



[ **FINANCIAL SERVICES SECTOR** ]  
Canada's competitive advantages

# CANADA'S FINANCIAL SERVICES SECTOR

Canada has one of the strongest financial services sectors in the world, comprised of banks, trust and loan companies, insurance companies, credit unions, securities dealers, finance and leasing companies, pension fund managers, mutual fund companies and independent insurance agents and brokers. Finance and insurance contributed \$106 billion to GDP and employed 703 thousand Canadians in 2013.<sup>1</sup> Foreign direct investment into Canada's financial and insurance industries reached an accumulated \$94.5 billion in 2013.<sup>2</sup> Combined with prudent regulatory oversight, this stable, diversified and well-funded base means significant growth opportunities for foreign investors.

## STRONGEST BANKING SYSTEM IN THE WORLD

The Canadian banking system was ranked the soundest in the world by the World Economic Forum for seven years in a row.<sup>3</sup> Moody's Investor Service ranked Canada's banking sector first worldwide for strength and safety. In fact, according to *Bloomberg Markets*,<sup>4</sup> five of the world's Top 20 strongest banks are Canadian. Global Finance places six Canadian banks in the world's Top 50 safest, and Canadian banks are also the best performing in North America.<sup>5</sup> The Canadian banking sector includes 29 domestic banks, 24 foreign-bank subsidiaries, 25 full-service foreign-bank branches, 4 foreign-bank lending branches and 23 foreign-bank representative offices.<sup>6</sup>

## VIBRANT INSURANCE SECTOR

Three Canadian life and health insurers—Manulife Financial, Great-West Life Assurance Co. and Sun Life Financial Inc.—rank among the top 20 of the world's largest life and health insurance firms.<sup>7</sup> At the end of 2012, Canadian life and health insurers held \$1.19 trillion in assets and about 142,600 Canadians earn some or all of their livings from the industry.<sup>8</sup> More than 220 private-property and casualty insurers compete actively in Canada; the industry employs over 115,000 people across Canada and has over \$150 billion in total assets.

## ASSET AND WEALTH MANAGEMENT

Canadian capabilities encompass the entire spectrum of asset and wealth management functions—financial planning, portfolio management, retail banking, estate planning, financial statement analysis, asset and stock selection, plan implementation and ongoing monitoring of investments. In Canada, there are 125 hedge-fund management companies managing over \$30 billion in assets<sup>9</sup>; Canadians held over \$1 trillion worth of mutual funds as of January 31, 2014.<sup>10</sup>

## FINANCIAL TECHNOLOGY SECTOR

Canada's technology sector contributed \$69.7 billion to GDP as of 2013, according to the Information and Communications Technology Council ICTC,<sup>11</sup> while its major banks spent more than \$13 billion on technology<sup>12</sup> and the financial technology sector employed 55,200 workers.

<sup>1</sup> Statistics Canada. Gross domestic product in 2007 chained dollars and Survey of Employment, Payrolls and Hours (SEPH).

<sup>2</sup> Statistics Canada. *International investment position*, 2013.

<sup>3</sup> World Economic Forum. *The Global Competitiveness Report 2014–2015*.

<sup>4</sup> Bloomberg Markets. *World's Strongest Banks*.

<sup>5</sup> Global Finance. *World's 50 Safest Banks*, 2014.

<sup>6</sup> Canadian Bankers Association. *Banks Operating in Canada*, 2014.

<sup>7</sup> Canadian Life and Health Insurance Association Inc. *Industry Overview – A Canadian Success Story*.

<sup>8</sup> Canadian Life and Health Insurance Association Inc. *Industry Profile*, 2013.

<sup>9</sup> Alternative Investment Management Association, AIMA Canada Handbook 2012

<sup>10</sup> Investment Funds Institute of Canada. *Stats and Facts*, 2014.

<sup>11</sup> The Information and Communications Technology Council (ICTC). *Strengthening Canada's Digital Advantage*, Winter 2014.

<sup>12</sup> International Data Corporation (IDC). *Series of Worldwide IT Spending Guides focus on banking, capital markets and insurance industries*, 2013.

# FINANCIAL SERVICES CLUSTERS

Close to 37,000 companies make up Canada's financial services sector and are spread out across the country, with Toronto, Montréal, Calgary and Vancouver representing the largest employment hubs.



