



INSURECONOMY

an economic impact and future growth study
of Nova Scotia's high-value insurance sector

-  over 360 firms
-  20% employment growth over the past 5 years
-  25% expected employment growth over the next 3 years

This summary report is the result of a collaborative effort amongst organizations interested in understanding the current economic impact of the insurance industry in Nova Scotia as a means of determining how best to leverage future growth opportunities to the benefit of all Nova Scotians.

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Report Partners:



Funders:



Project Management:



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1. EXECUTIVE SUMMARY

Nova Scotia's Insurance Industry: Quick Facts

- Over 360 firms – insurance providers, brokers and related companies.
- The majority of Canada's top insurance firms have a significant presence in Nova Scotia.
- The only reinsurance firm in Canada east of Montreal is located in Halifax.
- The industry contributes \$460 million in direct annual GDP to the provincial economy and supports \$757.4 million in GDP.
- 4,500 direct employment at wage levels 38% higher than the Nova Scotia average (6,900 direct, indirect and induced jobs supported).
- Almost 20% employment growth in the past five years.
- Expected 25% employment growth in the next three years.
- \$222.6 million in direct and indirect taxes to federal and provincial governments in 2008.
- Halifax has one of the highest concentrations of insurance industry firms and employment among urban centres across Canada.

This report is based on the results of a broad-based review of the insurance industry in Nova Scotia undertaken to assess the state of the industry and its growth potential. The insurance sector is a diverse sector with national and international elements that include life, health, and property and casualty insurance (auto, home and business). This review included a formal economic footprint assessment prepared by the Conference Board of Canada, face-to-face consultations with the majority of property and casualty insurance firms located in Nova Scotia and an online survey that was completed by nine property and casualty insurance firms and 43 insurance brokerages. It also included a review of related Statistics Canada data on the insurance industry.¹

The research confirms the insurance industry in Nova Scotia is a high-value industry and a major engine for the provincial economy. It represents a growing economic driver with over 360 companies directly employing almost 4,500 people. It is also one of the highest paying industries in Nova Scotia with an average weekly earnings 38% higher than the overall average across the province. The majority of the top insurance companies in Canada have a significant regional presence in Nova Scotia.

According to a Conference Board of Canada economic footprint analysis, the insurance industry in Nova Scotia directly contributed \$468.8 million to real gross domestic product (GDP) in 2008.² Including indirect and induced impacts, the insurance industry supports an estimated 6,900 jobs in the province and adds \$757.4 million in real terms to the Nova Scotia economy.

The insurance industry also generates significant tax revenue for government. In 2007, for example, the property and casualty insurance industry alone was responsible for \$127 million in direct tax revenue generated in the province.³ Overall, the Conference Board estimates that Nova Scotia's insurance industry contributes

\$222.6 million in corporate income tax, personal income tax and indirect tax revenues for the federal and provincial governments. Municipal governments benefit from over \$6 million in property tax revenue.

The industry's economic benefits are spread around the province. The bulk of the insurance providers is based in Halifax (for the purposes of this report, Halifax refers to the Halifax Census Metropolitan Area (CMA)) while the strong network of insurance brokers, claims adjusters and other related service providers is located around the province.

The insurance industry is also in strong growth mode. In the past five years, total industry employment is up by almost 20%. This growth is coming both from the expansion of existing regional head offices in Nova Scotia and from the attraction of international investment such as UK-based Admiral Insurance and New York-based Marsh Captive Management Solutions. This strong growth is forecasted to continue but will need to be cultivated. The property and casualty insurance firms and insurance brokers consulted for this report are looking to grow their collective employment by 25% over the next three years.

¹ For an expanded review, see also *Assessing the Impact of the Insurance Sector in Nova Scotia* prepared by the Conference Board of Canada and *The Insurance Industry in Nova Scotia: Growth Potential* prepared by Jupia Consultants Inc. Both reports were written in conjunction with this project.

² Expressed in chained 2002 dollars.

³ Calculated by Insurance Bureau of Canada.

Halifax plays a unique role as a hub city for the insurance industry not only in Nova Scotia but for the Maritime provinces. Its universities and colleges turn out talented graduates for the industry. The international airport is widely used by the insurance industry – some individual firms use the airport several hundred times per year.

Industry support services such as Insurance Bureau of Canada, Insurance Institute of Nova Scotia, and Insurance Brokers Association of Nova Scotia are located in the hub city. The insurance industry also accesses specialized business services that are located in Halifax because there is a concentration of legal services, consulting, staff recruiting services, etc.

The hub city is also home to a significant number of executive level managers in the Canadian insurance industry. These senior managers have strong ties and affinity to the region and have more influence over corporate decision making compared to the typical general manager or branch office operation. In the interviews with property and casualty insurance companies, there was a clear sense of commitment to their Halifax regional offices and to the region.

There is considerable potential for growth in the Nova Scotia insurance industry over the next few years. Some of this growth will come from local market needs but the bulk of the opportunity lies with attracting more national and international insurance industry activity to the province. The majority of the property and casualty insurance firms interviewed for this report already are servicing regional, national and even international clients out of Nova Scotia. The insurance firms and brokers consulted for this report are projecting to grow their employment by over 700 people in the next three years.

In order to support this growth and enhance the potential to grow the significant insurance industry cluster in Nova Scotia, there are a number of issues that need to be addressed. While turnover is low, the strong growth of the industry and the need by some firms to address an aging workforce give rise to an emerging need to focus on the talent pipeline for the industry. The workforce is considered by the industry to be the top benefit to locating in the province. If the industry starts to experience shortages or high turnover, it will impact future investment decisions.

There is more that can be done to promote Nova Scotia to the insurance industry. In Canada, Nova Scotia Business Inc. and the Greater Halifax Partnership are well positioned to help local insurance industry leaders that are making the case to their head office to expand the company's national and international footprint in Halifax and Nova Scotia. There is also more potential from raising the awareness of Halifax and Nova Scotia to the industry worldwide.

The property and casualty insurance providers and brokers interviewed for this report all believe that a stable and predictable regulatory regime is vital to support both the quality and competitiveness of the insurance market in the province as well as the potential of future investment decisions.

Based on the research conducted for this report, there is a strong case that a deliberate and sustained effort by government, industry and economic development stakeholders to grow this industry will be met with success.

