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PERFORMANCE AND POTENTIAL

Toronto's Financial Services Sector, 2014.

TFSA | TORONTO FINANCIAL SERVICES ALLIANCE

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Performance and Potential: Toronto's Financial Services Sector, 2014

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Preface

This report examines Toronto's financial services industry and its economic contribution to the Toronto area and to Canada as a whole. As well, this report compares Toronto's financial services sector with other global financial centres, and reviews Toronto's place in an international context. Finally, the report discusses how Canadian financial institutions operate internationally, and the importance of foreign trade and investment in Toronto's financial services industry.

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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

Performance and Potential: Toronto's Financial Services Sector, 2014

At a Glance

- In 2013, direct employment in Toronto's financial services sector was 245,425, the second-largest financial centre by employment in North America.
- Since 2002, employment in Toronto's financial services sector has grown by 34 per cent. Centres such as New York and Chicago have seen decreases of 6.6 per cent and 10.3 per cent, respectively.
- Globally, Toronto ranked second in terms of financial services employment as a share of total employment.
- Toronto continues to be a global financial centre but this perception is stronger within North America.
- The financial services' share of total Canadian services exports rose steadily, almost doubling from 5.9 per cent a decade ago to 11 per cent in 2013.

In this update to *Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector*, the Toronto Financial Services Alliance continues its examination of Toronto's financial services industry and its place in an international context. Financial services continue to be an integral part of Toronto's economy; the sector directly accounts for about 1 out of every 13 jobs in the Toronto metro area. In addition, the sector indirectly supports activities in other sectors. The importance of financial services has grown in recent years: since 2002, financial services employment in Toronto has risen by 34 per cent, equivalent to an average annual growth of 2.7 per cent, versus 1.7 per cent for all sectors. The financial services sector now accounts for 7.9 per cent of the metro area's employment. Given the size and importance of Toronto's financial sector, it is important to understand its economic contribution to the Toronto area and to Canada as a whole.

Although Toronto's financial services sector has grown significantly, it remains smaller than global financial powerhouses like New York and London. But Toronto is making gains on the global scale. Two recently released surveys show that Toronto remains one of the more important global financial centres and that the metro area's ranking is improving. Toronto's proportional reliance on its financial services sector is even higher than that in major global financial centres such as London and New York.

Part of this success comes from rising financial services exports and increased foreign direct investment (FDI). Doing business in international markets benefits not only the Canadian financial services sector but the Canadian economy as a whole. Therefore, exports of financial services directly contribute to economic growth and job creation in Canada.

Economic Impact of Financial Services

Toronto's financial services sector directly employed 245,425 people in 2013. This includes everyone from tellers and insurance agents in local offices to the headquarters staff of multinationals headquartered in the metro area. This is equivalent to 7.9 per cent of the metro area's employment, which is the highest share among Canadian metro areas.

The sector also indirectly supported an additional 203,703 jobs in 2013. Thus, Toronto's financial services sector sustained a total of 449,128 jobs. The indirect effects occurred largely in Toronto, but benefits did accrue across the country. Of the 203,703 indirect jobs, 103,079 occurred in Toronto, 68,719 in the rest of Ontario, and 31,905 in the rest of Canada.

Toronto Versus Other Global Financial Centres

Even though New York and London remain the undisputed global leaders, Toronto is an important financial centre. In international comparisons of global financial centres, such as those produced by *The Banker* magazine, Toronto also ranks behind Singapore and Hong Kong. However, depending on what measures are used, Toronto ranks ahead of Tokyo and some other cities such as Frankfurt, Sydney, and Zurich. Certainly, all of these cities are national leaders, but they are also important global players in different parts of the financial services sector. Toronto also has a higher concentration of employment than many global centres, with 245,425 direct jobs in the financial services sector.

Toronto's status as a global financial centre is founded on its core strengths. These include its diversity and its scale. Toronto is home to the headquarters of 4 of the world's 50 largest banks, 2 of the world's 11 largest life and health insurers, a top 10 global equity market, and 3 of the world's 40 largest pension funds. The sector has structural strengths, such as its skilled workforce. Indeed, about 51.7 per cent of Toronto's financial services sector has obtained at least a bachelor's degree. In addition, the sector has a well-regarded regulatory system, reflected in the fact that the World Economic Forum has named Canada's banking system the world's strongest for seven consecutive years. However, an area where Toronto is not as internationally focused is securities, which comprises a smaller portion of the sector in Toronto compared with some other global financial centres. Foreign firms have a much stronger presence in securities versus other financial services industries.

The Importance of Foreign Trade and Investment to Financial Services

Having a presence abroad enhances the international reputation of Canadian financial institutions and of the Canadian financial system. But doing business in international markets does not benefit just the Canadian financial services sector; it also benefits the Canadian economy as a whole. In fact, it is estimated that more than 80 per cent of banking services exports consists of Canadian content; therefore, a large share of the economic benefits generated through financial services exports remains in Canada. As Canadian financial institutions have provided more services to non-residents over the past decade, financial services exports have more than doubled. In fact, financial services export growth has outperformed total services sector export growth over the past decade, and its share of total Canadian services exports rose to 11 per cent in 2013, up from 5.9 per cent in 2003.

Several Canadian financial services firms also operate directly in international markets through their foreign subsidiaries or affiliates. Thanks to these subsidiaries, Canadian financial services firms can diversify their activities and grow their customer base and revenues. Canadian banks derived nearly a third of their revenues from their operations in the U.S. and other international markets in 2013. For Manulife Financial and Sun Life Financial—the two main Toronto-based insurance companies with major international operations—the share of revenues from international operations was even greater.

CHAPTER 1

Introduction

Chapter Summary

- Financial services are an integral part of Toronto's economy, and the sector directly accounts for about 1 out of every 13 jobs in the Toronto metro area.
- Financial services employment growth has outpaced the average for all sectors in Toronto.
- Toronto is commonly ranked among the top financial centres in the world.
- Financial services exports have grown in importance to Canada's economy.

This report updates some of the key information first published in *Ensuring the Future: Understanding the Importance of Toronto's Financial Services Sector*. The purpose is to provide an annual scorecard on the performance of Toronto's financial services sector in a domestic and international context.

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

Part of the sector's strength lies in its depth and diversity. Banking, insurance, and securities industries accounted for a combined 93.6 per cent of Toronto's financial services employment in 2013. These industries also account for 89.6 per cent of Toronto's financial services enterprises. But a wide variety of other activities—including credit unions, asset management, exchanges, and back-office operations—are also important. (See Appendix A.) In fact, among all of the industries that make up the sector, Toronto accounts for an above-average share of Canada's total employment in that industry, except in the case of credit unions. As such, Toronto remains Canada's largest and dominant financial centre.

The importance of Toronto's financial services sector goes beyond Canada's borders. Although it does not receive as much recognition as New York or London, Toronto's financial sector is both diverse and specialized, and generally has a good reputation. Toronto is commonly ranked among the top financial centres in the world, and the international presence of its financial institutions has grown recently. For example, the financial services' share of total Canadian services exports has steadily risen over the past decade, and Canadian banks and life insurers in particular have been expanding their presence in international markets.

Given the size and importance of Toronto's financial sector, both to the metro area's economy and to Canada's as a whole, it is important to get a better understanding of the sector. To do so, we start by considering the economic impacts of Toronto's financial services sector. This includes a discussion of direct employment and GDP effects, as well as secondary economic effects.

We then turn to a discussion of the sector's place in the world. This includes a comparison of Toronto's financial services sector with other major financial centres around the world. We also dig a little deeper to examine the characteristics of Toronto's financial services sector, and how the levels of education, income, and occupational structure compare with other global financial centres.

We conclude with a look at the growing role of international trade and investment in the sector. Having an international presence enhances the reputation of Canadian financial institutions and of the Canadian financial system. As a result, financial services have been an export success story for Canada in recent years. Understanding why is an important part of ensuring future success.

CHAPTER 2

The Economic Impact of Toronto's Financial Services Sector

Chapter Summary

- Toronto's financial services sector directly employed 245,425 people in 2013. It indirectly supported another 103,079 jobs in Toronto and 100,624 across the rest of Canada. This means Toronto's financial services sector accounted for a total of 449,128 jobs across Canada in 2013.
- Employment in the sector increased by an average annual growth of 2.7 per cent from 2002 to 2013, which compares favourably with 1.7 per cent for all sectors in the Toronto metro area over the same period.
- Since GDP per employee is considerably above average in the sector, financial services accounts for a larger share of Toronto's GDP (12.2 per cent) than its employment (7.9 per cent).

The financial services sector is one of Toronto's major clusters. It directly employed nearly a quarter of a million people in 2013, which includes everyone from tellers and insurance agents in local offices to the headquarters staff of multinationals in the metro area. In terms of GDP size, the financial services sector is almost tied for second with manufacturing (behind public services) and is fifth in terms of employment size. (See Table 1.)

Table 1
Breakdown of Major Sectors in Toronto's Economy

	2013 employment		2013 GDP	
	Number	Share (%)	2007 $ millions	Share (%)
Financial services	245,425	7.9	32,851	12.2
Manufacturing	335,325	10.7	33,091	12.3
Public services	626,675	20.1	41,854	15.5
Professional services	326,975	10.5	20,637	7.6
Information services	97,650	3.1	13,630	5.0
Retail trade	354,425	11.4	13,673	5.1
Transportation	172,750	5.5	11,244	4.2
Construction	193,375	6.2	13,809	5.1
Accommodation and food services	183,775	5.9	4,572	1.7
Other sectors	584,700	18.7	84,741	31.4
Total	3,121,075	100.0	270,104	100.0

Sources: Statistics Canada; The Conference Board of Canada.

