



Our Financial Future Corporate Visitation 2009



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The Kitchener Census Metropolitan Area (CMA) is defined as Kitchener, Waterloo, Cambridge, Woolwich and North Dumfries, as referenced throughout this document.

Message from Mayor and Council

On behalf of members of council, our staff and the citizens of the City of Kitchener, thank you for contributing your information, time and expertise to this comprehensive report.

As with our previous inquiries into the automotive and manufacturing sectors, we have an opportunity to learn about those opportunities and threats you are paying attention to. You help us understand those factors we are already aware of, such as our high participation rate and talented labour force. At the same time, we learn about the importance of municipal factors, such as transportation, to your sector.

In 2007 and 2008, we were all looking at a very different economic landscape, both locally and globally. This year, the finance and insurance sectors in particular have faced unique challenges. All the businesses we meet with experience influences beyond their control. Manufacturing is faced with increased pressures due to the high American dollar. The financial sector is faced with economic uncertainty and the insurance industry encounters increasingly volatile weather occurrences.

Still, many factors remain, which the business community and our municipality can influence. For example, improvements in our downtown, as we work together to bring increased vibrancy to our core, will have a significant impact on the finance and insurance sectors. Similarly, we can cooperatively address your need to improve the profile of your sector both within and beyond our regional borders.

Thank you for helping us gather important information for this report. It will allow us to learn from one another. As our community continues to grow, collaboration with the finance and insurance sectors, as well as our municipal neighbours, will, without a doubt, have mutually beneficial results.

Sincerely,



Carl Zehr, Mayor, City of Kitchener



Message from Executive Director

The financial services sector is a major player in the economy of Waterloo Region. With more than 18,000 workers, the Kitchener Census Metropolitan Area (CMA) trails only London and Toronto in the percentage of their labour force employed in this sector. The finance and insurance sector ranked fourth in revenue generated in the CMA in 2007, behind only manufacturing, wholesale trade and retail trade.

These facts point to an industry that is highly competitive on the global stage. The region hosts the head offices of three of the largest insurance companies in Canada. Companies that were surveyed as part of this study cited the presence of the University of Waterloo's actuarial science program as a major resource that allowed them to compete for talent in the global marketplace. A representative of one of the companies that participated in this study stated that the Waterloo Region should be compared with Hartford, Connecticut, the centre of the insurance industry in the United States.



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Of course, the past 12 months have been a real challenge for our financial services sector, as they were for many others. But, it is very encouraging to see that, overall, our financial firms are optimistic about the future. Not only have they come through the recession in better shape than many of their international competitors, but they also expect to grow significantly in the future. And they want to grow here.

That doesn't mean that we don't have work to do. Leaders in our financial services sector would like to build the profile of the industry in the region. They would like to see increased coordination among local governments to address issues that affect their competitiveness and they would like to see key pieces of infrastructure—such as the GO Transit connection to Toronto—put in place to help them recruit talent and move efficiently between cities.

This report sets the stage for a more strategic approach to developing this sector in Kitchener and Waterloo Region. We thank all of those industry stakeholders that took part in this project and look forward to working together with you to strengthen our financial services sector even further.

A handwritten signature in black ink, reading "Rod Regier". The signature is fluid and cursive, with the first name "Rod" and last name "Regier" clearly distinguishable.

Rod Regier

Executive Summary

The financial services sector plays a major role in the local economy, contributing \$3.5 billion in revenue in 2007. Finance and insurance businesses compose 6.2 per cent of the total number of businesses in the Kitchener Census Metropolitan Area (CMA). The sector is also a major employer, with the Kitchener CMA ranking third highest in the percentage of its labour force employed in finance and insurance in southern Ontario. Only Toronto and London have a greater concentration of employment in this sector.

The local financial services sector did not escape the negative fallout resulting from the world-wide economic recession, the credit crisis south of the border and large-scale losses in the equity markets. The majority of the respondents to our survey identified the economic downturn as a major influence over their current business performance. The turmoil in the financial markets negatively impacted the local financial services sector through job losses, business closures and consumer-spending restraint.

However, participants have an optimistic outlook for the coming year, with some businesses expressing intentions to hire, and several indicating they would be expanding their businesses over the next one to three years. The region is viewed very favourably as a good location to do business, with a talented labour force, a strong finance and insurance cluster, proximity to universities, and a strong tech sector being cited as strengths.

1.0 Introduction

The City of Kitchener's corporate visitation program is a component of the city's 2007-2010 economic development strategy. Corporate visitation is a recognized business-retention tool in economic development. Through personal interviews, municipal staff can connect with local business leaders to exchange information, offer assistance and build relationships. A questionnaire is used during interviews to obtain a greater understanding of sector-specific opportunities and threats, as well as knowledge of the competitiveness of the region as a location for business.

During past rounds of the city's corporate visitation program, staff met with manufacturers located within Kitchener's municipal boundaries. In 2009, staff recommended a study of finance and insurance businesses because this sector has experienced unusual challenges due to international economic impacts.

The local economy is not limited by municipal boundaries. This is evident in the financial services sector, where branches and offices serve customers from a wide area, encompassing a number of municipalities. Thus, for the first time, city staff worked with economic development staff from both Cambridge and Waterloo to perform visits in these neighbouring cities. Many of the respondents expressed approval of this approach and welcomed the municipal co-operation.

1.1 Methodology

Staff identified a pool of candidates primarily using municipal business directories. More than 100 businesses in Waterloo Region were invited to participate in the program and of those, 48 businesses participated (46 per cent). The majority are located in Kitchener. From May 5, 2009 to July 2, 2009, visiting teams conducted one-hour interviews with participant business leaders. Aggregate questionnaire results are outlined in Section 3.0 Summary of Interview Results.

For the purpose of this exercise, the finance and insurance cluster was defined using the North American Industrial Classification System (NAICS). Canada, the United States and Mexico use the NAICS to provide a common classification system for consistent analysis. Businesses are categorized using 20 sectors, which are composed of subsectors, industry groups and industries for more specific classification.

Businesses invited to participate in corporate visits belonged to the finance and insurance sector (NAICS 52) or selected industries from the professional, scientific and technical services sector (NAICS 54). The industry group "5412 – accounting, tax preparation, bookkeeping and payroll services" was included. There are two additional participants that offer related services, but are classified under other sectors. That classification is not specified in the table on the following page to protect the identity of the participants.

