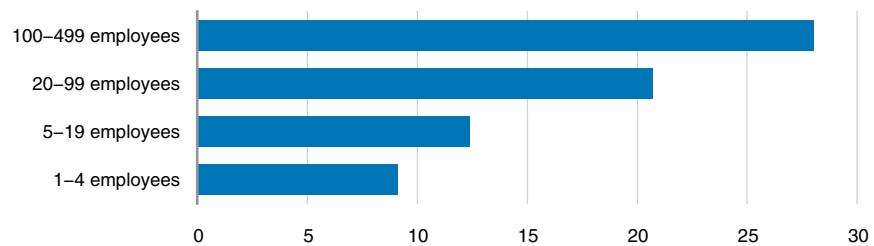
of SMEs. One example is transaction processing. The era of electronic payments and fintech has revolutionized the business of transaction processing, increasing the availability to SMEs of many services that previously would have been available only to larger businesses.

For example, in addition to the traditional credit card networks, SMEs can combine services like PayPal, Shopify, and Square with standard smartphones and tablets to collect credit or debit card payments essentially anywhere and anytime. Pay-by-text or e-mail, autopayments, paperless billing, and customer payments data analysis are other services that fintech companies are making readily available to SMEs. Ultimately, more efficient billing and transaction processing can improve performance metrics such as cash and working capital turnover ratios, as well as reduce losses on accounts receivable. This may be a contributing factor to the modest reduction in credit available to small businesses in recent years. In essence, more efficient transaction processing may be leading to a reduction in the need for working capital.

Facilitating trade is another way that financial institutions can play a key role in supporting the growth of SMEs. There is a clear link between the size of a firm and its propensity to export. Indeed, even among SMEs, the larger a firm, the more likely it is to export. (See Chart 11.) The complexity and risk associated with exporting are the main reasons for this. Financial institutions can assist SMEs with navigating the logistical and regulatory hurdles of exporting, while simultaneously mitigating at

**Chart 11**  
**The Smaller a Firm, the Less Likely It Is to Export**

(share of firms that export, by firm size, per cent)



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.

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Financial institutions provide risk mitigation tools to ensure that SMEs will get paid.

least some of the risks. Indeed, previous Conference Board research identified four key attributes that are required for SMEs to be successful when exporting: market knowledge, international networks, skilled executives, and innovation capabilities.<sup>14</sup> Most of these factors can be supported by “helping hands” from financial institutions.

The process of exporting begins with identifying potential markets and customers; it continues with the potential need for more working capital or trade finance for export customers, settling the required paperwork, and ensuring payment. Financial institutions can potentially help at all of these stages. For example, many of Canada's largest financial institutions have significant international operations that they can leverage to provide market intelligence and to link SMEs to potential international customers, suppliers, and local agents. As well, the increased risk associated with exporting often means that contracts require extra paperwork, such as surety bonds and letters of guarantee; these are services that are commonly provided by financial institutions. Finally, financial institutions provide risk mitigation tools like exchange rate and interest rate derivatives, as well as insurance against political risk and sales financing. All of these instruments help SMEs to ensure that they will get paid.

More broadly, derivatives can be an effective tool for SMEs to manage their risks, even when they are selling domestically. For example, farms are often faced with fluctuating prices for their products and may use futures contracts or options to lock in future prices for their products today, reducing their market risk. There are a wide variety of derivative products whose values are tied to commodity prices, interest rates, and exchange rates. All of these products can potentially be used to hedge the risks that some SMEs face in terms of volatility of input costs and revenues.

Asset management is another key service that financial institutions provide to SMEs. Many larger firms in Canada still offer their employees pension plans, and the largest firms may administer these plans themselves. However, smaller firms are more likely to make use of

<sup>14</sup> Audet, *Selling to the World*.

group registered retirement savings plans (RRSPs). For example, the Canadian Life and Health Insurance Association (CLHIA) reports that life insurance firms managed \$142 billion of pension assets at the end of 2015, accounting for 70 per cent of SME pension plans.<sup>15</sup> Like other life and health benefits, providing group RRSPs can be an important tool for SMEs to attract and retain the workers they need.

Finally, succession planning is another way that financial institutions assist SMEs. Succession planning entails a firm creating a plan for changes to key staff—such as ownership and management—in the event that they pursue new opportunities, retire, or pass away. Since smaller firms are generally privately owned and have lower profiles, it can be much more difficult for them to effectively transition to new owners when the original owners seek to exit the business. This is especially important for family-owned SMEs, because these often fail after the first generation due to inappropriate available replacements.<sup>16</sup>

The role of financial institutions in succession planning for SMEs is apparent in a couple of ways. For example, in the SME financing survey, 60.7 per cent of survey respondents who purchased or acquired a business reported using some amount of credit from financial institutions to facilitate the transaction. This was second only to personal financing. As well, financial institutions can assist sellers with finding buyers. Although mega-deals tend to dominate the headlines about mergers and acquisitions (M&A), the vast majority of transactions are for smaller firms. For example, in the second quarter of 2017, deals valued at less than \$100 million accounted for 83 per cent of Canadian M&A transactions where the value was disclosed.<sup>17</sup> This is consistent with the historical trends.

Due to Canada's aging workforce, the number of deaths and retirements among SME owners will rise in the coming years, suggesting that succession planning is a growing need among firms. Further, it is likely that some industries are exceptionally vulnerable. An example is the agricultural sector, due to its high concentration of small family-owned

15 Canadian Life and Health Insurance Association, *Canadian Life and Health Insurance Facts*.

16 Fernández-Aráoz, Iqbal, and Ritter, "Leadership Lessons."

17 Crosbie & Company, *Canadian M&A Report*.

farms. At the same time, the average age of farmers is well above average, which would indicate that most farms should have some sort of succession plan in place.<sup>18</sup> However, Statistics Canada's 2016 census of agriculture found that only 8.4 per cent of farms reported having a succession plan. Thus, the financial services sector will be a vital component to ensuring the continuity of SMEs in the coming years.

18 Smith Cross, "Aging Farmers."

## CHAPTER 3

# Canada's Financial Sector in a Global Context

### Chapter Summary

- Foreign affiliates are the principal avenue by which Canadian financial institutions provide financial services to overseas customers. Foreign affiliate sales are about 10 times greater than exports.
- Outward foreign direct investment is key to establishing an overseas presence. Canada's stock of direct investment abroad in the financial services sector reached \$505 billion in 2016—nearly twice the amount of inward financial services' FDI in Canada.
- Canadian exports of financial services have more than doubled since 2006. Growth has been driven largely by the significant increase in exports of “other financial services,” which include items such as securities issuance and trading and asset management services.

**Canadian financial institutions are serving the financial needs not only of Canadians, but also of international customers. In the past decade, Canada's financial sector has significantly increased its footprint in global markets by selling directly to international customers from their Canadian offices and by establishing a physical presence in foreign countries. In fact, having a local presence in foreign markets is the principal avenue for Canadian financial institutions to provide financial services to international customers.**

This chapter looks at the latest trends in Canada's financial services trade through foreign affiliate sales and exports—the two main channels used to reach international customers. Exporting financial services directly contributes to economic growth and job creation in Canada; foreign affiliate sales raise the revenues and profits of the parent companies, thus benefiting all Canadians holding shares in those institutions. Having a presence abroad also contributes to the international reputation of Canadian financial institutions and of the Canadian financial system.

## **Building a Global Presence Through Foreign Affiliates**

Canadian financial firms have a significant out-of-country presence, as measured by foreign affiliate sales data from Statistics Canada. Foreign affiliates are the principal avenue for Canadian financial institutions to provide financial services to overseas customers. As such, foreign affiliate sales are much larger than financial services exports—financial services exports are equivalent to 11 per cent of foreign affiliate sales. In other words, the value of services supplied by affiliates abroad of Canadian financial institutions has been, on average, about 10 times greater than the value of financial services exports.



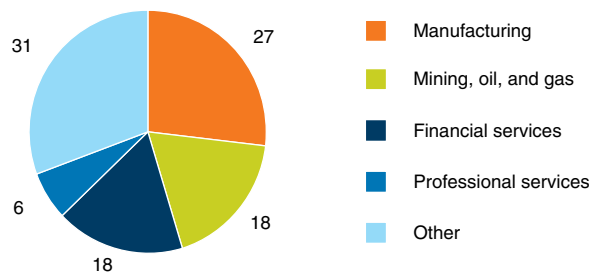
There are many benefits to doing business through foreign affiliates; for example, profits generated through sales by foreign affiliates directly benefit Canada by contributing to the gross national income. In addition, by establishing a local presence abroad, Canadian firms can expand market share, provide better service for their foreign customers, and improve their competitiveness within global value chains.