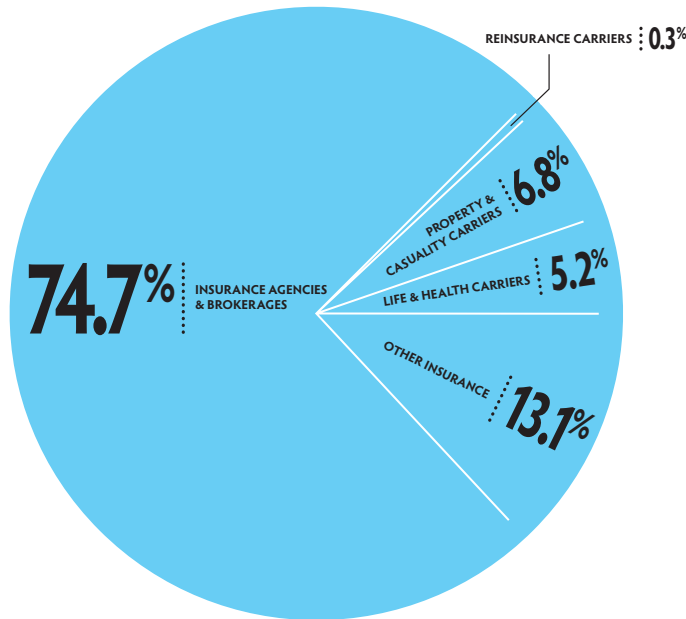
Benefits of Having Local Influence Over Corporate Decision Making:

- Provides influential champions for the Halifax regional office for growth opportunities within the national corporate footprint.
- Provides influential advocates for the regional office (and the region) during corporate and strategic plan development.
- Provides direct control over supply chain activity (equipment purchases, hosting industry events, hotels, etc.).
- Provides more local control over decisions such as hiring, compensation, partnerships, etc.
- Provides local control over corporate philanthropy, event sponsorship, scholarship activity, etc.
- Develops more direct relationships with the insurance brokers and other industry players on the ground.

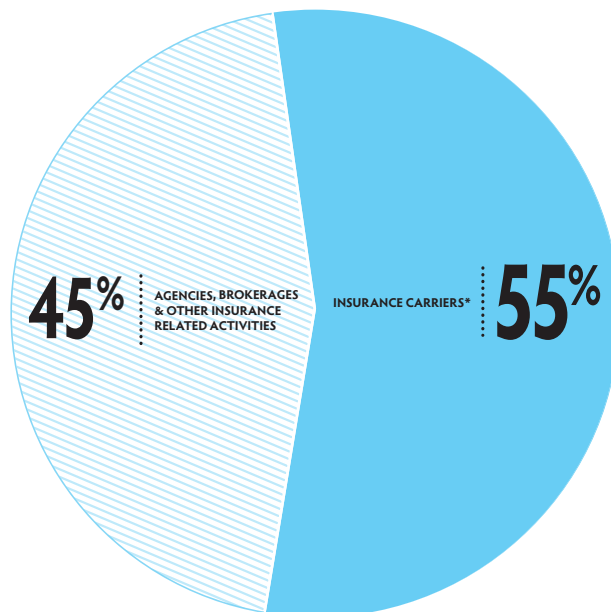
2. INSURANCE INDUSTRY: OVERVIEW

Insurance Industry in Nova Scotia

Breakdown by Sub-Sector – Establishments



Breakdown by Employment



Source: Establishment data – Statistics Canada – Canadian Business Patterns (June 2009). Employment breakdown – Statistics Canada Table 281-0024 (2009).
*Includes property and casualty, life/health and reinsurance carriers.

Nova Scotia's Insurance Industry: Deep Roots

Some of the first companies in Canada to begin underwriting insurance policies started in Nova Scotia. The company that would become the property and casualty insurance provider Lombard Canada Ltd. was granted a charter in 1782 and began underwriting policies in Nova Scotia in 1804. The Halifax Fire Insurance Association, which became The Halifax Insurance Company (now Intact Insurance), was founded in 1809. The life and health insurance industry also built a strong base in Nova Scotia. Standard Life established its first Atlantic Canadian office in Halifax in 1847. The Maritime Life Assurance Co. was founded in 1922 and grew to become one of Nova Scotia's largest private sector employers with over 1,000 employees by the late 1990s. Many of Canada's top property and casualty insurance companies still have their Atlantic Canada regional office in Nova Scotia including: Intact Insurance, Aviva Canada Inc., The Dominion, Lombard Canada Ltd., The Economical Insurance Group, RSA, Portage Mutual Insurance and TD Insurance Meloche Monnex, among others.

Industry Profile by Segment

The insurance industry broadly is made up of life, health and medical insurance; property and casualty insurance (including auto, home and business); reinsurance providers as well as insurance agents and brokers. In Nova Scotia, there are over 360 companies in the sector employing some 4,500 people. The bulk of the insurance providers are based in Halifax while the strong network of insurance brokers, claims adjusters and other related service providers is located around the province.

Life and Health Insurance

There are 19 life, health and medical insurance carriers (NAICS 52411) with operations in Nova Scotia. Most of Canada's top firms in this sector have offices in the province including: Manulife Financial, Medavie Blue Cross, Great-West Life; and Sun Life Financial. In total, the sector employs approximately 1,400 persons across Nova Scotia.

Property and Casualty Insurance

There are 25 property and casualty insurance providers (including auto, home and business) with operations in Nova Scotia (NAICS 52412). The majority of the industry's regional head offices are based in Halifax. In total, the industry employs an estimated 1,200 employees and is critical to the success of the insurance broker network throughout the province. Over 97% of the average insurance broker's revenue in Nova Scotia comes from the property and casualty insurance sector.

Insurance Brokers and Related Services

There are over 300 insurance agencies, brokerages and related firms in Nova Scotia (NAICS 5241). This sector is comprised of approximately 1,900 persons representing 43% of total industry employment across the province and the bulk of this employment is based outside of the Halifax Regional Municipality (HRM). Over 50% of insurance agencies and brokerages are located outside the HRM. A survey of 43 insurance brokerages in Nova Scotia conducted for this report found that 44% have been increasing employment and only 7% have had to reduce employment in the past three years.

Nova Scotia's Insurance Providers: Top Employers

200+ EMPLOYEES

Intact Insurance
Admiral Insurance
Manulife Financial
Medavie Blue Cross
Royal & Sun Alliance
Insurance Company of Canada

100-200 EMPLOYEES

TD Insurance Meloche Monnex
Co-operators General Insurance Company
Flagstone Re
Marsh Captive Management Solutions

50-100 EMPLOYEES

Aviva Canada Inc.
The Dominion
The Economical Insurance Group
Lombard Canada Ltd.

Nova Scotia's Insurance Industry: Partners in Community and Economic Development

The insurance industry in Nova Scotia is a significant contributor of tax revenue to provincial and municipal governments in Nova Scotia. In 2007, for example, the property and casualty insurance industry alone was responsible for \$127 million in direct tax revenue generated in the province. In addition, the employment generated by the industry contributes tens of millions of dollars in tax revenue to the provincial government. Municipal governments benefit from millions of dollars in property tax revenue each year.