When assessing the economic footprint of the financial services sector, one must consider both the direct and indirect effects. The direct effects are those associated with the day-to-day operations of Toronto's financial services sector. Essentially, this covers all of the economic activity of the sector itself in Toronto. The indirect effects measure the use of intermediate inputs or other support services that are used by the financial services sector, both in Toronto and in the rest of the country. More specifically, the financial services sector directly accounts for nearly 1 out of every 13 jobs in the Toronto metro area. As well, the sector indirectly supports activity in a variety of other sectors, such as professional services and administrative sectors.

Direct Effects

Along with employing 245,425 people in 2013, Toronto's financial services industry has been a significant source of growth in recent years. In 2002, the sector employed 183,680 people in Toronto. This represents an average annual growth of 2.7 per cent over the past decade, which compares favourably with 1.7 per cent for all sectors in the Toronto metro area over the same period.

Because employment growth in the sector has outpaced the average for all sectors, financial services have grown as a share of Toronto's economy. Between 2002 and 2013, the sector's share of the metro area's employment rose from 7.1 per cent to 7.9 per cent. In fact, the concentration of financial services employment in 2013 was higher in Toronto than in any other metro area across the country. (See Chart 1.)

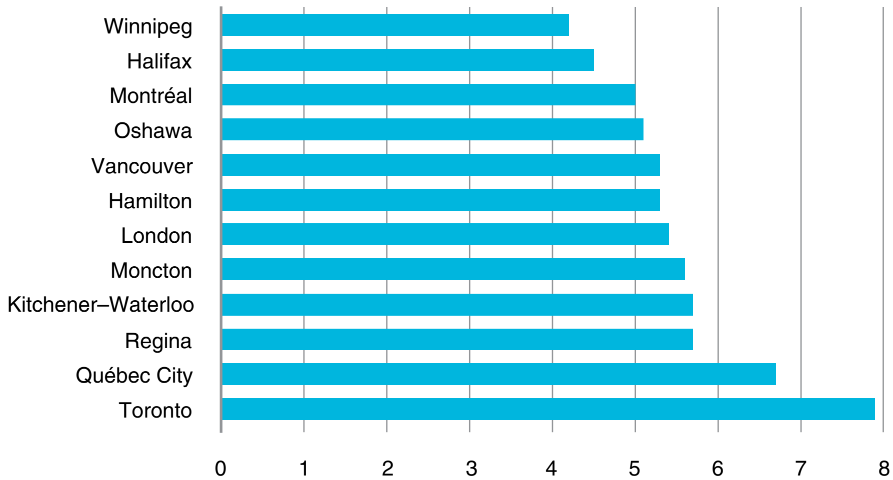
Toronto's share of Canada's financial services employment has also risen over the past decade. For example, in 2002, Toronto accounted for 27.9 per cent of Canadian financial services employment; this share had risen to 30.6 per cent in 2013. By way of comparison, Toronto's share of total Canadian employment changed by only a small amount over that period, rising from 16.9 per cent to 17.6 per cent. This indicates that Toronto has solidified its position as Canada's leading financial centre.

Of course, an increase in Toronto's share of Canada's financial services employment indicates a decline elsewhere. Over the past decade, most other major financial centres in Canada, such as Montréal and Vancouver, have experienced below-average growth and have seen their

Chart 1

Concentration of Financial Services Employment Is Highest in Toronto Among Canadian Metro Areas, 2013

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



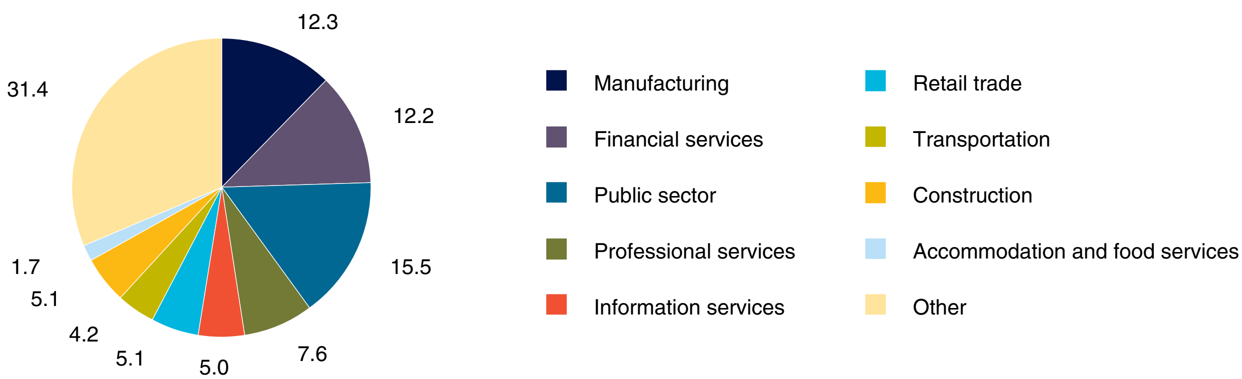
Sources: Statistics Canada; The Conference Board of Canada.

share of Canadian financial services employment shrink. For instance, financial services employment growth averaged 1.9 per cent per year from 2002 to 2013 in both Montréal and Vancouver, and Canadian financial services employment has gone up by the same 1.9 per cent per year in the last 11 years. Two exceptions to that slowing in growth are Québec City and Calgary, where financial services employment has enjoyed annual increases of 3 per cent and 3.3 per cent, respectively, over the same period. However, their financial sectors remain much smaller than Toronto's, with employment totalling just under 30,000 in each city in 2013.

Toronto's share of Ontario's financial services employment has been more stable than its national share, averaging 62 per cent over the last decade. In comparison, Toronto accounted for 45.4 per cent of Ontario's total employment in 2013. However, there has been strong growth in financial services employment in other regions of the province as well.

As large as the employment impact is, it is important to note that the GDP impact of Toronto's financial services sector is even larger. On a GDP basis, financial services accounted for 12.2 per cent of the metro area's economy in 2013; this is third behind public services (15.5 per cent) and just slightly behind manufacturing (12.3 per cent). (See Chart 2.)

Chart 2
Financial Services Are a Major Contributor to Toronto's Economy, 2013
(share of Toronto metro area GDP, per cent)



Source: The Conference Board of Canada.

Financial services account for a larger share of Toronto's GDP than does 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 2013 were \$1,158 versus the overall industrial average of \$920.[1] As well, the sector's depreciation expense per employee

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

in Ontario was $16,700 versus $11,100 for all industries in 2013.[2] Although the sector's capital stock per employee is below average, much of this capital stock is 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 19.1 per cent in 2013 versus 6.9 per cent for all industries.[3]

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. In Toronto, the presence of many financial services headquarters amplifies this effect, since many of the sector's highest value activities occur in Toronto. In fact, Toronto is home to 30.6 per cent of the head offices in Canada's financial services sector and 43 per cent of the sector's head office employment.[4] In comparison, Toronto accounted for only 17.6 per cent of national employment.

Indirect Effects

In addition to employing people directly, the financial services sector also generates secondary or indirect effects in the economy. Indirect effects 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 203,703 jobs in Canada in 2013. Thus, the sector accounted for a total of 449,128 jobs once the direct effects are added to the indirect effects. The indirect effects occurred largely in Toronto, but benefits did accrue

2 Derived from Statistics Canada, CANSIM table 031-0002; *Labour Force Survey.*

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

4 Statistics Canada, "Annual Head Office Survey, 2012."

across the country. Of the 203,703 indirect jobs, 103,079 occurred in Toronto, 68,719 in the rest of Ontario, and 31,905 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	245,425	54.6	103,079	23.0	68,719	15.3	31,905	7.1	449,128	100.0
GDP (2007 $ millions)	32,851	65.6	7,490	15.0	6,872	13.7	2,860	5.7	50,073	100.0

Source: 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, for every direct job in Toronto, there were another 0.42 indirect jobs in Toronto, 0.28 indirect jobs in the rest of Ontario, and 0.13 indirect jobs in the rest of Canada.

The sector also has indirect GDP effects across Canada. In fact, for every $100 of GDP that 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.

CHAPTER 3

Comparing Toronto With Other Global Finance Centres

Chapter Summary

- Toronto is a major global financial centre. Although not in the same league as London, New York, Hong Kong, and Singapore, it is a leading centre on par with Frankfurt and Zurich.
- Toronto is home to many of the country's largest banks, health and life insurers, and pension funds, all of which have a significant international presence.
- Toronto's financial sector is very diverse and specialized and enjoys a good reputation around the globe.
- The share of employment in financial services is very high in Toronto, making the metro area more reliant on financial services than New York or London.
- Financial services employment has increased by more than 30 per cent in Toronto over the past decade, while it has declined in major U.S. financial centres.

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

At the centre of Canada's financial services sector is the Toronto region. In 2013, Toronto accounted for 30.6 per cent of Canada's financial services employees, more than double its closest Canadian competitor (Montréal at 12.7 per cent). In fact, in the financial services sub-sectors like banking, asset management, securities, exchanges, and back-office operations, Toronto's share of Canadian employment was even greater. (See Appendix A.) Toronto is home to many of the country's largest banks, life insurers, hedge fund administrators, pension funds, securities firms, mutual fund companies, and investment management firms. In addition, many foreign-based financial institutions operating in Canada have their Canadian head offices in the Toronto region. For instance, Toronto is home to the headquarters of 4 of the world's 50 largest banks, 2 of the world's 11 largest life and health insurers, a top 10 global equity market, and 3 of the world's 40 largest pension funds.