Participant Classifications

52 Finance and Insurance

521 Monetary Authorities - Central Bank

5211 Monetary Authorities - Central Bank

522 Credit Intermediation and Related Activities

5221 Depository Credit Intermediation US

5222 Non-Depository Credit Intermediation US

5223 Activities Related to Credit Intermediation US

523 Securities, Commodity Contracts, and Other Financial Investment and Related Activities

5231 Securities and Commodity Contracts Intermediation and Brokerage

5232 Securities and Commodity Exchanges

5239 Other Financial Investment Activities

524 Insurance Carriers and Related Activities

5241 Insurance Carriers

5242 Agencies, Brokerages and Other Insurance Related Activities

526 Funds and Other Financial Vehicles CAN

5261 Pension Funds CAN

5269 Other Funds and Financial Vehicles CAN

Included (not all NAICS are represented in the sample – ex. there is no Central Bank)

54 Professional, Scientific and Technical Services

541 Professional, Scientific and Technical Services

5411 Legal Services

Excluded

5412 Accounting, Tax Preparation, Bookkeeping and Payroll Services

Included

5413 Architectural, Engineering and Related Services

Excluded

5414 Specialized Design Services Excluded

Excluded

5415 Computer Systems Design and Related Services

Excluded

5416 Management, Scientific and Technical Consulting Services

Excluded

5417 Scientific Research and Development Services

Excluded

5418 Advertising, Public Relations, and Related Services

Excluded

5419 Other Professional, Scientific and Technical Services

Excluded

2.0 Background

Since data is often only available at a sector level, the following background information is provided for NAICS 52 finance and insurance only, and excludes the accounting industry group. In some instances, data from sources such as the Conference Board of Canada are still classified using an older NAICS structure, and consequently, real estate is included in NAICS 52.

2.1 Finance and Insurance Sector Profile (NAICS 52)

According to the Conference Board of Canada, Kitchener's services sector has slowed with the overall economy, as its two per cent advance in 2008 was the lowest since 1996. Although the finance, insurance and real estate sectors—the service sector's largest component—expanded 2.5 per cent in 2008, this was the slowest growth since 2003. (Conference Board of Canada)

Revenue (Source: *Community Benchmarks*)

With revenue of \$3.5 billion, the finance and insurance sector ranks fourth in revenue generated in 2007, behind only manufacturing, wholesale trade and retail trade.

In 2007, the “insurance carriers and related activities” industry generated the fifth highest revenue (\$1.8 billion) in the Kitchener Census Metropolitan Area (CMA). Industries with greater revenue are: transportation equipment manufacturing; building material and supplies wholesaler-distributors; food manufacturing; and utilities.

“Insurance carriers and related activities” accounted for 3.8 per cent of total industry revenue in Ontario. Overall revenue from the Kitchener CMA was slightly lower at 3.1 per cent. The gap is smaller when comparing revenue share nationally, with this same industry accounting for 1.7 per cent of national revenue, compared to total CMA contribution of 1.4 per cent.

**Revenue by Industry
(Finance and Insurance Sector)**

522 Credit Intermediation and Related Activities	\$731,440,838
523 Securities, Commodity Contracts, & Other Financial Investment & Related Activities	\$946,299,637
524 Insurance Carriers and Related Activities	\$1,852,067,555
526 Funds and Other Financial Vehicles	\$8,457,859
Total Revenue	\$3,538,265,889

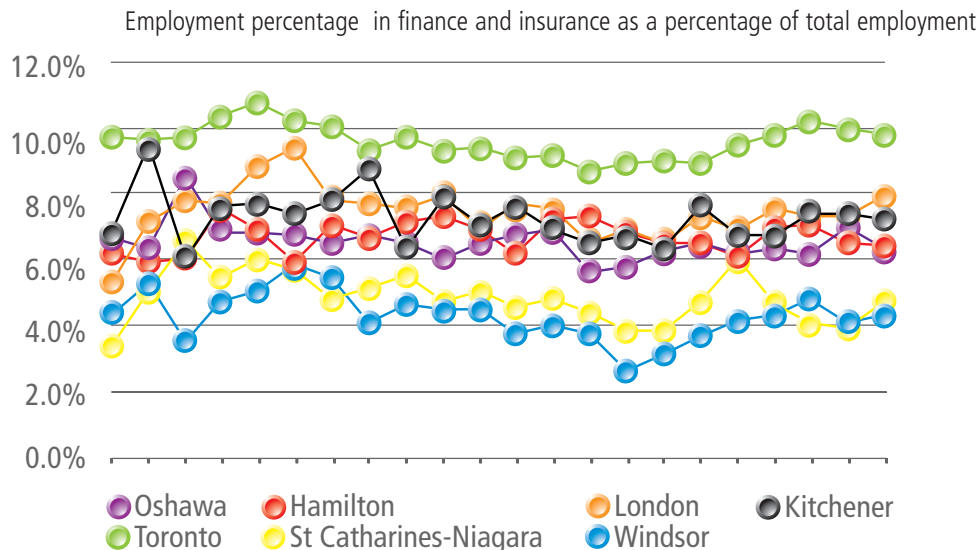
(Source: *Community Benchmarks*)

Number of business locations

According to Canadian business patterns (December 2008), finance and insurance businesses compose 6.2 per cent of the total number of businesses in the CMA. Of the 1,818 businesses, the majority are of unknown employee size.

Employment

Of the seven southern Ontario CMAs included in the Labour Force Survey, the Kitchener CMA ranks third highest in the percentage of its labour force employed in finance and insurance. Only Toronto and London have a greater concentration of employment in this sector in southern Ontario.

