

# ON THE MONEY

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## Ohio's Financial Activities Sector

Financial activities include banking and other lending and investment activities, insurance, real estate, and all forms of renting and leasing services, which allow individuals and other entities the ability to use an asset without the cost and responsibilities of owning it. This industry sector provided more than 270,000 Ohio jobs in 2013. Insurance-related services are an especially important component of the Ohio economy, with statewide employment 20 percent higher than would be expected in an economy Ohio's size. Direct insurance carriers' employment in Ohio is almost 37 percent higher than would be expected, with property and casualty carriers especially strongly represented.

### Composition of the Financial Activities Sector

The financial activities sector, as defined by the North American Industry Classification System (NAICS), is composed of two primary subsectors: (1) finance and insurance; and (2) real estate and rental and leasing. These subsectors are further categorized into a number of more detailed industry groups:

- **Finance and insurance.**
  - Monetary authorities – central bank: Offices of the Federal Reserve System and its regional banks.
  - Credit intermediation and related activities: Act as financial intermediaries by lending funds received from depositors or credit markets, or facilitate the lending of funds or issuance of credit through exchanges, clearinghouses, brokerage, or check cashing services.
    - \* Depository credit intermediation: Accept deposits and lend funds from those deposits, including commercial banks, savings institutions, and credit unions.
    - \* Nondepository credit intermediation: Credit card issuing, sales financing, and consumer and business lending.
    - \* Activities related to credit intermediation: Loan brokerage, financial transactions processing, loan servicing, check cashing, and payday lending.
  - Securities, commodity contracts, and other financial investments and related activities.
    - \* Securities and commodity contracts intermediation and brokerage: Investment banking and underwriting, and securities and commodities contracts dealing and brokerage.
    - \* Securities and commodity exchanges: Physical or electronic facilities for the buying and selling of stocks, options, bonds, and commodity contracts.
    - \* Other financial investment activities: Portfolio management, investment advice, and trust and fiduciary services.

- Insurance carriers and related activities.
  - \* Insurance carriers: Direct issuers of insurance policies and annuity contracts. Major categories are life insurance, health and medical insurance, property and casualty insurance, title insurance, and reinsurance (entities that assume the risk of policies issued by other insurers).
  - \* Insurance agencies, brokerages, and other insurance-related activities (including claims adjusting and third-party administration of insurance and pension funds).
- Funds, trusts, and other financial vehicles: Insurance and employee benefit funds, open-end investment funds, trusts, and estates.
- **Real estate and rental and leasing.**
  - Real estate.
    - \* Lessors of real estate: Establishments that lease buildings, parts of buildings, or land (not including traveler accommodation such as hotels and motels).
    - \* Offices of real estate agents and brokers.
    - \* Activities related to real estate: Primarily property management and appraisal.
  - Rental and leasing services: Automotive rental and leasing, consumer goods rental, commercial and industrial machinery and equipment rental and leasing, and leasing of intangible assets such as patents, trademarks, brand names, franchise agreements, etc.

Table 1 on the next page shows 2013 Ohio employment of the individual components of the financial activities sector and their location quotients. The location quotient is a measure of relative concentration. It is the percentage of total Ohio employment in a specific industry divided by the percentage of total national employment in that industry. Thus, a location quotient greater than one indicates an employment concentration greater than average. NAICS is a hierarchical classification; the hierarchy here is shown by greater indentation of the more specific titles below the broader one.

Financial activities employment is shown in Table 1 only for the private sector. While government employment in financial activities is significant – the state retirement systems, for example – these employment totals are often not available. Employment is likewise not available for two subsectors under finance and insurance: monetary authorities and funds and trusts. Employment totals are suppressed for industries with so few employers that revealing the industry’s employment would disclose the confidential employment of individual employers. The only establishments in the monetary authorities industry in Ohio are the Federal Reserve Bank of Cleveland and its Cincinnati branch. Although the Board of Governors of the Federal Reserve is a government entity, the 12 regional Federal Reserve Banks are quasi-public, stock-issuing, nonprofit organizations and their employment is categorized as private-sector. Funds and trusts employment is suppressed not because it would directly disclose the employment of an individual company, but because revealing it would allow monetary authorities employment to be derived by simple subtraction. The employment of these two industries together (i.e., total finance and insurance employment less the sum of the reported industries’ employment) was 971 in 2013, down from 1,978 the year before. Analysis of the available data for individual industries suggests that this was due to significant declines in funds and trusts employment rather than a decline in employment at the Cleveland Fed.