Foreign affiliate sales in the financial services sector have experienced robust growth over the past decade and stood at \$95 billion in 2014. Financial service firms' foreign affiliates also employed about 138,000 people outside of the country. These were the highest figures for a services industry, with only the mining, oil, and gas and manufacturing sectors having larger foreign affiliate footprints. In fact, 18 per cent of all foreign affiliate sales by Canadian businesses occur in the financial services sector. (See Chart 12.)

**Chart 12**

**Financial Services Are a Major Source of Canadian Foreign Affiliate Sales**

(share of foreign affiliate sales by sector, 2014, per cent)



Sources: Statistics Canada, CANSIM table 376-0066; The Conference Board of Canada.

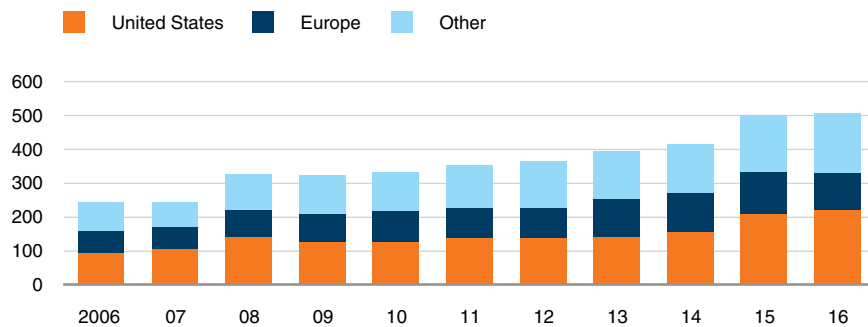
The increasing volume of foreign affiliate sales attests to the fact that Canadian financial institutions have been developing their commercial presence around the world, and that presence has been growing by means of foreign direct investment (FDI) in the host countries. The International Monetary Fund (IMF) defines FDI as any direct investment in a business in a host country by an individual or company of a foreign

country. Investors and companies can undertake FDI in two ways: by establishing a new company in the host country or by investing in an existing business through merger and acquisition. FDI enables an investor to have a significant voice in the management of an enterprise operating outside the investor's home country. The phrase "significant voice" usually means ownership of 10 per cent or more of the ordinary shares, voting power, or the equivalent.

Canada is a large net exporter of financial services FDI.<sup>1</sup> Over the last decade, the stock of direct investment abroad in the financial services sector has consistently been above the amount of foreign direct investment in Canada, and the ratio is now more than 2 to 1. During this period, Canadian financial services institutions' stock of foreign direct investment more than doubled, reaching a new high of \$505 billion in 2016. (See Chart 13.) The Canada Pension Plan Investment Board (CPPIB) was a major contributor to the 2015 surge; it completed US\$60.4 billion in foreign acquisitions in 2015.<sup>2</sup> In fact, growth in financial services FDI has been so strong that the industry now accounts for nearly half of Canada's total stock of outward FDI.

**Chart 13**  
**Financial Services Direct Investment Abroad More Than Doubled Over the Last Decade**

(\$ billions)



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

- 1 For our purposes, we combine the data for the financial services (NAICS 52) and holding companies (NAICS 55) sectors and refer to them as the financial services sector. We do this since financial institutions often use holding companies to set up and operate their foreign affiliates.
- 2 Deveau, "Canadian Firms."

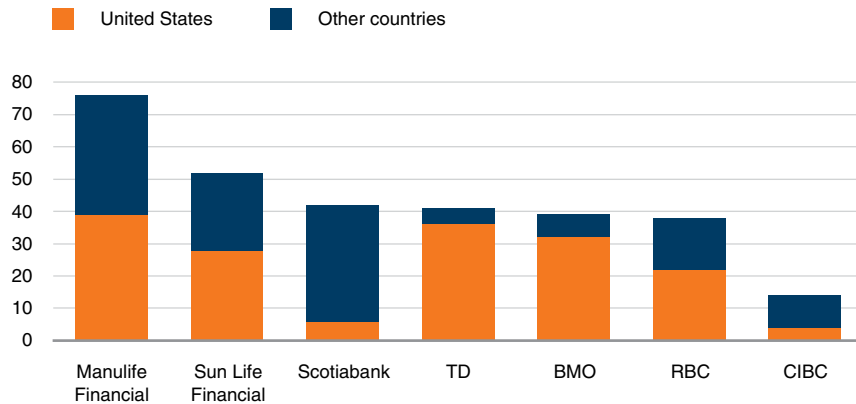
The U.S. remains the primary destination for Canadian financial services FDI, accounting for 44 per cent of the total outward stock of investments in 2016. This is followed by “Other Americas” (30 per cent) and Europe (21 per cent). These shares have changed little over the past 15 years. Thus, Canadian financial institutions have taken a broad approach to investing across a number of regions, instead of focusing on any particular area.

The expansion of FDI has enabled Canadian financial institutions to extend their international footprint. For example, in 2016, about 40 per cent of the revenues from Canada’s four largest banks came from international markets. And Toronto’s largest life insurance companies, Manulife Financial and Sun Life Financial, generated 76 and 52 per cent of their respective revenues from countries other than Canada. (See Chart 14.) According to a 2014 Conference Board survey, the most common market entry strategies used by Canadian financial institutions to build a presence in foreign markets are making foreign acquisitions, establishing a subsidiary, and setting up joint ventures or local partnerships.<sup>3</sup>

Chart 14

**Canadian Banks and Insurance Companies Generated a Large Share of Their Revenues From International Operations in 2016**

(share of revenues from U.S. and other countries, selected banks and insurance companies, per cent)



Note: The revenue breakdown for Sun Life Financial allocates the revenues for its Sun Life Financial Asset Management group to the “other” category.

Sources: Banks’ and insurance companies’ 2016 financial reports; The Conference Board of Canada.

3 Burt and Ai, *Going Abroad*.

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Global diversification among Canadian pension funds allows income from foreign investments to support future pension payments.

The international footprint for Canadian financial institutions other than banks and insurance firms is also significant. For example, Canada has some of the largest pension funds in the world, with the Canada Pension Plan Investment Board (eighth) and Ontario Teachers' Pension Plan (18th) ranked among the top 50 largest pension funds in terms of assets under management.<sup>4</sup> Several others are among the 100 largest, including the Ontario Municipal Employees Retirement System (54th), Public Service Pension Plan (57th), Healthcare of Ontario Pension Plan (64th), and Caisse de dépôt et placement du Québec (74th).

Canada's pension funds continue to expand their international presence through the direct investments they undertake. Foreign investments accounted for 31.7 per cent of the total portfolio in 2016, up from 18.9 per cent in 2000.<sup>5</sup> Portfolio diversification by geography helps to explain the investment strategy of large Canadian pension funds. The strategy diversifies risk exposure beyond the relatively small Canadian economy. As well, greater global diversification allows income from foreign investments to flow back into Canada to support future pension payments.

Canada's largest exchange operator, TMX Group Limited, also has a significant foreign presence, with about 29 per cent of revenues in 2016 coming from international business.<sup>6</sup> Key factors driving these foreign revenues include international listings of the TMX Group's exchanges and transactions originating from foreign-based brokers.

## Building a Global Presence Through Exports

The second channel through which Canada's financial institutions can serve foreign customers is cross-border trade, also known as exports. When a Canadian financial institution provides services to non-residents through its Canadian operations, it is engaging in an export activity, which is a source of income and job creation for Canada. Exports of financial services can be split into three broad

4 Willis Towers Watson, *Pensions and Investments*.

5 See Statistics Canada, CANSIM table 280-0003.

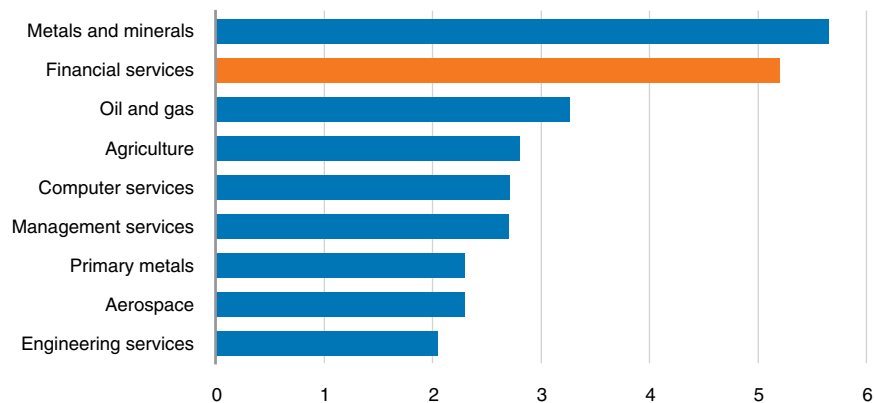
6 TMX Group, *Global Leaders*.

categories: banking, insurance, and other financial services, which are composed of items such as securities issuance and trading and asset management services.