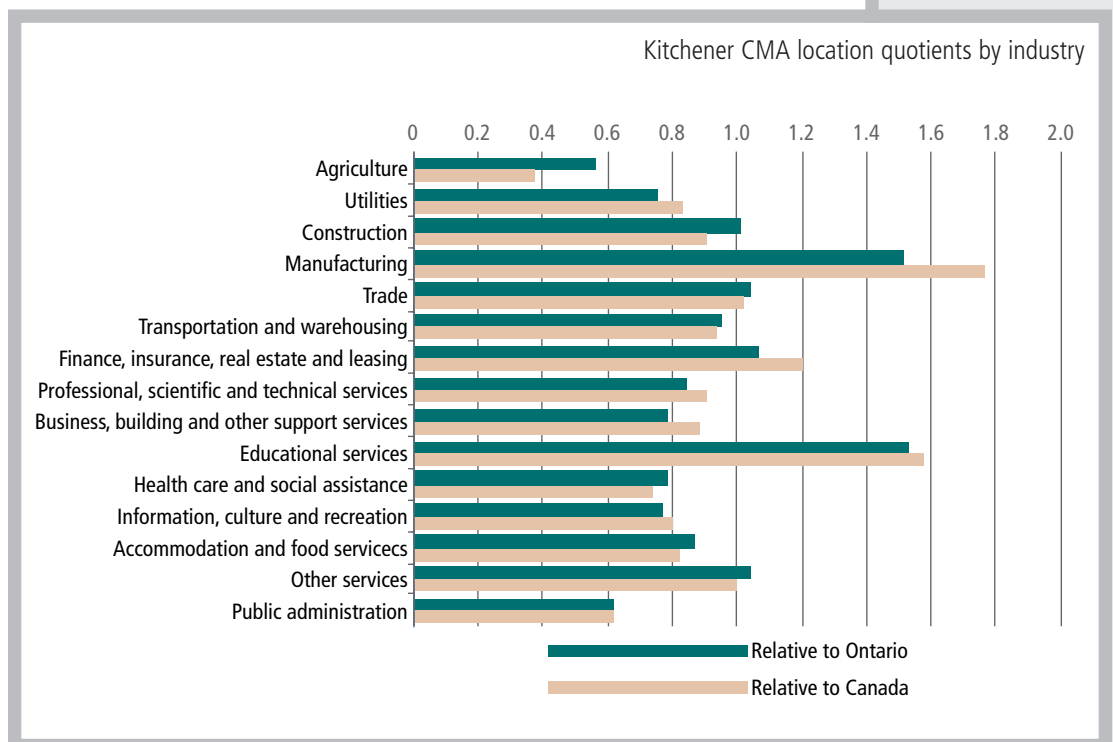


Location Quotients

A location quotient is a ratio that compares the percentage of employment in a particular industry in a local economy to the percentage of employment in the same industry in a reference economy (i.e., the national or provincial economy).

A location quotient that is less than one indicates that the industry's share of local employment is smaller than the industry's share of employment in the reference area. Thus, a location quotient greater than one indicates the opposite; that the industry's share of employment is greater than the reference area. A location quotient of one indicates equality between the local industry employment and the reference area employment for that same industry. However, employment location quotients do not reflect labour productivity, so contribution to output may differ with like employment levels.

The following graph shows that relative to both Ontario and Canada, the Kitchener CMA has a greater share of employment than the reference area in manufacturing; finance, insurance, real estate and leasing; and educational services.

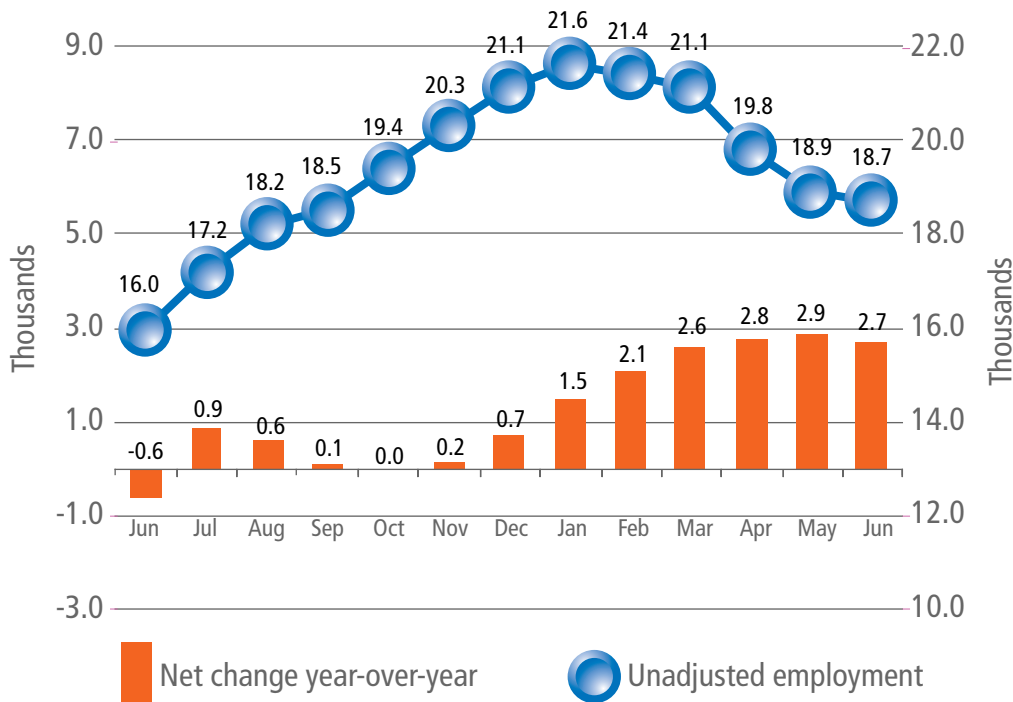


Recent Employment in the Kitchener CMA

Monthly data from Statistics Canada's Labour Force Survey are unadjusted for seasonality at the sector level, so month-to-month comparisons are not possible. Year-over-year employment is up 2,700 as of June 2009, with a total of 18,700 employed. Thus it is not possible to determine from this data what impact the contraction of the national economy has had on this industry. However, it can be noted that typically employment is higher on average during the last six months of the year, compared to the first six months of the year.

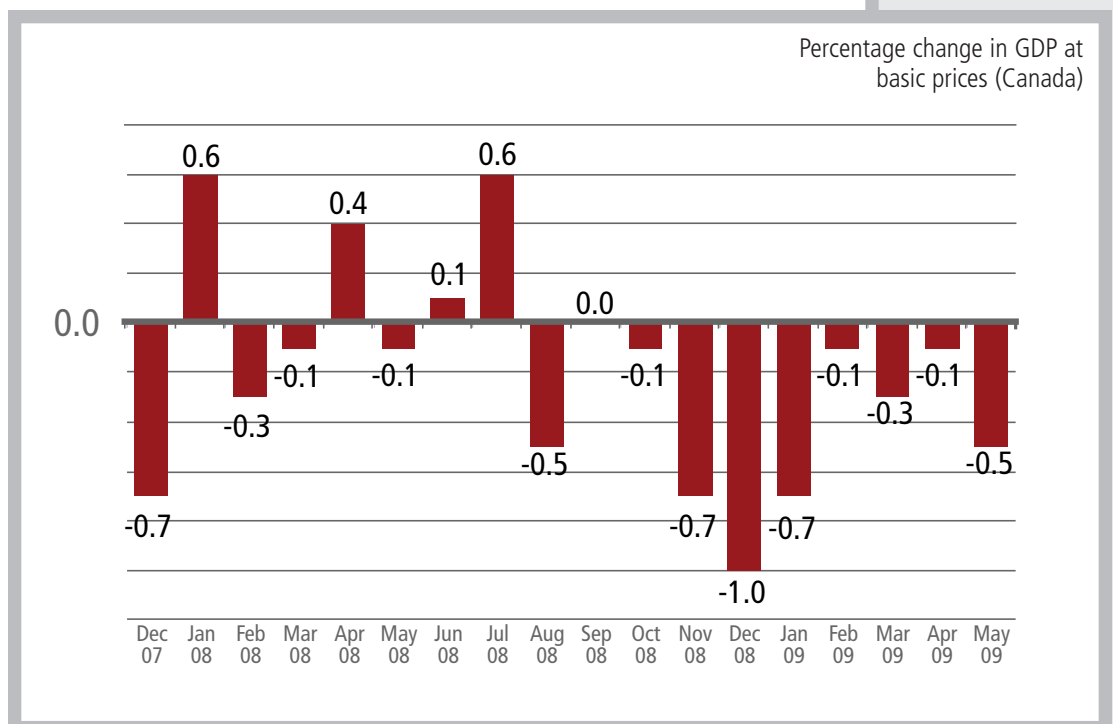
Financial services do not tend to lay off as quickly during downturns as some other industries, due to the lengthy training period required to achieve peak productivity. As well, since this industry emphasizes client relationships, employee turnover can lead to a loss of customers as well.

