Finding a Home for Financial Services

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Many considerations govern the site searches of financial services companies, but redundancy, customer proximity, and employee satisfaction top the list.

SITE SELECTION FACTORS driving America's financial services industry are different from those of other sectors. Unlike manufacturers, they don't dwell on transportation and distribution concerns. And in contrast to technology firms, they aren't obsessed with the presence of research universities and high-tech workers.

So what does influence the relocation decisions of banking, insurance, real estate, and similar types of financial services firms? Which assets are important, and what type of communities do they seek?

Sizing Up Security & Space

Recent relocation searches by two financial services companies shed light on many of the sector's key site selection factors.

Last May the New York City-based Depository Trust & Clearing Corp. (DTCC) announced it would invest $34 million in a new operations facility in Tampa. The new Florida center is expected to create 500 new high-tech, high-wage jobs covering a wide spectrum including clearance, settlement, and asset servicing, as well as administration and other staff functions.

DTCC is a worldwide provider of technology infrastructure for financial transactions, and is owned by its principal users - major banks, broker/dealers, and other companies within the financial services industry, including the New York Stock Exchange. In a post-9/11 world, its decision to create another redundant facility to operate in the event of a major regional emergency centered around three critical site selection factors.

"Our major requirements were decentralizing DTCC's operations away from New York City; finding a site on a separate power grid with different telecommunications infrastructures; and finding a location that would be attractive to our employees to relocate," explains Anthony Savarese, DTCC's managing director of corporate services. "We also wanted to make sure that we had a pool of workers available who knew something about financial services."

The firm followed a location-based strategy and fairly quickly narrowed its choices to Atlanta, Jacksonville, and Tampa. Then it looked at things such as the cost of doing business, qualityof-life issues, legal and regulatory impacts, education levels, quality of the local work force, and facility security. "We did not want to be in a downtown, multitenant facility," Savarese recalls. "That simply didn't work for a securityconscious company like DTCC."

Finally, DTCC looked at the incentive packages offered by each locality and the states. Ultimately Tampa met all of DTCC's requirements, and gave the firm room to grow.

In February, news leaked out that Seattle-based Washington Mutual, the largest U.S. savings and loan Ann, had a short list of cities under consideration (or its new regional financial services center to employ 2,000 to 3,500 people. Competing locales in the confidential search include San Antonio, Oklahoma City, Phoenix, and Dallas, according to a San Antonio Express-News article.

Sources close to the search have said the firm may require as many as 50 acres to build a possible one-million-square-foot facility. Real estate professionals, reports the newspaper, have speculated that it may be (or an inbound call center supporting consumer banking products.

Robert Kramp, director of Grubb & Ellis' national client-sendees group in Houston, isn't surprised at the secondtier sites on Washington Mutual's list. "secondary markets can compete because they're nimble," he explains. "They have probusiness environments with very few barriers to entry; i.e., low land costs, low taxes, quick reactions to permitting, and many properties in suburban areas where commuting isn t a factor." Central Time Zone communities also have an edge for financial companies who call clients nationwide.

Focus on Banking Needs

With more than 27 years of experience in the commercial real estate business, Bruce Ficke offers a veteran's view of the banking industry's site selection needs. He serves as a managing director in Atlanta for Jones Lang LaSalle, a leading global provider of real estate and money-management services.

He says banks need space for three types of facilities: administration centers, operations centers, and branch banks. While the industry once combined "customer-facing" and backoffice departments in the same space, today banks typically operate those functions in different facilities.

Ficke says that while administrative customer-facing operations are typically still found in major downtown business centers, more are moving to suburban areas in dense office centers. "They tend to be in growing metro markets such as Phoenix, Atlanta, Dallas, Charlotte, Denver, Los Angeles, San Francisco, and Seattle," he says, also acknowledging New York and Boston, two major financial centers full of headquarters operations.

Back-office administrative spaces used for check processing, accounting, etc. have needs similar to operations centers and can also employ a locationbased strategy. They require a large clerical-type work force, with "office space that won't hold them hostage if they need to expand," Ficke notes. Incentives play a big role for administrative offices such as data centers, especially those with one million square feet of space or more. And since quality telecommunications are "pretty much available anywhere, it's just not a big factor these days. And as we go more and more wireless it will become even less of a factor."

The branch banking business has exploded in the last 36 months, he says. "In 1998 people thought branch banking would disappear during the dot.com boom; were they wrong," Ficke says. "Now there's rough-andtumble competition for good locations for branch banks, especially for infill sites in established, high-income population centers."

He cites Dallas, Atlanta, Chicago, Phoenix, Southern California, and Florida as major retail banking battlegrounds. "IfI were starting a new bank today, I'd chase population growth," Ficke notes. The entrepreneurial business plan could be to "capture deposits, get a foothold in the market, then get bought out by a larger bank."

Since branches don't sell products, they don't pay sales taxes. That can be a challenge when seeking sites, particularly when communities seeking more retail businesses erect zoning barriers to keep out such operations. On the Hip side, incentives are not uncommon tools in wooing big administrative offices, especially data centers of one million or more square feet.

Locales for National, Global Growth

Selection criteria for financial-sector corporate headquarters are similar to those of most other sectors, relates Bob Ady, president of Ady International Company in Mount Prospect, Ill. Among other honors in his 40 years of industry work, Ady received a 2003 "Lifetime Achievement Award for Professional Excellence in Economic Development" from the International Economic Development Council. But Ady says it's a new ballgame these days for a number of those firms now extending their national, even global, reach into new markets.

