Minnesota’s Financial Services Cluster:
DEED’s Role in Maximizing Strengths and Mitigating Risks

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Executive Summary

The research team investigated Minnesota’s financial services cluster—banks, capital markets and insurance—to build state knowledge of how these firms, large and small, are affected by globalization, how they contribute to Minnesota’s economy, and what regional and market conditions affect their prosperity.

The concentration of financial services firms, including flagships and spin-offs, the depth of knowledge workers who are groomed and poached within the industry, the profitability of firms, and their reputation for innovation are all signs of a dynamic financial services cluster in Minnesota.

Financial services firms are important to Minnesota’s economy, especially in the Twin Cities: financial services accounts for 9 percent of Minnesota’s GDP and 8 percent of all Minnesota jobs. Nearly 140,000 full time and part time workers are employed by banks, brokers and insurers. These employers pay higher than average Minnesota wages and have a higher than average share of highly skilled workers. This industry also has lower turnover and more full time workers than other sectors. Employment in this industry grew faster in Minnesota in the last decade than in the financial services industry nationwide. Firms throughout Minnesota benefit when knowledge workers from this cluster seek jobs outside their industry.

Among the focus of research was to identify the emerging trends and uncertainties that will drive the fortunes of Minnesota’s financial services firms over the next 3-5 years.

The most serious macro challenge in all segments of this industry is recession and continued fallout from the subprime and credit crises. In Minnesota, the subprime and credit crises have caused write downs by the state’s largest banks as well as small and medium-sized banks. While Minnesota’s largest banks are less exposed to subprime defaults than many of the nation’s other large banks, six area community banks are among 20 in the U.S. most exposed to failing construction loans. Foreclosures and debt defaults from consumer lending are expected to increase in 2008 and 2009 and put increasing pressure on margins for banks of all sizes. Continued competition from hedge funds, insurance companies, brokerage houses, manufacturers and other lenders who are not subject to the same rules that govern banks will also put increasing pressure on bank profits. Layoffs in the banking and insurance industry have been modest to date in Minnesota (loss of 1,400 jobs since 2005) but are likely to increase in the near term.

A falling dollar, rising energy costs, rising inflation and geopolitical shocks are also macro challenges for this industry.

Industry trends and uncertainties that are re-shaping financial services include global market liberalization and consolidation, especially associated with deregulation of China and liquidity of Chinese banks, which makes them likely buyers of attractive banking and other assets, including possibly buyers of Minnesota banks.
Trends in the state’s capital markets will mirror those in the rest of the country, namely: growth of debt and equity securitization (though this growth will be negatively affected by recession and a cutback in business borrowing), increasing transformation from a U.S. client base to a global client base, and robust demand for personal investment products as younger consumers save for retirement while baby boomers transition from savings accumulation to savings payout.

Property/casualty insurers have seen enormous profits in the last three years but have serious regulatory and compliance issues on their radars, especially radical greening. Insurance in particular is facing acute risks associated with climate change, demographic shifts in core markets, and the threat of catastrophic shocks.

Financial services industries have invested in technology and outsourcing to stay competitive but both trends created new concerns around attracting and retaining customers (and revenues) for insurers and bankers. While the industry is fueled by productivity-enhancing technologies and innovation, it also relies on an educated workforce. The research team discovered financial firms in Minnesota prefer to train and groom employees from within and to poach from competitors and customers.

Minnesota employers reported they had the most difficulty finding workers with good soft skills, analytical/critical thinking skills, bilingual communication skills, and sales acumen. Accountants, credit analysts, loan officers, trust professionals, and various IT professionals are all difficult to find in sufficient numbers.

After consulting with industry leaders, governmental entities, and past reports, and following an extensive literature review, the researchers recommend Minnesota’s Department of Employment and Economic Development prioritize the following actions:

- Review the experience of Connecticut in assisting its financial services cluster in order to learn lessons applicable to Minnesota including how to: attract and retain knowledge workers; leverage state resources to promote relationships; and support segment-specific workforce and economic development strategies.

- Evaluate Minnesota Job Skills Partnership grants in the financial services industry to determine the effectiveness of career pathways for workers at various education and skill levels.

- Gain greater understanding of the human talent and technology development trends in the reinsurance segment; investigate opportunities for DEED to promote this segment and to attract and retain reinsurance firms.

- Align state agencies on development of financial services career pathways.

- Support financial services specific modules for English as a Second Language and Adult Basic Education to prepare immigrants for bilingual jobs in the industry.

- Organize job fairs specific to financial services firms, combined with industry fairs where firms can market their products and services.

- Provide a financial services training module to business services specialists and employment counselors.
Minnesota’s Financial Services Cluster: DEED’s Role in Maximizing Strengths and Mitigating Risks

Purpose of the Report

The researchers investigated the financial services cluster in Minnesota in order to build state knowledge, particularly at the Minnesota Department of Employment and Economic Development (DEED), of cluster-based approaches for education, workforce and economic development. The term “cluster” refers to the broad categories of proximate groups of interconnected companies and associated institutions in a particular industry, linked by commonalities and complementarities. Traded clusters, such as Minnesota’s financial services cluster, compete across regions, states and national boundaries and tend to concentrate in a small number of locations. Recent demographic and economic global changes are profoundly affecting cities and regions across the United States. As a result, communities must have greater understanding of their region’s clusters and linkages to surrounding areas and the global economy. Further, this knowledge must be used to create regional visions and strategic plans that can lead to long-term regional prosperity and competitiveness.

In particular, the researchers were charged with:

- exploring the main economic factors influencing the competitive position, productivity growth and innovative capacity of financial services firms in Minnesota;
- gaining better understanding of globalization processes and how they affect financial services in Minnesota;
- increasing awareness of the specific regional conditions affecting prosperity in the financial services industry; and
- developing an action plan for DEED to invest in workforce and economic development in the financial services industry in order to advance DEED’s strategy to integrate sector policies to workforce development programs and policies.

The researchers participated in the “Microeconomics of Competitiveness: Firms, Clusters and Economic Development” course delivered by the Hubert H. Humphrey Institute of Public Affairs and based on materials developed by Michael Porter of the Institute for Strategy and Competitiveness at the Harvard Business School.

The researchers also interviewed key informants in the financial services business community and stakeholders in the financial services cluster and performed an extensive literature review. In order to understand the contribution of this cluster to Minnesota’s economy, the researchers analyzed labor market and other data. The analysis of local economic (or market) conditions in the state focused most heavily on the likely effects of the subprime and credit crises on Minnesota firms. The research team also investigated key workforce issues and how the state can better align state workforce and economic development investments with industry priorities.
I. Description of the Cluster and its Importance to Minnesota’s Economy

U.S. Industry Snapshot

Banks, capital markets, and insurance companies constitute a major component of Minnesota’s economy and the broader U.S. economy. The financial services industry generated 9 percent of Minnesota’s Gross Domestic Product (GDP) in 2006 and 7.8 percent of total U.S. GDP (2006). This industry experienced growing deregulation, globalization, and consolidation from the mid-1990s into 2007. As the U.S. and other countries liberalized their finance systems during this period, banks and insurance brokers integrated their services and pursued foreign markets. In addition, banks and insurers continued consolidating in order to achieve cost-effective economies of scale and scope, as well as to increase their product offerings to customers.