While Canadian financial services exports are much smaller than sales of foreign affiliates, they have been growing at a fast pace. Total exports of financial services more than doubled in the last decade—and were just shy of \$13 billion in 2016. In fact, financial services are second only to metals and minerals as Canada’s fastest-growing source of exports. (See Chart 15.) While banking and insurance exports have both grown substantially over this period, other financial services have experienced the strongest growth and now account for half of Canada’s financial services exports. (See Chart 16.)

As with foreign affiliate sales, the U.S. is the number-one market for Canadian exports of financial services. It accounts for 50 per cent of the total—a share that has remained little changed over time. (See Chart 17.) There are various reasons for the strong growth in financial services exports to the U.S., including the need to facilitate the large volume of trade transactions between the two countries and the use of Canadian equity, debt, and derivative markets by U.S.-based businesses. Moreover, Canadian financial institutions have “followed” clients from

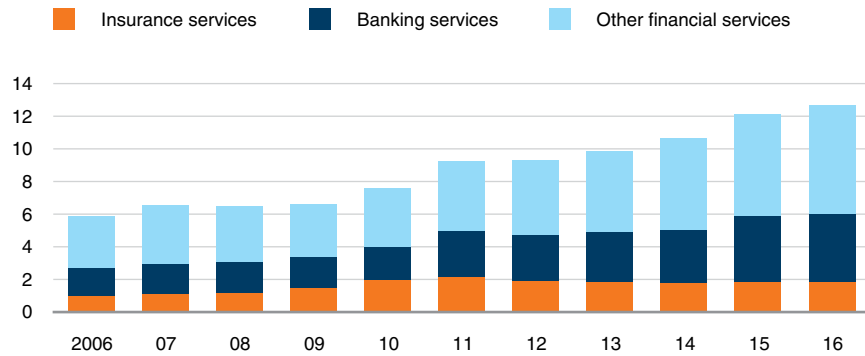
**Chart 15**  
**Financial Services Have Been Vital for Canada’s Export Growth**  
 (10-year CAGR in real exports for select industries, 2006–16, per cent)



Source: The Conference Board of Canada Trade Forecast.

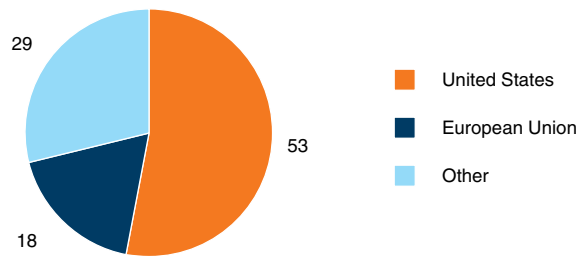
Canada into the U.S. market to provide financing and other financial products as their customers engaged in a growing volume of international investment activities.

**Chart 16**  
**Growth in Financial Services Exports Driven by “Other Financial Services”**  
 (\$ billions)



Sources: Statistics Canada, CANSIM tables 376-0033 and 376-0108; The Conference Board of Canada.

**Chart 17**  
**The U.S. Is the Largest Market for Financial Services Exports**  
 (share of financial services exports by country, 2014, per cent)



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

## CHAPTER 4

# Toronto's Role in Canada's Financial Services Sector

### Chapter Summary

- Financial services directly employed 272,280 people in Toronto in 2016, 8.5 per cent of the metro area's total employment, up from 7.9 per cent in 2006. In addition, the sector indirectly employed another 115,224 people in the metro area.
- Toronto accounts for a growing share of Canada's financial services sector; its share of the sector's employment rose from 29.8 per cent in 2006 to 33.7 per cent in 2016.
- The sector directly accounts for 13.8 per cent of metro Toronto's GDP. Only the public services sector is larger.
- In total, Toronto's financial services sector generated a combined \$18.1 billion in fiscal benefits in 2016 for the Canadian, Ontario, and City of Toronto governments.

**The trends in the financial services sector that we have discussed thus far pertain broadly to Canada. We now turn our attention to Toronto's role in the sector, as well as its contribution to the Canadian economy.**

It is evident that Canada's financial services sector is becoming more concentrated in Toronto, as the share of the sector's employment in Toronto has risen over the past decade. In 2006, Toronto accounted for 29.8 per cent of Canadian financial services employment; this share had risen to 33.7 per cent in 2016. By comparison, Toronto's share of total Canadian employment changed by a smaller amount over that period, rising from 16.8 to 17.8 per cent. This indicates that Toronto has solidified its position as Canada's leading financial centre.

The growing importance of Toronto as a financial centre is also reflected in a survey the Conference Board conducted in 2016 that assessed the perceptions of financial professionals about Canada's four global financial centres. For example, 77 per cent of respondents felt that Toronto had grown in importance over the past decade; only Calgary had a higher share at 82 per cent. Key factors cited by respondents that have contributed to the growing importance of Toronto include:

- the expanding international footprint of financial institutions headquartered in Toronto;
- the stability and expansion of the sector in the post-2008 financial crisis period;
- the growing presence of foreign financial institutions in the city;
- the growing presence of a fintech sector in the region.

## **Economic and Fiscal Impacts of the Sector in Toronto**

When assessing the economic footprint of a sector, we 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.** Fiscal effects are the fiscal impact associated with the direct and indirect economic effects at the federal, provincial, and municipal levels.

## Direct Effects

The financial services sector is one of Toronto's major clusters. It directly employed 272,280 people in 2016; this number includes everyone from tellers and insurance agents in local offices to the headquarters staff of multinationals in the metro area. Its size makes the sector the fifth-largest in the metro area in terms of employment, accounting for 8.5 per cent of the total. (See Table 1.) The share is even higher in the City of Toronto, at 10.2 per cent.

**Table 1**  
**Breakdown of Major Sectors in Toronto**

	2016 employment		2016 GDP	
	number	share (%)	2007 \$ millions	share (%)
Financial services	272,280	8.5	45,338	13.8
Manufacturing	331,060	10.3	39,564	12.0
Public services	636,990	19.8	45,984	13.9
Professional services	356,230	11.1	26,004	7.9
Information services	88,680	2.8	14,573	4.4
Retail trade	334,400	10.4	17,644	5.4
Transportation	164,100	5.1	15,533	4.7
Construction	207,760	6.5	16,869	5.1
Accommodation and food services	198,240	6.2	5,847	1.8
Other sectors	625,310	19.4	102,322	31.0
<b>Total</b>	<b>3,215,050</b>	<b>100.0</b>	<b>329,679</b>	<b>100.0</b>

Sources: The Conference Board of Canada; Statistics Canada.

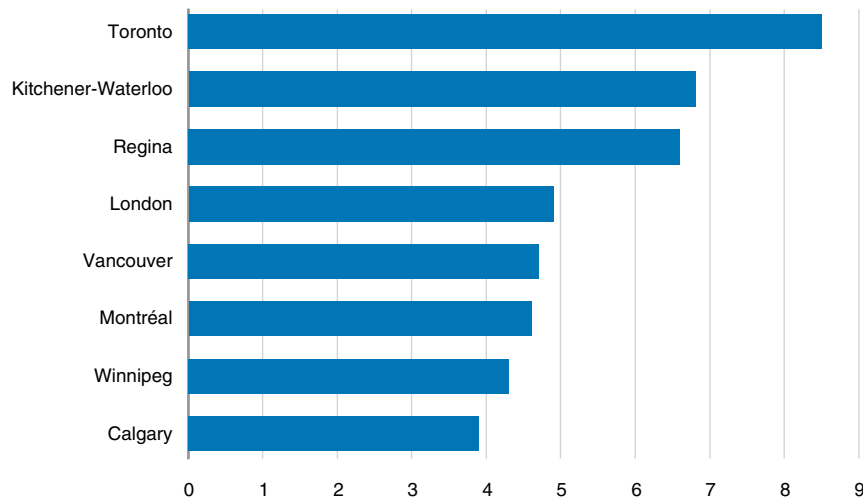
Toronto's financial services sector has also been a significant source of growth in recent years. In 2006, the sector employed 217,700 people in Toronto. The increase in employment represents an average annual growth of 2.3 per cent over the past decade, which compares favourably with 1.5 per cent for 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 increased as a share of Toronto's economy. Between 2006 and 2016, the sector's share of the metro area's employment rose from 7.9 to 8.5 per cent. In fact, the concentration of financial services employment in 2016 was higher in Toronto than in any other metro area across the country. (See Chart 18.)