Toronto is also the mining finance capital of the world, with the Toronto Stock Exchange (TSX) ranking first in the world in terms of the number of mining companies listed and in mining equity capital raised.[2] Well over half of the world's publicly listed mining companies are listed on the TSX. More broadly, the TSX has the eighth-largest market capitalization in the world.[3] The TSX has also been performing very

1 Schwab, *The Global Competitiveness Report 2014–15*.

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

3 Pavoni, "London Retains Its IFC Lead."

well among global stock exchanges in terms of new listings. In 2013, the TSX and TSX Venture Exchange ranked second in the world for the number of new listings, and third in the world for the number of new international listings.[4]

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

Canadian banks are leveraging their domestic strength to continuously increase their presence in international markets. Indeed, four of the five major Canadian banks headquartered in Toronto (Royal Bank of Canada [RBC], TD Bank Group, Scotiabank, and Bank of Montreal) are among the 50 largest banks globally in terms of assets.[6] As well, all five of these banks now earn a significant share of their revenues outside of Canada. For example, RBC, Canada's largest bank, earned one-third of its revenues in foreign markets in 2013.[7] RBC is the second-largest bank of the English Caribbean in terms of assets, with branches in 19 countries and territories.[8]

Meanwhile, Scotiabank, the most internationally focused of Canada's major banks, reported that it earned 48 per cent of its income outside of Canada in 2013.[9] In Mexico alone, Scotiabank employed 11,000 people. Also, in 2012, Scotiabank was recognized as "the Global Bank of the Year" by *The Banker* magazine—the first time this recognition was given to a Canadian bank—as well as the Bank of the Year in the Americas.[10]

4 TMX Group, *2013 Annual Report.*

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

6 Fiano, "World's 50 Biggest Banks 2012."

7 Royal Bank of Canada, *Royal Bank of Canada Annual Report: 2013.*

8 Royal Bank of Canada, *RBC at a Glance—Q2/2014.*

9 Scotiabank, *2013 Scotiabank Annual Report.*

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

One area where Toronto's financial services sector stands out internationally is pension funds.

Source: The Conference Board of Canada.

The major life and health insurers based in Toronto are even more globally focused than the large banks. For example, Manulife Financial ranked sixth in the world among public life insurers in terms of assets[11] and derived 70 per cent of its revenues from foreign sources.[12] Sun Life Financial has a smaller international presence, but it ranks 11th among global public life insurers and earned 48 per cent of its revenues abroad. Both companies have a long-standing international presence in both the United States and Asia.

One final area where Toronto's financial services sector stood out internationally was pension funds. The three largest funds headquartered in the region—Canada Pension Plan Investment Board (CPPIB), Ontario Teachers' Pension Plan, and Ontario Municipal Employees Retirement System (OMERS)—were all ranked among the top 40 pension funds in the world in terms of assets under management, and all three invested internationally.[13] For example, the CPPIB had 69 per cent of its assets outside of Canada in 39 different countries,[14] with employees in markets such as London and Hong Kong.

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

One potential reason for this is that foreign firms have a much stronger presence in securities versus other financial services industries; 7 of the top 10 international underwriters of Canadian companies were foreign

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

12 Manulife Financial, *Manulife Financial Corporation 2013 Annual Report.*

13 *The Economist*, "Canada's Pension Funds: Maple Revolutionaries."

14 Canada Pension Plan Investment Board, *2014 Annual Report.*

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

The Banker magazine ranked Toronto a very respectable 6th in its list of international financial centres.

Source: Pavoni, "London Retains Its IFC Lead."

securities firms.[16] As well, average wages in Toronto's securities industry lag behind those in places like New York and Chicago.[17] Finally, the securities industry comprises a smaller portion of the financial services sector in Toronto compared with some other global financial centres. The result is that the smaller size and pay of this "marquee" industry in Toronto may be influencing perceptions of the sector as a whole.

How Does Toronto Rank Globally?

Toronto generally ranks well compared with other global financial centres. For example, *The Banker* magazine ranked Toronto a very respectable 6th in its list of international financial centres, behind cities like New York, London, and Singapore.[18] Toronto ranked 11th in the most recent Global Financial Centres Index (GFCI), conducted by Long Finance, up from 14th in the previous version.[19] One of the reasons for Toronto's lower ranking in this report compared with *The Banker* magazine is that the GFCI is partially based on a survey of global financial services professionals and, outside of North America, respondents generally perceived Toronto as less global. Toronto is unique among the major global financial centres in this regard.

If we look at other global studies that rank cities based on different indicators, we may gain some clues as to what is affecting perceptions of Toronto. For example, the Global Power City Index ranks several international cities on magnetism, or their "comprehensive power which allows them to attract creative individuals and business enterprises from every continent and to mobilze their assets in securing economic, social and environmental development."[20] In the 2014 version, Toronto ranked 17th, due in large part to a lower ranking in the cultural, environment,

16 Ibid.

17 Ibid.

18 Pavoni, "London Retains Its IFC Lead."

19 Long Finance, *The Global Financial Centres Index 16.*

20 Institute for Urban Strategies, *Global Power City Index 2014*, p. 1.

and accessibility domains.[21] Meanwhile, financial powerhouses like New York and London have stayed at the top of the rankings. Smaller but still important global financial centres such as Seoul, Sydney, Frankfurt, and Zurich remain ranked ahead of Toronto. Still, Toronto has improved in the Global Power City Index in the past few years, steadily climbing up from 25th in the 2011 version.

Another study, the Global Cities Index, focuses on a city's influence on and integration with global markets, culture, and innovation. Coincidentally, the top financial centres also ranked at the top of the Global Cities Index. New York and London led the way, while Toronto finished in 13th place, only 1 point out of 10th position.[22] Again, this is an indication that Toronto may be less globally integrated than some of the other major financial centres.

In the Global City Competitiveness Index, Toronto scored highly (second place) in terms of financial maturity (breadth and depth of the city as a financial cluster).[23] However, it fell on the index's global appeal indicator, ranking 16th, which measures the presence of globally renowned institutions headquartered in the city, and its international orientation. All in all, U.S. and European cities (New York and London, especially) were at the top of the rankings. Despite the financial crisis, which hit New York and London particularly hard, these cities still have the ability to attract capital and talent. Other financial centres—such as Singapore, Hong Kong, Tokyo, Zurich, and Chicago—also ranked ahead of Toronto. Better performance on measures of physical and human capital, as well as environment, are the reasons these centres ranked higher in the study.

Finally, when it comes to image, once again Toronto lags somewhat behind other global financial centres. According to KPMG's Global Cities Investment Monitor, New York and London have the best image on an international scale, while Toronto ranked 13th.[24] Taken together,

21 Institute for Urban Strategies, *Global Power City Index 2014*.

22 A.T. Kearney, *2014 Global Cities Index and Emerging Cities Outlook.*

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

24 KPMG, *Global Cities Investment Monitor 2014.*

these surveys indicate that the perception of Toronto ranks somewhat behind other major financial centres in terms of global influence, appeal, and image.

Understanding Other Global Financial Centres

To better understand Toronto's strengths as a global finance centre, we can compare it with other major finance centres around the world. We have chosen to highlight a variety of cities with different characteristics, including some that are major global players and others that are different types of regional hubs. The centres are grouped geographically, in order to focus on the hub and the other centres in each part of the world. The cities we will compare with Toronto include the following:

- London and New York (large global players)
- Tokyo, Singapore, and Hong Kong (strong regional hubs in Asia)
- Zurich, Geneva, Frankfurt (strong regional hubs in Europe)
- Mumbai, Seoul, Shanghai, and Beijing (emerging Asian hubs)
- São Paulo (emerging Latin American hub)
- Chicago and Boston (strong, niche centres)
- Dubai (emerging Middle Eastern hub)
- Sydney (emerging Oceanic hub)
- San Francisco, Washington, D.C., Montréal, Vancouver, and Calgary (smaller North American centres)

The United States

New York arguably remains the top financial centre in the world, and its financial services sector is very diverse and very deep. It is ranked number one in the Global Financial Centres Index and number two in *The Banker* magazine's list of international financial centres (after London). (See Table 3.) It is home to six major stock, commodities, and futures exchanges: American Stock Exchange, International Securities Exchange, NASDAQ, New York Board of Trade, New York Mercantile Exchange, and New York Stock Exchange. As well, 8 of the world's top 10 securities firms have headquarters in New York.[25] A variety of large multinational banks and insurance companies are also headquartered in New York, including Citigroup and AIG. Finally,

Table 3

Rankings of Global Financial Centres

The Banker **survey**		**GFCI**	
London	1	New York	1
New York	2	London	2
Singapore	3	Hong Kong	3
Hong Kong	4	Singapore	4
Dubai	5	San Francisco	5
Toronto	**6**	Tokyo	6
Paris	7	Zurich	7
Tokyo	8	Seoul	8
Amsterdam	9	Boston	9
Sydney	10	Washington, D.C.	10
Frankfurt	11	**Toronto**	**11**
Dublin	12	Chicago	12
Zurich	13	Geneva	13
Luxembourg	14	Vancouver	14
Stockholm	15	Luxembourg	15
Oslo	16	Frankfurt	16
Johannesburg	17	Dubai	17
Seoul	18	Montreal	18
Manama	19	Abu Dhabi	19
Melbourne	20	Shanghai	20

Sources: *The Banker;* Long Finance, *The Global Financial Centres Index 16.*

25 Encyclopedia Britannica.

New York is a major centre for the professional services industries that support financial services, such as information technology, legal, and accounting services.