## WESTERN CANADA

- » British Columbia, Alberta, Saskatchewan, Manitoba
- » Canadian Western Bank, IGM Financial, Vancity, Bank of China, Agricultural Bank of China, Barclays Capital, Goldman Sachs, HSBC, ICICI Bank, Korea Exchange Bank, Merrill Lynch, State Bank of India, Great West Life

## EASTERN CANADA

- » Ontario, Quebec, Prince Edward Island, Nova Scotia, Newfoundland, New Brunswick
- » AGF Management, Assante Wealth Management, Canadian Imperial Bank of Commerce, Manulife, Royal Bank of Canada, Sun Life, TMX Group, TD Bank, China Investment Corp, Citigroup,

Industrial and Commercial Bank of China, Bank of Montreal, Desjardins Group, Laurentian bank of Canada, Banque Transatlantique, Macquarie Group, BNP Paribas, Crédit Agricole, Société Générale, Assumption Life, Citco, Admiral Administration

## RECENT INVESTMENTS

COMPANY	BUSINESS ACTIVITY
Square	Merchant services and mobile payments
Apollo Global Management	Alternative investment
BMS Group	Professional insurance
Royal Premium Budget Canada	Insurance-premium financing
Conifer Group	Hedge-fund provider
PNC Financial Services Group	Commercial banking
Unigestion	Asset manager
KKR & Co.	Private-equity financing

# CANADA'S ADVANTAGES

## ONE OF THE LARGEST CAPITAL MARKETS IN THE WORLD

Foreign investors can rely on deep capital markets in Canada. In 2012, Toronto Stock Exchange and TSX Venture Exchange were, for a fourth consecutive year, first among global exchanges in terms of the number of new listings, according to data from the World Federation of Exchanges.<sup>13</sup> Canada is also an important global equity market in specific niches, such as mining and oil and gas, and the TMX Group ranks first worldwide for the number of listed mining, oil and gas, and clean-tech companies, and second in North America for the number of listed technology companies.<sup>14</sup>

## SOUND REGULATORY ENVIRONMENT

Canada's financial services sector is built on a strong foundation of regulatory frameworks that integrate banking, investment and insurance sub-sectors. Canada's regulator, the Office of the Superintendent of Financial Institutions, meets regularly with the nation's largest financial institutions to ensure they are sound and stable, and the whole financial sector is subject to annual review by the Bank of Canada.

## EDUCATION, SKILLS AND RESEARCH

The financial services industry is one of the largest employers in Canada, with a workforce of 703,000; Canadian banks alone employ 279,975 people.<sup>6</sup> The country has a world-class system of higher education, with 23 Canadian universities ranking in the top-500 worldwide,<sup>15</sup> and finance programs available at the undergraduate, graduate and PhD levels. Five Canadian business schools ranked among the world's top 100 in the 2014 Financial Times' Global MBA Rankings.<sup>16</sup>

## CANADA OFFERS A LOW-COST, LOW-TAX ENVIRONMENT

Canada's cost environment for professional services is extremely advantageous: international financial-services firms typically save 17.8 percent on total costs relative to their U.S.-based counterparts. According to KPMG<sup>17</sup>, Canada has the lowest cost structure in the G-7. Canada is also the most tax-competitive country in the G-7,<sup>17</sup> with combined federal-provincial general corporate income-tax rates of 26.3 percent, 12.8 percentage points lower than those in the U.S.<sup>18</sup>

"We are thrilled to be part of Kitchener-Waterloo's thriving and talented tech community... We're excited by how much more we can do to empower local sellers by establishing a Square office in Kitchener and deepening our commitment to the country."

Demetrios Marantis, Head,  
International Policy and  
Regulatory Affairs at Square

<sup>13</sup> TMX Group Limited. *TMX Group Equity Exchanges Ranked First in the World for Number of New Listings in 2012, Third in the World for Equity Capital Raised*, 2013.

<sup>14</sup> TMX Group Limited. *A Capital Opportunity, A Global Market for Mining Companies*, 2014.

<sup>15</sup> Times Higher Education. *Academic Ranking of World Universities 2013* released.

<sup>16</sup> The Financial Times Ltd. (ft.com). *Business School Rankings, Global MBA Ranking*, 2014.

<sup>17</sup> KPMG. *Competitive Alternatives Report*, 2014.

<sup>18</sup> OECD Tax database,

# SUPPORT PROGRAMS AND INNOVATION

## INNOVATION

Growth in the financial services industry is driven by technology—a sector in which Canada is a world-leading innovator. Between 2003 and 2011, the United States Patent and Trademark Office granted over 300 banking-related patents to inventors based in Canada,<sup>19</sup> and the six largest Canadian banks spent \$7.7 billion on technology in 2012 alone.<sup>6</sup>

- SecureKey Technologies Inc., a leading provider of cloud-based trusted identity networks, enables organizations to quickly, easily and securely deliver high-value online services to millions of consumers using assured federated authentication, regardless of service, device or credentials.