Organization and Structure

Banking. The banking segment comprises commercial banks, saving banks, international banks, credit unions, mortgage bankers, loan brokers, and trust companies. The U.S. is one of the world’s leading countries in the banking sector and is home to the world’s most profitable banking companies. The global commercial banking industry generated total revenues of $34.9 billion in 2006, 20.5 percent of which was in the United States. Commercial banks experienced a compound annual growth rate of 5.7 percent for the period spanning 2001-2005. The performance of the sector is forecast to decelerate with annual growth of 3.5 percent from 2006-2011 and continued fluctuation over the forecast period.\(^1\) Assets of U.S. banks exceeded $12 trillion in 2006. U.S. banks employed over two million men and women.

Box 1. Nontraditional lenders in Minnesota and throughout the country have moved into the market for mortgages and working capital lines for commercial borrowers, even borrowers with strong credit who would easily get a bank loan. Nontraditional lenders have also been major sources of debt funding for large mergers and acquisitions deals.

Nontraditional lenders include hedge funds, pension funds, insurance companies, brokerage houses, non-bank finance companies, and asset-based lenders.

Capital markets include financial institutions that generate fees and commissions from at least two of the following activities: investment banking, brokerage, and asset management. The global capital markets sector generated total revenues of $107.4 trillion in 2006. The United States accounted for 40.9 percent of the market’s value. Along with other financial sectors, capital markets suffered following 9/11, and revenues declined by 11.6 percent in 2002. The sector subsequently bounced back with a vengeance, enjoying a compound annual growth rate of 15.9 percent from 2002-2006. The performance of the market is forecast to decelerate to 7.9 percent through 2011.\(^2\)

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\(^1\) Business and Company Resource Center, 2007.
Insurance encompasses life, casualty, property, surety, pension funds and health policy brokerages and agents. With increased competition from banks, all sectors of the insurance segment have changed the way they operate and the kinds of policies they offer. For instance, the life insurance sector has evolved from making payment only when policyholders die to offering a wide selection of policies for finance, taxes, retirement, and estates. The life insurance sector was valued at $128.6 billion in 2006, while property insurance was valued at $324.5 billion, and healthcare insurance was at $65.5 billion. Growth in all sectors was expected to approach or exceed 10 percent by 2008.\(^3\)

Regulation. Regulation of the financial services industry is divided between the Federal Reserve Board (banks), the Securities and Exchange Commission (capital markets) and the Federal Deposit Insurance Corporation (deposit-taking institutions). At the state level, the Minnesota Department of Commerce is the primary regulator for state chartered banks and issuer of licenses for insurance companies. The U.S. regulatory framework changed dramatically in 1999 when the depression-era Glass-Steagall act was repealed; thereafter, commercial and investment banking functions were no longer separated and banks that originated mortgage loans were able to resell them (along with the risk). Non-banks got into the banking business as well (see Box 1).\(^4\)

Confirmation of the Cluster

The concentration of firms, including flagships and spinoffs, the depth of knowledge workers who are groomed and poached within the industry, the profitability of firms, and their reputation for innovation are all indicators that Minnesota has a financial services cluster.

Cluster Contribution to Minnesota

There is a substantial business presence by financial services in Minnesota, especially in the Twin Cities area, suggesting the presence of an industry concentration and requisite inputs for financial service firms to thrive.

- According to Business Facilities, Minnesota ranked second nationwide in financial services, based on growth in the number of businesses, payroll and employment. The Twin Cities ranked fifth among metro areas.

- In 2006, the financial services industry accounted for 9 percent of Minnesota’s Gross Domestic Product (GDP).

- Sampling the 2006 “major metro areas” throughout the U.S., Minneapolis/St. Paul ranked fourth, to New York, Boston and Philadelphia, with a location quotient of 1.37 for financial services. (The location quotient is commonly used to measure the extent to which a region is more specialized in an industry than the nation as a whole.

\(^3\) Business and Company Resource Center, 2007.
\(^4\) Congress passed the Glass-Steagall Act in 1933. It banned banks from underwriting securities. Financial institutions had to choose either to be a simple bank lender or an underwriter (i.e. investment banker or brokerage firm). The Act also gave the Federal Reserve more control over banking activities.
whole.) Despite a rise in Minnesota’s financial services workforce, its location quotient has dipped a bit relative to the greater national economy.\(^5\)

- Employment growth in Minnesota’s finance and insurance industries grew 21 percent between 1997-2006, compared to a growth of 17 percent nationwide.

- Eight percent of Minnesota’s jobs are in the financial services industry, totaling 138,700 jobs in 2006.

- Minnesota was on track in 2007 to have the best year since 2001 in the amount of money and the number of venture capital deals. In 2006, Minnesota firms received nearly $322 million in venture capital, ranking 14\(^{th}\) nationally and 2\(^{nd}\) in the Midwest.

- Three Minnesota-based financial services companies made the FORTUNE Global 500 list for 2007: UnitedHealth Group (66\(^{th}\)), Travelers (271\(^{st}\)) and U.S. Bancorp (373\(^{rd}\)). Ameriprise Financial, Thrivent Financial and Minnesota Life, with parent company Securian Financial, were on the Fortune 1000 list for 2007.

Financial services companies (6,324 firms in 2006) provide well-paying jobs for Minnesotans. Employment in Minnesota’s financial services industry was 138,700 in 2006. The average weekly wage in the industry was $1,375 compared to $811 for all industries in Minnesota. Furthermore, the median wage offer of a finance and insurance vacancy was $14.42 compared to $10.00 for all job openings.\(^6\)

The industry has lower turnover and more full-time work than other sectors of Minnesota’s economy. The rate of employee turnover in the industry is 9.5 percent compared to 11.2 percent for the economy as a whole which suggest the industry is more likely to have full-time employment. Also, of the 2,765 industry job vacancies in the second quarter of 2007, 0 percent was temporary. No other industry had a 0 percent rate and the average for the state is 16 percent. These figures affirm the importance of the industry to Minnesota workers and the regional economy.\(^7\)

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**Banking, capital markets and insurance sectors have a higher than average share of highlv skilled workers.**

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\(^5\) The location quotient is defined as the ratio of a particular industry’s share of local employment to that same industry’s share of national employment. Values higher than one indicate an industry is relatively more concentrated in a geographic area than in the nation.

\(^6\) Minnesota Department of Employment and Economic Development, LMI

\(^7\) Minnesota Department of Employment and Economic Development, LMI
Firms throughout Minnesota benefit when these knowledge workers seek jobs outside their industry. Computer and information systems managers, management analysts, computer software engineers, financial analysts and many more. Minnesota businesses need the skills offered by finance and insurance workers. Between 2004 and 2014, business and financial occupations in all industries are expected to grow 20 percent in Minnesota, adding 30,570 jobs.⁸

II. Current Market Conditions

Levels of Analysis

Among the focus of interviews and research was to identify the emerging trends and uncertainties that will drive the fortunes of Minnesota’s financial services companies over the next three to five years. The trends and risks are divided into three sections: (i) macro trends and challenges that emerge from the general geopolitical and macroeconomic environment in which all industries operate; (ii) industry trends or uncertainties that are re-shaping financial services specifically; and (iii) operational trends and challenges that have become so intense that they may impact the strategic performance of financial services firms.