Although Chicago's financial services sector is quite a bit smaller than New York's, it is the geographic centre of global derivatives trading. Over $4 billion in global derivatives trading takes place in Chicago, which amounts to about 16 per cent of the global total.[26] This is more than in New York (13 per cent of global total) and nearly as much as in all of the exchanges in Europe combined (20 per cent of global total). Chicago is also home to some of the largest financial institutions in the U.S., including JPMorgan Chase and Allstate Insurance.

Although it is commonly known as a high-tech centre, San Francisco is the finance capital of the western United States. There are many brokerage and banking firms with offices in the San Francisco area and it is home to more than 30 international financial institutions,[27] as well as the Federal Reserve Bank of San Francisco. For example, the headquarters of Charles Schwab and Franklin Templeton Investments are located here as well as the headquarters for Visa. While the technology sector has been primarily responsible for the growth in San Francisco's economy, there remains an important link between the technology sector and the financial sector—the Bay Area is the world headquarters of the technology venture-capital industry.[28]

Boston's finance and insurance industry has experienced fluctuating employment over the last decade. Indeed, hiring has stalled ever since the end of the global financial crisis in 2008–09. However, Boston remains well-known for its asset-management businesses[29] and is home to large money managers such as Fidelity Investments, Wellington Management, Putnam Investments, and MFS Investment Management. In fact, in the 2013 rankings of global financial centres, Boston ranked

26 World Business Chicago, *Economy.*

27 Badenhausen, *The Best Places for Business and Careers.*

28 Perry, *Top 10 Cities for a Career in Finance.*

29 Ibid.

fourth in the world on the value of assets under management (behind New York, London, and Chicago).[30] Banks, insurance companies, money managers, and brokerage firms account for $36 billion, or 9 per cent, of the state's total economic output.[31]

Europe

London remains the top European financial centre and continues to vie with New York for the number one spot globally. In *The Banker* magazine's survey, London ranked first, while it ranked second in the Global Financial Centres Index. Due to its very business-friendly climate, foreign investors flock to London. Three of the United Kingdom's largest banks (Barclay's, HSBC, and Lloyds Banking Group) are headquartered there. Apart from traditional banking activities and insurance, London also thrives as a centre for foreign exchange and bond trading. The city has many trading facilities and is a hub for foreign exchange, futures, global insurance, and bonds.[32]

Meanwhile, two Swiss cities that consistently place alongside larger financial powerhouses on the GFCI and on *The Banker* magazine list are Geneva and Zurich. As the birthplace of asset management, Geneva is home to 130 banking firms (of which 60 are foreign-owned) and 850 independent asset managers. However, Geneva is also a world leader in commodity trading and is the main hub for oil, sugar, cereals, and non-ferrous metals trading. Roughly one-third of the exported oil and derivatives are handled by Geneva traders.[33] Although Zurich is also a centre for asset management—close to 10 per cent of worldwide assets under management are in Switzerland (the U.S. and U.K. are

30 Pavoni, "London Leads Again."

31 Boston Redevelopment Authority, *Finance and Insurance Industry*.

32 UNCSBRP, *London's Economic Plan and Major Industries.*

33 Geneva Financial Center, *Facts and Figures*.

the largest)—it has developed into a centre for insurance companies. About 37 per cent of financial services GDP in Zurich are accounted for by insurers.[34]

Frankfurt is an up-and-coming financial centre. Indeed, international banks like Goldman Sachs, JP Morgan, and Morgan Stanley have strong capital markets teams in Frankfurt. True, Frankfurt is much smaller than New York and London, but its goal is to rival the world's greatest financial centres. With the aim of becoming an important trading hub for China's currency, the German central bank signed a deal with China in March 2014 to become one of Europe's first payments hub for the renminbi. Frankfurt will have to compete with London, the world's largest currency trading hub. However, the hope is that this will encourage more foreign direct investment into Germany from Chinese investors.[35]

Southeast Asia and China

Hong Kong and Singapore are the leaders in Asia. In Singapore, liberalization of the domestic banking market, numerous mergers, and the expansion of foreign banks into Singapore have contributed to the success of the banking industry. However, Singapore is not just about banking. Emphasizing growth in bond markets, Singapore has matured into a key international debt-arranging hub in Asia and has emerged as a leading private banking destination for international investors.[36]

Meanwhile, after the 1997 handover to China, Hong Kong's economy has mostly maintained its laissez-faire policies, allowing its financial services sector to remain very global and very modern. It offers a breadth of services surpassed only by London and New York. Due to the economy's emphasis on growth in equity markets, Hong Kong's financial relationship with the rest of China is strong.[37] Despite the emergence

34 Zurich Financial Center, *The Zurich Banking Center: Facts and Figures.*

35 *The Financial Times,* Frankfurt as a Financial Centre.

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

37 Ibid.

of other domestically oriented financial centres in China, Hong Kong's financial sector is a major financial entry and exit point for a booming greater China.

Shanghai is a rapidly expanding financial centre in mainland China but should be viewed as a complement to Hong Kong, not a competitor. Whereas Hong Kong's equity markets are well developed, open, and competitive, Shanghai's equity markets are shallower and centrally controlled.[38],[39] Shanghai and other local exchanges (such as Beijing) are mechanisms used for propelling domestic economic growth, not for undermining Hong Kong's external role. However, the city still plays a prominent role in domestic bond financing, and its market for domestic equities is vibrant and growing.

Japan's financial system is largely centred on commercial banking, specialized government-owned financial institutions, and capital and money markets. In 1990, the five largest banks in the world (measured by total assets) were Japanese banks.[40] However, only one Japanese bank is now in the top 10 (Mitsubishi UFJ Financial Group) according to *The Banker* magazine's list of the top 1,000 global banks.[41] As well, a growing line of foreign banks is shrinking operations in Japan. As a result, Tokyo's status as a financial centre is particularly under threat. As a regional centre, it is losing ground to Hong Kong and Singapore.

The Korean government has focused on making Seoul a world-class city with a business environment that is attractive to foreign investors and financial professionals. In this regard, the government proposed the "Roadmap to Create a Financial Center in Northeast Asia" in January 2009 to improve the city's financial competitiveness. Later that year, the domestic stock market achieved a landmark as the FTSE raised

38 Luo, "Shanghai as an International Finance Center—Aspiration, Reality and Implication."

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

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

41 *The Banker*, *The Banker Top 1000 Banks 2013 Rankings*.

the global equity index series of Korea from "advance emerging" to "developed."[42] As well, earlier this summer, China appointed Seoul as a payments hub for the renminbi (along with London and Frankfurt).[43]

Other

São Paulo is the hub in Latin and South America, boasting the largest stock market in the area. Traditionally, local banks were generally under government control but deregulation has allowed banks to diversify into other areas.[44] As a result, São Paulo is home to a majority of Brazil's private capital and is the preferred location for Brazilian headquarters of all major industrial, commercial, and financial companies. However, the city is not yet close to being a top-level financial services provider. São Paulo ranks 34th on the GFCI and 53rd on *The Banker* list.

Similarly, Sydney is the hub of the Oceanic financial services sector. Both the Australian Securities Exchange and the Reserve Bank of Australia are headquartered in Sydney. It is also home to the headquarters of the Australian Stock Exchange and the Reserve Bank of Australia. Sydney has been dubbed a leading financial centre in the Asia-Pacific[45] but has been losing ground in recent years. According to the GFCI, Sydney's ranking went from 9th in 2007 to 23rd in the latest issue. One way that Sydney is hoping to regain some of its swagger is from the implementation of the Asia Region Funds Passport (ARFP), with the intent of making free trade in funds management services among Australia, New Zealand, South Korea, Singapore, Philippines, and Thailand much easier.[46]

42 INVEST Seoul, *Financial Industry*.

43 Chin, *Globalizing the RMB? Beijing Appoints Three New Clearing Banks in London, Frankfurt, and Seoul*.

44 Clark, *São Paulo—The Future Capital of the Southern Hemisphere?*

45 Daly and Pritchard, "Sydney: Australia's Financial and Commercial Capital."

46 Eyers, "Sydney Losing Battle to Become a Leading Financial Centre."

Finally, Mumbai is another regional financial centre that ranks well down the lists for major global financial centres. However, Mumbai has emerged as the preferred destination for financial services in India. The city is home to the country's two largest stock exchanges and is the headquarters for many of India's major banking institutions. Indeed, many of the world's largest multinational banking institutions now have a presence in Mumbai. As well, as the centre for India's information technology services industry, Mumbai is a growing global player in the provision of outsourced back-office services.

Toronto Compared With Other Global Financial Centres

According to the most recent version of the GFCI, New York, London, Hong Kong, and Singapore are the most attractive financial centres in the world. Toronto improves to 11th position, behind the top 4 and behind Tokyo.[47] In the GFCI rankings, Toronto finishes ahead of Chicago, Frankfurt, Geneva, Sydney, Mumbai, Shanghai, Dubai, and the other Canadian centres, among others, and was considered a broad and deep global financial centre in the report, meaning that Toronto's financial sector is a global leader. (See Table 4.)

From a North American perspective, the GFCI survey ranked Toronto behind New York, San Francisco, Boston, and Washington D.C. but ahead of Chicago. (See Table 5.) Although North American respondents viewed Toronto very favourably, respondents from elsewhere in the world gave it a lower rating. Conversely, New York is viewed favourably around the globe. Toronto's ranking is more favourable in *The Banker* magazine survey, where it placed second out of seven other North American centres, and sixth in the world.