#### Chart 18

#### Concentration of Financial Services Employment Is Highest in Toronto Among Canadian Metro Areas

(share of employment in financial services for select metro areas, 2016, per cent)



Sources: Statistics Canada; The Conference Board of Canada.

As large as the impacts of employment are, the GDP impacts of Toronto's financial services sector are even larger. On a GDP basis, financial services account for 13.8 per cent of the metro area's economy

In addition to employing people directly, the financial services sector also generates secondary or indirect effects in the economy.

in 2016; this is second only to public services. 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 2016 were \$1,323 versus the overall industrial average of \$973.<sup>1</sup> As well, the sector's depreciation expense per employee in Canada was \$13,381 versus \$8,873 for all industries in 2016.<sup>2</sup> 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 investment per employee in the sector. Finally, nationally, the sector's profit margin was 24.6 per cent in 2016 versus 7.8 per cent for all industries.<sup>3</sup> Ultimately, the high level of 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.

### Indirect Effects

In addition to employing people directly, the financial services sector also generates secondary or indirect effects in the economy. Indirect effects measure the economic benefits associated with the financial services sector's use of intermediate inputs or other support services. In effect, the indirect effects describe a sector's supply chain, highlighting all of the inputs necessary to conduct financial activity.

In aggregate, Toronto's financial services sector supported an additional 226,940 jobs in 2016. Thus, the sector accounted for a total of 499,220 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 226,940 indirect jobs, 115,224 occurred in

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

2 Derived from Statistics Canada, CANSIM table 187-0001, and the Labour Force Survey.

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

Toronto, 75,376 occurred in the rest of Ontario, and 36,340 occurred in the rest of Canada. (See Table 2.)

**Table 2**  
**Breakdown of 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 (number)	272,280	54.5	115,224	23.1	75,376	15.1	36,340	7.3	499,220	100.0
GDP (2007 \$ millions)	45,338	65.6	10,338	15.0	9,486	13.7	3,947	5.7	69,109	100.0

Sources: Statistics Canada; The Conference Board of Canada.

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 through supply chain impacts. We can break those results down further by region. Thus, every direct job in Toronto supports another 0.42 indirect jobs in Toronto, 0.28 indirect jobs in the rest of Ontario, and 0.13 indirect 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 has a high level of 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 high GDP per employee ratios, such as mining and utilities, experience a similar effect.

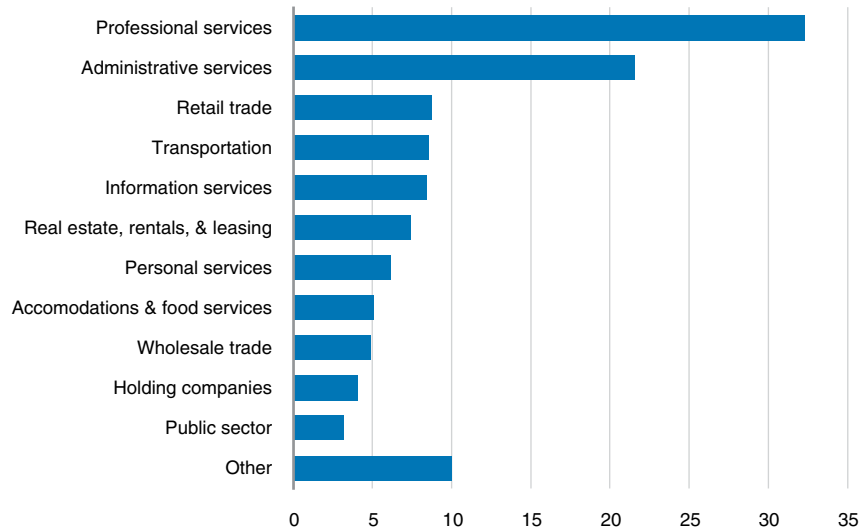
### Indirect Effects on Professional Services in Toronto

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 2016, the single largest impact was in the professional services industry, where financial services activity supported 32,278 jobs. (See Chart 19.) 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 392,728 jobs equated to 12.2 per cent of Toronto’s total employment.

Chart 19

#### Professional Services Experienced the Largest Indirect Employment Effects in Toronto

(indirect employment effects in Toronto by sector, 2016, 000s)



Sources: Statistics Canada; The Conference Board of Canada.

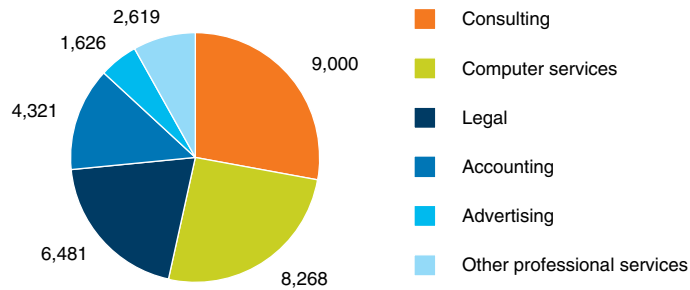
Within the professional services sector, the consulting industry experienced the largest impact; financial services activity supported 9,000 jobs in this industry. (See Chart 20.) Significantly, the financial services sector also supported 6,481 legal services jobs (15.9 per cent of

local industry employment) and 4,321 accounting services jobs (9.3 per cent of local industry employment).

**Chart 20**

**Financial Services Support a Variety of Professional Services Industries**

(professional services employment effects in Toronto by industry, 2016, number)



Sources: Statistics Canada; The Conference Board of Canada.

The financial services sector also had a sizable effect on the computer services industry, supporting 8,268 jobs, or 7.8 per cent of local industry employment. This reflected the sector's heavy use of information technology. In fact, the Conference Board estimates that 47 per cent of total financial sector investment in Canada was related to information technology equipment and services in 2015.<sup>4</sup> As well, IT-related employment in Toronto's financial services sector has effectively doubled since 2010, reaching 40,400 in 2016. In short, IT positions now directly account for 14.8 per cent of the sector's employment in the metro area.

**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 21,555 administrative services jobs in Toronto in 2016.

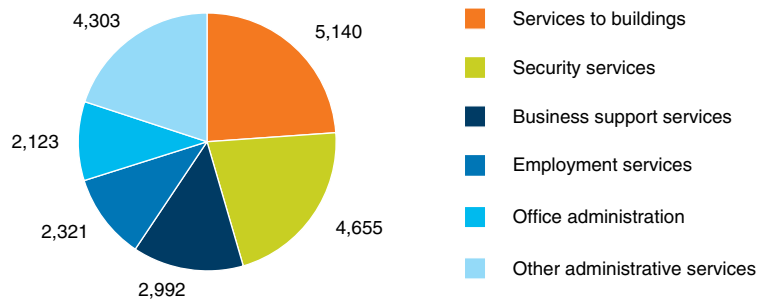
4 Derived from Statistics Canada, CANSIM tables 031-0005 and 031-0006.

The industry that provides services to buildings was the single largest beneficiary, with 5,140 jobs being supported by the financial services sector, equivalent to 10.1 per cent of the industry’s total local employment. (See Chart 21.) 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. Other major impacts in the administrative services sector include security services (such as armoured cars and security guards), business support (such as call centres and collection agencies), employment (such as temporary help providers and placement agencies), and office administration services (such as billing and record keeping).

**Chart 21**

**Administrative Services Employment Effects in Toronto**

(by industry, 2016, number)



Sources: Statistics Canada; The Conference Board of Canada.

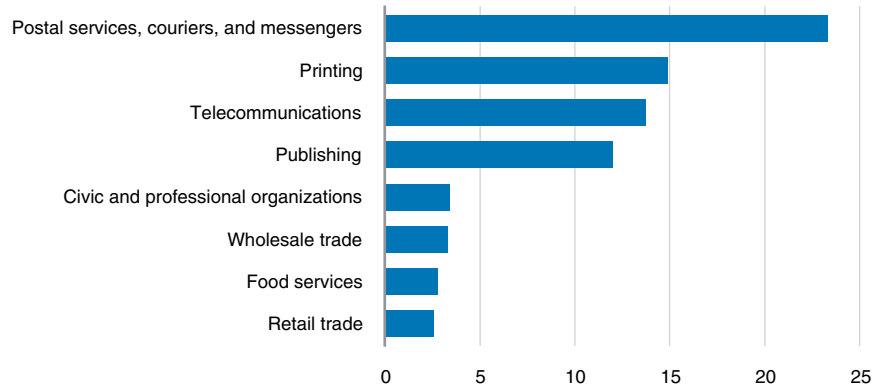
**Indirect Effects on Other Sectors in Toronto**

Beyond the professional and administrative services sectors, various other industries benefit significantly from financial services activities. For example, the single largest effect in the manufacturing sector in 2015 occurred in the printing industry, at 1,999 jobs, or 14.9 per cent of total printing industry employment in Toronto. (See Chart 22.) Financial services firms print a wide range of materials, from advertising to cheques and bills.