Insurance companies also invest directly in Nova Scotia through their investments in municipal and provincial bonds, corporate bonds and company shares. In 2008, the property and casualty insurance industry had \$1.8 billion invested to support Nova Scotia communities and companies.

Another example of the value of this sector in Nova Scotia, the insurance industry has also made a strong commitment to corporate social responsibility (CSR) efforts in the province. For example, most of the property and casualty insurance firms interviewed for this report encourage their staff to volunteer in the local community and all but one firm give to local charities in Nova Scotia. Over half of the firms sponsor local sporting or cultural events.

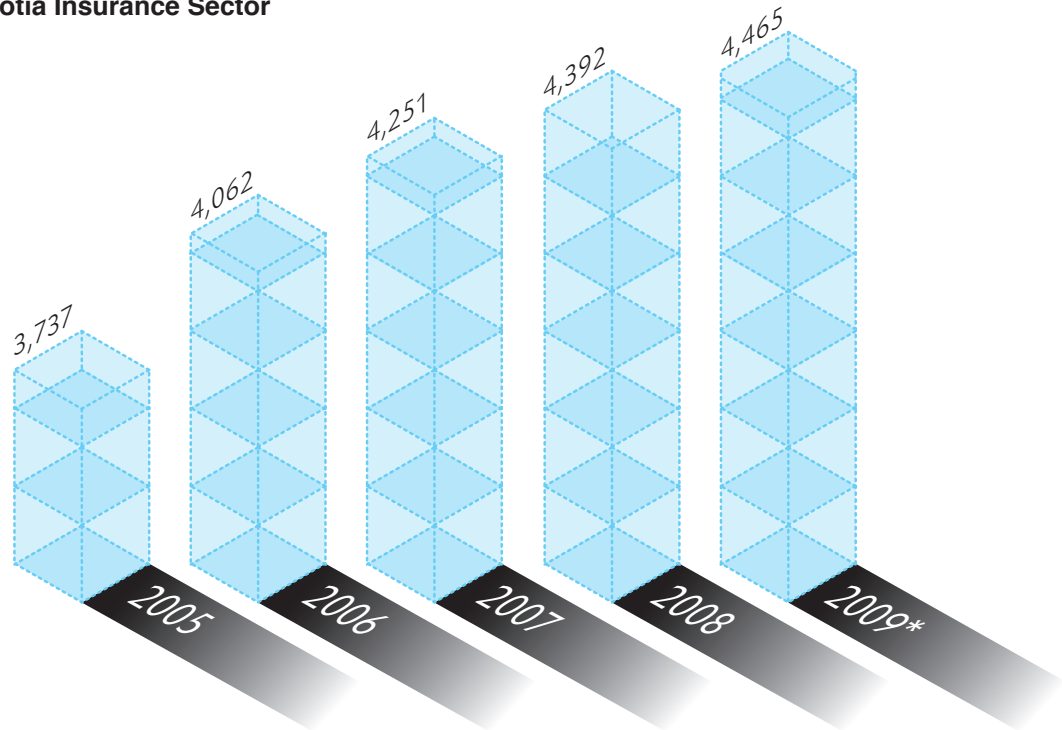
Insurance brokers are also deeply embedded in the communities they serve. Ninety-five percent of brokers surveyed for this report support local charities with financial contributions. Three out of every four firms indicated they sponsor either local sporting or cultural events each year. Another 74% of firms encourage their staff to volunteer their time in support of community charities or events. Management and staff are also active participants on community boards. In addition, Insurance Bureau of Canada and Insurance Brokers Association of Nova Scotia annually sponsor community events and injury prevention campaigns throughout the province that contribute both to the quality of life and in keeping people safe. One example is Insurance Bureau of Canada's annual \$250,000 sponsorship of Operation Red Nose in the province.

Employment Trends

The insurance industry has increased its employment in recent years. The industry (both the health/life and property and casualty segments) in Nova Scotia employed almost 4,500 people in 2009, up strongly by almost 20% since 2005. This growth has come from both national insurance carriers adding employment as well as international firms expanding in the province (notably the UK-based Admiral Insurance and Bermuda-based Flagstone Re). Insurance brokers have also added employment. A survey of 43 insurance brokerages in Nova Scotia conducted for this report found that 44% have increased employment and only 7% reduced employment in the past three years.

The industry is poised for another growth spurt into 2012 with the majority of firms interviewed/surveyed for this report indicating that they project to add employees in the next three years.

Five Year Employment Trend Nova Scotia Insurance Sector



* Average monthly employment through the first 11 months of 2009.

Source: Statistics Canada Table 281-0024. NAICS 524: Insurance carriers and related activities.

Wage Levels

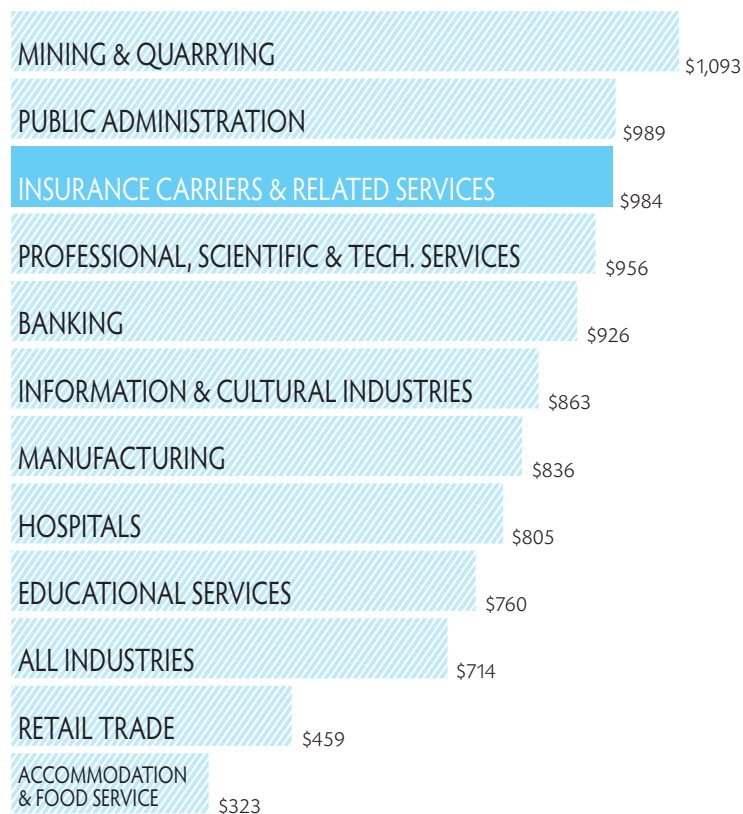
Another important attribute of the insurance industry is that it offers relatively high wages. The insurance industry average weekly earnings was \$984 (including overtime) in 2008 – one of the highest among the main industry groupings in Nova Scotia. The wage differential between the insurance industry and the provincial average is larger in Nova Scotia than all other provinces except New Brunswick. The average weekly earnings is almost 38% higher than average (compared to only 18.7% higher across Canada).