Toronto is generally a centre with a good reputation according to the GFCI, ahead of many centres, although larger centres such as London, New York, Hong Kong, and Singapore tend to have a better reputation.

47 Long Finance, *The Global Financial Centres Index 16.*

Table 4
Rankings of Broad and Deep Financial Centres

New York	1
London	2
Hong Kong	3
Singapore	4
Tokyo	6
Zurich	7
Seoul	8
Boston	9
Toronto	**11**
Frankfurt	16
Paris	31
Amsterdam	39

Source: Long Finance, *The Global Financial Centres Index 16*.

Table 5
Rankings of Global Financial Centres for North American Cities

The Banker survey		GFCI	
New York	2	New York	1
Toronto	**6**	San Francisco	5
Montréal	22	Boston	9
San Francisco	42	Washington, D.C.	10
Chicago	45	**Toronto**	**11**
Boston	47	Chicago	12
Mexico City	52	Vancouver	14
		Montréal	18
		Calgary	26
		Mexico City	44

Sources: *The Banker;* Long Finance, *The Global Financial Centres Index 16*.

In earlier versions of the GFCI, Toronto was normally included among the top 10 areas in terms of reputation and "General Factors." As well, in past GFCI surveys, Toronto was often mentioned as a centre that is likely to "become more significant over time,"[48] but it has fallen out of the top 10 in the most recent survey.

The GFCI survey also presents sub-indices, 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. Toronto is well represented within these five industry sectors, scoring a top 10 ranking in investment management, government and regulatory, and professional services. (See Table 6.) As expected, the large financial centres dominate each sub-sector.

Table 6
GFCI: Industry Sectors

Investment management		Banking		Government and regulatory		Insurance		Professional services	
New York	1	New York	1	London	1	New York	1	London	1
London	2	London	2	New York	2	London	2	New York	2
Hong Kong	3	Hong Kong	3	Hong Kong	3	Busan	3	Hong Kong	3
Singapore	4	Singapore	4	Zurich	4	Singapore	4	Singapore	4
Tokyo	5	Seoul	5	Singapore	5	Hong Kong	5	Zurich	5
Zurich	6	Tokyo	6	Frankfurt	6	Seoul	6	Frankfurt	6
Boston	7	Shanghai	7	Tokyo	7	Zurich	7	Geneva	7
Frankfurt	8	Zurich	8	Geneva	8	Tokyo	8	Boston	8
Geneva	9	Frankfurt	9	**Toronto**	9	Chicago	9	**Toronto**	9
Toronto	10	Dubai	10	Seoul	10	Shanghai	10	Dubai	10

Source: Long Finance, *The Global Financial Centres Index 16*.

48 Long Finance, *The Global Financial Centres Index 13*.

In *The Banker* magazine's survey,[49] Toronto fared better, ranking sixth globally and second in North America, after New York. This was an improvement on Toronto's seventh place in the previous survey. Key areas of identified strength for Toronto this time around included high levels of outward foreign direct investment, pre-tax profits, business friendliness, cost factors, and total bank assets. As well, Toronto ranked highly in terms of stock market capitalization, financial markets, and international debt securities. (See Table 7.)

Although Toronto places well on all of these measures, it generally lagged well behind the major global financial centres. For example, total assets were $7 trillion in London, $6.6 trillion in New York, and only $2.8 trillion in Toronto.[50] In fact, Toronto ranked below Frankfurt on total assets. As well, there were about $2.4 trillion worth of international debt securities in London, which far exceeds the Toronto value. Again, both New York and Frankfurt ranked above Toronto on this measure but, if we compare Toronto with other cities, the gap is smaller. For example, in terms of total assets, Toronto was on par with Zurich. In terms of the value of international debt securities, Toronto was closer to Madrid and Sydney.

On measures where Toronto ranked the highest—outward FDI and cost factors—it does better than some of the larger centres. For instance, although its FDI was again on par with Zurich's, Toronto was ahead of cities such as Frankfurt and Tokyo. Still, London and New York are on top when it comes to outward FDI. As for cost factors, Toronto's value of office space ($517 per square metre per month) was more affordable than the largest financial centres.

On other measures, Toronto generally fares well. For example, Toronto was ranked seventh in terms of bank profits. Profits in Toronto's banks were lower than those in New York and London, but ahead of numerous cities. Also of note, Toronto had the second-largest stock market capitalization in North America, behind New York. That said, market

49 Pavoni, "London Retains Its IFC Lead."

50 Ibid.

Table 7
***The Banker*, Sub-Indices**

Outward FDI		Inward FDI		International debt securities		Cost factors		Economic stability and potential		Financial markets	
London	1	London	1	London	1	Johannesburg	1	Doha	1	New York	1
New York	2	Hong Kong	2	Amsterdam	2	Manama	2	Shenzhen	2	London	2
Paris	3	Singapore	3	New York	3	Montréal	3	Shanghai	3	Tokyo	3
Zurich	4	Dubai	4	Paris	4	**Toronto**	**4**	Beijing	4	Paris	4
Toronto	**5**	Shanghai	5	Frankfurt	5	Dublin	5	Dubai	5	Luxembourg	5
Mumbai	6	New York	6	Dublin	6	Singapore	6	Singapore	6	Amsterdam	6
Frankfurt	7	Beijing	7	Milan	7	Edinburgh	7	London	7	Frankfurt	7
Tokyo	8	Sydney	8	Madrid	8	Bangkok	8	Manama	8	**Toronto**	**8**
Beijing	9	Dublin	9	**Toronto**	**9**	Hong Kong	9	Frankfurt	9	Hong Kong	9
Moscow	10	Moscow	10	Sydney	10	Melbourne	10	Panama City	10	Singapore	10

Financial services cluster		Foreign listings (%)		Stock market capitalization		Total bank assets		Bank pre-tax profits		Business friendliness	
London	1	Luxembourg	1	New York	1	Beijing	1	Beijing	1	Singapore	1
Hong Kong	2	Prague	2	Tokyo	2	Tokyo	2	New York	2	London	2
New York	3	Singapore	3	London	3	London	3	Tokyo	3	Amsterdam	3
Singapore	4	Dubai	4	Hong Kong	4	Paris	4	Paris	4	Dubai	4
Beijing	5	London	5	Shanghai	5	New York	5	London	5	Seoul	5
Dubai	6	Amsterdam	6	Paris	6	Frankfurt	6	San Francisco	6	Paris	6
Shanghai	7	New York	7	Mumbai	7	**Toronto**	**7**	**Toronto**	**7**	**Toronto**	**7**
Paris	8	Oslo	8	**Toronto**	**8**	Zurich	8	Shanghai	8	Wellington	8
Tokyo	9	Vienna	9	Frankfurt	9	Madrid	9	Sydney	9	Copenhagen	9
Frankfurt	10	Brussels	10	Zurich	10	Stockholm	10	São Paulo	10	Hong Kong	10

Source: *The Banker.*

capitalization in New York was more than three times greater than in Toronto. Toronto also placed seventh for business friendliness, ahead of New York, Tokyo, and Hong Kong. Even though Singapore and London placed ahead of Toronto, the scores were extremely close.[51]

Given the difference in the results, it is clear that *The Banker* and GFCI rankings are not completely comparable. For instance, the GFCI pulls together separate sources of data, split into five categories: Business Environment, Financial Sector Development, Human Capital, Infrastructure, Reputational and General Factors.[52] Scores from these five categories are combined with the results of a survey of global finance industry professionals to create an overall ranking. On the other hand, *The Banker* compiles financial data ranging from economic potential to business environment.[53] All in all, the rankings provided by *The Banker* are driven more by data, while the GFCI's also reflect survey responses. Interestingly, it is with the survey responses that Toronto loses ground in the GFCI rankings.

Employment in Global Financial Centres

Beyond these surveys, Toronto ranked highly compared with other global financial centres in terms of employment. Indeed, 245,425 people were employed in Toronto's financial services sector in 2013, meaning the city ranked seventh on this measure behind New York, London, Beijing, Shanghai, Tokyo, and Seoul on our extended list of cities. (See Chart 3.) However, Zurich is the only city among those considered here that is more dependent than Toronto on the financial services sector. (See Chart 4.) With financial services accounting for 7.9 per cent of the metro area's employment, Toronto's proportional reliance on financial services is even higher than that in major global financial centres such as London and New York, which have much larger populations.

51 Ibid.

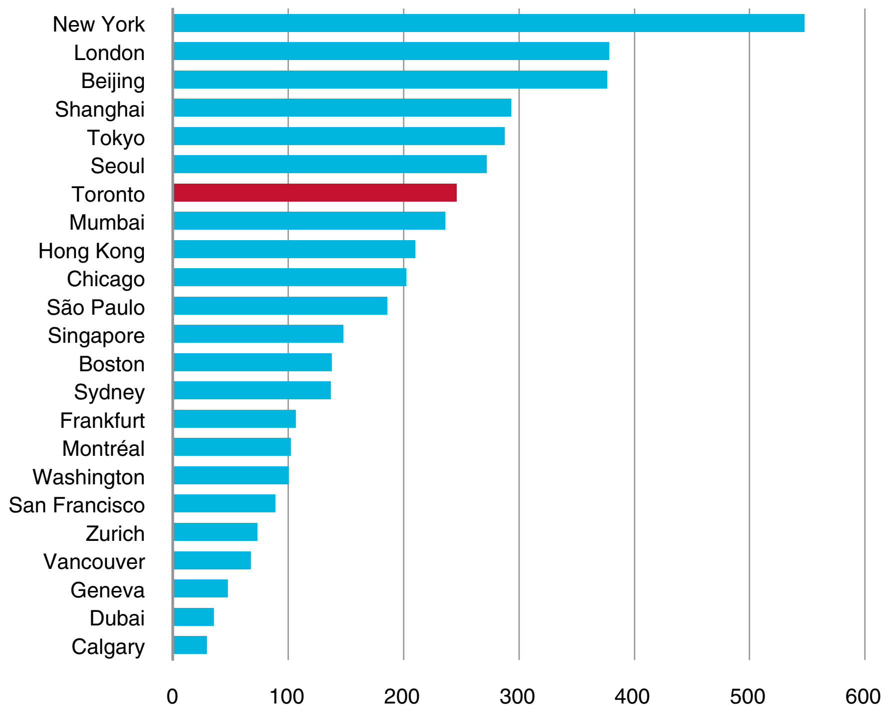
52 Long Finance, *The Global Financial Centres Index 16*.