Chart 22

**Financial Services Are a Key Customer for Some Industries**

(indirect employment effects' share of Toronto employment for select industries, 2016, per cent)



Sources: Statistics Canada; The Conference Board of Canada.

Within the transportation sector, the postal service, courier, and messenger industry was the most affected industry in 2016. In fact, financial services activity supported 6,257 jobs, or 23.3 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 went to direct mail, well above the average of 8.4 per cent for all industries.<sup>5</sup> As well, although there is an ongoing shift toward electronic billing and correspondence, mailings of items such as 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.

In the information services sector, telecommunications companies were the largest beneficiaries of financial services activity, which in 2016 supported 4,470 jobs, or 13.7 per cent of the industry's total local employment. 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

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



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Toronto's financial services sector generated \$17.5 billion in fiscal benefits in 2016 for the Canadian, Ontario, and City of Toronto governments.

effects include publishing (1,750 jobs) and data processing (1,713 jobs). In publishing, this reflects the importance of information as an input in 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 8,802 and 4,879 jobs, respectively. These industries experience economic impacts from activity in most industries, because they connect businesses and consumers across the economy.

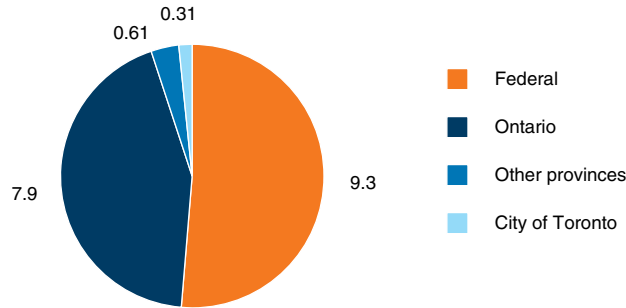
### **Fiscal Effects**

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 \$17.5 billion in fiscal benefits in 2016 for the Canadian, Ontario, and City of Toronto governments. (See Chart 23.)

Chart 23

### Toronto's Financial Services Sector Generates Billions in Government Revenues

(government revenues by level, \$ billions)



Source: The Conference Board of Canada.

#### Federal

Among the different levels of government, Toronto's financial services sector had the largest impact on the federal government. The sector generated \$9.3 billion in revenue for the federal government in 2016. This was equivalent to 3.2 per cent of the federal government's \$290.6 billion in reported revenues for fiscal 2016–17.<sup>6</sup> Personal income taxes were the single largest source of these revenues, accounting for \$3.6 billion, or 38 per cent of the total. The second-largest source of federal tax revenues—at \$2.6 billion, or 27 per cent of the total—was the goods and services tax on sales transactions in the financial services sector's supply chain. The third major source of federal government revenues was corporate profits taxes, which came to \$2.2 billion, or 23.3 per cent of the total.

#### 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 \$7.9 billion in revenues in 2016 as a result of economic activity supported by the sector. This was equivalent to 6 per cent of the province's total planned

6 Department of Finance Canada, *The Fiscal Monitor*.

We estimate that \$307 million in municipal taxes in 2016 can be linked to Toronto's financial services sector.

revenues of \$130.6 billion in fiscal 2016–17.<sup>7</sup> The single largest benefit came from sales taxes (\$3.9 billion), followed by personal income taxes (\$2.2 billion) and corporate income taxes (\$1.3 billion).

Although the vast majority of the economic effects associated with Toronto's financial sector occurred in Ontario, another \$610 million in fiscal effects accrued in other provinces. Quebec, garnering \$283 million in fiscal benefits, was the single largest beneficiary outside of Ontario, 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 392,728 jobs in the Toronto metro area in 2016, 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 187,700 of those jobs were in the City of Toronto and required some form of commercial space (office or retail). This was equivalent to 20.7 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 \$307 million in municipal taxes in 2016 can be directly and indirectly linked to Toronto's financial services sector. That was equivalent to 7.9 per cent of Toronto's total property taxes and 2.5 per cent of the city's total revenues of \$12.2 billion in 2016.<sup>8</sup> Of course, the other municipalities that make up the Toronto metro area—such as Mississauga, Oakville, and Markham—would have also received fiscal benefits.

<sup>7</sup> Government of Ontario, *2017 Ontario Budget*, Chapter VI.

<sup>8</sup> City of Toronto, *2016 Consolidated Financial Statements*.

## Structure of Toronto's Sector

Toronto's financial services sector is made up of many constituent parts that offer a variety of services. The key industries within the sector include:

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

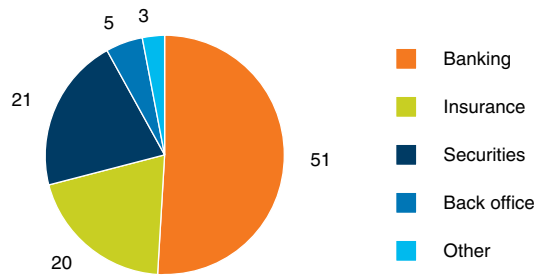
However, the distinctions between these industries have blurred over time. In 1991, regulatory changes ended the policy of separating the sector into “four pillars” (banks, insurance, trusts, and investment dealers). As a result, different industries in the sector offer many similar products and services. For example, many of the largest banks in Canada offer insurance and asset management services, and 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. 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 92 per cent of Toronto's financial services employment in 2016. (See Chart 24.) 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 larger

share of the sector. A detailed table of sector employment by industry can be found in Appendix B.

**Chart 24**

**Banking, Insurance, and Securities Account for Much of Toronto’s Financial Sector Employment**

(Toronto’s financial sector employment by industry, per cent)



Sources: Statistics Canada; The Conference Board of Canada.

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 17.8 per cent of Canadian employment in 2016, yet for most financial services industries, Toronto’s share was higher. For example, Toronto accounted for 46.7 per cent of Canadian employment in the back office industry, 36.5 per cent of securities employment, and 22.6 per cent of insurance employment. This highlights Toronto’s role as Canada’s financial centre.

The results of a Conference Board survey of sector employees conducted in 2016 reflect the employment mix of the sector. For example, the top five “core strengths” identified by respondents in the city of Toronto include retail and corporate banking, investment banking, wealth management, and pension fund/mutual fund management, which would fall under the securities industry and life and health insurance. We also asked respondents to identify strengths in each of Canada’s global financial centres for 28 different activities that the sector undertakes.

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Small businesses are common in most of the industries that make up Toronto's financial sector.

Credit unions were the only activity that a majority of respondents did not identify as a strength for Toronto, as well as the only activity where respondents did not rank Toronto first among the four cities.

We see somewhat different patterns when we look at the number of financial services businesses. According to Statistics Canada's business registry, 8,841 financial services businesses were operating in Toronto as of June 2017. Nearly half of these were in the securities industry (44.0 per cent), followed by insurance (24.4 per cent) and banking (19.6 per cent). Because the securities industry is sizable and includes many small businesses, it has a high share of the sector's businesses. In fact, in June 2017, 87 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 2017, 81.0 per cent of enterprises had fewer than 20 employees, versus 87.3 per cent for all industries. However, some segments have more large businesses than others. For example, 10.8 per cent of property and casualty insurers had more than 200 employees. This may sound like a small share, but it is actually well above average. In fact, only 1.1 per cent of all businesses across all industries in Toronto had more than 200 employees.

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 and lead 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, thus improving customer convenience and service.

## CHAPTER 5

# Toronto as a Global Financial Centre

### Chapter Summary

- Toronto is highly ranked among global financial centres; *The Banker* ranks it eighth and the Global Financial Centres Index (GFCI) places it seventh in its most recent survey, up six spots from a year ago.
- According to the GFCI, Toronto's key assets include its human capital and reputation.
- According to *The Banker*, Toronto's key areas of strength include high levels of outward foreign direct investment, international debt securities, pre-tax profits, cost factors, and total bank assets.
- With financial services accounting for 8.5 per cent of the metro area's employment, Toronto's proportional reliance on financial services is even higher than that of major global financial centres such as London and New York.