The research team reviewed the analysis by Ernst & Young and Oxford Analytica to create two “risk radars”. The focus of Ernst & Young and Oxford Analytica was to identify the emerging trends and uncertainties that will drive the fortunes of global financial services businesses over the next three to five years. The Minnesota team focused on identifying trends and uncertainties specific to Minnesota’s financial firms, based on interviews and research.

The risks that appear at the center of the radar are those that will pose the greatest challenge to Minnesota financial service businesses, particularly in the coming three years. Those on the outer edge are considered to be of slightly lower priority.

![Risk Radar Diagram](image-url)
A literature review reveals the most serious macro trends and risks for the banking and capital markets sectors are recession and global financial shocks. Specifically, there are potentially adverse effects of a U.S. recession and lower global growth, a sharply falling dollar, rising energy costs, and geopolitical uncertainties especially in the Middle East. The return of high inflation is a major risk to financial services according to Ernst & Young because it is an industry that controls costs through overall scale or product specialization. China’s emergence as a major global player dictates that China’s fortunes will soon become a focus of attention even in companies without direct China exposure. A severe slowdown of growth in China could add turmoil to world markets or threaten banks or insurance companies with large China exposure. For insurance, the most serious macro risks are associated with climate change, recession, demographic shifts in core markets, and catastrophic events.9

Emerging trends that will be meaningful for Minnesota’s banking, capital markets and insurance industry in 2008 and 2009 are serious and numerous. Analysis is provided of each sector with particular attention to the current and possible ramifications of the subprime mortgage and credit crises (see Box 2).

9 Strategic Business Risk 2008, Ernst & Young and Oxford Analytica.
On a relative basis, 2007 was the worst year for U.S. bank stocks since at least 1970. And the severe slowdown in previously lucrative mortgages will degrade the banking sector’s future performance. Already, third quarter profits of federally-insured banks and thrifts plunged to a 4-year low as large institutions set aside billions to cover losses from bad mortgages.\(^{10}\) Industry-wide, $100 billion debt-related losses were written off by

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\(^{10}\) According to the FDIC, profits at 8,560 FDIC-insured banks dropped $9.4 billion or 24.7%. *Minneapolis-St. Paul Business Journal*, December 28, 2007. Delinquencies and loan losses were up in all loan categories, not just residential mortgage loans. Federal Reserve Bank of Minnesota.
commercial and investment banks by the end of 2007.\textsuperscript{11} These figures take no account of losses that have spread to the credit card, auto and commercial property sectors. Nor do they recognize the large volume of financial instruments that depend for their high ratings on guarantees provided by credit insurers whose own health is now very much in doubt: Two large insurance companies that have guaranteed buyers against losses on more than $1 trillion of bonds (MBIA and Ambac Financial Group carry municipal, corporate and mortgage debt) might be unable to keep their promise to pay investors if borrowers default on their debt. That could leave the buyers of the bonds—including many banks and pension funds—on the hook for untold billions of dollars in losses, shaking confidence in the financial system.\textsuperscript{12} Moreover, home foreclosures and defaults on home equity loans have surged to the highest levels this decade and are expected to accelerate in 2008 so banks will be counting fresh losses that could make them less able to lend. Banks that have suffered substantial capital losses will have to consolidate their balance sheets and avoid taking on additional risk.

Bad loans related to the troubled housing market and related industries pounded Twin Cities banks during the first nine months of 2007 as well. Minneapolis-based U.S. Bancorp’s net income was down 2.7 percent for the first nine months of 2007 compared to the same period a year ago. It charged off $744.8 million in the first three quarters of 2007, up 36 percent from last year. TCF Financial Corp’s profits were up 6.7 percent for the first nine months, but their third-quarter results were hit by the mortgage mess. TCF charged off $34.6 million, 245 percent over 2006.\textsuperscript{13}

Small and medium-sized institutions were also hit in Minnesota, which together posted a 152 percent increase in the value of loan write-offs compared with the same period in 2006.\textsuperscript{14} Six area community banks are among 20 in the U.S. most exposed to failing construction loans. Industry observers are not predicting any collapses, but community banks are struggling to work through the housing construction recession (see Box 3).\textsuperscript{15}

In a more favorable light, lower long-term interest rates should see the bulk buyers, i.e. Minnesota’s large corporate clients, increasing their loan demand over the coming years.

**China has a 40% savings rate. The U.S. has a negative savings rate.**

Falling bank profits compounded by a weaker dollar will make some of the suffering banks interesting acquisition targets for

\textsuperscript{12} The head of New York hedge fund Pershing Square predicts that the two companies might lose $24 billion on complex mortgage investments they have guaranteed. Such losses would cause a chain reaction of losses at some of Wall Street’s biggest banks, as well as raise borrowing costs for states and municipalities. New York Times, January 24, 2008.
\textsuperscript{14} This figure excludes U.S. Bancorp, which would skew the data with its size. Wells Fargo & Co. was not included because it is based in San Francisco. TCF Bank was included in this figure. Minneapolis/St. Paul Business Journal, December 2007.
foreign banks, including Minneapolis-based U.S. Bancorp which stands out for its scant exposure to subprime investments (see Box 3). Hence, the industry’s consolidation trend is likely to continue but be fueled less by big banks that have too many problems to be out shopping and more by non-U.S. banks that will likely capitalize on the dollar’s weakness. Three of China’s banks are already included in the global top 10 banks by market capitalization and bring decisive competitive advantages due to their liquidity and desire to diversify from their 80-90 percent exposure to the Chinese economy. This makes them likely players in the acquisitions market in the next several years.

Box 3. Local banks feeling the strain

Twelve Minnesota banks reported negative net income for the first three quarters of 2007, many more than in the past four years. They were pummeled by thin interest margins and a surge in housing-related loan defaults. Past due loans were more than double the previous year, so more bad loans are expected to come down the pike. The banks with good financial positions will be able to afford the charge-offs.


Not all banks are in bad shape

U.S. Bancorp looks attractive to prospective buyers who seek high-quality banks with little or no subprime-mortgage exposure. Minnesota-based U.S. Bancorp is the nation’s sixth-largest bank by market value. It has the highest rate of return on assets, a gauge of efficiency, and a relatively small 28 percent of its loan portfolio in real estate. It also adds a high percentage of revenue from nonbank business fees, such as for payment services, payment processing and corporate trusts.


At the same time, China will continue to be the site of intense competition for financial services industries. Minneapolis-based Fair Isaac Corporation, for instance, is looking to expand in China where Chinese banks face enormous uncertainties when making loan decisions in a rapidly expanding market. Fair Isaac wants to help Chinese leaders create a local, valid risk-reduction system.