Higher wages translate into higher taxes for government. The average insurance industry employee contributes more tax revenue to governments than the vast majority of employees in other industries in the province. This is vitally important as higher wage industries mean more taxes for government and the funds to support necessary public infrastructure and services.

Higher wage jobs are also more attractive to people considering staying in or relocating to Nova Scotia. Over the next few decades, the competition for skilled labour across Canada and around the world will intensify. Communities and provinces that offer a high quality of life as well as higher wage and strong career opportunities will be better able to attract migrants and immigrants. The insurance industry is one with attractive wage levels and career opportunities.

A critical mass of national and international insurance firms, as well as the broker network and other related industry activity means that new graduates looking to start their careers and seasoned industry professionals looking to advance their careers have good options in Nova Scotia.

Average Weekly Earnings (2008) Selected Industries in Nova Scotia (Includes Overtime)



Source: Statistics Canada Table 281-0027 (2008).

3. INSURANCE INDUSTRY: ECONOMIC FOOTPRINT

As part of this project, the Conference Board of Canada was retained to prepare an assessment of the impact of the insurance sector in Nova Scotia. The Conference Board prepared a detailed economic footprint analysis for the overall insurance industry, the property and casualty insurance segment as well as the insurance broker network and related services.

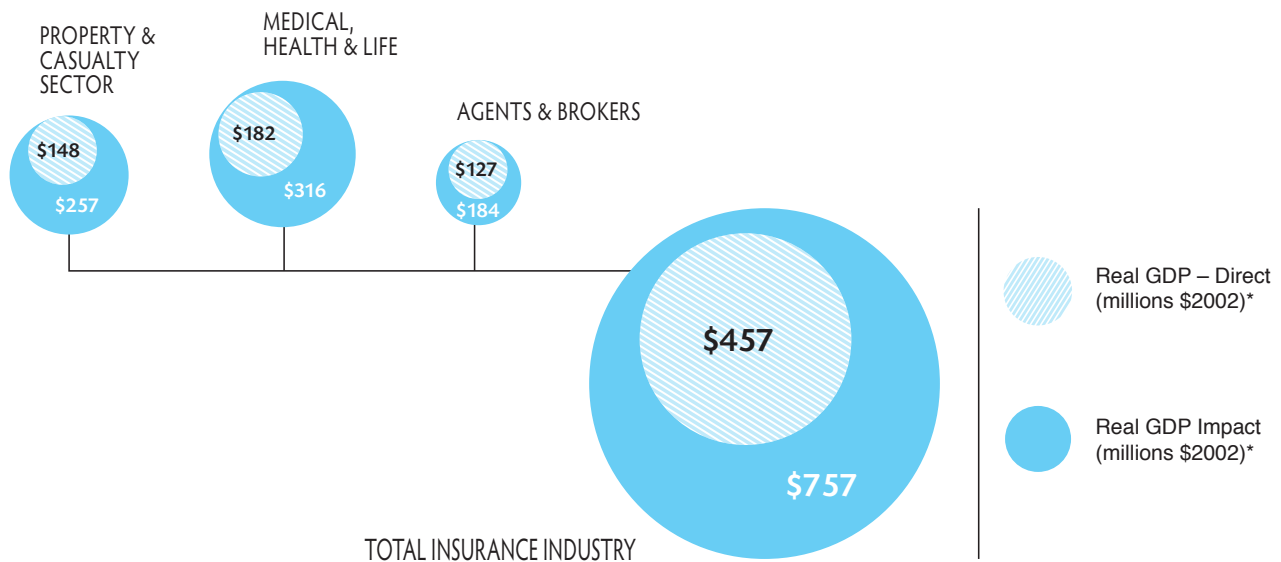
In total, the insurance industry in Nova Scotia directly contributed \$456.8 million to real GDP in 2008 and almost 4,500 direct jobs. The property and casualty insurance segment contributed \$148.2 million, the medical, health and life insurance segment contributed \$181.9 million and the agents, brokers and related services segment was responsible for \$126.7 million in direct GDP.

The insurance industry also has a significant economic multiplier which measures the indirect and induced effect of the direct economic activity on the broader economy. This means the insurance sector is more highly integrated into the Nova Scotia economy (more impact and fewer leakages) than most service sector industries.

At 1.66 the overall economic multiplier for the industry is relatively large compared to other service sectors. Including direct, indirect and induced impacts, the Conference Board analysis reveals an economic footprint for the insurance industry that adds \$757.4 million annually in real terms to Nova Scotia's economy.⁴

The report also concludes about 6,900 jobs are supported by the direct and multiplier effects that the insurance industry has on the economy.

Annual Insurance Industry GDP Impact in Nova Scotia (\$ millions)



* GDP is expressed in chained 2002 dollars in order to maintain accurate growth rates.

Source: The Conference Board of Canada; Statistics Canada (2008).

⁴For an expanded review and a description of how the GDP of the insurance industry is measured, see Assessing the Impact of the Insurance Sector in Nova Scotia prepared by the Conference Board of Canada for this project.

Significant Source of Taxation for Governments

The lift to economic activity results in a boost to labour income and corporate profits, important sources of revenues for both federal and provincial levels of government. In 2008, the insurance industry in Nova Scotia generated \$222.6 million in corporate income tax, personal income tax and indirect tax revenues for the federal and provincial governments. This estimate does not include an estimated \$41 million in premium taxes paid by property and casualty insurers as well as premium taxes paid by medical, health and life insurers where the tax rate is three per cent of gross life, sickness and accident premiums.

Insurance Bureau of Canada has prepared an analysis of the various taxes paid directly by the property and casualty industry. In 2007 the property and casualty insurers paid an estimated \$126.9 million in taxes and levies.

While not captured in the Conference Board study, the insurance industry also generates at least \$6 million in property tax revenue to municipal governments across the province.⁵

Economic Footprint Extends Throughout the Economy

The impact of the insurance industry goes well beyond direct employment and economic activity. Many jobs in the legal, construction, auto repair, and other sectors are indirectly linked to the sector. Indeed the sector is a necessary enabler of business and community activity of all kinds.

The insurance industry in Nova Scotia is one where the bulk of the economic activity stays within the province. For every dollar of premium paid by a customer, upwards of 80 cents is spent in Nova Scotia either directly through the cost of operations (payroll, facilities, etc.) or indirectly through the cost of claim payouts (auto body shops, law firms, medical services, etc.).⁶

The impact of this economic activity is felt across multiple sectors of the economy. For example, the insurance industry supported \$133.8 million worth of retail sales spending in 2008 across Nova Scotia. The industry also supports \$56.7 million worth of economic activity in the community, business and personal services segment of the provincial economy.