**Not only is Toronto the largest financial centre in Canada, it is a globally recognized financial hub and generally ranks well compared to other global financial centres. In a 2016 survey conducted by The Conference Board of Canada, 74 per cent of Canadian professionals who responded described Toronto's financial services sector as "globally significant." This was a much higher share than the other three cities in the survey, all of which had a share below 30 per cent.**

Global rankings also recognize the importance of Toronto's financial sector. While the city consistently ranks behind London, New York, Singapore, and Hong Kong—the undisputed top four centres—it is normally on par or better than other financial hubs. *The Banker* magazine ranked Toronto eighth in its most recent survey,<sup>1</sup> while the most recent Global Financial Centres Index (GFCI) report ranked it seventh—a rise of six positions compared to a year ago.<sup>2</sup> The increase appears to be mostly attributed to the poor performance of some U.S. financial centres, as San Francisco, Boston, Chicago, and Washington all dropped below Toronto in the last year.

Toronto's high ranking in the GFCI is complemented by the fact that the report lists only 15 cities as having financial sectors that are both broad and deep. (See Table 3.) It is also worth noting that both surveys now rank Toronto as the second most important financial centre in North America.

1 Pavoni, "Brexit-Bound London."

2 Yeandle, *The Global Financial Centres Index 22*.



**Table 3**  
**Rankings of Broad and Deep Global Financial Centres**

London	1
New York	2
Hong Kong	3
Singapore	4
Tokyo	5
Shanghai	6
<b>Toronto</b>	<b>7</b>
Sydney	8
Zurich	9
Beijing	10
Frankfurt	11
Geneva	15
Dubai	18
Abu Dhabi	25
Paris	26

Source: GFCI.

The GFCI uses a combination of “instrument-based factors” from other reports and its own survey to generate its rankings. The categories of instrumental factors include business environment, financial sector development, infrastructure, human capital, and reputation. According to the GFCI methodology, Toronto ranks in the top 10 among global financial centres in terms of reputation (10th). While this is slightly below what the quantitative data suggest, it substantiates the generally positive opinions about Toronto’s financial sector.

The GFCI survey also presents sub-indices based on its surveys, where rankings are created using the responses of professionals working in the relevant industry sectors. These five industry sectors are investment management, banking, government and regulatory, insurance, and professional services. In both instrument- and survey-based rankings, Toronto ranks in the top 15 in most categories (See Table 4.) As expected, the large financial centres dominate the rankings.

**Table 4**  
**Rankings for Sub-indices Within the GFCI**

**Instrument-based**

<b>Business environment</b>		<b>Human capital</b>		<b>Financial sector development</b>		<b>Reputation</b>	
London	1	London	1	London	1	London	1
New York	2	New York	2	New York	2	Hong Kong	2
Hong Kong	3	Hong Kong	3	Hong Kong	3	Singapore	3
Singapore	4	Singapore	4	Singapore	4	New York	4
Shanghai	5	Shanghai	5	Shanghai	5	Tokyo	5
Tokyo	6	Frankfurt	6	Tokyo	6	Dubai	6
Frankfurt	7	Zürich	7	Beijing	7	Shanghai	7
Chicago	8	Beijing	8	Boston	8	Stockholm	8
Zürich	9	Tokyo	9	Chicago	9	Frankfurt	9
Boston	10	Luxembourg	10	San Francisco	10	<b>Toronto</b>	<b>10</b>
Beijing	11	<b>Toronto</b>	<b>11</b>	Washington DC	11	Zürich	11
Sydney	12	Boston	12	Zürich	12	Sydney	12
San Francisco	13	Chicago	13	Frankfurt	13	Beijing	13
<b>Toronto</b>	<b>14</b>	Geneva	14	<b>Toronto</b>	<b>14</b>	Osaka	14
Washington DC	15	Montréal	15	Dubai	15	Montral	15

**Survey-based**

<b>Investment management</b>		<b>Professional services</b>		<b>Government and regulatory</b>	
London	1	London	1	London	1
New York	2	New York	2	New York	2
Hong Kong	3	Hong Kong	3	Singapore	3
Singapore	4	Singapore	4	Hong Kong	4
Shanghai	5	Shanghai	5	Beijing	5
Beijing	6	Zürich	6	Luxembourg	6
Tokyo	7	Frankfurt	7	Chicago	7
Shenzen	8	Boston	8	Seoul	8
Boston	9	Tokyo	9	Frankfurt	9
Zürich	10	Chicago	10	Washington DC	10
Sydney	11	Beijing	11	Zürich	11
Frankfurt	12	San Francisco	12	<b>Toronto</b>	<b>12</b>
<b>Toronto</b>	<b>13</b>	Shenzen	13	Boston	13
San Francisco	14	<b>Toronto</b>	<b>14</b>	Shanghai	14
Chicago	15	Washington DC	15	Tokyo	15

Source: GFCI.

In *The Banker's* survey, Toronto fared slightly worse, ranking eighth globally.<sup>3</sup> Key areas of identified strength included high levels of outward

3 Pavoni, "Brexit-Bound London."

foreign direct investment, international debt securities, pre-tax profits, cost factors, and total bank assets. Toronto also ranked highly in stock market capitalization and financial markets—in the top 10 globally for all of these factors. (See Table 5.)

Although it places well on all these measures, Toronto generally lags well behind the major global financial centres. For example, in terms of outward FDI, Toronto had a score of 3.14 versus 10 for London, meaning that outflows from Toronto were nearly 70 per cent below the market leader. For other quantifiable measures such as stock market capitalization and international debt securities, Toronto lags behind the market leaders by a similar amount. However, if we compare Toronto to other cities, the gap is smaller.

**Table 5**  
**Activities Where Toronto Ranks Among the Top 10 Globally**

Outward FDI		International debt securities		Cost factors		Stock market capitalization	
London	1	London	1	Copenhagen	1	New York	1
New York	2	New York	2	Manama	2	Osaka	T2
Paris	3	Amsterdam	3	Johannesburg	3	Tokyo	T2
Tokyo	4	Paris	4	Wellington	4	Shanghai	4
Zürich	5	Frankfurt	5	Bangkok	5	London	5
Beijing	6	<b>Toronto</b>	<b>6</b>	Montréal	6	Shenzhen	6
<b>Toronto</b>	<b>7</b>	Dublin	7	Port of Spain	7	Hong Kong	7
Seoul	8	Milan	8	<b>Toronto</b>	<b>8</b>	Mumbai	8
Madrid	9	Luxembourg	9	Manila	9	Paris	9
Singapore	10	Sydney	10	Jakarta	10	<b>Toronto</b>	<b>10</b>
Total bank assets		Bank pre-tax profits		Financial markets			
Beijing	1	Beijing	1	New York	1		
Tokyo	2	New York	2	London	2		
New York	3	Tokyo	3	Tokyo	3		
Paris	4	San Francisco	4	Paris	4		
London	5	Paris	5	Luxembourg	5		
Frankfurt	6	<b>Toronto</b>	<b>6</b>	Amsterdam	6		
<b>Toronto</b>	<b>7</b>	Shanghai	7	Osaka	7		
Shanghai	8	São Paulo	8	Hong Kong	8		
Zürich	9	Sydney	9	Frankfurt	9		
Madrid	10	London	10	<b>Toronto</b>	<b>10</b>		

Source: *The Banker*.

---

Where Toronto ranked the highest, it often does better than some of the larger centres.

In short, London and New York are clearly the largest global financial centres. They remain in a league of their own, and consistently vie for first or second place in the global rankings. Similarly, Singapore and Hong Kong generally compete for the third- and fourth-place rankings. Toronto is part of a group of cities that compete below these four large centres.

That said, on the measures where Toronto ranked the highest, it often does better than some of the larger centres. For instance, Toronto ranks above Singapore and Hong Kong when it comes to outward FDI, total assets, and international debt security issuance. Toronto can even compete with London and New York on some measures. It outranks both cities in terms of cost factors and bests London in the case of bank profitability.

Given the difference in the results, it is clear that *The Banker* and GFCI rankings are not fully comparable. For instance, the GFCI combines quantitative results in five broad categories with its own survey of global finance industry professionals to create an overall ranking. Alternatively, *The Banker* compiles financial data ranging from economic potential to business environment.<sup>4</sup> All in all, the rankings provided by *The Banker* are more data-driven, while the GFCI's also reflect survey responses.