Employment for finance and insurance
June 2008 to June 2009 (unadjusted)



2.2 Economic Context

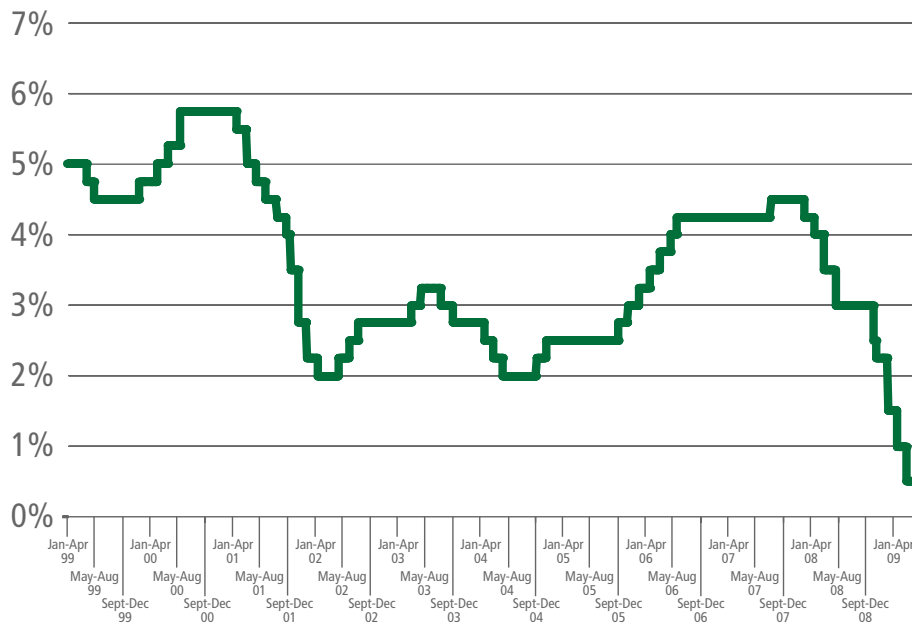
Corporate visitation teams conducted interviews over a nine-week period from May 5 to July 2, 2009. During this time, the major world economies were in recession. In Canada, GDP began to contract in October 2008.



Rising interest rates, oil prices and food prices precipitated a financial crisis in the U.S. in 2007, as banks began experiencing massive sub-prime loan losses. With the deregulation and securitization of real-estate mortgages, the banks were over-invested in risky loans. This was exacerbated by a speculative real-estate bubble. Banks became unwilling to lend to each other and were eventually recipients of public financial assistance as they began to fail.

Canadian banks were too small and more regulated than U.S. banks, and were consequently not as vulnerable. The Bank of Canada has responded to the recession and tightening of financial markets with interest-rate decreases to the historic low of 0.25 per cent for the target of the overnight rate.

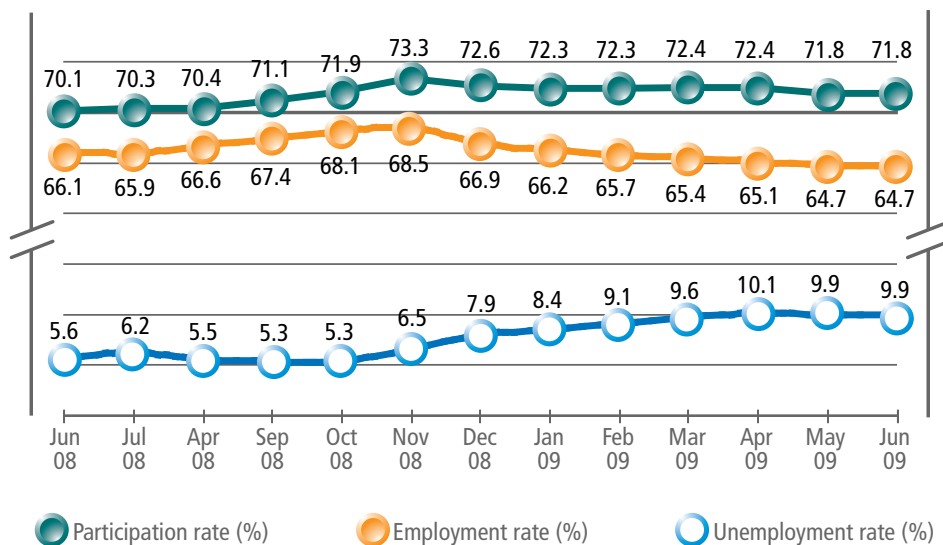
Interest rate (target for the overnight rate)



The impact of the recession locally has been an increase in the unemployment rate from 5.3 per cent in October 2008 to a peak of 10.1 per cent in April 2009. The Kitchener CMA in particular has experienced high unemployment because of sustained labour force growth and little change in participation levels. There are communities with lower unemployment rates; however, their labour forces are shrinking, which limits future opportunities.