Another trend in the banking sector will be tighter controls on credit. A survey of bank loan officers conducted by the Federal Reserve in October 2007 found that about one-fifth of lenders had tightened lending requirements for commercial and industrial loans for large and midsize businesses over the previous three months. A slightly smaller proportion reported tightening lending to small companies. The combined value of two leading sources of credit—outstanding commercial and industrial bank loans, and short-term loans known as commercial paper—peaked at about $3.3 trillion in August 2007, according to the Federal Reserve. By mid-November 2007, such credit was down to $3 trillion, a drop of nearly 9 percent. Not once in the years since the Fed began tracking such numbers in 1973 has this artery of finance constricted so rapidly. Short-term

17 *Strategic Business Risk* 2008.
commercial paper in particular has dried up as a source of credit because much of this
debt is pledged against the value of mortgages, now considered toxic by investors.\textsuperscript{19}

Changes in the way mortgages are financed will be another trend in the banking sector. In December 2007, the Federal Reserve, acknowledging that home mortgage lenders aggressively sold deceptive loans to borrowers who had little chance of repaying them, proposed a broad set of restrictions on high-cost loans for people with weak credit. New restrictions on appraisals have also been announced. In Minnesota, the Department of Commerce has established a 15-member real estate appraiser advisory board that is charged with making recommendations on licensing, standards and educational requirements to counteract the widespread perception of appraisal coercion.

Other trends in the banking sector also have Minnesota relevance. First, prior to the mortgage and credit crises, there was an influx of start up banks in Minnesota and smaller banks were finding margins by servicing niche markets. (Ten new banks were launched in the Twin Cities in the past three years.) Another trend was mortgage fraud. Reports of mortgage fraud in the U.S. have doubled since 2005 and increased eightfold since 2002, overwhelming government agencies that investigate and prosecute them.\textsuperscript{20}

Nontraditional banks are changing the landscape of borrowing. Banks are fighting back with service and expertise.

The near future will also be characterized by increasing pressure on margins and competition from non-bank banks and specialists. Banks are feeling more competition for loans from hedge funds, insurance companies, brokerage houses, asset-based lenders, manufacturers such as car companies that make their own loans, and other non-bank finance companies. These companies became more aggressive in their lending in the recent past as they looked for stronger returns than those offered by a lackluster stock market. Non-bank lenders are not constrained by the same rules that govern banks, so they can make riskier, larger and faster loans. Banks, on the other hand, are limited by their charter, lending terms, and need to maintain a reserve. Unlike a bank, hedge funds, for example, can structure a loan to include equity participation. They often ask for less documentation, require less oversight during the loan’s terms, and offer a quicker closing than a bank. Banks are responding by taking more risks within the regulatory framework and offering more personal relationships with their customers. In some cases, banks are also joining forces with nontraditional lenders to deliver capital.\textsuperscript{21}

The compliance challenges are particularly strong in highly regulated industries such as banking. As companies become more and more global, compliance becomes a greater challenge, forcing them to manage diverse regulations in different markets. Finally, state prosecutors are zeroing in on the way banks marketed, packaged and sold high risk loans (see Box 4). In Ohio, for instance, a federal district court judge recently dismissed 14 foreclosures brought on behalf of Deutsche Bank, ruling that they had failed

\textsuperscript{21} Ingrid Case, “Credit Competition”, \textit{Twin Cities Business}, June 2007.
to prove that they owned the properties they were trying to seize. Simply, even though
the pooling of home loans has been standard practice in the United States for decades, no
mortgage repository exists. A recent University of Iowa study found that 40 percent of
creditors foreclosing on borrowers did not show proof of ownership, which is required by
law for foreclosure proceedings.²²

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Box 4. Explosive rise and fall of subprime mortgages

Some 80 percent of outstanding U.S. mortgages are prime, while 14 percent are
subprime and 6 percent fall into the near-prime category.

Subprime and near-subprime loans shot up in the U.S. from 9 percent of newly
originated securitized mortgages in 2001 to 40 percent in 2006. The Wall Street
Journal found that more than 55 percent of subprime loans made at the height of the
housing bubble went to people with credit scores high enough to qualify for
conventional loans with far better terms. Many of these borrowers were victims of
what is called “predatory lending.”

Two crucial developments spurred nonprime mortgages’ rapid growth: (i) mortgage
lenders overly eased credit standards by adopting the credit-scoring techniques first
used in making subprime auto loans; and (ii) collateralized debt obligations (CDOs)
grew substantially. They comprise packages or pools of mortgages—some prime,
some subprime, residential and commercial, all mixed together—sold as securities to
pension funds, individual investors or other banks domestically or overseas. Some
$6.5 trillion of securitized mortgage debt was outstanding at the end of 2006.

Three factors contributed to the unraveling: (i) the difficulty of forecasting default
losses in subprime loans packaged into CDOs; (ii) de-escalation of home prices, so
subprime borrowers could no longer borrow against their equity to make house
payments or settle their debts; and (iii) resetting of adjustable rate mortgages—which
peaked at 35 percent of all mortgages originated in 2004—also squeezed
homeowners.

“Market discipline has in some cases broken down, and the incentives to
follow prudent lending procedures have, at times, eroded.”
----Ben Bernanke, Federal Reserve chairman

“Reasonable estimates suggest that more than 10 million American
families will end up owing more than their homes are worth, and investors
will suffer $400 billion or more in losses.”
----Paul Krugman, New York Times

“At the present moment, no regulator or market participant can be totally
clear where the risks lie.”
----Jens Thostrup, Oxford Analytica

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**Capital Markets**

In addition to banks, Minnesota businesses can access financial resources from capital markets. Trends identified by the research team in the capital markets include growth of debt and equity securitization; increasing global client base; and legal risks associated with underwriting subprime mortgage pools and products. There also will be robust demand for personal investment products as younger consumers save for retirement while baby boomers retire and transition from savings accumulation services to savings payout services.

- Nationally, one of the important trends in the capital markets sector is corporations turning to the capital markets to raise funds with offerings of both equity and debt securities. Debt underwriting and equity underwriting experienced consistently solid activity during 2006.\(^{23}\)

- Another trend in the industry is publicly held money management firms have seen particularly favorable inflows in international and global waters, reflecting the growing transformation from a U.S.-focused client base to a global client base. The Asia-Pacific region in particular continues to burgeon as an economic center, but foreign banks still face restrictions in China despite the Chinese government’s deregulation efforts.

The capital markets sector is not immune to the subprime mortgage and credit crisis. Brokerage firms that packaged, sold and traded structured finance instruments such as collateralized debt obligations, made big profits, and so did the three credit-rating agencies (Moody’s, Standard & Poors, Fitch). When the credit agencies downgraded some of this paper, investors who cannot own non-investment-grade debt were forced to sell in droves. The losses are affecting the bottom line of an untold number of companies, including insurers, mutual funds, and investment banks. The credit crunch has prompted investment banks to cut back on loans to hedge funds, eliminating some clients and raising borrowing fees for others. Pension funds and other institutions are now suing financial firms that were involved in the origination, packaging and sale of complex mortgage securities. The suits are premised on the claim by institutions that they lost tens of millions of dollars in funds that they were told would be largely invested in risk-free debt.\(^{24}\)

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\(^{23}\) The bond market segment of global capital markets was the industry’s most lucrative in 2006, generating 58.2% of the industry’s overall value. The stock market segment contributed 41.8% of the industry’s aggregate revenues. Datamonitor, Global Capital Markets Industry Profile, March 2007.

