

Future bright for financial services sector

PETER MOREIR - Economic Outlook

THE PAST two decades have not been kind to financial companies in Halifax.

In 1991, **Central Trust Corp.** shut down after an ill-advised expansion plan quadrupled its size in about four years. And Maritime Life Co. vanished two years ago when Manulife Financial Corp. bought the local insurer's Boston-based parent, **John Hancock Financial Services Inc.**

But now, something new is happening in financial services, and it's quite exciting.

In the last little while, Nova Scotia Business Inc. has announced that four offshore financial companies will create about 850 jobs in the next seven or so years by locating back-office staff in Halifax.

West End Capital, a company affiliated with billionaire Warren Buffett, has already set up shop here, and plans to have a total of 75 people working here in the next few years.

Then about two weeks ago, Butterfield Bank of Bermuda announced its fund services unit would hire about 400 people in Halifax in the next seven years.

That opened the flood gates and the fund administrator Citco Group of Curacao said it has committed to an office in Halifax that will employ about 350 people.

The hedge fund Olympia Capital then weighed in with a promise to hire about 175 employees in the city. There are more on the way, and the commitment for jobs will probably approach 1,000 by the time the current wave of announcements is over.

The thinking- and I buy into it - is that these announcements will give Halifax a reputation among offshore financial companies as a location with a reasonable cost base and highly educated workforce, so other companies will look at Halifax.

The province's universities will begin to tailor their business programs to suit this line of work, and Halifax will have a critical mass in place to attract more and more of these businesses.

How long will it take for Halifax to become the New Dublin? That question itself shows how quickly a city's fortunes can improve. Twenty years ago, Dublin was best known for its impoverished literati, but now it's successful enough in business that other cities want to steal its name and put the word new in front of it.

So Halifax could be on to something big here.

A few quick thoughts on Nova Scotia Business Inc.'s success in the financial field. First, it wasn't a mistake, or natural financial evolution. These businesses are coming to Halifax because Stephen Lund and his troops actively targeted the financial community in Bermuda and convinced them to check out Halifax.

They have cold-called Bermudan companies, established contacts and played on the traditional links between the island and this province to develop a relationship. Once they arrived here, a co-operative effort between the development agency, the Greater Halifax Partnership, and the business and academic communities portrayed Halifax in a good enough light that Halifax won these jobs.

In the development agency's offices, they think there is a lot of room to expand on their success. So far, they have focused on Bermuda, largely because of its traditional links with Halifax. But the agency also has its eyes on offshore financial companies based in other tax havens, like British Virgin Islands and the Cayman Islands.

These islands have had huge success in the past few decades allowing global companies to establish there tax free. These are booming businesses, but the problem they have is rising labour costs because most are islands and have to import skilled workers.

That's where Halifax comes in. The city is now attracting the people who will work at pricing hedge fund products, perform some technical analysis and provide support to the people back in the offshore jurisdictions who actually manage the capital.

By and large they're well-paying jobs, worth about double the average salary in the province.

The announcements of the past few weeks aren't as sexy as the deal to attract Research in Motion Ltd. a year earlier, but like the earlier deal, it has the benefit of potentially leading to more deals.

With a bit of luck, this means that people will work for these companies for a few years, then new businesses will grow out of it. Once the local people get more experience in administering hedge funds, a few will start their own companies that outsource this type of business.

That's when the benefits will really be seen flowing in.

One final point: Nova Scotia Business Inc. and the provincial government is doling out money to attract these companies & something upwards of \$20 million over seven years. The aging conservative crank in me wants to struggle from my rocker, shake my cane and scream at the thought of governments subsidizing business.

But Nova Scotia cannot operate in a vacuum. All our competitors are offering incentives to attract businesses; we've got to do likewise.

If those 1,000 jobs have average salaries of \$50,000 in seven years, the total workforce will be earning \$50 million a year, which adds up to about \$11 million or more annually for the provincial government in income tax.

I don't see how the local economy can operate without some prudent government incentives for businesses.

This is a sensible strategy that is being executed well & a rarity among Nova Scotian decision-makers these days. Yes the province has a lot of problems that are not being addressed. We're saddled with debt, burdened by over-regulation and oppressed by high taxation.

But Nova Scotia Business Inc. has done a great job on this assignment and deserves a round of applause.

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