Taxes Generated by Nova Scotia Property and Casualty Insurance Segment – 2007 (\$ millions)

	TAXES	TAXES & LEVIES	TOTAL
	INCOME TAXES (CORPORATE INCOME TAX ONLY) \$14.2	TOTAL TAXES \$115.8	TOTAL TAXES & LEVIES \$126.9
CAPITAL TAXES \$1.6	HST ON OPERATING COSTS \$9.3		
	HST ON CLAIMS \$49.6		
	INSURANCE PREMIUM TAXES \$41.1		
		HEALTH CARE LEVIES \$11.1	

Source: Insurance Bureau of Canada.

⁵Based on the direct insurance industry employment as well as housing and property tax average data for 2008.

⁶This ratio was mentioned by several of the firms interviewed for this report.

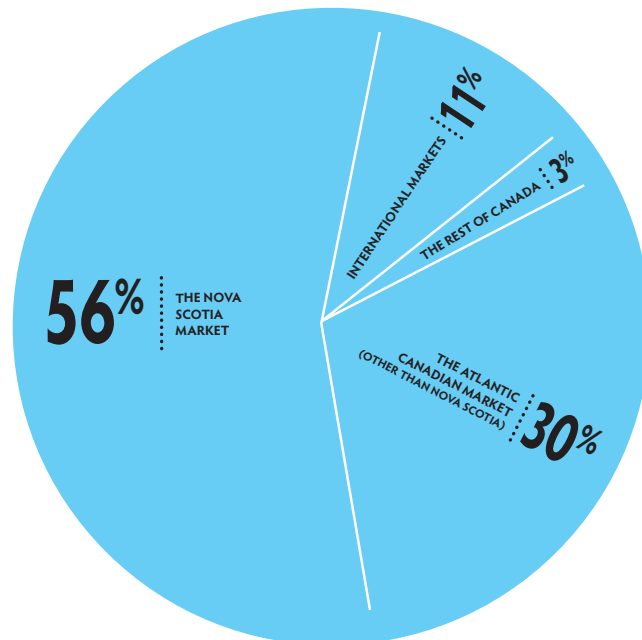
Nova Scotia's Insurance Industry: An Export Sector

The industry is also an export sector for Nova Scotia. Insurance companies in the province service activity from around Atlantic Canada in their Halifax facilities. In addition, over half of the property and casualty insurance providers consulted for this report are doing some national or international work from their Nova Scotia operations. In other words, the property and casualty insurance industry in Nova Scotia is a significant exporter of services into other geographic markets.

Examples of the expanded geographic footprint:

- The vast majority of property and casualty insurance providers in Nova Scotia service regional, national and international markets.
- Several firms conduct regional training in Nova Scotia and one firm in particular operates its national insurance training facility in the province.
- Multiple firms handle overflow claims management and customer service for markets in Quebec, Ontario and Western Canada.
- International activity: Bermuda-based Flagstone Re is the only reinsurance company east of Montreal. The company has a significant back office and support facility in Halifax. Admiral Insurance, based in the United Kingdom, has a large customer service operation in Halifax and has announced plans to triple its employment level. New York City headquartered Marsh Captive Solutions operates a commercial insurance brokerage in downtown Halifax.

Property and Casualty Insurance Carriers: Distribution of Business Activity by Geographic Market Average Firm



Source: Survey of Insurance Bureau of Canada members and other insurance carriers January/February 2010.

4. INSURANCE INDUSTRY: VALUE PROPOSITION

Existing Concentration of Firms

Halifax has one of the highest concentrations of insurance industry firms and employment among metropolitan areas in Canada. This concentration of industry activity is a catalyst for the clustering effect.

Access to Talent

The workforce is considered to be a major part of the value proposition for the insurance industry in Nova Scotia. The workforce is characterized by low industry turnover. All of the property and casualty firms interviewed for this report indicated they have very low workforce turnover. Industry executives also talked about engaged and loyal workers.

The industry is also benefitting from the high quality talent coming out of Nova Scotia's universities and colleges. Halifax alone boasts more university students per capita than any other urban centre in Canada and more university graduates per capita each year than any other urban centre in Canada.

Competitive Operating Cost Environment

According to the KPMG Competitive Alternatives report for 2010, Halifax offers a significant overall cost advantage for back office operations compared to financial centres such as Toronto, Calgary, New York City and London, UK. The cost advantages include lower payroll costs, lower facilities costs and a reduced tax burden. Property and casualty insurance industry executives in Halifax agreed with KPMG's findings. All of them believe the cost structure in Halifax is highly competitive with other locations across Canada.⁷

Overall Business Environment

IBM-Plant Location International (IBM-PLI), one of the largest corporate location consulting firms, recently completed a detailed benchmarking report on the operating environment for the financial services sector in selected Canadian, United States and European cities. Among all benchmarked locations, Halifax ranked second behind Zurich for the quality of the business environment for the financial services sector. The report⁸ states that Halifax ranks "particularly well because of [its] very supportive local development network".

Strategic Geographic Location

Halifax's historical position as a regional head office location for Canadian and international companies gives it an advantage over many other jurisdictions. This geographic advantage applies to servicing Atlantic Canada but also to servicing international markets. Admiral Insurance chose Halifax because of its time zone advantage as well as direct flights between the city and London, UK. Flagstone Re also said that time zone, culture and geography were key attributes that impressed them about Halifax. The Halifax Stanfield International Airport is particularly important as a connector of the insurance industry with direct flights to Toronto, New York City, Boston, London (UK) and Chicago, among others.

The Insurance Industry Value Proposition In Nova Scotia

- Existing cluster of firms
- Access to talent
- Competitive operating costs
- Strong business environment
- Strategic geographic location
- Developed urban infrastructure
- Excellent quality of life

⁷ Several firms, however, stated the tax structure in Nova Scotia is higher than other Canadian jurisdictions.

⁸ 2009 Invest in Canada Financial Services. Benchmarking review prepared by IBM-Plant Location International (IBM-PLI).

Urban Infrastructure

Most of the executives interviewed for this report indicated that the urban infrastructure in Halifax was a key benefit for the city. This includes universities, recruitment agencies, law firms, suppliers, accommodations, conference facilities and also the entertainment and recreational infrastructure. The international airport is particularly strategic. All of the insurance providers have employees that travel widely by air (several firms each make a hundred or more flights per year). A variety of industry support services are in place as well including Insurance Bureau of Canada, Insurance Brokers Association of Nova Scotia, and Insurance Institute of Nova Scotia, among others.

Excellent Quality of Life

The excellent quality of life in Nova Scotia emerged in most of the industry consultations as an important part of the value proposition for the province. Most importantly, it helps companies recruit and retain qualified staff. Staff enjoy living in Nova Scotia and most do not want to leave (based on the experience of these firms). The quality of life is also important to the management team in these firms. Several of the executives interviewed for this report turned down assignments elsewhere to remain and live in Halifax.