\(^{24}\) A study published by the Stanford Law School and Cornerstone Research on January 3, 2008, found that the number of securities lawsuits filed in 2007 increased 43 percent from the year before. The study attributed the increase to the subprime crisis. The total number of lawsuits, 166, still remains at historic lows. *New York Times*, January 4, 2008.
Insurance

After years of taking losses on home insurance, property insurers have shown a clear profit trend. The U.S. property insurance industry, which includes home, auto and commercial, reported a record profit of $44 billion in 2005, even after paying $41 billion in damages from Katrina. The industry set another record for profit in 2006 at $64 billion and 2007 was shaping up to be another lucrative year. Compared with ten years ago, insurers are much more efficient in their ratio of claims expenses to premiums and are shifting costs burdens to the insured.  

While profits have been realized through better pricing of products, overall industry players have a number of sector threats on their radar screens, according to Ernst & Young. The threats include regulation and compliance issues, America’s (and other developed countries’) aging population, emerging markets, and what the industry refers to as “radical greening”.  

Radical greening is the term used to describe increasing environmental concerns arising from regulatory and economic necessity as well as the voluntary world of corporate social responsibility. For insurance, the risk is driven by the consumer and regulatory responses to climate change and also by the weather events resulting from climate change. “This issue of climate change extends beyond just managing regulatory risk. Climate change and the regulatory and consumer response must be seen as a fundamental strategic challenge,” says Jonathan Johns, Ernst & Young analyst. “We may see physical climate surprises as well as an increased policy response that is more abrupt than most firms are currently planning for.”  

Aging consumers and an aging workforce are an increasing strategic risk for many industries. Sectors such as insurance are experiencing dramatic shifts in demand and competitive battles are being fought for savings products that will appeal to the growing group of older consumers (see Box 5). As a result, a struggle is now emerging between insurance and asset management firms to deliver the innovative products that will meet these needs, such as income maintenance and health care spending. To be competitive, according to Oxford Analytica, companies will need to gain an understanding of the specific needs of these new consumers, and many will need to have an aggressive approach to key competitors that may increasingly come from outside their sector.  

Insurance companies are also exposed to the regulatory environment. One of the most closely watched proposals at the Minnesota Capitol in the 2007 legislative session, and likely to be proposed in some form during the 2008 session, is the “good faith” bill. The bill’s most important provision would allow claimants to sue insurance companies who deny, underpay, or delay claims in bad faith.

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Returning once again to the business risk radars from page 10-11, the most important trends and risks in the financial services industry at the operational level are related to technology, outsourcing and the wider war for customers and talent.

**Technology**

Experts predict approximately 90 percent of Internet users in developed economies will conduct financial activities and transactions online by 2010 compared with 40 to 50 percent in 2006. In addition to checking balances and paying bills, customers will also turn to their bank’s sites more for downloadable financial advice. There has been a concerted effort by banks to ease the loan application process for the customer and, with the introduction of online assessment tools, requests can now be processed a lot quicker. The Internet will continue to affect banking practices as people grow more comfortable transacting financial matters online. At the same time, the ongoing digitizing of currency means Internet security is one of the biggest growth areas in the banking industry. Integration of technology with operations and strategy will be an ongoing operational challenge for the insurance industry as well.

**Outsourcing**

Outsourcing is one of the biggest globalization trends in the financial services sectors, particularly outsourcing back office functions to lower-cost destinations. For financial services, business process operations such as customer service centers, accounting and insurance claims processing are being set up in smaller U.S. cities or overseas. India has been the leading offshore destination for over a decade but is growing less attractive because of rapidly-escalating labor costs and turnover. Customer service problems and

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**Box 5. Winning the battle for the boomers’ savings**

Twenty-five years ago, insurance companies were strongly positioned against asset managers to dominate the savings industry. Mutual funds were vulnerable and their market share was relatively small. However, insurers were complacent and lost the battle for individual retirement assets.

Today, as the only writers of payout annuity products, insurers should be well-positioned to take advantage as baby boomers move from accumulating to spending their savings. Insurance companies face three risks:

- annuities have a bad name, due to their customer service problems and fee structures;
- most of the retirement wallet is now in the hands of other asset managers, who are in a strong position to retain customers; and
- individuals dislike the idea of suddenly transferring all of their assets to an insurance company.

Source: Chris Raham, Ernst & Young
concerns with data integrity and security have also affected customer perceptions of out of country call centers. For these reasons, new support operations are being located in second-tier cities in India and smaller cities in the U.S. If companies can find good quality labor in smaller cities, they can save 20 percent or more on their labor costs. They are also looking for cheaper electricity, lower overall business costs and minimal terror-natural disaster risks.\(^{30}\)

Although Minnesota manufacturers have a greater tendency to outsource compared to service firms, the Minnesota Department of Employment and Economic Development says outsourcing to non-U.S. locations from Minnesota is increasingly being extended to services industries and occupations. In 2008, outsourcing is expected to grow at the highest rates (approximately double) for back-office/call center services and information technology, followed by non-IT professional, technical or business services.\(^{31}\)

**Retaining Customers and Talent**

Overall, banks are investing in customer service initiatives to attract and retain customers and thus maintain revenues. Deloitte Touche Tohmatsu’s research showed that banks were retaining an average of only 50 percent of their customers.\(^{32}\) Many banks now realize they lost a valuable form of marketing when they pushed their customers out of the branches and into ATMs, and are looking at ways to bring customers back to the branch in their efforts to directly market other services to them. Banks are realizing they have to think like retailers when it comes to operating hours.\(^{33}\) Key competitive advantages include the relationship the bank holds with its customers and the continued growth of small businesses, which look to smaller banks for a more personal approach. This allows regional banks to maintain their sector share in the face of multinational competitors.

**Characteristics of Minnesota’s Financial Services Workforce**

While the financial services industry is fueled by productivity-enhancing technologies and innovation, it also relies on an educated workforce. The education level of the financial services workforce ranges from high school diploma to post graduate study. Many office and administrative positions require a high school education while management and many professional positions require a minimum of a bachelor’s degree and there is growing demand for licensing and further education. A review of Minnesota data revealed a

<table>
<thead>
<tr>
<th>Table 1: Employment Minnesota Financial Services</th>
<th>Number of workers, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>60,500</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>20,700</td>
</tr>
<tr>
<td>Insurance</td>
<td>57,500</td>
</tr>
<tr>
<td><strong>Total Financial Services</strong></td>
<td><strong>138,700</strong></td>
</tr>
</tbody>
</table>

Source: DEED, LMI


shortage of information technology skills across the industry. Interviews revealed other recruitment and retention characteristics of Minnesota’s financial firms, including:

- Financial services companies prefer to train and groom employees from within.
- Financial services companies groom professionals that transfer within the industry and that fill jobs outside the industry. The war for talent in the financial services industry means talented staff is poached by competitors and customers.
- Career laddering is an important feature of insurance and banking, offering opportunities for retooling and upgrading skills of entry level workers for higher level and higher wage jobs.
- Employers report they have the hardest time finding workers with the following skills and qualifications: soft skills, especially at entry level; bilingual skills to help companies serve new immigrant and emerging markets; accountants, credit analysts, loan officers, and financial professionals for trusts; IT professionals; sales; and good critical thinking skills (see Box 6).

