

Massachusetts Loses Ground as Finance Hub, Study Says

By Michael McDonald

March 28 (Bloomberg) -- Massachusetts is losing ground as a hub for banking, insurance and mutual funds as out-of-state corporations have acquired Boston-based companies and shifted jobs elsewhere, according to a McKinsey & Co. report.

The state's financial services sector grew by less than 1 percent a year between 2004 and 2006, compared with 3.5 percent nationally, according to McKinsey. The New York-based management consulting firm conducted the study for the Greater Boston Chamber of Commerce and Mass Insight Corp., a Boston-based business research company, who released it today.

"This is a critical time for a very important industry," said Paul Guzzi, president of the Chamber of Commerce and a former Massachusetts secretary of state, at a press briefing yesterday. "If we choose to do nothing, the trend lines are not positive."

Companies such as Boston-based Fidelity Investments, the world's largest mutual-fund company, need to collaborate with colleges and universities to design programs to bolster the industry, McKinsey said. The state also needs to improve economic development zones outside of Boston so companies such as Fidelity expand there instead of in Rhode Island and New Hampshire, it said.

The financial services sector is the state's third-largest industry, accounting for about 11 percent of the economy, and its 180,000 jobs pay an average \$95,000 a year compared with \$50,000 for all jobs, McKinsey said. Only New York and California companies manage more mutual fund assets, it said.

Cooperation Urged

Jim Mahoney, public policy director at Bank of America Corp. in Boston, disputed that there is "erosion" in the city's financial services sector, though he agreed the industry is changing. He said his company has as many employees in Boston as FleetBoston Financial Corp. had before it acquired the company three years ago.

"We have some challenges," Mahoney said at a panel on the report.

"Globalization and technology are at the root of that. You can spread your business all over the planet now."

Massachusetts would add 15,000 finance and insurance jobs by 2010 if companies and the state worked together more closely, McKinsey said. The consultant forecasts the state is currently on a pace to add 3,000 such jobs.

Companies in Massachusetts are more likely to be acquired than to do the acquiring, McKinsey said.

Boston lost the headquarters of two companies when Charlotte, North Carolina-based Bank of America bought FleetBoston and Toronto-based Manulife Financial Corp. bought John Hancock Financial Services in 2004.

New Acquisitions

Montreal-based Power Financial Corp. agreed last month to buy Putnam Investments. The Bank of New York Co. Inc. in December agreed to buy Mellon Financial Corp., which has some of its investment management business based in Boston.

There are nine Fortune 500 companies based in Massachusetts, including Liberty Mutual Insurance Co., the Massachusetts Mutual Life Insurance Co. and State Street Corp., according to the report. In 1995 there were 17, including five in financial services, it said.

“These businesses don't need to be here,” said Ronald O'Hanley, president of Mellon Asset Management in Boston, who also spoke on the panel. “We need to make sure that when they make that incremental investment, they don't make it in Pittsburgh or London or Hong Kong -- they make it here in Massachusetts.”

McKinsey released a report in January that said New York City is losing ground as the world's leading center for finance to cities such as London where there is a more desirable regulatory climate.

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Last Updated: March 28, 2007 09:51 EDT

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Link to the report: “Securing Massachusetts’ Leadership Position in Financial Services”
<http://www.massinsight.com/gm/SecuringMAFinancialServicesLeadership.pdf>