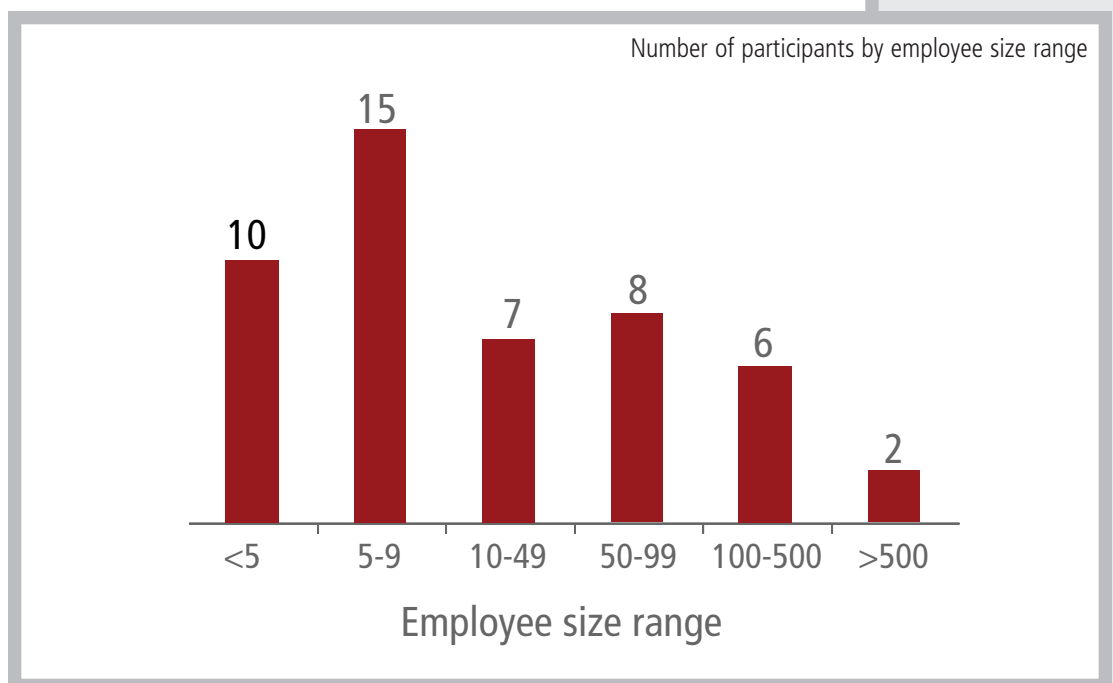
Since October 2008, the number of people unemployed increased to 12,900, and there is a net decrease in employment of 10,800 people.

Kitchener CMA - seasonally adjusted monthly rates



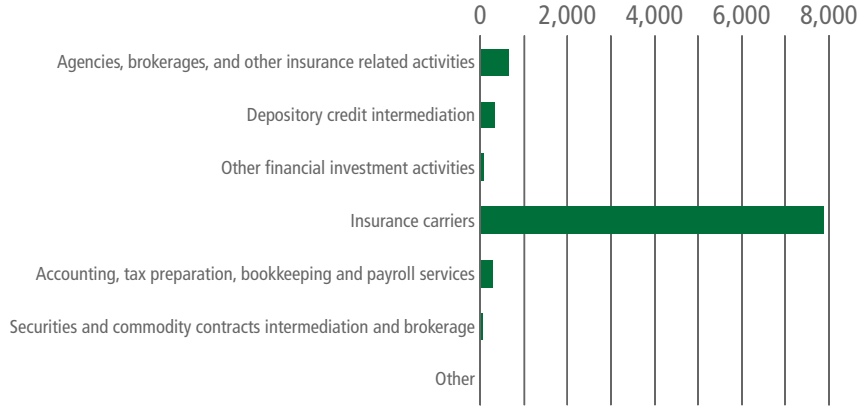
2.3 Participant Profile

Of the 48 participants, 40 are located in Kitchener. The eight other participants are located in Waterloo and Cambridge. The participants employ 9,670 in the region, and range in size from one employee to more than 500 employees.

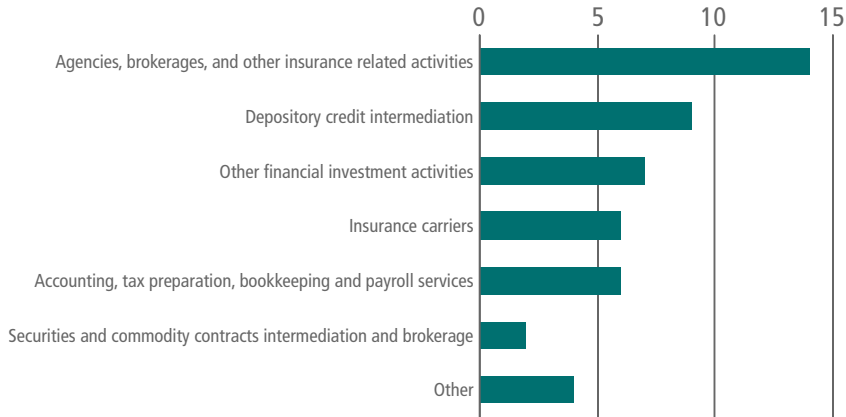


The participants represent 16 different industries, almost entirely from two sectors. Candidates invited to participate belonged to the finance and insurance sector (NAICS 52) or selected industries from the professional, scientific and technical-services sector (NAICS 54). The additional industries include for example, "5412 – accounting, tax preparation, bookkeeping and payroll services." There are two additional participants that offer related services, but are classified under other sectors.

Number of full time employees of participants by industrial classification (NAICS)

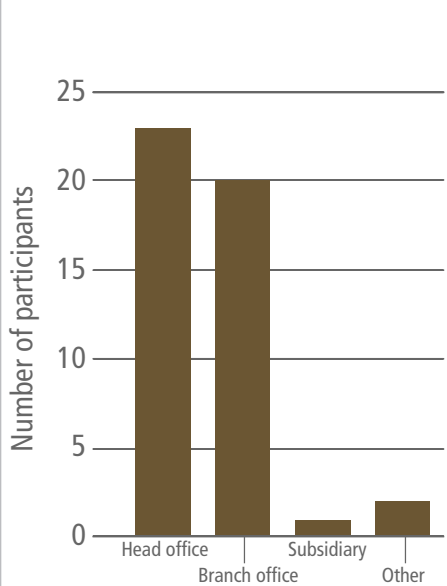


Number of participants by industrial classification (NAICS)

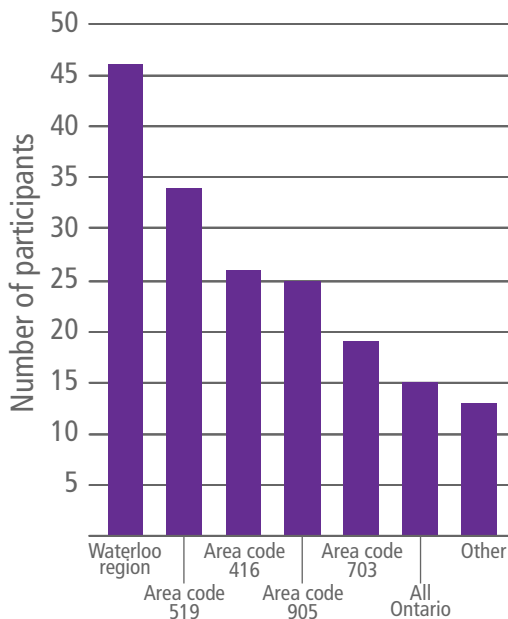


There were more head offices than branch offices, which may explain why so many businesses identified that the area they are serving is greater than Waterloo Region.