## Employment in Global Financial Centres

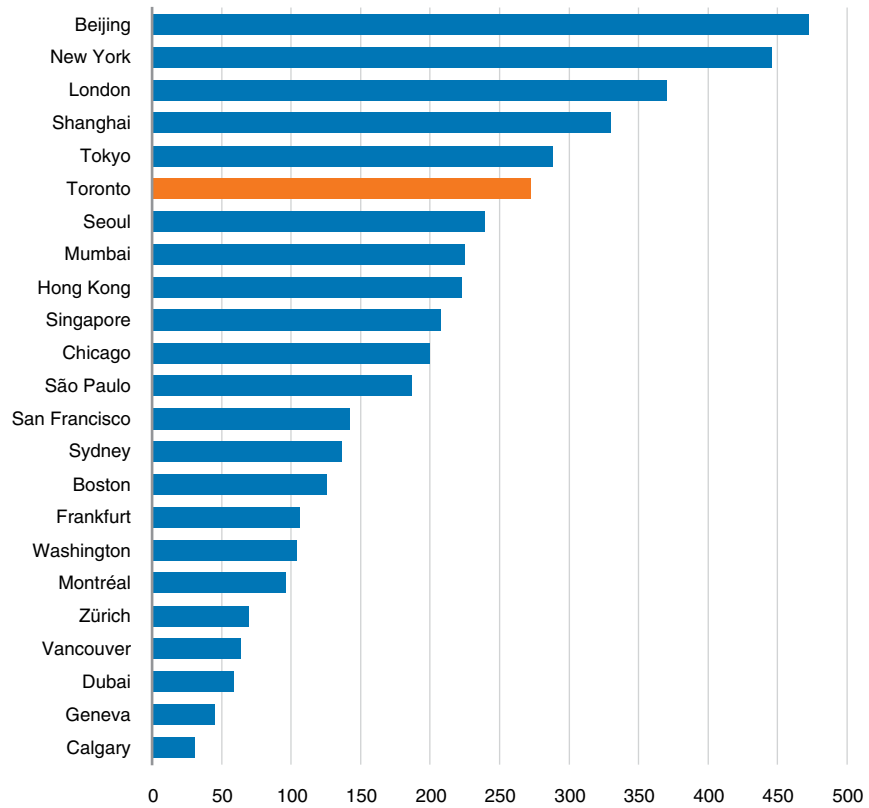
Beyond these surveys, Toronto ranked highly compared to other global financial centres in terms of employment. Indeed, 272,280 people were employed in Toronto's financial services sector in 2016, meaning the city ranked sixth among the global financial centres we consider here. (See Chart 25.) What is more, Toronto is the most dependent of these cities on the financial services sector and in a league of its own along with Zürich. (See Chart 26.) With financial services accounting for 8.5 per cent of the metro area's employment, Toronto's proportional reliance on financial services is even higher than that of major global financial centres such as London and New York, which have much larger populations.

4 Ibid.

Chart 25

**Toronto Has a Significant Number of Financial Services Employees**

(financial services employment, 2016 or most recent, 000s)



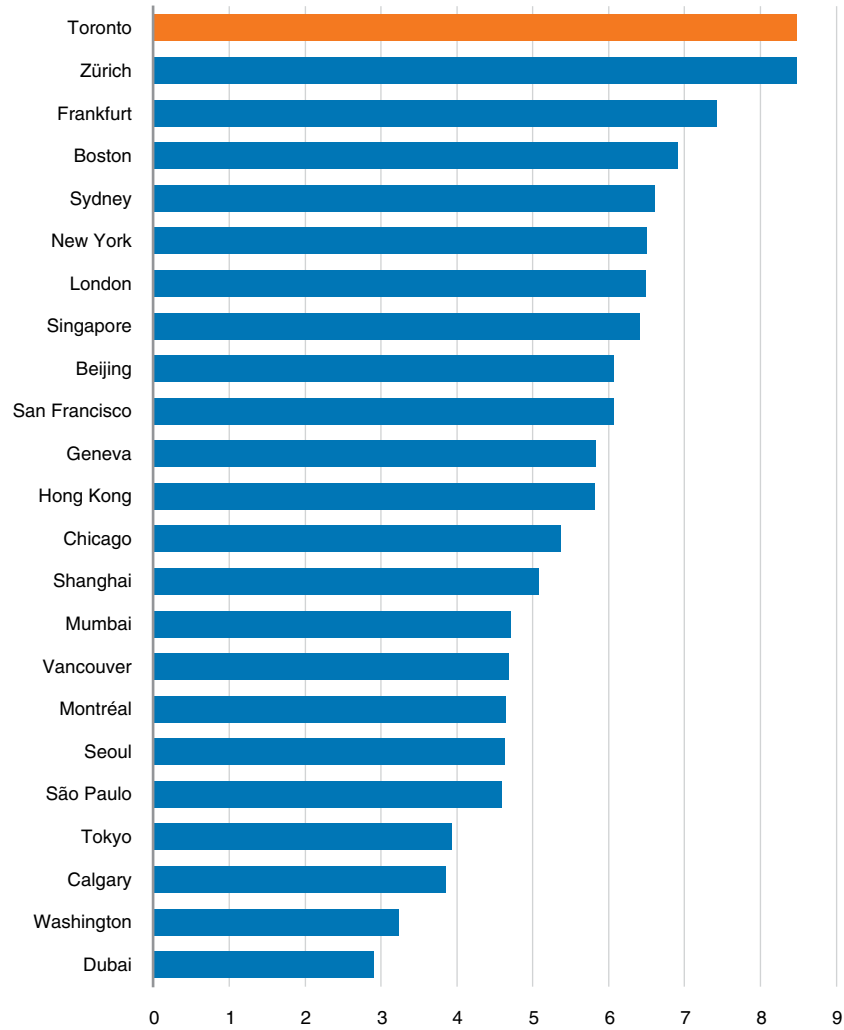
Sources: Various national statistical agencies.

It is also interesting to note how Toronto’s financial services sector has grown over the past decade in comparison with some of the other financial centres. For example, while all major Canadian centres have posted significant increases in employment in the last decade, Toronto’s financial services sector increased by the most at 25.1 per cent, generating 54,580 new financial services positions. (See Chart 27.)

Chart 26

**The Importance of Financial Services to Toronto Is Higher Than in Other Financial Centres**

(financial services employment as a share of the total, per cent)

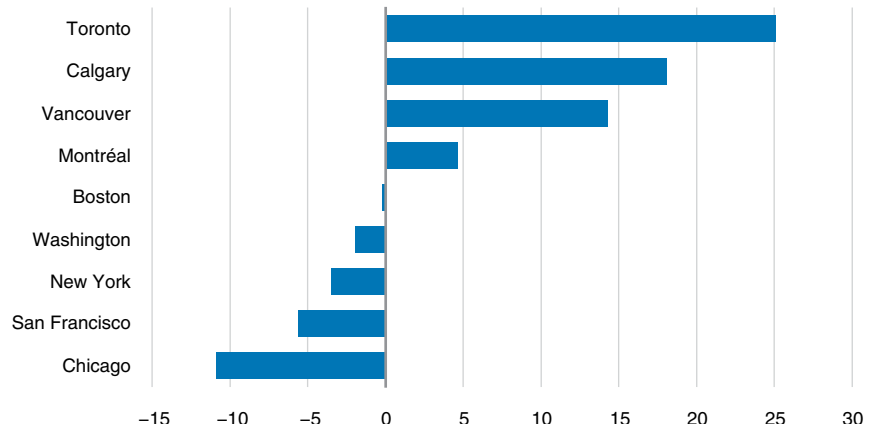


Sources: Various national statistical agencies.

Chart 27

**Employment Growth in Financial Services**

(select North American metro areas, 2006–16, per cent)



Sources: Statistics Canada; U.S. Bureau of Labor Statistics.

Conversely, the major U.S. financial centres have all seen their employment shrink, due entirely to the lingering impact of the financial crisis of 2008–09. In all the U.S. metro areas included here, financial services employment fell drastically in 2008. What is more, a recovery has not fully transpired. In fact, financial services employment in 2016 was less than it was in 2006 in all the U.S. metro areas profiled here.

## CHAPTER 6

# Conclusion

### Chapter Summary

- Looking only at employment understates the importance of the financial services sector to Canada's economy. For example, the sector accounts for 34 per cent of profits from all industries and 48 per cent of the stock of outward FDI.
- Financial services have been a major source of growth for the Canadian economy over the past decade, with the sector's employment, GDP, and international trade and investment performance all outpacing the average for all sectors.
- Key areas of strength for the sector include its financial and international trade and investment performance, but its productivity performance has been more modest.
- Toronto's role as Canada's largest financial hub has grown as the region's share of domestic activity has increased.