“**A lack of soft skills is why people get fired.**”
---Wells Fargo VP for Diversity

**Box 6. Experienced accountants are hard to find in Minnesota**

So are accounting teachers. Enron caused a drop in the popularity of accounting so colleges struggled to fill classes. Moreover, in 2006, Minnesota increased the number of credit hours required to sit for the CPA exam (and is now in line with the rest of the nation). Today, while the most experienced professionals prepare to retire, the demand for experienced auditors is high in accounting firms and in companies themselves.

The University of St. Thomas, which graduates 50-100 accounting students a year, is reworking its accounting curricula in response to employers who say accounting graduates need greater finance competency and finance graduates need greater accounting competency.

---Chair, University of St. Thomas Accounting Department, interview, Nov. 19, 2007

While there are many cross-industry similarities, each of the financial services segments has different training requirements, workplace trends and future workforce issues.

Employment in Minnesota’s banking segment grew 24 percent between 2000 and 2006, reaching 60,500 employees (see Table 1).\(^{34}\) Nationally, bank tellers account for 1 in 4 banking jobs, which require a high school diploma, are often part time (56 percent of tellers are part time in Minnesota) and will continue to be in demand because of high turnover. Other occupations in this segment require a post-secondary degree; often an advanced degree is desirable. Job vacancy rates in Minnesota’s banking establishments (Oct. 2007)

---Chair, University of St. Thomas Accounting Department, interview, Nov. 19, 2007

---Wells Fargo VP for Diversity

\(^{34}\) DEED, LMI.
were highest among computer systems analysts (5.4 percent), bill and account collectors (4.2 percent), and loan officers (2.7 percent).\footnote{DEED, LMI.}

Half of the persons employed in the capital markets segment have college degrees, with post graduate degree rapidly becoming a prerequisite for employment. Competition in this industry is fierce for securities sales agents and managers, as well as trusts professionals. There were 20,733 Minnesotans employed in this segment in 2006, most of them in brokerage and investment banking. Currently, in Minnesota, the job vacancy rates are the highest in personal financial advisors (6.9 percent), software engineers and applications (6.8 percent), and computer systems analysts (5.4 percent).\footnote{DEED, LMI.}

Employment in Minnesota’s insurance sector reached 57,512 in 2006.\footnote{DEED, LMI.} Office and administrative occupations usually require a high school diploma, whereas employers prefer college graduates for sales, managerial and professional jobs. Opportunities for advancement are relatively good in the insurance industry where office and administrative support workers can advance to higher paying claims-adjusting positions and entry-level underwriting jobs. As with banking and securities employers, insurance related companies need IT workers as well as management analysts.

Table 2 provides vacancies and median wages for some of the most common financial services occupations in Minnesota.

### Table 2: Financial Services Employment Needs (Current)

<table>
<thead>
<tr>
<th>Occupation Name</th>
<th>Employment</th>
<th>Vacancies</th>
<th>Median Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service Representatives</td>
<td>37,890</td>
<td>772</td>
<td>$12.79</td>
</tr>
<tr>
<td>Bookkeeping, Accounting, Auditing Clerks</td>
<td>35,790</td>
<td>505</td>
<td>$16.83</td>
</tr>
<tr>
<td>Sales Representatives</td>
<td>12,720</td>
<td>544</td>
<td>$14.42</td>
</tr>
<tr>
<td>Computer Systems Analysts</td>
<td>8,940</td>
<td>479</td>
<td>$21.15</td>
</tr>
<tr>
<td>Loan Officers</td>
<td>10,100</td>
<td>273</td>
<td>$18.73</td>
</tr>
<tr>
<td>Tellers</td>
<td>9,890</td>
<td>205</td>
<td>$10.00</td>
</tr>
<tr>
<td>Computer Software Engineers</td>
<td>15,760</td>
<td>1,078</td>
<td>$23.08</td>
</tr>
<tr>
<td>Computer Support Specialists</td>
<td>10,420</td>
<td>383</td>
<td>$11.00</td>
</tr>
<tr>
<td>Computer Systems Analysts</td>
<td>8,940</td>
<td>479</td>
<td>$21.15</td>
</tr>
<tr>
<td>Accountants and Auditors</td>
<td>24,060</td>
<td>438</td>
<td>$26.44</td>
</tr>
</tbody>
</table>

The finance and insurance industry is projected to grow in the Twin Cities by 11.8 percent between 2004 and 2014, adding about 12,723 new jobs. This is just below the Twin Cities’ average employment growth rate of 13 percent.\footnote{DEED, LMI.} However, employment growth may be slow in 2008 and 2009 as fallout continues from the subprime and credit crises. Already on the national level, employment in the financial services sector is being affected. A year ago, the number of American jobs in financial services and construction was holding roughly steady, according to Moody’s Economy.com. Yet by the middle of 2007, those two areas were shedding about 25,000 jobs each month. In October 2007,
they lost 50,000 jobs. In November, the number had swelled to 75,000.\footnote{New York Times, December 8, 2007.} In Minnesota the impact is evident in mortgage related workers. Developments in the state to date include a shedding of 30 percent of Residential Capital’s employees in Minnesota and a decrease from 4,000 to 1,600 registered mortgage brokers.\footnote{In addition to the slowdown in mortgages, the number of registered mortgage brokers was also impacted by new regulations and fees in the state. Minneapolis Star Tribune, October 18, 2007.} Overall, mortgage and nonmortgage loan brokers have been particularly hard hit by the recent downturn in the housing market. In Minnesota as a whole, employment in the finance and insurance industry has dropped 1,400 jobs since 2005. Losses were highest in the Twin Cities (less 1,351 jobs) followed by Northeast (less 210 jobs) and Southwest (less 144 jobs) Minnesota. Employment grew in the Southeast (adding 135 jobs), Central (adding 114 jobs) and Northwest (adding 43 jobs) regions of the state.\footnote{Industry Fact Sheet, DEED, LMI.}

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They lost 50,000 jobs. In November, the number had swelled to 75,000. In Minnesota the impact is evident in mortgage related workers. Developments in the state to date include a shedding of 30 percent of Residential Capital’s employees in Minnesota and a decrease from 4,000 to 1,600 registered mortgage brokers. Overall, mortgage and nonmortgage loan brokers have been particularly hard hit by the recent downturn in the housing market. In Minnesota as a whole, employment in the finance and insurance industry has dropped 1,400 jobs since 2005. Losses were highest in the Twin Cities (less 1,351 jobs) followed by Northeast (less 210 jobs) and Southwest (less 144 jobs) Minnesota. Employment grew in the Southeast (adding 135 jobs), Central (adding 114 jobs) and Northwest (adding 43 jobs) regions of the state.

