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City's financial services sector at risk, report says Chamber-backed study blames area's high costs, complicated regulations

By Keith Reed, Globe Staff | March 28, 2007

High costs, complicated regulatory and tax structures, and stiff competition for back-office jobs from low-cost areas in the United States and overseas threaten Boston's longtime position as a center of the financial services industry, according to a report to be released today.

For the past century, Boston's cluster of mutual funds, banks, and asset-management firms has attracted investment from around the world and created tens of thousands of jobs at places like Fidelity Investments, Putnam Investments, and the former Bank of Boston. But the report, from the Greater Boston Chamber of Commerce and **Mass Insight Corp.**, a research and consulting firm, says competitive pressures and a wave of corporate mergers are shrinking the financial services sector, the third-largest in Massachusetts.

Boston could attract as many as 15,000 new finance jobs worth as much as \$12 billion to the local economy by 2010, the report said, if local leaders implement seven recommendations spelled out in the document. There are roughly 180,000 finance jobs in Massachusetts, according to the study.

"This is really a turning point for the financial services industry, not just in Boston, but nationwide," said William H. Guenther, Mass Insight's president. "Do we have the opportunity to grow this sector a bit? Yes, but it's not going to grow by the ways it used to."

To preserve the industry, the report said, universities and community colleges need stronger curriculums in quantitative subjects, and a partnership between companies and colleges to develop a "talent pool" of candidates for local jobs should be created.

It also calls for a coordinated system of tax breaks, plus transportation and other infrastructure upgrades, to lure companies and workers to cheaper areas of the state outside Boston. Also recommended: expanding state government's outreach efforts to businesses in the sector.

The report also calls for state and municipal governments to revamp permitting rules to make it easier for companies to expand, and for the state to examine its regulations and taxes.

Mutual funds were invented in Boston and spawned an industry that was centered in the Financial District until a decade ago, when a wave of corporate mergers began to shift business elsewhere. Several large Boston banks, most notably [FleetBoston Financial Corp.](#), were acquired.

Beyond that, firms that are still based in Boston have chosen to put jobs elsewhere.

In February, Fidelity Investments said it will spend \$200 million to expand its operations in Texas, creating more than 1,500 jobs there. In August, Fidelity struck a deal to spend \$100 million in North Carolina to add another 2,000 jobs there. Fidelity also plans to create 1,200 new jobs in Jacksonville,

Fla., by 2010. A Fidelity spokeswoman declined to comment, saying the firm had not seen the report. Fidelity has previously said that job growth outside of Massachusetts is part of its 20-year strategy to spread its operations geographically and better serve customers around the world.

The effect of such shifts is evident in employment data. The number of finance jobs statewide is nearly 20,000 more than in 1990. But employment in the sector peaked in 2001 , when there were 186,000 finance jobs, according to the Massachusetts Department of Workforce Development.

That number has fallen every year since.

Meeting with reporters yesterday, leaders of the groups that produced the study blamed the financial services decline on a global economy that is shifting in ways that make it difficult for Boston to compete. The rise of a highly educated middle class in more places overseas means new clients for companies in those markets. And labor is still far less costly in many places abroad, while Boston is expensive even by US standards.

"Financial services companies around the world are going to want to locate close to those customers," said Jim Klocke, executive vice president at the Chamber of Commerce. "The high-end functions that used to be located here in Boston can now be located in any number of places."

Executives agreed the industry might face a problem soon as countries become more competitive. James Gallagher, senior vice president at [State Street Corp.](#) , said his firm has noticed there's a growing middle class in Southeast Asia, where costs are cheaper. At the same time, State Street loses 100 or more young workers in Boston every year.

"We spend a lot of time and money training them, and then that recent student wants to buy a house and finds that they can't" in Boston, he said. "We're not interested in solving that problem by going to North Carolina, but we're going to have to explore some solutions if we're going to get ahead of that."

James Mahoney, director of public policy for [Bank of America Corp.](#), said the impact of financial services mergers on Boston has been "overblown." Bank of America bought FleetBoston Financial Corp. in 2004, he noted, but the Charlotte, N.C., company has roughly the same number of local workers as before the merger and now bases three of its biggest business units in Boston. "If the CEO is in town, it's a little easier to deal with the company. But if a major business line is still there, the sense that losing the corporate headquarters hurts would be diminished," Mahoney said.

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http://www.boston.com/business/globe/articles/2007/03/28/citys_financial_services_sector_at_risk_report_says/

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