"Some of the companies started in the CEO's hometown, and for years that situation worked well," he says. "But now with more outside directors, plus the need for more high-powered and possibly international talent, many are questioning if they should be in more diverse environments." That search is taking them to first- and second-tier cities, with increased multicultural assets; excellent quality of life; and superb air service to help management conduct business worldwide.

Beyond the banking sector, the general site selection needs of related financial firms are similar, note Ady and other consultants interviewed. Yes, it's important to "go where the customer is" while focusing on the specific functions associated with each facility. But sometimes other factors weigh in.

For example, Ady says a region's regulatory environment can play a major role in defining the right city for credit card companies. "Laws, rules, and regulations are unique in different states. South Dakota and Delaware, and to a large extent, Florida, are very favorable to credit card operations, so you'll find a lot of these companies established there."

Beyond regulatory considerations, Ady points out that the presence of a talented work force with excellent computer and communication skills is paramount. "Their employees will be handling many transactions, and there's no room for mistakes." Rigorous employee-training programs are the norm, so states supporting firms with excellent worker-training programs as part of incentive packages will have an edge. However, Ady cautions, the key is for states to be flexible with the type and length of training; noting that sometimes such programs are not attuned to the genuine needs of the financial sector.

Moreover, unlike general call centers, credit card operations tend to be populated by workers highly knowledgeable about their products, engaged in direct and highly personal customer interaction. Ady says they also are more apt to cluster in cities where they can share the telecommunications infrastructure with companies with similar needs. "Back-office operations look for efficiency and cost, no matter what," says Jeff Finkle, president and CEO of the International Economic Development Council. "And they'll want to stay in their service territory. For example, you wouldn't put a back-office operation in Oklahoma if you don't have customers there."

Some financial site selection factors may be surprising. Take the insurance industry, known for its countless regional offices nationwide. Interestingly, Des Moines, Iowa, ranks as America's second-largest insurance center. Seems women make up large numbers of industry workers, and this city - offering slow-paced, small-city amenities - is known for its ability to cater to the needs of working women. Almost 40,000 people here work for insurance firms, including Allied Insurance (a member of Nationwide), Principal Financial Group, Wellmark Blue Cross & Blue Shield of Iowa, and State Farm Insurance Company.

The Offshoring Factor

"Many people say today offshoring is just a fad, but it's a big mistake to make that assumption," says Stefan Spohr, vice president of A.T. Kearney's Offshore Practice Group. "We've just barely scratched the surface; it's part of a growing overall globalization trend."

The increase in offshoring of financial services jobs has been "relatively well documented" in the last two to three years, he says. Most positions involve back-office work, not new-market penetration. And while it's hard to pinpoint the "very small number" of them precisely, he estimates that over the next five to seven years they could make up at least 8 percent of that sector's positions. However, those predictions don't necessarily spell doom and gloom for U.S.-based employment news, as the economy could create new sector jobs to replace those offshored.

Spohr also is co-author of Making Offshore Decisions: A.T. Kearney's 2004 Offshore Location Attractiveness Index, an "evaluation tool" rating countries according to three factors: cost, environment, and people. According to this report, in 2003 nearly half of all CIOs used offshore providers to avoid high labor costs in the United States and Europe, and two thirds of them said they had planned to send work overseas in 2004.

As with the manufacturing sector, the primary driver for financial services firms is - and always has been - cost. But as Spohr's offshore report points out, nations competing as offshore destinations now offer a broader spectrum of assets than just lower expenses.

Large-population countries such as India and China (and to a lesser extent, Russia, Brazil, and the Philippines) offer vast pools of educated workers. Small, highly developed economies like Singapore, New Zealand, and Ireland offer excellent infrastructure, education systems, and business-friendly, low-risk environments for offshoring.

Demographic changes are another reason why financial (and pharmaceutical firms) are moving jobs out of the country, Spohr says. "In the next five to 10 years, they know it's going to be hard to find skilled workers in the U.S. and Europe to accommodate their business growth."

Ficke concurs with that assessment. "Our corporate clients are telling us that by all indicators, by 2008 there is going to be a 'war for talent' similar to what we saw during the 1990s. But we believe the U.S. economy can easily overcome any negative impact of offshoring. In fact, we will need these offshore workers to help fill the shortage of workers in the United States."

Careful analysis of population forecasts regarding the short- and long-term health of a community in a foreign nation is vital when evaluating locations. Risk diversification also ranks as an offshoring factor for financial companies. In a post-9/11 world, "companies don't want all their operations in one location, or one country. This is particularly important to the financial services industry with time-critical activities. If a center goes down as the result of an 'event,' then its activities will just be [electronically] transferred to another country," Ficke says.

Jim Kupferer, director of Fluor Corporation's Global Location Strategies, based in Greenville, S.C., says safety issues for financial firms also concern employees, buildings, and computer systems as well as the protection of sensitive information.

However, the strategy for any financial services firm seeking an offshore site should be to clarify the unique needs of the operation vis à vis its function; e.g., customer service, administrative, technical support. "One of the trends we're seeing forecasted is for firms to take about 20 of their operations to low-cost locations," Kupferer notes. "This is being driven by the 10-billion-dollar-plus mega companies."

In the final analysis, location is the key factor for financial services firms seeking to offer "the convenience factor" to the marketplace. Low cost, secure, flexible space is the main driver for operations not requiring client interaction. Both require an adequate, educated labor force - for the office and the board room - capable of serving the diverse financial needs of millions of customers worldwide.

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