Office type



Area served



3.0 Summary of Interview Results

The responses have been grouped into three categories: business operations; employment and labour force conditions; and location requirements and satisfaction.

3.1 Business Operations

Participants were asked to select a letter grade to represent their own business results last year, and anticipated results next year. They were also asked to grade the entire industry for the same time periods.

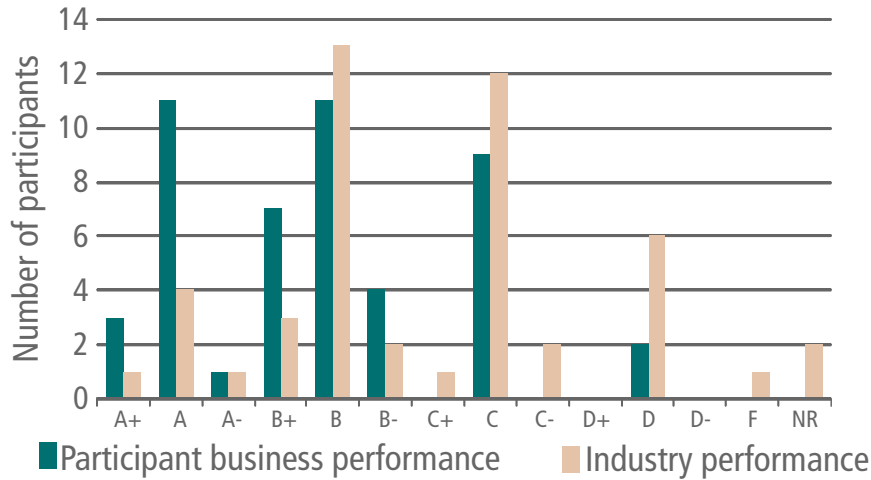
Businesses tended to grade their own performance more positively than the rest of the industry. This may indicate that participants have not suffered as much as the international finance community, or that there is bias from the respondents toward framing their own performance as more positive than their peers.

The average grade for individual businesses last year was a B, while participants characterized the industry on average at a C+. Based on last year's results, participants on average gave themselves a letter grade two points better than the industry (e.g. a B+ compared to a B-)

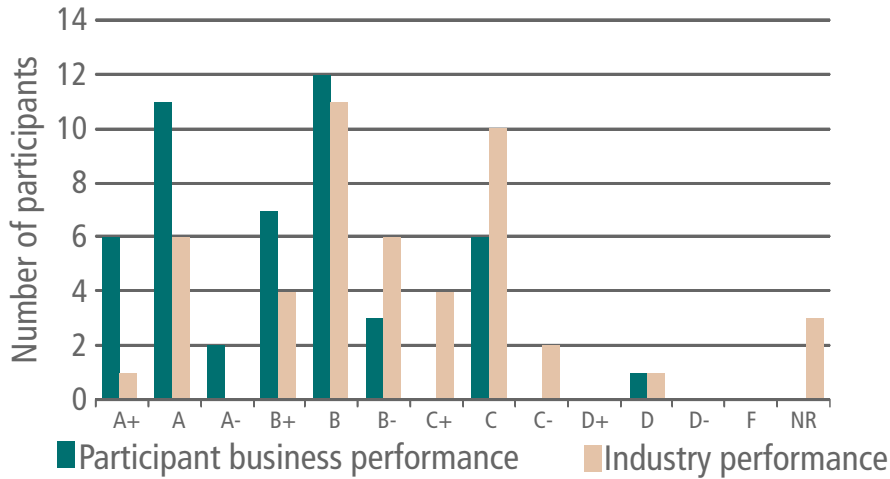
The outlook for next year is similar, with the average individual is anticipated grade at B+, compared to a B- for the industry. On average, participants anticipate outperforming the industry by one point (e.g. achieving a B compared to a B-).

For both themselves and the industry, participants anticipate moving up one grade point next year.

Letter grade chosen by participant to represent business and industry performance last year



Letter grade chosen by participant to forecast business and industry performance last year



Participants provided comments on conditions impacting their business' and industries. The majority of respondents identified the economic downturn as a major influence over their current business performance. Comments fall into several categories:

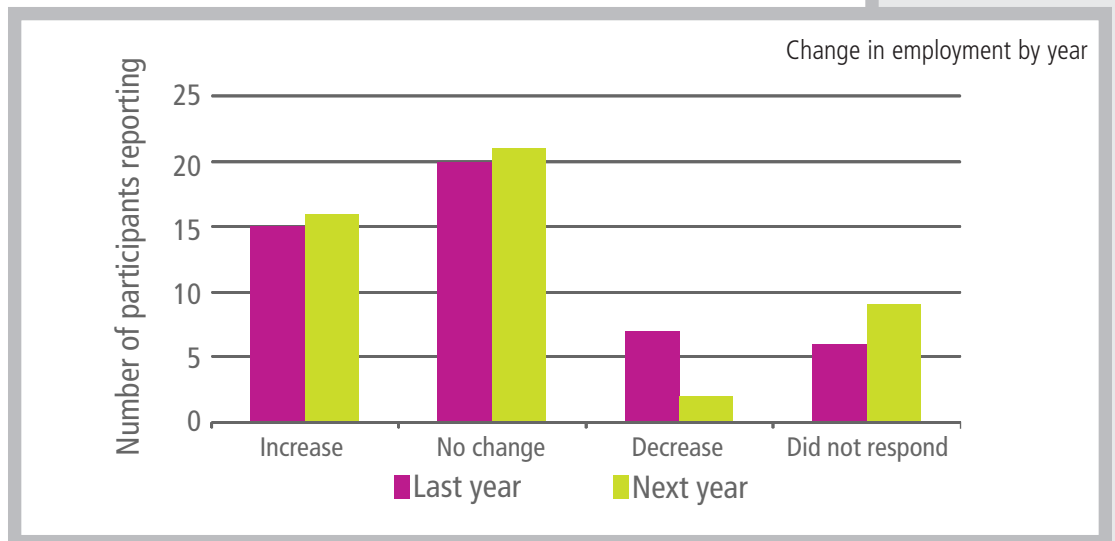
Economic contraction:

- conditions that precipitated the economic downturn (e.g. credit crisis, equity markets);
- local outcomes from the downturn (e.g. job losses, business closures, consumer restraint);
- the Bank of Canada response (i.e. lower interest rates).