**Table 1**  
**Structure, Employment, and Relative Concentration in**  
**Ohio's Financial Activities Sector, 2013**

	Employment	Location quotient
Financial activities	270,269	0.930
Finance and insurance	210,804	0.982
Monetary authorities - central bank	n/a	n/a
Credit intermediation and related activities	95,306	0.958
Depository credit intermediation	59,921	0.909
Nondepository credit intermediation	22,334	0.988
Credit card issuing	4,653	1.230
Sales financing	3,319	1.035
Other nondepository credit intermediation	14,361	0.920
Activities related to credit intermediation	13,052	1.193
Securities, commodity contracts, investments	17,124	0.519
Insurance carriers and related activities	97,403	1.199
Insurance carriers	61,933	1.367
Direct life and health insurance carriers	24,373	1.029
Direct life insurance carriers	9,278	0.922
Direct health and medical insurance carriers	15,095	1.109
Direct insurers, except life and health	37,308	1.807
Direct property and casualty insurers	35,104	1.963
Direct title insurance carriers	1,621	0.712
Other direct insurance carriers	583	1.203
Insurance agencies and brokerages	35,470	0.987
Funds, trusts, and other financial vehicles	n/a	n/a
Real estate and rental and leasing	59,435	0.783
Real estate	41,131	0.744
Lessors of real estate	16,791	0.770
Offices of real estate agents and brokers	5,889	0.552
Activities related to real estate	18,451	0.808
Rental and leasing services	17,785	0.901
Automotive equipment rental and leasing	6,178	0.893
Consumer goods rental	6,557	1.065
General rental centers	1,381	0.920
Machinery and equipment rental and leasing	3,669	0.711
Lessors of nonfinancial intangible assets	519	0.572

Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics.

The location quotients reveal that employment in financial activities other than insurance is generally somewhat below average, with real estate, rental and leasing generally far below average. There are some exceptions, however. Credit card issuing provides relatively few jobs, but its location quotient of 1.23 indicates that its 4,653 jobs are 23 percent more than would be expected in an economy Ohio's size. Activities related to credit intermediation – a much larger industry – has a concentration almost as high at 1.193. The bulk of the employment in this industry is in financial transactions processing, whose employment of 9,528 gives it a location quotient of 2.075 – employment double that which would be expected. This industry's employment has more than tripled since 2001 and has increased 20 percent since 2010 (compared to U.S. employment growth of 12.6 percent).

But Ohio's strength in financial activities lies in insurance; the overall subsector's location quotient is 1.199. The concentration is in insurance carriers rather than insurance agencies.

The lack of a concentration in agency employment is not surprising; because many agencies have a customer base that does not extend beyond the immediate community, the industry generally cannot support a high concentration. On the other hand, insurance carriers often serve a regional (e.g., Midwestern) or national market, giving them the ability to have employment concentrations far above average. Life and health insurers' employment of 24,373 is close to what one would expect, while insurers other than life and health employ 37,308, more than 80 percent greater than average. The lion's share of this employment is in property and casualty carriers, with employment almost twice the level that would be expected.