5. BUSINESS CLIMATE FOR THE INSURANCE INDUSTRY

Over 50 different property and casualty insurance companies and insurance brokers were consulted or surveyed for this report to determine their assessment of the overall business climate in the province. Collectively, the firms consulted employ at least 75% of the total property and casualty insurance and reinsurance employment in the province. The 43 insurance brokers surveyed represent 16% of the total brokers in Nova Scotia and 45% of the total insurance broker employment across the province.

The growth prospects for the property and casualty insurance industry in Nova Scotia are very good. All of the insurers consulted rated their prospects as good to excellent as did the majority of brokers. The majority of firms are also planning to add new employees over the next three years.

When asked to provide a rationale for their strong assessment of the Nova Scotia business climate, several common themes emerged. The quality of the workforce and the pipeline for new workers was mentioned by all of the firms as a top advantage for Nova Scotia. The concentration of insurance industry employment creates a large pool of talent for the industry. It also creates career options (lateral and vertical) for industry professionals trying to retain more highly skilled talent in the province.

The concentration of insurance industry providers in Halifax creates a number of other advantages including a well-developed supply chain and associated industries that have expertise needed by the insurance industry (legal, professional services, workforce recruitment, etc.).

The overall cost environment is also considered to be an advantage for the insurance industry in Nova Scotia.

Challenges Facing the Industry

Nova Scotia's property and casualty insurance providers and brokers were also surveyed to determine challenges facing the industry. These included:

- Uncertainty related to the regulatory regime for the insurance market in Nova Scotia. Significant changes to the regulatory environment could impact their future investment in the province.
- An aging workforce and how to ensure a strong pipeline of new talent into the firms.
- The overall tax environment for the property and casualty insurance industry.

Business Climate Assessment

Surveyed Property and Casualty Insurance Companies and Insurance Brokers
 Choices were: Excellent, Good, Fair & Poor

Property and Casualty Insurance Companies

Overall Business Environment	Business Prospects* (next 24 months)	Business Prospects* (next 2-3 years)	Business Prospects* (next 4-5 years)	Employment Trend (last 3 years)	Employment Growth Potential (next 3 years)
100% GOOD TO EXCELLENT	100% GOOD TO EXCELLENT	100% GOOD TO EXCELLENT	100% GOOD TO EXCELLENT	100% INCREASING	89% TO EXPAND

Insurance Brokers

Overall Business Environment	Business Prospects* (next 24 months)	Business Prospects* (next 2-3 years)	Business Prospects* (next 4-5 years)	Employment Trend (last 3 years)	Employment Growth Potential (next 3 years)
69% GOOD TO EXCELLENT 2% POOR	72% GOOD TO EXCELLENT 2% POOR	N/A**	N/A**	44% INCREASING 7% DECREASING	60% TO EXPAND

* In their Nova Scotia operations.

** For the purposes of this survey, insurance brokers were not questioned regarding these time frames.

6. HALIFAX: A NATIONAL & GLOBAL CENTRE FOR INSURANCE

A centre of excellence for the global insurance industry involves combining intellectual assets, physical and technological infrastructure, and private-sector engagement to form a healthy economic ecosystem that is attractive to global insurance industry investment.

It is clear from the consultations with senior property and casualty insurance industry executives in Nova Scotia that a local presence is required to support the broker network and maintain or enhance local market share. However, beyond that need for a local presence, the rest of the business activity could be facilitated anywhere in Canada and beyond. Business investment in the insurance industry is quite mobile. Over time industry investment will migrate to the places that have the strongest value proposition.

National and International Scope

The insurance industry in Halifax is far larger than what is needed to service the local market. The majority of property and casualty insurance companies in the city provide services to support local and national markets. There is a growing international component to the industry with firms such as UK-based Admiral Insurance, New York-based Marsh Captive Solutions and Bermuda-based Flagstone Re, all with large-scale operations in Halifax.

Leveraging Assets

Halifax has many of the key infrastructure and economic assets to facilitate the growth of the insurance industry. Nova Scotia's excellent community college system could be tapped to build an insurance industry-focused diploma program. Halifax has been increasingly successful at attracting skilled talent from across Canada and beyond. These efforts could be aligned with initiatives to grow the insurance industry. Halifax has successfully attracted numerous national and international companies. These efforts could be intensified and focused on the global insurance industry. The unifying theme involves deliberate efforts to leverage the hub city assets in Halifax to foster growth in the insurance industry.

A Team Approach

A major reason why Nova Scotia has been successful at growing a number of industry clusters has been the ability to marshal resources from across government, academic, institutional and private sectors. The life sciences and information technology sectors in Nova Scotia are good examples of how broad stakeholder engagement and collective action can lead to industry growth. Nova Scotia has taken this approach across multiple growth industries in the province.

In recent years, the potential of the insurance sector as a high-value growth engine for the Nova Scotia economy has become clear. National firms are expanding here and international firms are moving into the region.

In today's global economy, the competition for insurance industry investment is escalating. For Nova Scotia it is imperative for the various stakeholders to work together to sustain and enhance the value proposition. As mentioned above, the Halifax financial services sector has been lauded for its "supportive local development network". This competitive advantage should be exploited to build a broader and deeper insurance cluster in the province.

Halifax, Nova Scotia: A Centre of Excellence for the Insurance Industry

- The industry is well above average in terms of wage levels.
- The industry hires young professionals coming out of college and university.
- Nova Scotia will need to continue and enhance its ability to bring in skilled talent from around the world and the insurance industry has the ability to attract skilled workers (in terms of both wages and career paths).
- Halifax has been lauded for its "supportive local development network".
- It is an industry that will always be needed. Insurance has been a fundamental part of the global economy for 200 years.
- It is an information technology-intensive industry. The Internet and information technologies will drive innovative new products and services for the industry going forward.

Insurance in Halifax: A Hub City Industry

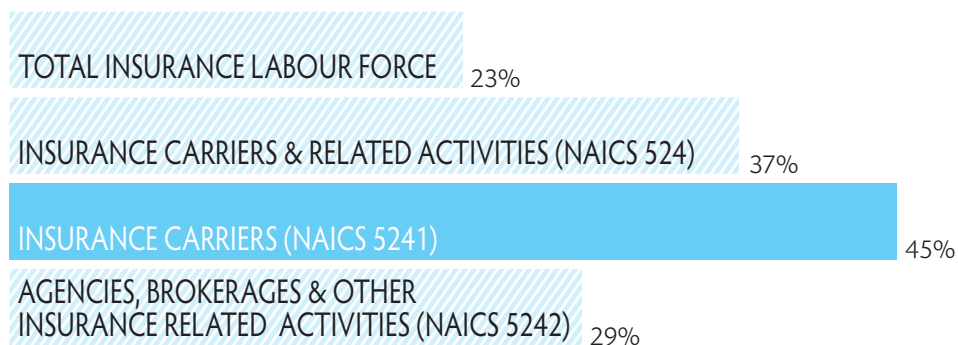
The insurance industry is a classic example of the role of a hub city in relation to a provincial and regional economy. The infrastructure and concentrated urban economy in Halifax are enablers for national and international insurance firms to have significant regional offices in the hub city.

