SEPTEMBER 2024 INDUSTRY REPORT

The Future of Finance

Overview

Greater Phoenix has a dynamic finance cluster[1] with operations ranging from fintech to bank branches to nerve centers for many leading financial firms. Greater Phoenix's finance industry employs almost 70% more people than would be expected if the region matched the industry makeup of the U.S.[2]

In August, Greater Phoenix Economic Council (GPEC) engaged regional leaders in the finance industry to discuss the future of the industry and opportunities for strategic growth within the sector. The insights gathered have been instrumental in shaping this report.

94,000+
Employees

8.6%
Regional GDP

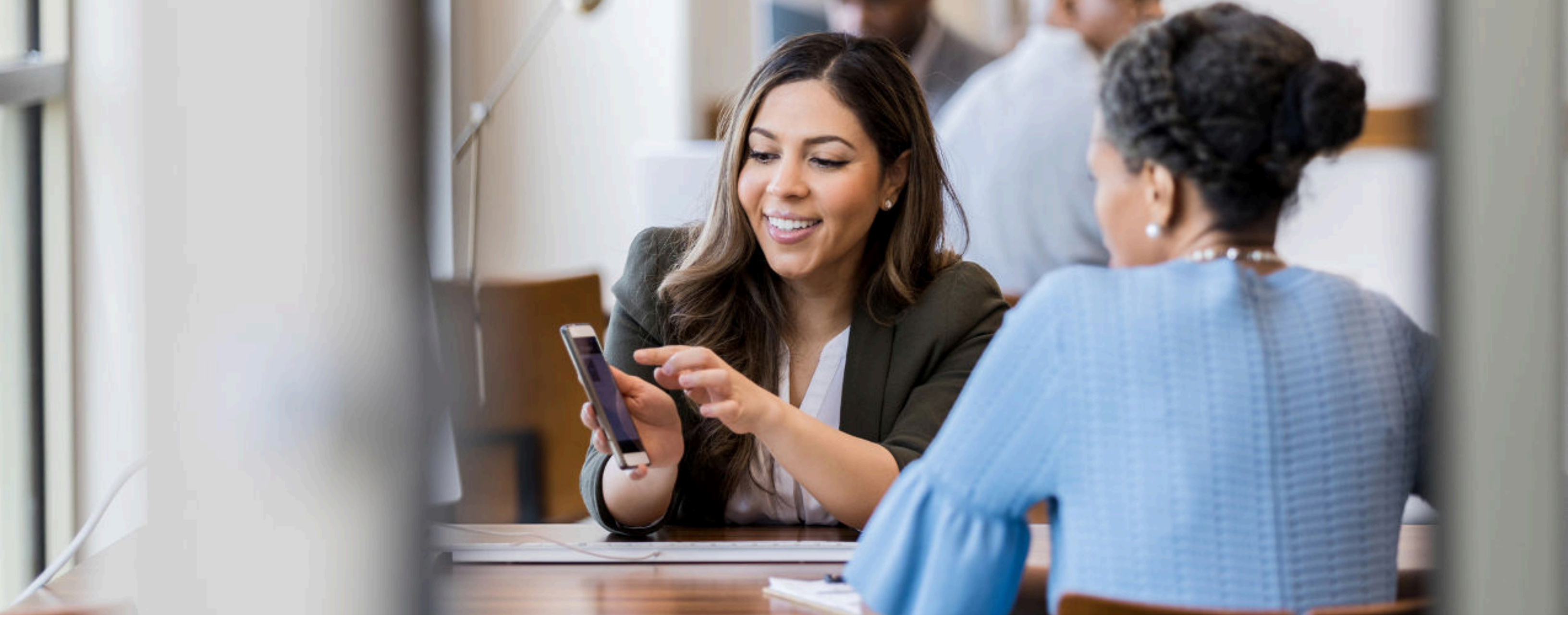
259,500
Licensed AZ FINRA representatives

Major Employers

There are seven finance companies in Greater Phoenix that have more than 2,000 employees[3] which includes the top three banks by asset size. Most of the top 10 largest banks in the U.S. have at least one Arizona branch.

Company	Description	Greater Phoenix Employees
Wells Fargo	Financial services provider offering retail banking, mortgages and wealth management services	12,467
Bank of America	Financial services provider offering a full range of banking, investment management and other financial and risk services	8,688
JP Morgan Chase	JP Morgan provides services to corporations, government and institutional investors; Chase provides consumer and commercial banking services	8,394
American Express	Global payment company providing card and travel-related services	7,241
Charles Schwab	Provides a full range of securities, brokerage, banking, money management and financial advisory services	3,459
Vanguard	Investment management firm	3,173
Discover Financial Services	Digital banking and payment services firm	2,420

[1] For purposes of this report, the finance sector is defined as NAICS codes 521, 522, 523 and 525 and excludes insurance and real estate companies from the analysis.
[2] Location Quotient quantifies how concentrated employment is in a particular region compared to the US. The industry has a regional location quotient of 1.69, meaning the financial sector accounts for a larger share of employment in Greater Phoenix compared to the United States.
[3] Source: Maricopa Association of Governments