One final point regarding the employment totals in Table 1 is that they likely understate the number of jobs in financial activities. This is because some of these jobs are classified in other sectors – particularly management of companies and enterprises, a component of professional and business services (see the October 10, 2014, issue of *On the Money*, Vol. 130, No. 43). This could include some of the employment of the numerous financial and insurance companies with headquarters or large operations in the state. For example, JPMorgan Chase's two million-square-foot McCoy Center in Delaware County is the bank's largest facility under one roof, and according to a September 2013 *Columbus Dispatch* article, employed 10,000.<sup>1</sup> However, the county-level statistics analyzed for this article report only 6,154 Delaware County jobs in all of financial activities in 2013 – including insurance, real estate, and rental and leasing in addition to credit intermediation. Employment in management of companies and enterprises is not classified by the firm's industry, so the number of these jobs in establishments that manage companies in the financial activities sector cannot be determined. There is a bank holding companies industry within management of companies and enterprises, but it had only 44 jobs statewide in 2013.

## Financial Activities Employment Growth

Financial activities employment growth in Ohio over the past 12 years has generally been disappointing. Table 2 on the next page compares total and component employment changes between 2001 and 2013 and for each of the four economic regimes during that period: the 2001-2003 recession and "jobless recovery," the 2003-2007 labor market expansion, the 2007-2010 recession and its immediate aftermath, and the employment recovery that began in 2010. The finance subsector is finance and insurance minus insurance carriers and related activities; thus, it includes monetary authorities; credit intermediation; securities, commodity contracts and investments; and funds, trusts, and other financial vehicles.

Financial activities employment underperformed during each of the four economic regimes, especially during the 2003-2007 expansion. This period saw U.S. employment increase (but at a slower-than-average rate) but Ohio employment fall 4.1 percent. One explanation could be the very slow rate of employment and economic growth in Ohio during this period. (Ohio was one of only four states with fewer jobs at the end of the expansion in 2007 than at the end of the previous expansion in 2001.) Likewise, the decline was more severe in the recession and growth was weaker in the recovery.

The same pattern is evident in finance and real estate, but not insurance. Indeed, insurance carriers and related activities employment outperformed the national average in each of the

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<sup>1</sup> Mark Williams. "Chase to Cut Another 440 Jobs Here in Next 90 Days." *The Columbus Dispatch*, September 24, 2013, pg. 1A.

regimes except in the current recovery. Thus, insurance helped to offset the weak employment growth during the expansion and the sharp employment declines during the recession.

**Table 2**  
**Employment Changes for Components of the Financial Activities Sector**  
**Ohio and the U.S., 2001-2013**

	2001-13	2001-03	2003-07	2007-10	2010-13
Total nonfarm employment					
Ohio	-6.0%	-2.8%	0.5%	-7.5%	4.1%
United States	3.3%	-1.4%	5.9%	-5.6%	4.8%
Financial activities					
Ohio	-9.3%	1.3%	-3.1%	-9.3%	1.9%
United States	-0.8%	1.9%	4.1%	-9.1%	2.9%
Finance					
Ohio	-14.1%	3.5%	-7.1%	-12.0%	1.5%
United States	-1.1%	3.1%	5.2%	-10.2%	1.5%
Insurance carriers & related activities					
Ohio	4.3%	1.6%	4.2%	-3.4%	2.0%
United States	1.1%	1.5%	1.0%	-5.4%	4.3%
Real estate and rental and leasing					
Ohio	-18.1%	-3.3%	-5.0%	-13.1%	2.6%
United States	-2.2%	0.4%	5.3%	-11.1%	3.9%

**Source:** Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics.

The insurance subsector's growth during the recovery of less than half of the national average is troubling. One reason could be a lack of a trained, productive workforce. Insurance executives throughout Ohio have called attention to the workforce needs of this industry. A study by this author found a 10-year need for 26,000 new workers to accommodate the industry's growth and replace the large number of retiring workers.<sup>2</sup> Thirteen Ohio-based insurance companies have formed the Insurance Industry Resource Council (IIRC) to call attention to the industry's needs; the effort includes a website, [insuringohiofutures.com](http://insuringohiofutures.com), which provides career information and other resources to a variety of audiences. There is a common misperception that insurance jobs are primarily sales positions, but in fact the career opportunities are much broader – especially given the high concentration of direct insurance carriers in Ohio. Despite these opportunities, there was no Ohio college or university offering a risk management and insurance major. Thanks to the IIRC's advocacy, this has begun to change.