Insurance brokers, adjusters and a variety of industry support activities, on the other hand, are distributed around the province and the region.

While 45% of insurance carrier (NAICS 5241) employment across the Maritime Provinces is concentrated in Halifax, only 29% of the insurance agency, brokerage and other related activity employment (NAICS 5242) is in the hub city.

The concentration of economic activity in the hub city enables the broad infrastructure that is necessary to support the success of the industry throughout Nova Scotia and beyond.

Insurance Employment Intensity in Halifax % of the Maritime Provinces' Employed Workforce



Source: Statistics Canada 2006 Census.

There are many examples of hub city assets and the symbiotic relationship between the hub and the rest of the province and region. Nova Scotia graduates more people with university degrees than any other province in Canada – by a wide margin (adjusted for population size). The majority of these graduates are from Halifax-based universities. Halifax produces more university graduates from business and management programs each year than any other urban centre in Canada (adjusted for population size).

Halifax is also the hub of private training with a significant concentration of professional and management development training organizations (NAICS 61143). Over 42% of all of the organizations in this industry in the Maritime provinces are located in Halifax.

Another example, the top law firms in the region are concentrated in Halifax. Of the top five law firms in Atlantic Canada, almost half of their total lawyers (47%) are located in Halifax (Halifax represents only 17% of the Atlantic Canadian population). This concentration of legal activity creates a level of specialization and sophistication that can be drawn upon by the insurance industry without having to leave the region.

The Importance of Regional Decision Making

Physical location of corporate influence over decision making is correlated to firm growth and ultimately regional economic growth over time. That can place smaller economies such as Atlantic Canada at a disadvantage and amplifies the value of a strong regional hub city economy such as Halifax.

An important feature of the insurance industry in Nova Scotia (and Atlantic Canada) is that it has senior executive level management located in the region both in the Halifax regional offices as well as those based in Moncton.⁹ These senior managers with strong ties and affinity to the region have influence over corporate decision making compared to the typical general manager or branch office operation. In the interviews with property and casualty insurance companies, there was a clear sense of commitment from the local industry leaders to their Halifax and Moncton regional offices and to the region.

Having this significant local influence over corporate decision making within these firms leads to:

- Championing regional offices for growth opportunities within the national corporate footprint.
- Advocating for the regional office (and the region) during corporate and strategic plan development.
- Controlling supply chain activity such as office equipment purchases, hosting events, training, etc.
- Decision making at a local level over hiring, compensation, partnerships, etc.
- Making decisions locally over corporate philanthropy, event sponsorship, scholarship activity, etc.
- Developing more direct relationships with the insurance brokers and other industry players on the ground in Nova Scotia.

Positioning Halifax for Global Opportunities

In addition to fostering the growth of existing insurance industry firms in Nova Scotia, there is potential for the province to attract more international investment. Since 2005 Nova Scotia Business Inc. (NSBI) has taken a targeted approach to attracting international financial services and insurance firms to the province. NSBI and its partners were successful in attracting Admiral Insurance, Flagstone Re and Marsh Captive Solutions as well as a number of other financial services companies to Halifax. This is proof that Nova Scotia has the right value proposition to support this important sector.

The reputation of Canada's financial services industry around the world is at an all-time high. The World Economic Forum Global Competitiveness Report 2008-2009 ranked Canada's banking system as the soundest in the world. Canada also ranked third out of 133 countries in that report for the sophistication of its financial markets. The IBM-PLI benchmarking report cited elsewhere in this report confirmed that Halifax has among the lowest cost environments for financial services and is second only to Zurich for the quality of the general business environment. IBM-PLI also confirms the competitive cost of living in Halifax compared to other global financial centres.¹⁰

Benefiting from the Hub City: Examples

- **Training infrastructure:** In the interviews conducted for this report, all of the insurance firms commented on the quality of the local university and college infrastructure.
- **International airport:** All of the insurance companies interviewed require access to good airport facilities. In some cases, the regional offices in Halifax are using the airport several hundred times per year. International air passenger traffic in Halifax is up 47% over the past 10 years.
- **Industry support services.** Insurance Bureau of Canada, Insurance Brokers Association of Nova Scotia, Insurance Institute of Nova Scotia, among others, are based in Halifax but serve the province and/or the Atlantic region.
- **Specialized business services:** The hub city offers the insurance industry the kind of business support services that are only available in a concentrated urban centre such as legal, financial, professional services, consulting, etc.

⁹ The insurance broker segment of the industry is primarily locally owned and controlled and has a very strong affinity to Nova Scotia communities large and small.

¹⁰ 2009 Invest in Canada Financial Services. Benchmarking review prepared by IBM-Plant Location International (IBM-PLI).

Bermuda and the Caribbean are interesting markets for Nova Scotia. The Halifax connection to Bermuda and the Caribbean offshore financial industry has deep historical roots. People and capital have been moving to and from the area for over 150 years. In an effort to build upon this shared history, the governments of Nova Scotia and Bermuda signed a memorandum of understanding in 2009 to jointly work on opportunities to grow the financial services sector in both jurisdictions by leveraging each region's strengths. There could be similar opportunities in other offshore locations in the Caribbean.

7. INSURANCE INDUSTRY: FOSTERING GROWTH

Growth Opportunities

There is clearly significant growth potential for the insurance industry in Nova Scotia. In the past five years, total insurance industry employment grew by almost 20%. The property and casualty firms consulted for this report are projecting growth of up to 25% in the next three years. There are four broad categories of growth potential for the insurance industry in Halifax and Nova Scotia:

- Organic growth: Existing firms adding employment in Nova Scotia.
- Expanding the national footprint: Existing firms in Nova Scotia building a broader, national footprint. At least half of the firms indicated they have identified areas where more national activity such as claims management, customer service or training could be facilitated out of their Halifax operations.
- Attracting international firms: Three large international insurance firms have set up in Nova Scotia to serve their global markets. These firms are in Halifax because there is a clear and compelling business case to be located here. More firms stand to benefit from this business case.
- Expanding the scope of the industry/building the cluster: The bulk of current property and casualty insurance industry activity is related to claims management, business development, customer service and back office functions. Nova Scotia's business case also supports higher-value insurance industry functions.