Insurance:

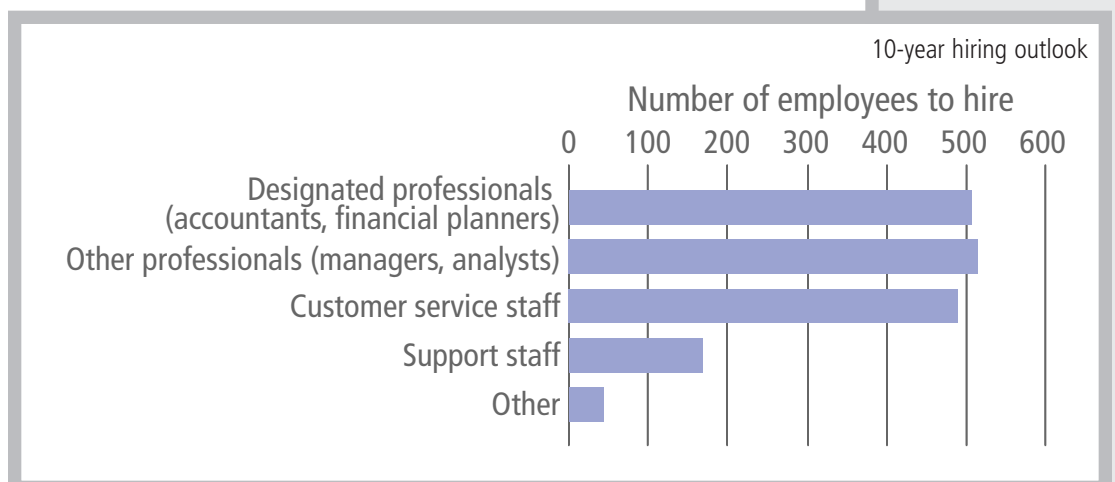
- changing accounting standards;
- volatile weather and increase in severity of auto claims.

3.2 Employment and Labour Force Conditions



Among participants, there was a net increase of 279 employees over the past year. While fewer businesses expect decreases in the next year, net anticipated employee gains range from only 17.1 to 19.1 for the entire group of participants.

The outlook is more positive over the next 10 years, with a total anticipated increase of 1,725.5.



The interview included questions aimed at providing an understanding of how challenging it is for employers to attract and retain the employees. One question in particular dealt with possible competition for employees from the Greater Toronto Area (GTA). Among participants, only 14.5 per cent indicated that they are competing with the GTA for talent. Very few employees left the region for other positions in the GTA, unless it was a necessity for career advancement. Even in those cases, there was sometimes reluctance on the part of employees to relocate.

"It used to be more difficult to attract and retain employees, because it was seen as a disadvantage to live outside Toronto – now it's an advantage".

"Employees sometimes choose not to take promotions and to stay here, due to factors like commuting time, community lifestyle, etc."

"It is tough to recruit people from Toronto, but once people make the decision to come to KW, they stay because they've made the decision to change their lifestyle, and get rid of the commute."

3.3 Location Requirements and Satisfaction

Several interview questions were designed to provide a greater understanding of how well Waterloo Region meets the needs of financial services businesses. Participants responded favourably when asked to grade the region as a location for their business. Some of the strengths identified by participants include a talented labour force, a strong finance and insurance cluster, proximity to universities, and a strong tech sector. As well, respondents suggest that there is a low cost of living and low cost to do business.

"The diversity of office space is good...every type of space is available, in a wide price range."

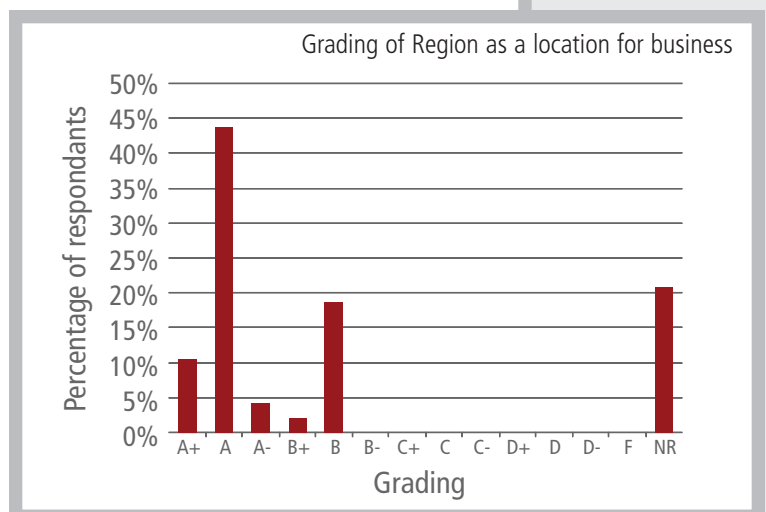
The following are some of the responses: to the question "What pros/cons do you hear most often from employees about living and working in Waterloo Region?"

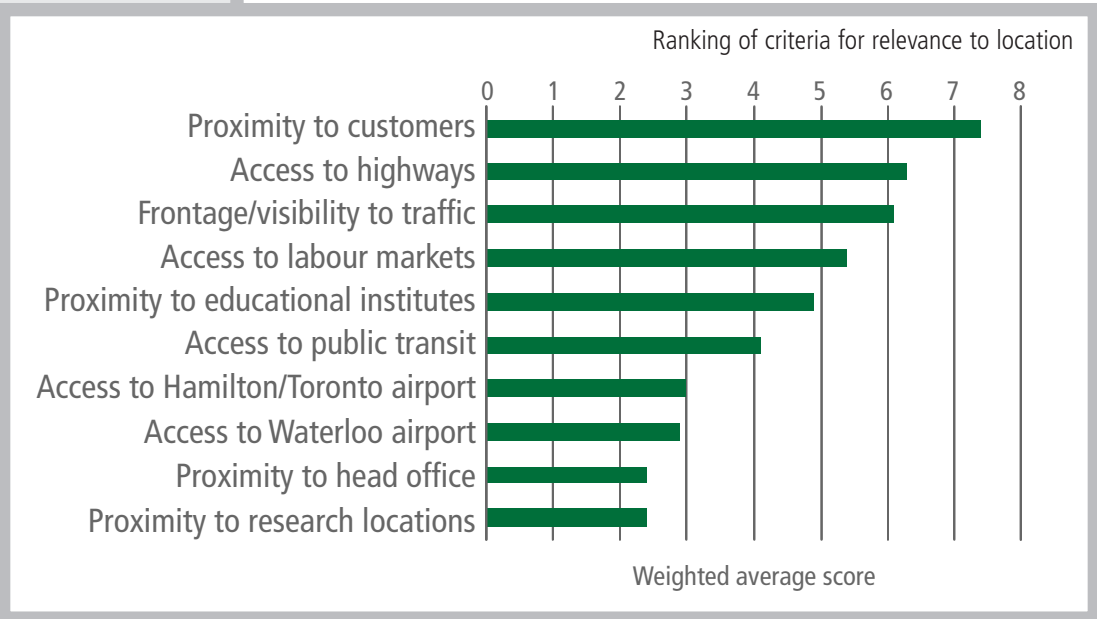
"We love the ambiance of a small town, with the accessibility to a large city (Toronto)."