53 Pavoni, "London Retains Its IFC Lead."

Chart 3

Toronto Has a Significant Number of Financial Services Employees

(financial services employment, 000s, 2012)



Sources: 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. All major Canadian centres have posted significant increases in employment since 2002, with Toronto's financial services sector increasing by 33.6 per cent, generating about 61,750 new financial services positions. (See Chart 5.)

Conversely, the major U.S. financial centres have all seen their employment in financial services shrink, due entirely to the financial crisis in 2008–09. In all of the U.S. metro areas included here, financial services employment fell drastically in 2008. What is more, a recovery has not transpired. In fact, in nearly all U.S. metro areas,

Chart 4

Financial Services Employment More Important to Toronto Than to Other Financial Centres

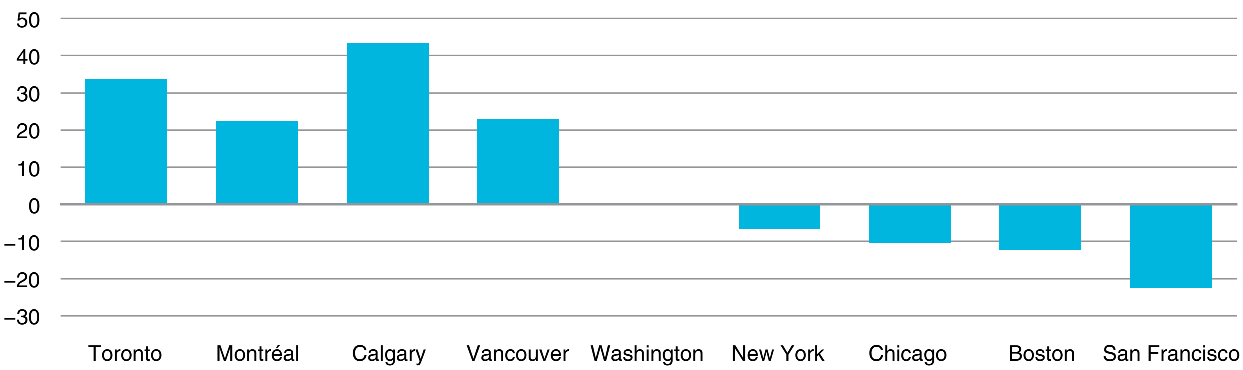
(financial services employment as share of total local employment, per cent)

Sources: National statistical agencies.

Chart 5

Employment Growth in Financial Services, 2002–13

(North American metro areas, per cent)



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

financial services employment in 2013 was less than it was in 2002; in Washington, D.C., financial services employment in 2013 was exactly the same as it was in 2002.

Another interesting aspect of Toronto's financial services sector is its occupational profile. About 21 per cent of the sector were employed in management occupations, which range from CEOs all the way to specialized middle managers.[54] In comparison, only 12.5 per cent of those employed across all sectors in Toronto are in management positions. This reflects the high concentration of financial services headquarters in the region.

Other major occupational groups within the financial sector in Toronto include business, finance, and administration occupations (42.6 per cent), sales and service occupations (23 per cent), and computer and information technology (IT) positions (9.1 per cent). Key occupations within the business, finance, and administration occupations group include business, finance and insurance professionals, clerks, and specialized insurance occupations such as adjusters and underwriters. The high share of employees in IT positions reflects the sector's heavy use of IT as an input.

Interestingly, the occupational profile of the financial services sector in the U.S. is somewhat different. In Canada, the sector's workforce is more concentrated in management and business professionals, while in the U.S. there is a greater emphasis on sales.[55] (See Chart 6.) One possible explanation for this is that incomes for securities, commodities, and financial services sales agents are among the highest of all sales positions in the United States. In the state of New York alone, these salespeople earn an average of US$160,000 a year.[56] By comparison, the average employment income of a financial salesperson in the province of Ontario is less than C$60,000 a year.[57]

54 Statistics Canada, *National Household Survey (NHS) Profile, 2011*.

55 U.S. Census Bureau, *American Community Survey, 2011*.

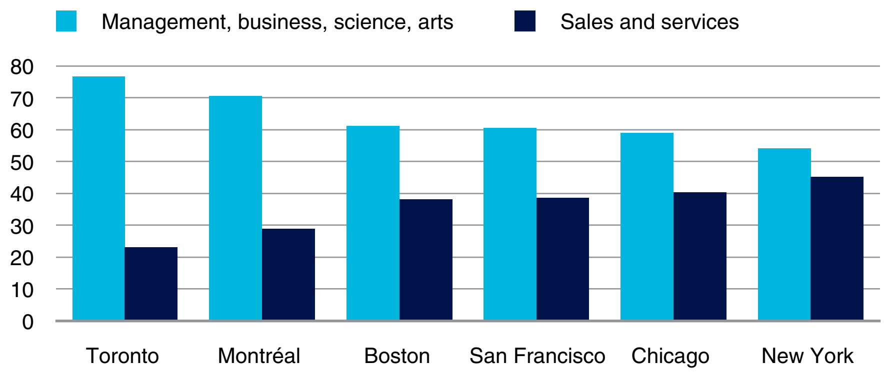
56 Smith, *The Best- and Worst-Paying Sales Jobs Right Now*.

57 Statistics Canada, *National Household Survey (NHS) Profile, 2011*.

Chart 6

Occupational Profile of the Financial Services Sector

(share of financial services employment in selected occupations, per cent)



Sources: Statistics Canada, *National Household Survey (NHS) Profile 2011*; U.S. Census Bureau, *American Community Survey.*

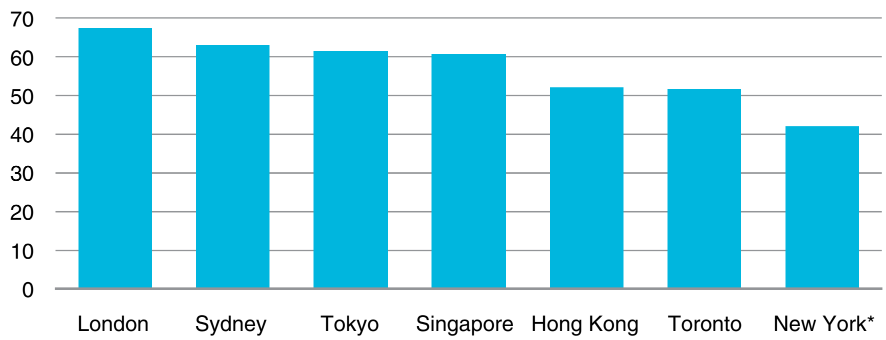
Toronto's financial services sector also stands out in terms of its educational attainment, with 51.7 per cent of the sector's workforce having attained at least a bachelor's degree, compared with 35.8 per cent for the metro area's workforce as a whole.[58] This compares favourably with Hong Kong (52 per cent) and is greater than New York (42.1 per cent). However, the level of educational attainment among financial services employees is much higher in London, Singapore, and Tokyo. In these places, more than 60 per cent of the sector have attained at least a bachelor's degree. (See Chart 7.)

Similarly, Toronto's financial services sector falls below the global financial giants when it comes to income earned by employees in the sector. In Toronto, the average financial services employee earns about 61 per cent more than the average Toronto resident would earn. This is comparable with Chicago and Singapore but is significantly less than in New York and London, where the figures are 90 per cent and

58 Statistics Canada, *National Household Survey (NHS) Profile, 2011.*

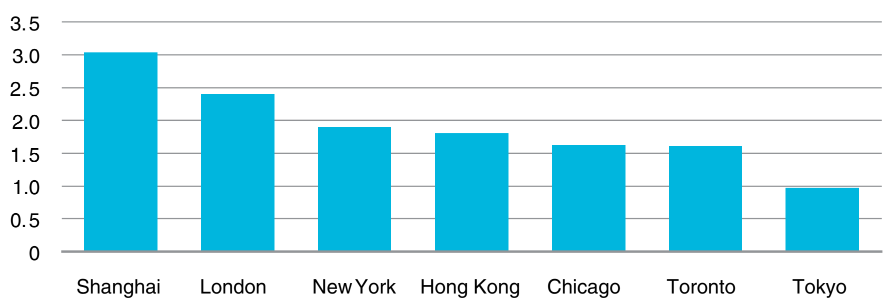
140 per cent, respectively. Interestingly, financial services workers in Shanghai can make more than three times as much as those in other sectors, while in Tokyo, they make slightly less. (See Chart 8.)

Chart 7
Educational Attainment in the Financial Services Sector, 2012
(share of employment with at least a bachelor's degree or North American equivalent, per cent)



*estimate
Sources: Various national statistical agencies.