## Regional Trends

As regular readers of these articles know, Ohio's economy is composed of a number of distinct urban and rural regional economies, each with a different economic focus and performance. Thus, it is important to assess employment growth at a regional level. The regions are mapped in Figure 2. They include each of the six large Metropolitan Statistical Areas (MSAs) and seven other regions composed of the remaining 60 counties including Ohio's smaller MSAs and rural areas.

<sup>2</sup> Bill LaFayette. "Workforce Characteristics and Workforce Development in Ohio's Insurance Industry," 2013. <http://insuringohiofutures.com/press-releases/press-release/24>.

**Figure 2  
Ohio Regions**



Northwest  Toledo MSA  West North Central  Cleveland MSA  Akron MSA   
 Northeast  West  Columbus MSA  East North Central  Dayton MSA   
 Cincinnati MSA  South  Southeast

As discussed earlier, employment is suppressed in the Bureau of Labor Statistics database for industries with a small number of employers because of the legal requirement of confidentiality of individual company employment. The large number of suppressions in county-level employment totals makes the detailed analysis of Table 1 impossible at the regional level. However, employment is fairly widely available for finance and insurance, insurance carriers and related activities – and thus the derived finance subsector – and real estate and rental. Where estimates are not available, they can be estimated using employment in related industries and information from a different database, the Census Bureau’s County Business Patterns. The result is a complete set of employment data for all 88 counties for the primary components of the financial activities sector.

The following tables detail component employment, location quotients and employment changes during the recession and the recovery for the six large MSAs and for the seven small MSA and rural regions. Table 3 shows these statistics for the large MSAs, while Table 4 shows them for the small MSA and rural regions.

**Table 3**  
**Financial Activities and Component Employment, Concentration,**  
**and Growth in Large MSAs**

Area and component	Employment 2013	Location quotient	Percentage changes	
			2007-2010	2010-2013
<b>Akron MSA</b>				
Total nonfarm	308,542	1.000	-7.6%	2.1%
Financial activities	12,534	0.715	-6.9%	1.2%
Finance	4,336	0.539	-13.2%	0.3%
Insurance carriers and related	5,232	1.066	1.0%	6.4%
Real estate, rental and leasing	2,973	0.648	-8.8%	-5.3%
<b>Cincinnati MSA (Ohio counties)</b>				
Total nonfarm	775,267	1.000	-6.9%	2.7%
Financial activities	50,388	1.143	-3.6%	3.1%
Finance	20,736	1.025	0.5%	7.1%
Insurance carriers and related	20,201	1.638	-1.8%	-1.6%
Real estate, rental and leasing	9,442	0.819	-14.5%	4.7%
<b>Cleveland MSA</b>				
Total nonfarm	987,038	1.000	-8.3%	2.3%
Financial activities	59,291	1.057	-13.1%	-3.1%
Finance	23,080	0.896	-17.6%	-6.6%
Insurance carriers and related	20,410	1.300	-9.8%	-2.9%
Real estate, rental and leasing	15,783	1.076	-8.8%	3.0%
<b>Columbus MSA</b>				
Total nonfarm	937,490	1.000	-5.0%	6.7%
Financial activities	68,333	1.282	-8.6%	4.0%
Finance	29,400	1.202	-8.4%	10.1%
Insurance carriers and related	26,567	1.782	-4.7%	-0.3%
Real estate, rental and leasing	12,357	0.887	-16.1%	-0.2%
<b>Dayton MSA</b>				
Total nonfarm	349,646	1.000	-9.1%	1.7%
Financial activities	16,026	0.806	-18.9%	4.5%
Finance	8,415	0.922	-25.0%	6.0%
Insurance carriers and related	3,915	0.704	-7.6%	12.1%
Real estate, rental and leasing	3,700	0.712	-14.4%	-5.2%
<b>Toledo MSA</b>				
Total nonfarm	279,462	1.000	-10.0%	3.4%
Financial activities	9,342	0.588	-16.4%	-3.5%
Finance	3,527	0.484	-18.3%	-2.3%
Insurance carriers and related	2,895	0.651	-7.7%	-11.0%
Real estate, rental and leasing	2,921	0.703	-22.7%	3.6%