"Smallish town, easy to get around, good mix of businesses, great schools."

"It's a great place to raise a family...it feels like a community."

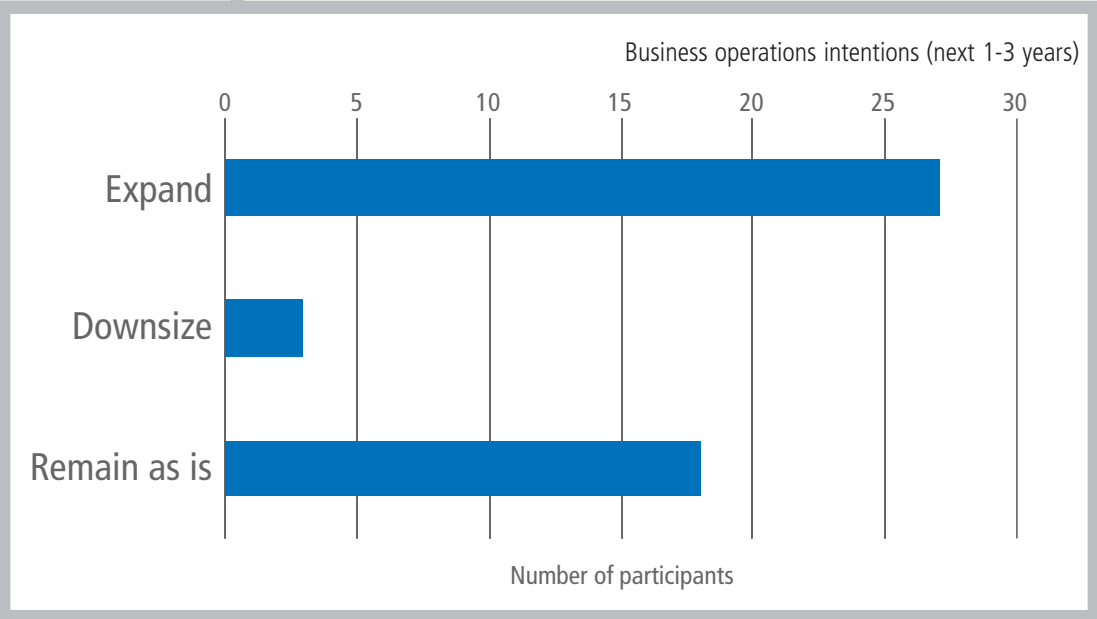
"When employees are ready to settle (nest), Waterloo Region is a great option."





Participants indicated that important criteria influencing location include proximity to customers, access to highways, frontage/visibility and access to labour and educational institutes.

11 of the participants indicated that they would be looking for new space. Of those 11 participants, only one is downsizing; the rest expect to expand. These participants currently employ 508 people.



3.4

Recommendations from participants

Participants advocated for integration of local government services. Comments reflected a desire for:

- More coordination between cities and other organizations such as GRCA, utility companies;
- Streamlining procedures, improving building-permit process;
- Better coordination between cities and region, especially with respect to development charges.

Participants also expressed concern about a variety of transportation issues including:

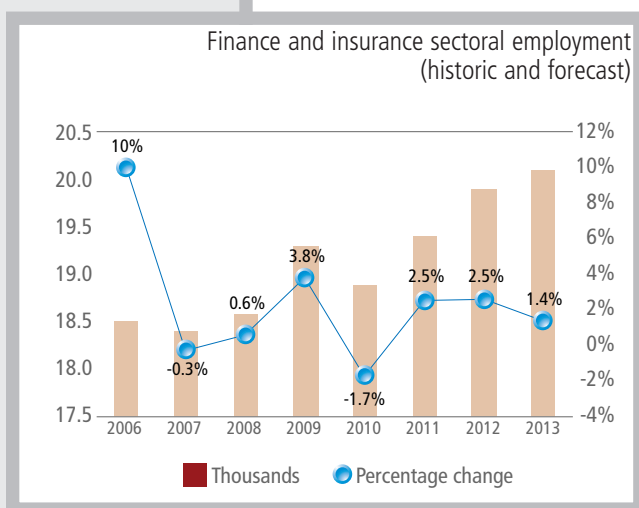
- Cost and availability of parking, especially downtown;
- Amount and duration of road construction;
- Finding a balance between pedestrians and vehicles, buses, and alternative forms of transportation;
- Timing of traffic lights;
- Access to the GTA via GO Transit. This was a priority for some companies whose employees make several trips to Toronto weekly on business;
- Better local transit service.

Another area of interest is the downtown core of Kitchener. Participants commented:

- Support ongoing investments in Kitchener's downtown;
- Make core more welcoming, improve appearance;
- More retail and restaurants for lunches, particularly higher end;
- Address perceptions that there are safety issues downtown;
- Achieve a balance between pedestrian and vehicle access in the downtown;
- Close off King Street downtown, and having an outdoor pedestrian-access mall.

4.0 Future Outlook and Next Steps

According to the Conference Board of Canada, employment in finance and insurance is expected to drop in 2010, but grow every year from 2011 to 2013.



Staff will now use recommendations from participants to inform future discussions. Some recommendations are already being addressed, such as the desire for quality urban space. This request from participants validates the investments being made by all three cities in their urban cores.

Additional recommendations will also form the basis for discussion among municipal partners and Canada's Technology Triangle Inc. (CTT). CTT is planning a more

detailed study of the financial services sector in late 2009.

As in past years, the corporate visitation program has helped inform staff and council of the needs of the business community; and the feedback from participants is a valuable resource in informing the public agenda.

5.0 Conclusion

Despite a difficult fourth quarter of 2008 and a challenging first half of 2009, the local financial services sector feels it has performed better than the industry average. Some firms have modest plans to hire in the short term, and a few are even planning to expand their operations locally. Most see substantial growth over the longer term.

Waterloo region is seen as an excellent location for financial services with a talented labour force, a strong finance and insurance cluster, proximity to universities, a strong tech sector, and a low cost of living and doing business being cited as strengths.



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