Chart 8
Income in the Financial Services Sector, 2012
(ratio income in the financial services sector to average income in all sectors)



Sources: Various national statistical agencies.

CHAPTER 4

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

Chapter Summary

- Canadian exports of financial services have more than doubled over the past decade.
- Canadian banks and life insurers have been extensively involved in foreign mergers and acquisitions in order to expand their presence in international markets.
- Outward FDI has more than doubled since 2003, making Canada a large and growing net exporter of financial and management services capital.

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

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

1 Vesselovsky, *Canada's State of Trade: Trade and Investment Update 2012*.

services exports consist of Canadian content.[2] Therefore, a large share of the economic benefits generated through financial services exports remains in Canada.

Exports of financial services can be split into three broad categories: banking, insurance, and other financial services. A decade ago, banking services exports accounted for over 40 per cent of all financial services exports. Since then, however, this share has fallen to less than a third, as exports of other financial services have grown much more rapidly. Exports of other financial services—composed mainly of commissions and fees related to transactions in securities and asset management—now account for 45 per cent of the total. By contrast, the share related to insurance exports during that period remained relatively unchanged, averaging 22 per cent. Export growth for all three segments outperformed that of the broader services sector over the past decade. (See Chart 9.) For the overall financial services sector, total exports have more than doubled since 2004, rising by 133 per cent. By way of comparison, total Canadian services exports went up by a meagre 25 per cent. As a result, the financial services' share of total Canadian services exports rose steadily, almost doubling, from 5.9 per cent a decade ago to 11 per cent in 2013. Not all of this trade originated in Toronto but, as the home to many of the country's largest financial institutions, Toronto played a major part in this growth.

Along with selling banking, insurance, and other financial services to non-residents from their Canadian offices, several Canadian financial services firms also operate directly in international markets through their foreign subsidiaries or affiliates. To establish those subsidiaries, Canadian firms need to undertake FDI, which "allows an investor to have a significant voice in the management of an enterprise operating outside his or her own economy."[3] Investors and companies can undertake FDI in two ways: by establishing a new company in a foreign country, or by investing in an existing business merger and acquisition (M&A). In both

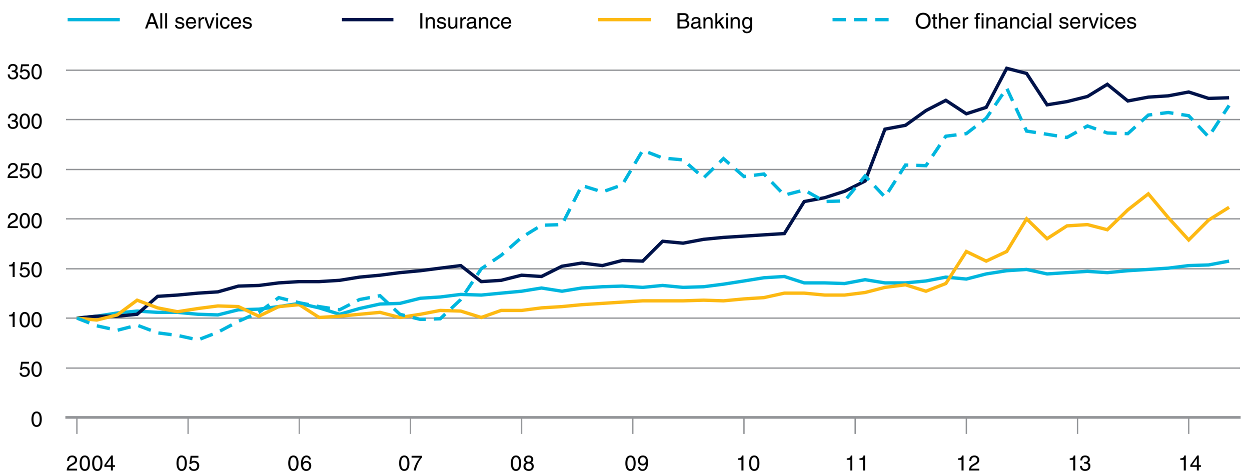
2 Poloz, "Foreign Operations Benefit Banks, Canada."

3 Statistics Canada, *Canada's Balance of International Payments and International Investment Position, Concepts, Sources, Methods and Products.*

Chart 9

Financial Services Exports Have Outperformed Those of the Services Sector

(exports index, 2004Q1 = 100)



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

cases, an investment is classified as FDI if the investor owns a minimum of 10 per cent of the voting equity in the foreign enterprise.[4] Since official trade data do not capture the sales of foreign affiliates, we can look at FDI to gain insights into the overseas activities of Canada's financial institutions.

Thanks to foreign subsidiaries, Canadian financial services firms can diversify their activities and grow their customer base and revenues. Also, foreign affiliates undertake various transactions with their headquarters, which translates into increased foreign trade in financial services. In recent years, Canadian banks and life insurers in particular have been extensively involved in foreign M&As to expand their presence in international markets. For example, Canadian banks alone made more than 100 acquisitions following the financial crisis.[5] Overall, Canadian banks derived nearly a third of their revenues from their operations

4 Ibid.

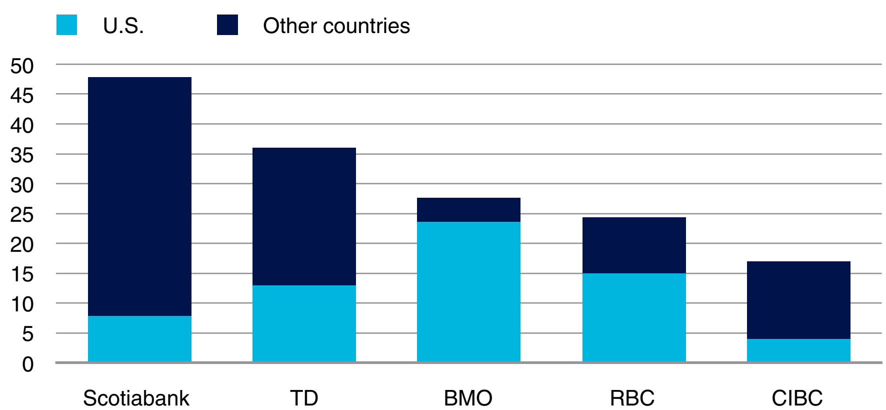
5 Pasternak and Alexander, "Canadian Banks on Hiring Spree as Global Peers Slash Jobs."

in the U.S. and other international markets in 2013. In the case of Scotiabank, this share reached 48 per cent, followed by TD with 36 per cent. (See Chart 10.)

Chart 10

Canadian Banks Generated a Large Share of Their Revenues From International Operations, 2013

(share of total revenues from the U.S. and other countries, per cent)



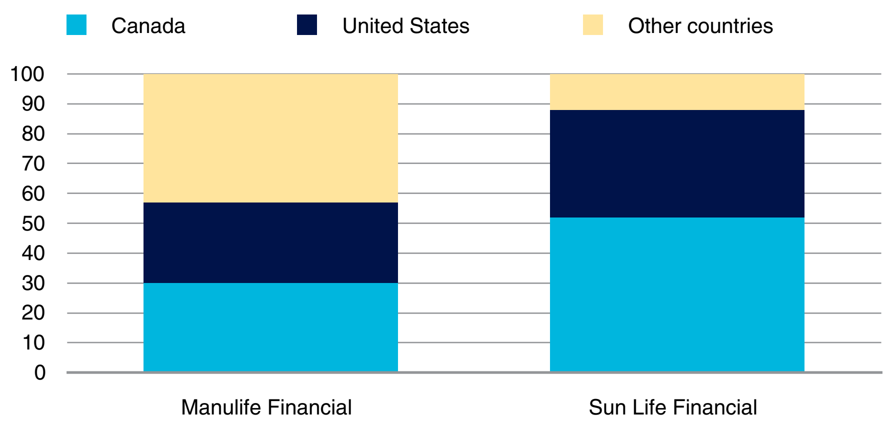
Sources: Banks' 2013 financial reports; The Conference Board of Canada.

For the two main Toronto-based insurance companies with major international operations—Manulife Financial and Sun Life Financial—the share of revenues from international operations was even greater. According to their 2013 financial reports, Manulife Financial and Sun Life Financial generated 70 and 48 per cent of their revenues, respectively, from countries other than Canada (see Chart 11), and those revenues were not generated only in the United States. Both companies have been operating in Asia for more than 100 years. In 2013, Manulife Financial derived 43 per cent of its core earnings from this continent, compared with 30 per cent from Canada; and Sun Life Financial is present in seven Asian markets that account for 70 per cent of the total Asian population.

Chart 11

Over Half of Revenues Came From Outside Canada for Toronto's Largest Life Insurers in 2013

(share of revenues, by region, per cent)



Note: The revenue breakdown for Sun Life Financial excludes revenues from MFS Investment Management.
Sources: Companies' 2013 annual reports; The Conference Board of Canada.

Key Trends in Canadian Financial Services Sector's FDI

To examine the evolution of Canadian financial services' FDI, we can look at Statistics Canada's data on FDI stock. Before 2012, Statistics Canada's FDI data incorporated holding companies in the financial services sector. Those two sectors are now reported separately. But, for the purpose of this section, we group together FDI data for both the financial services (NAICS 52) and holding companies (NAICS 55) and refer to the combined sector as financial and management services.[6] We do this because the financial services sector often carries out FDI through financial firms' holding companies. Over the past decade, holding companies' FDI stock averaged 25 per cent of the total for the combined financial and management services sector.