Job Growth

Greater Phoenix ranks sixth in the country for finance jobs, with 94,200. The region experienced a slight decrease in jobs over the last five years, declining by 4% as employment shifts to other related industries. There are over 5,600 payrolled business locations in Greater Phoenix. This has increased significantly, meaning the number of employees per business has shrunk as competition for employment heightens across the sector. Arizona has nearly 260,000 FINRA licensed representatives, ranking as the 6th highest state for representatives nationwide despite ranking 14th in total population.[4]

2023 Metric		Regional Context	5-Year Local Industry Growth Trend	5-Year National Industry Growth Context
Employment	94,228	3.9% of jobs	-4%	4%
Payrolled Business Locations	5,632	3.9% of payrolled businesses	55%	19%
Average Earnings per Job	$123,582	50% higher than average earnings for all industries	27%	25%
Gross Regional Product (GRP), 2022	$30.4B	8.6% of total GRP	39%	49%
Arizona FINRA Representatives	259,545	6th highest nationwide	21%	25%

[4] Source: Table: Lightcast Q3 2024; FINRA; average earnings includes wages and benefits

Emerging Opportunities

Evolution of the Greater Phoenix Market

In the 1980s and 1990s, firms nationwide began decentralizing various business functions. Services such as HR, payroll, finance, customer service and IT were relocated to emerging markets across the country that offered low cost land in suburban markets for developers to build new buildings with high parking ratios. Greater Phoenix emerged as one of these hubs, with nearly 10% of the workforce working in a call center, thanks to Phoenix's low labor costs, growing labor force, modern infrastructure and temperate weather. Over time these operations have continued to evolve, creating full scale shared services and nerve centers – technologically sophisticated and highly integrated operation hubs – here. This has been shown through the strong wage growth as the industry has shifted. Twenty years ago, the average finance job paid just over $51,500 (about $82,000 in today's dollars), with traditional call center wages even lower. The average wage is now around $105,000 in the finance industry, meaning wages have gone up by 20% even when factoring for inflation. Greater Phoenix has the opportunity to become a prime location for financial front office activities and should attract these employer hubs to the region in the next phase of strategic growth, which will further bolster this economic growth.

Future of Work and the Great Office Reset

The pandemic fundamentally changed how employers and employees viewed work from home versus work in the office. In 2022, Arizona ranked second-highest among all states in the percentage of establishments with employees working from home all the time.[5] According to the Survey of Working Arrangements and Attitudes (SWAA) in September 2024, employees who are able to work remotely currently desire an average of three days per week to work from home. The only two sectors averaging more than two days per week of remote work are the information sector and finance and insurance, which currently offers the second-highest work from home days in practice at an average of 2.28 days per week.

On the other hand, at the time of producing this report several leading tech and finance companies including Amazon, HSBC, Citigroup and Goldman Sachs have made public declarations to bring employees back five days a week. This has created a flight to quality among certain office users — brought about by employers seeking to attract talent and entice employees back into the office with benefits such as collaborative space, walkable restaurants, fitness centers, and access to childcare — rendering high quality office space more desirable than ever. A new report by CBRE found that the most highly amenitized "prime" offices have a vacancy rate of only 17.5% compared to 22.8% overall in Greater Phoenix. Yet compared to other markets, Greater Phoenix has little of the highest-grade Class A+ office space. CBRE reported that approximately 2.1% of office building inventory in metro Phoenix is considered "prime." Most of the region's Class A space is suburban Class A, Class A- space, or even space that was built during the proliferation of low-cost offices during the 1980s and 1990s mentioned above and would now be considered Class B in other markets. Greater Phoenix building owners could address the misalignment between existing and desired office space by upgrading some of the region's abundant, less desirable Class A space.

[5] Source: Bureau of Labor Statistics 2022

Emerging Opportunities

National Fight for Finance Talent

CFO Magazine recently reported on a survey conducted by Avalara, a tax and compliance software provider, that found 84% of Chief Financial Officers report a talent shortage in their financing and accounting teams. Further compounding the issue, over a quarter of accountants and auditors are over the age of 55, meaning they will be eligible for retirement within the coming decade. Increasing complexity in the regulatory environment has led to the need for higher level talent and hands on experience.

Another shift in the industry's talent occurred in 2018 when FINRA, the self-regulatory organization that oversees broker-dealers in the United States, changed the structure of the qualification exams for finance professionals. Prior to 2018, candidates would need to be sponsored for the Series 7 exam by a FINRA member firm or other applicable self-regulatory organization. This meant that employers either had a limited hiring pool by hiring individuals who already had a Series 7 license or had to take a greater risk on who they hired if they hired someone unlicensed and sponsored their exam, as employees were unable to work in finance roles unless they passed the exam.

In 2018 the exam was split into the Securities Industry Essentials (SIE) exam and Series 7 exam. The SIE is now open to anyone 18 and older including students and prospective candidates interested in demonstrating basic industry knowledge to potential employers, without needing to be sponsored by a FINRA firm.