**Source:** Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics; Regionomics estimates.

**Table 4**  
**Financial Activities and Component Employment, Concentration,**  
**and Growth in Small MSA and Rural Regions**

Area and component	Employment 2013	Location quotient	Percentage changes	
			2007-2010	2010-2013
<b>Northwest</b>				
Total nonfarm	69,309	1.000	-9.4%	3.9%
Financial activities	2,338	0.622	-4.1%	-9.0%
Finance	1,308	0.681	-2.8%	-7.7%
Insurance carriers and related	749	0.623	-3.0%	-10.6%
Real estate, rental and leasing	283	0.517	-11.8%	-9.6%
<b>West North Central</b>				
Total nonfarm	209,828	1.000	-9.5%	0.5%
Financial activities	6,239	0.523	-9.9%	-1.8%
Finance	3,230	0.590	-11.9%	-4.1%
Insurance carriers and related	1,356	0.406	-2.4%	-2.7%
Real estate, rental and leasing	1,651	0.529	-11.5%	3.6%
<b>East North Central</b>				
Total nonfarm	109,513	1.000	-8.2%	4.7%
Financial activities	2,958	0.475	-9.5%	-2.6%
Finance	1,552	0.543	-11.3%	1.7%
Insurance carriers and related	814	0.467	3.8%	-7.8%
Real estate, rental and leasing	592	0.364	-19.5%	-5.9%
<b>Northeast</b>				
Total nonfarm	450,849	1.000	-9.3%	3.1%
Financial activities	16,009	0.625	-10.6%	-5.2%
Finance	7,243	0.616	-11.2%	-5.8%
Insurance carriers and related	4,333	0.604	-5.9%	-9.1%
Real estate, rental and leasing	4,432	0.661	-14.2%	0.2%
<b>West</b>				
Total nonfarm	271,086	1.000	-9.1%	4.8%
Financial activities	9,266	0.601	-9.1%	3.9%
Finance	3,558	0.503	-12.7%	-0.5%
Insurance carriers and related	3,732	0.866	2.4%	14.3%
Real estate, rental and leasing	1,980	0.491	-17.7%	-4.9%
<b>South</b>				
Total nonfarm	140,153	1.000	-12.3%	-0.3%
Financial activities	4,560	0.572	-13.1%	-4.0%
Finance	2,949	0.806	-13.2%	-1.8%
Insurance carriers and related	688	0.309	-16.0%	-6.4%
Real estate, rental and leasing	925	0.444	-10.4%	-8.7%
<b>Southeast</b>				
Total nonfarm	122,887	1.000	-6.9%	2.9%
Financial activities	4,359	0.624	-10.2%	-2.6%
Finance	2,294	0.716	-15.0%	2.0%
Insurance carriers and related	962	0.492	-3.3%	-10.6%
Real estate, rental and leasing	1,108	0.607	-6.3%	-3.9%

**Source:** Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics; Regionomics estimates.

As is clear from the location quotients in Tables 3 and 4, financial activities employment is primarily centered in the state's urban regions, especially Cincinnati and Columbus. (Note that the location quotient of total employment is always 1.0 by definition.) However, the insurance



workforce study referenced above found high insurance employment concentration in several small MSA and rural counties, including Clark (West), Van Wert (Northwest), Crawford (West North Central), and Monroe (Southeast). These are primarily headquarters and processing offices. The employers in these counties may have an even greater workforce challenge than those in the larger MSAs because of the smaller total workforce that is available.

Financial activities employment growth since the end of the recession has exceeded the national average in Cincinnati, Columbus, Dayton, and the West. This was due to strength in finance in Cincinnati, Columbus, strength in insurance in the West, and strength in both in Dayton. Employment in all other regions has suffered net declines, especially in the Northwest and Northeast. As in many other cases, the statewide weakness in financial activities employment obscures a wide range of very different regional trends.

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