**Our analysis has shown that the financial services sector is a critical part of the Canadian economy. This is apparent in a myriad of ways. For example, the sector directly accounts for 4.5 per cent of Canadian employment, but this figure understates the impact of the sector in many ways. At the same time it accounts for:**

- 18 per cent of Canada's foreign affiliate sales
- 34 per cent of the net profits generated by all industries
- 48 per cent of the stock of outward FDI undertaken by Canadian firms

What is more, the sector's importance is growing. For most of the indicators we looked at in this report, including employment, GDP, profitability, and international trade and investment, the sector's share of Canadian activity has grown over the past decade.

Beyond its direct footprint, the financial services sector plays an important role as a facilitator in the economy. It provides key functions that almost all consumers and businesses require, including access to credit, transaction processing, and risk management services. The sector plays a particularly critical role in enabling the growth and innovation of Canada's SMEs. Canada routinely ranks in the top 20 countries in the world in The Global Innovation Index, thanks largely to SMEs that collectively make up 99.7 per cent of firms in Canada. There is also evidence that SMEs account for most of Canada's economic growth. Without the support that financial institutions provide, SMEs would not be the important drivers of economic growth that they are.

Given the size and growing importance of the sector, as well as its role as facilitator, assessing its performance is critical. In this report, we have examined how financial services compares to other sectors domestically and its peers internationally. Broadly speaking, the sector is a leader among others when it comes to international trade and investment. Growth in exports, investment, and foreign affiliate sales for Canadian financial institutions has all been considerably stronger than average. For example, the sector accounts for nearly one-fifth of Canadian foreign affiliate sales.

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The financial services sector is a leader among others when it comes to international trade and investment.

It is in this environment that we focus on Toronto's role in Canada's financial sector. Key findings about Toronto's financial sector include the following:

**Financial services are a key cluster for Toronto.** Financial services are a major part of the metro area's economy, in both direct and indirect terms. Only a handful of other sectors, such as manufacturing and government services, have a similar level of importance for the region. As such, ensuring the continued health of the sector is critical to the region's performance.

**The importance of the cluster in Toronto is growing.** Toronto accounts for a growing share of Canada's financial services sector. At the same time, the sector's importance to Toronto's economy is increasing. Respondents to our survey identified several things that will be necessary if the sector is to continue experiencing above-average growth. These include attracting more inward FDI, better marketing of the sector internationally, fostering further innovation, and ensuring the availability of a workforce with the right skills.

**Toronto's financial sector is broad and deep.** We have shown that in nearly every major segment of the financial services sector, Toronto has an above-average degree of concentration. Indeed, the GFCI defines only 14 other financial centres globally as being both broad and deep. This breadth provides the sector with some resiliency against unforeseen events.

**Toronto is ranked highly among the global financial centres.** Independent rankings, such as *The Banker* and the GFCI, and our survey results place Toronto as the largest global financial centre in Canada and one of the most important in the world. While the city consistently ranks behind London, New York, Singapore, and Hong Kong—the undisputed top four centres—it is normally on par or better than all other financial hubs.

**The sector cannot rest on its laurels.** Despite its success, Toronto's financial sector faces a highly competitive environment; thus, its future

performance is not assured. For example, fintech has been developing in the region and has the potential to cause significant disruptions to the sector's large incumbent firms. Ongoing innovation is critical if the sector is to continue being a source of growth for both Toronto and Canada.

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## APPENDIX B

# Additional Data Tables

**Table 1**  
**Key Statistics of 2016 Financial Services Sector**

<b>Canada</b>	
<b>Real GDP</b>	
Share of total (%)	7.2
Growth (2006–16, %)	27.9
Total (2007 \$ billions)	120.0
<b>Employment</b>	
Share of total (%)	4.4
Growth (2006–16, %)	10.5
Total (000s)	808.1
Outward stock of FDI (\$ billions)	384
Share of Canada's stock of outward FDI (%)	48
Exports (\$ billions)	11.7
<b>Toronto</b>	
<b>Real GDP</b>	
Share of total (%)	13.8
Total (2007 \$ billions)	45.3
<b>Employment</b>	
Share of sector's national employment (%)	33.7
Growth (2006–16, %)	25.1
Total (000s)	272.2
Average weekly wage (Ontario, \$)	1,323
Average weekly wage (Ontario, \$)	1,323

Sources: Statistics Canada; The Conference Board of Canada.

**Table 2**  
**Toronto Financial Services Employment, by Industry**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average annual growth (2006–16, %)	Share of Toronto's financial services employment (%)	
													2006	2016
All financial services	217,700	209,450	217,715	218,425	212,875	219,350	219,325	240,025	251,375	250,790	272,280	2.3	100.0	100.0
Banking	111,848	102,753	112,949	109,261	112,174	107,959	112,104	112,072	128,940	127,495	139,412	2.2	51.4	51.2
Credit unions	1,003	1,053	1,083	1,077	1,123	1,152	1,200	1,236	1,273	1,781	1,765	5.8	0.5	0.6
Insurance	55,500	54,100	56,700	55,800	56,500	51,600	56,600	50,200	50,200	52,060	55,670	0.0	25.5	20.4
Property and casualty insurers	23,242	25,872	25,949	26,215	25,416	26,875	21,706	25,155	20,608	22,442	21,017	-1.0	10.7	7.7
Life and health insurers	9,898	11,018	11,051	11,165	10,824	11,445	9,244	10,713	8,777	9,558	11,993	1.9	4.5	4.4
Other insurance	22,360	17,210	19,700	18,420	14,560	18,180	20,650	20,733	20,816	20,060	22,660	0.1	10.3	8.3
Asset management	2,180	2,244	2,476	2,620	2,680	2,884	2,865	3,115	3,241	1,690	3,500	4.8	1.0	1.3
Securities	39,131	41,336	35,474	40,519	36,436	41,166	40,832	55,598	54,204	49,542	56,880	3.8	18.0	20.9
Securities intermediation and brokerage	17,923	18,256	15,069	16,510	14,195	15,280	14,909	19,964	19,134	16,210	13,784	-2.6	8.2	5.1
Other financial investment activities	21,208	23,080	20,404	24,009	22,241	25,886	25,923	35,635	35,070	33,332	41,546	7.0	9.7	15.3
Exchanges	569	664	626	781	764	934	868	1,102	996	1,308	1,550	10.5	0.3	0.6
Back office	7,469	7,300	8,417	8,367	8,898	8,755	9,856	10,302	12,521	16,614	14,833	7.1	3.4	5.4

Sources: Statistics Canada, Labour Force Survey; The Conference Board of Canada.

**Table 3**  
**Number of Financial Services Sector Firms Operating in Toronto, by Employment Size**

Number of employees	Total	Number of enterprises					Share of enterprises (%)				
		1–9	10–19	20–99	100–199	200+	1–9	10–19	20–99	100–199	200+
All industries	234,399	184,213	22,731	22,299	2,878	2,278	78.6	9.7	9.5	1.2	1.0
All financial services	8,841	6,154	1,007	1,337	141	202	69.6	11.4	15.1	1.6	2.3
Banking	1,737	532	462	680	30	33	30.6	26.6	39.1	1.7	1.9
Depository credit intermediation	1,249	175	417	623	16	18	14.0	33.4	49.9	1.3	1.4
Credit card issuers, sales financing, consumer lending	231	159	19	35	7	11	68.8	8.2	15.2	3.0	4.8
All other banking	257	198	26	22	7	4	77.0	10.1	8.6	2.7	1.6
Credit unions	82	33	25	22	-	2	40.2	30.5	26.8	0.0	2.4
Insurance	2,155	1,642	185	250	40	38	76.2	8.6	11.6	1.9	1.8
Life and health insurers	158	81	15	42	9	11	51.3	9.5	26.6	5.7	7.0
Property and casualty insurers	139	56	14	37	17	15	40.3	10.1	26.6	12.2	10.8
Other insurance	1,858	1,505	156	171	14	12	81.0	8.4	9.2	0.8	0.6
Asset management	219	180	14	15	4	6	82.2	6.4	6.8	1.8	2.7
Securities	3,887	3,117	273	337	59	101	80.2	7.0	8.7	1.5	2.6
Securities intermediation and brokerage	551	351	68	102	9	21	63.7	12.3	18.5	1.6	3.8
Other financial investment activities	3,336	2,766	205	235	50	80	82.9	6.1	7.0	1.5	2.4
Exchanges	19	9	2	4	1	3	47.4	10.5	21.1	5.3	15.8
Back office	742	641	46	29	7	19	86.4	6.2	3.9	0.9	2.6

Source: Statistics Canada, Canadian Business Patterns.

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