### Box 7. Twin Cities is a global center of reinsurance brokering

When insurance companies buy insurance or “reinsurance” to cover some of their risk, they turn to reinsurance brokers. These intermediaries analyze the risk an insurer carries; then package, price, and sell that risk to third parties.

Bloomington is home to the world’s third-largest reinsurance broker, Benfield, Inc., as well as the tenth-largest, John B. Collins Associates, founded in 1987 by a Benfield alumnus.

The industry’s top six firms, based on revenues, all have offices in the Twin Cities.

The Twin Cities has been at the heart of the reinsurance industry’s technology development, especially development of software to quantify risks.

E.W. Blanch gave rise to the reinsurance industry in the Twin Cities in 1957. His company eventually was acquired by London-based Benfield Group.

The prevalence of reinsurance brokers in the Twin Cities is attributed to E.W. Blanch’s longtime practice of hiring people directly out of college, with no insurance-industry knowledge or experience, and training them to be reinsurance brokers. While the industry has traditionally operated on an apprenticeship system, Benfield’s training also includes formalized on site technical and scientific training.

Benfield’s talent gets poached as a result. “It’s a really good deal for the other [brokerages],” Benfield’s CEO, Paul Karon, acknowledges. “We’re a feeder group for the reinsurance, underwriting and brokering industry.”

In addition to training its own staff, Benfield trains a few employees of the insurers and reinsurers who are its clients. Benfield employs 2,000 globally, 460 of them in the Twin Cities. In 2006, Benfield Group reported revenue of $699 million, with about $278 million coming from U.S. operations.

“I call Minneapolis the reinsurance India because we have such a depth of talent here,”

---Paul Karon, CEO of Benfield, Inc.


40 In addition to the slowdown in mortgages, the number of registered mortgage brokers was also impacted by new regulations and fees in the state. Minneapolis Star Tribune, October 18, 2007.
41 Industry Fact Sheet, DEED, LMI.
Minnesota’s reinsurance depicts some of the other key characteristics of a cluster: worker mobility, spin offs and start-ups when employees at one firm leave and start their own rival firms, and creation/harnessing of industry-specific data (see Box 7).

With the looming retirement of the baby boom generation, many industries are facing high levels of potential worker shortfalls. The banking industry, however, has an age structure that is concentrated at the lower end of the prime working age group (25-54 years of age), rather than toward the upper end of the spread compared to other Minnesota industries. This does not mean that certain key occupations, such as managers, will not see worker shortages in the coming years.
III. Strategies for Keeping Minnesota’s Financial Services Cluster Vibrant

Current Employer-Driven Initiatives

In addition to identifying the market conditions and workforce challenges facing financial service employers, the purpose of this report is also to find ways for the Minnesota Department of Employment and Economic Development to help financial services employers meet their current and future labor demands and improve their competitiveness in the global economy. During interviews with employers and educators the research team learned of some employer-driven initiatives to address workforce needs and discussed how public workforce initiatives could be better aligned with industry priorities.

There are a number of public and private entities working collaboratively with the goal of increasing the number of youth and adults qualified to work in the financial services industry. For instance:

- The Future T.E.A.M. Bankers (Training, Educating, And Mentoring) program introduces high school students to career opportunities in the banking and financial services industries through paid internships.

- A Goodwill/Easter Seals program aims at providing jobs skills to low-income individuals in the banking industry in partnership with Wells Fargo, U.S. Bank, TCF and Bremer Bank. One of the courses is a six-week bank reconciliation course.

- Three Twin Cities nonprofits (Goodwill/Easter Seals, Project for Pride in Living, and Twin Cities RISE) offer formal training options for bilingual tellers. Most bank teller positions require a high school diploma or GED because they are considered springboard jobs to work up to higher positions within the bank. Customer service, computer, math and listening skills are important, and there is a high demand for bilingual tellers in the Twin Cities.

- Twin Cities RISE also offers a free 10 week financial services training program in Minneapolis that helps develop computer usage, communication, critical thinking, customer service and other work skills. Common placement is in teller, personal banker and financial services associate.

- The Minneapolis Community and Technical College offers an online banking and finance certificate, a 21-credit program that introduces students to business and principals of consumer and commercial lending. This is in partnership with Goodwill/Easter Seals and US Bank.

Through associations, employers also offer training and skill development opportunities. For instance Minnesota’s Bankers’ Association, which includes 95 percent of the state’s chartered banks, small and large, offers online courses, seminars and other professional development opportunities on general accounting, sales, marketing, basic skills, lending and other core competencies.
Current DEED Support

Minnesota’s Department of Employment and Economic Development (DEED) aims at targeting workforce and economic development resources to ensure financial service employers can find the skills they need. There are three types of DEED support: (i) labor market information and analysis to support workforce planning efforts; (ii) cash investments through grants aimed mostly at upgrading adult workers’ skills; and (iii) planning and coordination assistance through business service specialists.

The Minnesota Job Skills Partnership Board (MJSP) provides grants to educational institutions partnering with Minnesota financial services businesses to meet incumbent worker training needs. These resources launch innovative training programs by helping finance curricula development. For instance:

- U.S. Bank and Wells Fargo, in collaboration with Anoka Ramsey Community College/Technical College, developed training modules on business computer skills, Microsoft Office certification and customer service. All participating businesses have defined pathways with wage and skill advancement points.

- Fair Isaac Corporation and the University of St. Thomas partnered to develop a module around critical computer programming skills. Headquartered in Minneapolis since 2004, Fair Isaac Corporation is an $800 million enterprise that draws three-quarters of its revenues from bankers and lenders. It provides the software used by the three major credit-reporting bureaus and does business in 80 countries.

Minnesota’s DEED also provides non-training services designed to add value to the businesses in an industry, including technical services, industry research, and convening and networking. DEED’s business service specialists are located around the state to provide qualitative analysis of regional industry trends and assist groups of employers in identifying and resolving common workforce issues. They interact regularly with business clients on a range of issues and help link employers with educators and training providers and help employers link with state business loan programs. (Currently, financial service employers are not eligible borrowers under the Minnesota Investment Fund.) For instance, in St. Cloud, business service specialists are helping local bankers convene in February 2008 to identify threats and opportunities in their sector, particularly in light of ING’s plans to add 450 jobs over the next three years in a customer call center.

Minnesota’s DEED is moving in the direction of building industry expertise more intensely among staff over an extended period of time in particular industries, depending on the vibrancy of particular industries in various regions of the state. By narrowing focus to particular industries, business service specialists aim at acquiring a depth of understanding of employers that is a prerequisite for learning where they can add value and for building a working relationship.
Recommendations for New DEED Actions

The findings provided in this report reaffirm the work of state analysts who examined Minnesota’s financial services industry a year ago and came up with recommendations to support competitiveness and productivity of Minnesota’s financial services firms. Their recommendations for a greater state government role included:

- intensifying math, computer and work ethics instruction in secondary schools to increase the readiness of high school graduates to pursue higher education and entry level positions in the financial sectors, especially entry level positions in banking and insurance;
- promoting higher education graduates in actuary, finance, economics, math, and computer science;
- promoting financial literacy; and
- promoting Minnesota’s financial services industry.