Deliberately Fostering Growth

Based on the consultations with industry and a review of other finance/insurance industry development efforts across North America, there are some important initiatives that should be undertaken by local and provincial stakeholders (government and industry) to position the industry for further growth.

- Building the talent pool: The insurance industry in Nova Scotia is going to need a significant influx of new workers over the next decade both to support new growth and to address a demographic bubble in the existing workforce. Nova Scotia could enhance the pipeline of new talent by:
 - Developing a Nova Scotia Community College-level insurance diploma program
 - Advancing university-level training related to the insurance industry
 - Integrating the insurance industry into repatriation/immigration efforts
- Making the case – supporting regional industry leaders: Nova Scotia Business Inc. and the Greater Halifax Partnership are well positioned to help local insurance industry leaders make the case to their head office to expand the company's national and international footprint in Halifax and Nova Scotia.
- Building 'Team Nova Scotia': Nova Scotia Business Inc. and the Greater Halifax Partnership could engage industry leaders more directly in efforts to build the broader value proposition and grow the insurance industry cluster in Halifax and Nova Scotia.
- Enhancing the visibility of Halifax: There are deliberate activities that can be undertaken to raise awareness of Halifax and Nova Scotia as a location for global insurance industry investment. Collateral marketing pieces, custom websites and other marketing tools can be developed and promoted. The various stakeholders can also sponsor industry events around the world and work through industry associations.
- Ensuring a stable and predictable regulatory regime: All the insurance companies and insurance brokers consulted or surveyed for this report indicated the importance of having a stable and predictable regulatory regime. Uncertainty leads to less competition in the market and may stifle investment by the industry in Nova Scotia.

8. CONCLUSION

This report confirms the insurance industry is a high-value and strategic part of the Nova Scotia economy with significant growth potential.

National and international insurance firms are using their operations in the province to provide services to regional, national and international clients.

The internationalization of the insurance industry in Nova Scotia is a particularly interesting trend. Three large multinational firms have set up new facilities here in the past five years to service their global customer base.

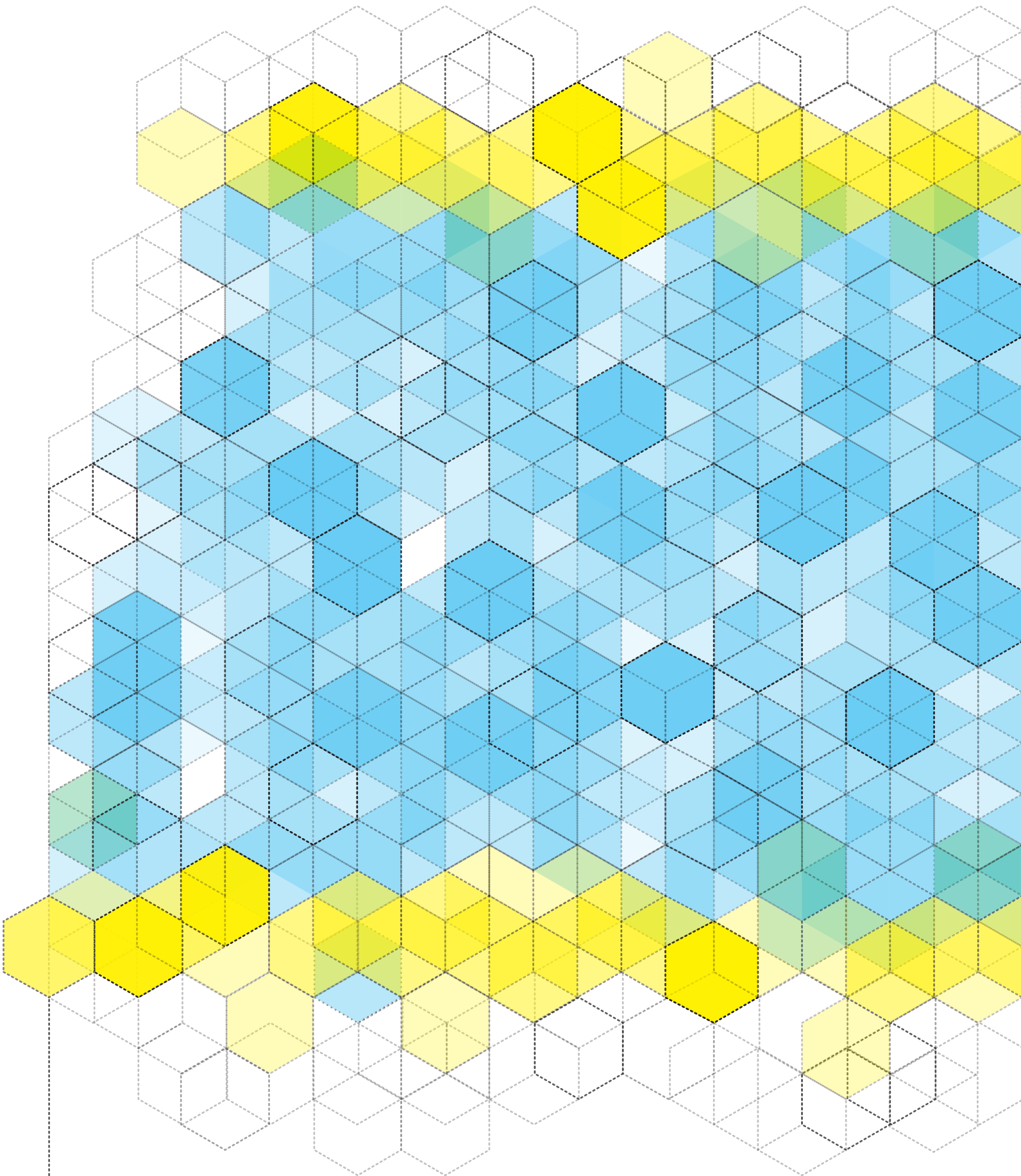
“Nova Scotia’s financial services and insurance sector has seen phenomenal growth since 2006. Major international firms have established back and middle office operations in Halifax, including Citco Fund Services, Butterfield Fund Services, Marsh Captive Solutions, Flagstone Management Services, and OC Financial Services – A division of Olympia Capital.

Halifax has an experienced labour force of 14,000 in the financial services sector, while some 7,000 across the province are enrolled in business administration.”

**–2009 Invest in Canada
Financial Services Industry Review**

There is considerable potential for further growth in the industry. This is a particularly important sector because it provides high wages and generates more tax revenue to government that is necessary to fund our important public services.

Halifax has a unique role to play as the hub of the national and international insurance industry in Atlantic Canada. The critical mass of firms and the broad base of services that have built up to support the industry mean that the core elements are in place to foster growth into the future. But the growth potential is tied to government, community, industry and economic development stakeholders taking necessary steps to ensure the value proposition for the industry remains strong.



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