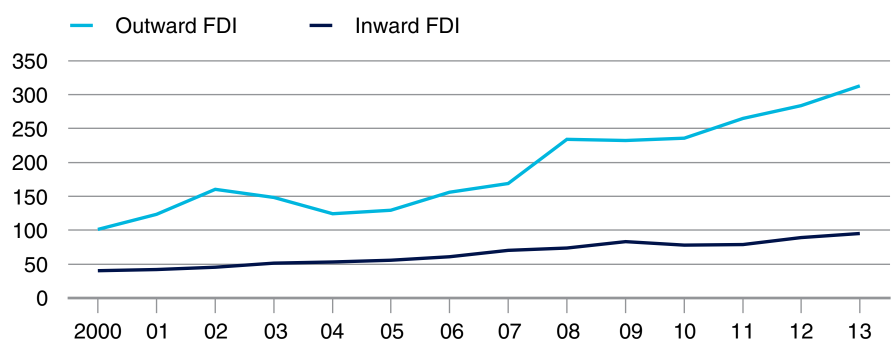
6 For the rest of the section, the financial and management services sector will refer to the combined FDI data for NAICS 52 and NAICS 55.

Financial and management services companies are a major driver of Canada's international investment activity. In fact, in 2013, the sector accounted for 53.2 per cent of Canada's total FDI stock abroad, up from 44.7 per cent a decade earlier. In addition, the sector's stocks of outward FDI have been consistently higher and have been increasing at a faster pace than the inward stocks of FDI owned by foreign financial firms in Canada. (See Chart 12.) Since 2003, outward FDI grew by 111 per cent, while inward FDI increased by 85 per cent. In other words, Canada is a large and growing net exporter of financial and management services capital. However, inward FDI provides benefits as well and, in 2011, Toronto was named one of the top five North American destinations for FDI investment.[7]

Chart 12

Canada Is a Large Net Exporter of Financial Services Capital

(stock of FDI for financial and management services, $ billions)



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

This is also apparent when we look at how Canada ranks versus other countries in terms of financial and management services investment. Between 2009 and 2012, Canada ranked second globally in terms of outward FDI flows in the financial and management services sector,

7 fDi Intelligence, *fDi Global Outlook Report 2011: Manufacturing Makes a Comeback.*

after the United States.[8] This confirms that Canadian financial services firms are global players and are thus in a good position to invest abroad and develop their physical presence in foreign markets.

8 Organisation for Economic Co-operation and Development, *Foreign Direct investment Statistics.*

CHAPTER 5

Conclusion

Chapter Summary

- Toronto is Canada's dominant financial centre, and the metro area ranks among the largest financial centres in the world.
- Compared with other international cities, Toronto is a major global financial centre. It remains part of a group of cities such as Frankfurt and Zurich but has improved its standing relative to more recognized financial centres, like Tokyo.
- Canada is a major net exporter of financial services capital and has doubled its financial services exports over the past decade.

Toronto is Canada's dominant financial centre and ranks among the largest financial centres in the world. As a result, the sector is a major contributor to the local economy. Financial services directly accounted for 7.9 per cent of the metro area's employment and 12.2 per cent of its GDP in 2013. In addition to the 245,425 direct jobs, the sector supported another 103,079 jobs in the metro area through its indirect effects, bringing its total share of the region's employment to 11.1 per cent. In addition to the local effects, Toronto's financial services sector also generated economic benefits for the rest of Ontario and Canada. For example, Toronto's financial services sector supported a total of 417,223 jobs in Ontario, equivalent to 6 per cent of the province's total employment. Nationally, the employment impact of Toronto's financial services sector totalled 449,128, equivalent to 2.5 per cent of national employment.

Over the past decade, when Canada's export performance was weak, Canada's exports of financial services more than doubled. Although not all of this trade originated in Toronto, as Canada's leading financial centre and home of many of Canada's largest multinational financial institutions, Toronto played a major part in this growth.

Toronto's financial services sector is very diverse, with nearly every major financial services industry having an above-average presence in Toronto. And the sector is large, with nearly one in three Canadian financial services employees working in the metro area. Toronto is also very specialized—it is home to the headquarters of 4 of the world's

50 largest banks, 2 of the world's 11 largest life and health insurers, a top 10 global equity market, and 3 of the world's 40 largest pension funds. The sector also has a skilled workforce and a well-regarded regulatory system, as reflected in the fact that the World Economic Forum named Canada's banking system the world's soundest for seven consecutive years.

Some outside of North America may perceive Toronto's financial services sector as more of a regional than a global player. However, this view is beginning to change. Indeed, in a recent survey released by *The Banker* magazine, Toronto placed sixth in a ranking of global financial centres, ahead of Tokyo. Although New York and London remain the undisputed global leaders, Toronto is an important centre. Overall, it still ranks behind Singapore and Hong Kong but outperforms these two centres on several measures, including outward foreign direct investment and total bank assets. Still, Toronto is part of a group of cities such as Frankfurt and Zurich that are important global players in different aspects of the financial services sector.

The importance of financial services in the way Canada relates to the world is most apparent when we look at the data on foreign direct investment. Canada is a large net exporter of financial services capital and, as mentioned above, Toronto is one of the world leaders on outward FDI. Having an international presence enhances the reputation of Canadian financial institutions and of the Canadian financial system. As a result, financial services have been an export success story for Canada in recent years, and understanding why is an important part of ensuring future success.

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APPENDIX A
Data Tables

Table 8
Toronto Financial Services Employment, by Industry

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average annual growth (2002–13, %)	Share of Toronto's financial services employment (%) 2002	2013
Total financial services	183,680	179,780	192,050	207,830	218,860	211,420	221,290	228,220	220,680	222,380	229,380	245,425	2.7	100.0	100.0
Banking	87,053	88,688	87,126	98,789	112,385	103,867	114,263	113,782	117,917	108,939	117,650	124,886	3.3	47.4	50.9
Credit unions	846	885	941	975	1,016	1,067	1,097	1,094	1,128	1,164	1,200	1,236	3.5	0.5	0.5
Insurance	48,770	43,470	51,900	54,220	55,830	54,530	57,790	57,940	51,520	57,740	54,280	59,599	1.8	26.6	24.3
Property and casualty insurers	25,009	22,435	25,886	22,127	23,473	26,173	26,713	27,716	25,921	27,744	23,585	27,258	0.8	13.6	11.1
Life and health insurers	10,651	9,555	11,024	9,423	9,997	11,147	11,377	11,804	11,039	11,816	10,045	11,609	0.8	5.8	4.7
Other insurance	13,110	11,480	14,990	22,670	22,360	17,210	19,700	18,420	14,560	18,180	20,650	20,733	4.3	7.1	8.4
Asset management	2,051	1,953	2,030	2,138	2,191	2,265	2,517	2,738	2,778	2,924	3,016	3,227	4.2	1.1	1.3
Securities	40,917	40,028	44,661	44,996	39,358	41,651	36,466	43,138	37,220	41,831	42,555	45,150	0.9	22.3	18.4
Securities intermediation and brokerage	19,642	18,996	20,949	20,857	18,027	18,395	15,491	17,577	14,501	15,527	15,795	16,759	-1.4	10.7	6.8
Other financial investment activities	21,275	21,032	23,713	24,138	21,331	23,256	20,975	25,561	22,719	26,304	26,759	28,391	2.7	11.6	11.6
Exchanges	813	742	769	714	572	669	644	832	780	949	965	1,024	2.1	0.4	0.4
Back office	3,230	4,014	4,623	5,998	7,508	7,371	8,513	8,696	9,337	8,833	9,714	10,303	11.1	1.8	4.2

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

Table 9

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

	Number of enterprises						Share of enterprises (%)				
Number of employees	**Total**	**1–9**	**10–19**	**20–99**	**100–199**	**200+**	**1–9**	**10–19**	**20–99**	**100–199**	**200+**
All industries	191,272	154,611	16,936	15,636	2,066	2,023	80.8	8.9	8.2	1.1	1.1
All financial services	6,767	5,466	486	542	109	164	80.8	7.2	8.0	1.6	2.4
Banking	475	345	30	55	19	26	72.6	6.3	11.6	4.0	5.5
Depository credit intermediation	61	16	2	19	9	15	26.2	3.3	31.1	14.8	24.6
Credit card issuers, sales financing, consumer lending	134	95	10	16	5	8	70.9	7.5	11.9	3.7	6.0
All other banking	280	234	18	20	5	3	83.6	6.4	7.1	1.8	1.1
Credit unions	48	17	15	13	3	0	35.4	31.3	27.1	6.3	0.0
Insurance	2,017	1,628	173	153	27	36	80.7	8.6	7.6	1.3	1.8
Life and health insurers	77	50	10	4	6	7	64.9	13.0	5.2	7.8	9.1
Property and casualty insurers	128	62	8	28	12	18	48.4	6.3	21.9	9.4	14.1
Other insurers	1,812	1,516	155	121	9	11	83.7	8.6	6.7	0.5	0.6
Asset management	202	170	10	14	3	5	84.2	5.0	6.9	1.5	2.5
Securities	3,572	2,921	231	280	54	86	81.8	6.5	7.8	1.5	2.4
Securities intermediation and brokerage	438	318	35	65	8	12	72.6	8.0	14.8	1.8	2.7
Other financial investment activities	3,134	2,603	196	215	46	74	83.1	6.3	6.9	1.5	2.4
Exchanges	18	14	0	1	1	2	77.8	0.0	5.6	5.6	11.1
Back office	435	371	27	26	2	9	85.3	6.2	6.0	0.5	2.1

Source: Statistics Canada, Canadian Business Patterns.

APPENDIX B

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