This research team’s findings suggest that the state, and DEED in particular, consider the following priority actions:

1. Review the experience of the State of Connecticut in assisting its financial services industry in order to learn lessons applicable to Minnesota. Like Minnesota, Connecticut competes as a primary location for insurance, asset management, banks and other financial services companies, specifically for headquarters, major subsidiaries or divisions, or processing and other support functions. Connecticut’s industry cluster initiative is based on the idea of nurturing the state’s key industries to improve the competitiveness of businesses within these industries, in turn boosting the Connecticut economy (see Box 8). In particular, Minnesota’s review should investigate: (i) how Connecticut attracts and retains young professionals and specialized knowledge; (ii) how the state in particular leverages its resources to promote primary and secondary vendor relationships to establish jobs locally; (iii) how Connecticut created an alliance between various industry segments (banking, insurance, asset management) to take advantage of a united front; and (iv) how Connecticut defined and responded to the need for segment-strategies (e.g. small bank-specific, reinsurance-specific).

2. Evaluate Minnesota Job Skills Partnership grants in the financial services sector to learn lessons for possible replication. In particular, evaluate grants to determine effectiveness of career ladder strategies, i.e. meet employers’ needs to recruit and retain skilled workers and workers’ needs to complete trainings and advance into better paying jobs. Evaluation should provide answers to the following questions: Do part-time teller jobs provide a springboard for adults to find better paying jobs with benefits in the industry? What is the time horizon for “success”? What is the profile of a candidate who succeeds? What conditions produce success?

3. Gain greater understanding of the convergence between human talent and technology development opportunities in Minnesota’s reinsurance segment, especially around risk analysis and quantification; investigate opportunities for
DEED to promote this segment to attract and retain reinsurance firms and these valuable knowledge workers.

4. Consult with the Minnesota Department of Education and Minnesota State Colleges and Universities during implementation of four career pathways: banking and related services, business financial management, financial and investment planning, and insurance services. In particular, look for opportunities to consult with industry associations on curricula development and dissemination, employer participation and satisfaction, and evaluating placement and outcomes of students/workers.

5. Invest more grant resources into financial services-specific modules (occupational English) for ESL and Minnesota’s Adult Basic Education (ABE) to prepare immigrants for bilingual and other jobs in the financial services industry. (Twin City banks say they lack bilingual candidates for entry level positions and should be the drivers for any new initiative). Minnesota’s ABE is moving toward greater integration of adult education and English language services with postsecondary education and training to increase attainment of credentials in healthcare and manufacturing and discussions should take place to consider apprenticeship, internship and other training opportunities through ABE providers in financial services occupations. Also investigate California’s Ventura College insurance job training program for bilingual incumbent workers.

6. In the event of announced layoffs in Minnesota’s financial services industry, short term interventions should include: (i) delivery of financial services job fairs in key cities/locations; (ii) a combination of job fairs with emerging markets fairs where banks and insurance companies can reach out to the “unbanked”.

7. Provide a training module specific to the financial services industry to business service specialists so they understand key trends and challenges in the industry. This will better prepare staff for inquiry and analysis with financial services employers in their locales. Provide access to key financial services industry publications by business service specialists. A training module should also be made available to employment counselors to help them with their advisory role.

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**Box 8. State of Connecticut’s Role in Supporting Financial Services Cluster**

Today financial services companies in Connecticut cooperate in promoting their industry and identifying and rectifying common training and retention issues that can help their flagship firms as well as startup and supply chain businesses be productive.

Starting in 2002, the State of Connecticut took a proactive role in helping financial services companies to gather regularly at forums to identify and discuss their Connecticut-specific business concerns. Seed money of $100,000 from the state legislature, and leadership from the governor helped attract CEOs to participate in the forums and to bring education and business interests together.

Connecticut businesses agreed to a set of common goals, including developing a comprehensive curriculum for entry level training through advanced preparation for professional licenses. They will also develop the curricula for the first A.A.S. degree in insurance and financial services in the state. Goals have been set for delivering training to incumbent and new workers.
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Mike Ziemann  
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Director of Human Resources

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Financial Services Cluster Map

ICBM, MAMB, MBA, MCIU, MNAMB, NARA/MU

MNCIC, MNAMB, MFA, MUNA, NACI

SEC

State Trade Associations

Federal Regulators

Customer Markets

Government

Agents / Brokers

Credit Cards
Sales Financing
Consumer Lending

Banks
Credit Unions

Bank Holding Companies

Credit Intermediaries
Secondary Markets

Transaction Processing
Clearinghouse

Consumer / Corporate

Agents / Brokers

Trust Fiduciary / Investing

Securities

Insurance Carriers

Related Industries

Professional Services

Accounting
Advertising
Legal
Marketing

Workforce and Training Services

Post-secondary colleges and universities

Information Technology Services

Equipment
ATMs
Mainframes
PCs

Back-Office Services

Call Centers

Infrastructure and Utilities

Telecommunications
Real Estate (space)

Information Technology

Software
Redundant Storage (back-up)
Financial Services Cluster Diamond

Firm Strategy, Structure and Rivalry
Intense competition for customers and talent between three segments, i.e. banking, insurance and capital markets/ securities.
Intense competition between banks and non-banks, e.g. auto lenders.
Widespread trading of companies, consolidation for 10 years.
Precipitated rush to employ new this industry.
Intense competition in reinsurance industry.
Competition for technical excellence and better technology.
Vulnerability of industry to recession and credit crises.
China presents new market opportunities and Chinese firms represent potential buyers of US financial service firms.

Chance
Discovery of timber and other precious natural resources couple with requisite infrastructure.

Factor Conditions
Early presence of east coast financing allowed industry to develop locally to meet needs of economic boom in upper Midwest.
Recognized as upper Midwest hub help attracted Federal Reserve to place the 9th district reserve hub in Minneapolis.
Large educated population with corporate headquarters, business start ups, and diversity of MN economic base.
Shortage of IT professionals, accountants, and other skills.
Aging of workforce not as serious as other MN industries.

Demand Conditions
Recession and inflation affect margins.
Sophisticated local customers, e.g. corporate headquarters, entrepreneurs and start ups demand financial services.
Specialized niche markets served by small and medium sized banks.
Continued growth and diversification of economy generates continued need for capital.
Baby boomers transition from savings accumulation to savings payout.
International demand diversifies customer base, market.
Growing market for new Americans.

Government
Government regulations over banking and insurance industries: Fed—Repeal of Glass-Steagall Act; funding and regulation of Fannie Mae and Freddie Mac; Federal Reserve sets Feds Funds interest rate.
State—Issuer of mortgage broker licenses and regulations; pending “good faith” bill.

Related and Supporting Industries
- accountants
- attorneys
- marketing and advertising
- IT professionals
- computer software development to meet technology needs, especially Internet security
- universities, colleges