## SPECIALIZED RESEARCH CENTRES IN FINANCIAL SERVICES

- Capital Markets Institute, Financial Research and Trading Lab and International Centre for Pension Management, Rotman School of Management (University of Toronto, Toronto, Ontario)
- Research in Responsible Business, Schulich School of Business (York University, Toronto, Ontario)
- Desmarais Global Finance Research Centre, Desautels Faculty of Management (McGill University, Montréal, Quebec)
- Ben Graham Centre for Value Investing, The Richard Ivey School of Business (University of Western Ontario, London, Ontario)
- KPMG Research Bureau in Financial Reporting; The Phillips, Hager & North Centre for Financial Research, and the Bureau of Asset Management, Sauder School of Business (University of British Columbia, Vancouver, B.C.)
- Waterloo Research Institute in Insurance, Securities and Quantitative Finance (University of Waterloo, Waterloo, Ontario)
- TFSA Centre of Excellence in financial services education, Toronto Financial Services Alliance (Toronto, Ontario)

Canada also offers generous investment tax credits and funding for financial services companies.

- **IFC Montréal - IFC Benefits** allows for a corporation that holds an IFC certificate to receive, for one tax year, a refundable tax credit representing 24 percent of the eligible salary, up to an annual maximum of \$16,000 per employee. Also, a foreign specialist employee can claim, for a period of five years, a deduction in calculating all of his taxable income at an annual rate that varies as follows: 100 percent the first two years and 75 percent, 50 percent, and 37.5 percent respectively for subsequent years.<sup>20</sup>
- **Advantage BC - International Business Activity program** allows for a corporation to receive up to a 100 percent refund on provincial corporate tax paid on income earned from eligible international business. In addition, a registered IB specialist can receive a refund of provincial tax on qualifying income at a rate of 100 percent for years 1 and 2; 75 percent for year 3; 50 percent for year 4; and 25 percent for year 5.<sup>21</sup>
- **Scientific Research and Experimental Development (SR&ED)** provides income tax credits and refunds for expenditures on eligible R & D activity in Canada on wages, materials, some overhead and SR&ED contracts.
- **Export Development Canada** and **Business Development Bank of Canada** provide flexible financing programs and solutions tailored to support foreign direct investment in Canada.

<sup>19</sup> fDi Benchmark estimates based on United States Patent and Trademark Office (2012).

<sup>20</sup> Finance Montréal. International Financial Centre Montréal, IFC benefits, Features of the tax assistance.

<sup>21</sup> AdvantageBC, International Business Centre-Vancouver. The International Business (IB) Specialist.

# INVEST IN CANADA TO ACHIEVE GLOBAL EXCELLENCE

## A WELCOMING BUSINESS ENVIRONMENT

Canada is ranked as the best country for business in the G-20.

Source: Forbes and Bloomberg

## A HIGHLY EDUCATED WORKFORCE

Canada's workforce is the most highly educated among members of the OECD, with half of its working-age population having a tertiary-level education.

Source: Organisation for Economic Co-operation and Development (OECD)

## LOW TAX RATES

Canada's overall marginal effective tax rate on business investment is by far the lowest in the G-7—about 17 percentage points lower than that of the United States.

Source: Department of Finance Canada

## COMPETITIVE R & D ENVIRONMENT

Canada offers the lowest business costs in the G-7 for R & D-intensive sectors, with a 15.8 percent cost advantage over the United States.

Source: KPMG

## FINANCIAL STABILITY

For six consecutive years, the World Economic Forum has declared Canada's banking system to be the soundest in the world.

Source: World Economic Forum (WEF)

## UNPARALLELED MARKET ACCESS

Canada's NAFTA advantage gives investors access to 470 million consumers. Many Canadian production hubs are actually closer to U.S. markets than American production sites—of Canada's 20 largest cities, 17 are within an hour-and-a-half drive of the U.S.

Source: The World Bank

## A GREAT PLACE TO INVEST, WORK, AND LIVE

Canada is one of the globally most multicultural countries with world-class universities, a universal health care system and clean and friendly cities in addition to having the second highest standard of living in the G-20, as measured by GDP per capita.

Source: The World Bank

Unless otherwise noted, all values in this publication are in Canadian dollars. Content is based on the latest available information at time of publication.



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