The Impact of AI

Artificial intelligence will also have an impact on the finance industry. Financial institutions are expected to double their spending on AI by 2027 compared to 2023.[6] Many hedge funds are already using software like ChatGPT to analyze transcripts or using closed loop systems (where AI is only analyzing internal data) to make analytical decisions. Generally, companies are not yet using it to approve loans or make credit determinations, however this is likely to shift in the future, impacting industry workforce.

This gives companies more security in hiring, as they can hire graduates who have finished their SIE exam and are more likely to pass the Series 7 exam. Companies can also use this as an opportunity to upskill employees who are not currently in financial roles, supporting them through the completion of the SIE and eventually sponsoring their Series 7 licensure. Maricopa Community College District now offers an SIE prep program at Scottsdale Community College to prepare students for the exam.

[6] Source: International Monetary Fund

Fintech Sandbox

Arizona was one of the first states to offer a regulatory sandbox, allowing companies to test innovative financial projects or services in a limited environment without obtaining all authorizations typically required. Most credit-extending services are eligible for the program, along with innovative projects and services in money transmission and investment management and some blockchain and cryptocurrency services. Despite the groundbreaking possibility, full utilization of the Fintech Sandbox remains an opportunity for industry advancement. Only 13 companies are alums of the program, and only one is actively using it. Due to federal regulations, the Sandbox only provides safe harbor from state regulations, not federal regulations. There is no domicile requirement for companies to locate in Arizona to use the Fintech sandbox. However, this is not a significant roadblock as some companies that test here will locate here due to being exposed to Arizona's friendly regulatory climate.

Strategies to Drive Future Success

Intentional Investment Firm Recruitment

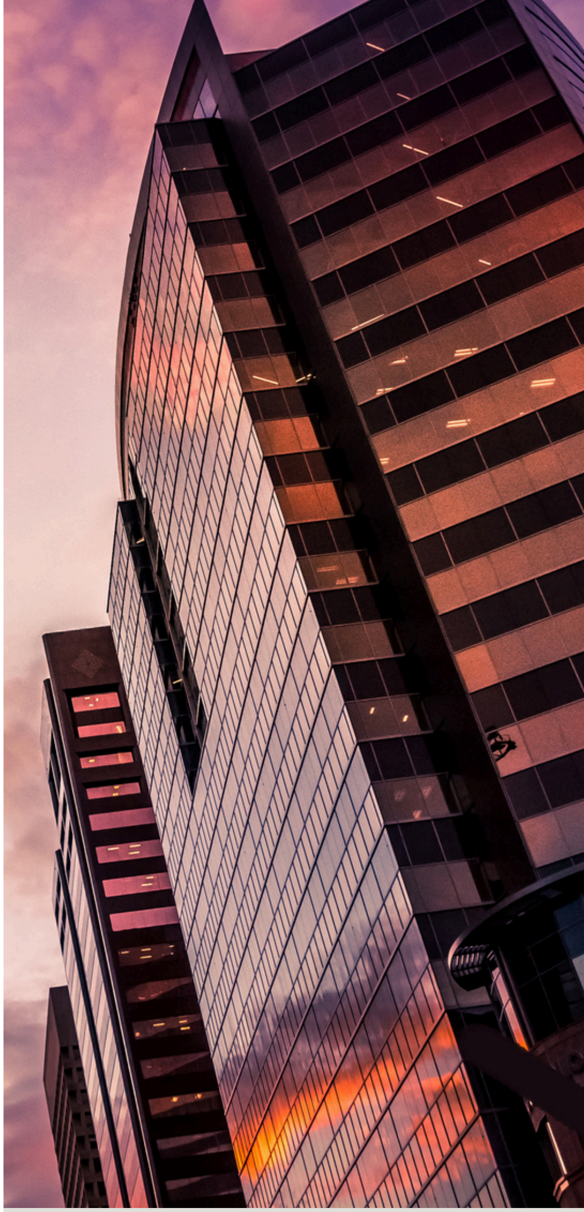
The region, led by GPEC, should continue enhancing its strategy to attract investment management firms to Greater Phoenix, focusing on cost benefits for the company and management, quality of life, access to nearby markets and cost of housing. This would increase the region's "front-office" employers. The strategy would include evaluating tax and regulatory policy to ensure it is conducive to attracting these types of employers.

Enhance Regulatory Framework

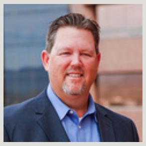
Arizona has the opportunity to grow its regulatory sandbox and generate interest from new companies, beginning with further marketing to drive awareness of the opportunity. The program should also be evaluated and compared to similar programs in other markets to ensure Arizona's sandbox remains a compelling and valuable tool.

Increase SIE Training Opportunities

The region needs to support workforce partnerships and upskilling opportunities to grow its workforce in financial services. Not only does this affect finance companies, insurance companies in the market that offer annuities must also have their professionals licensed. One opportunity is to take the SIE program offered at Scottsdale Community College and expand it to other community colleges to grow its training capacity. Local companies should identify talent for upskilling and place them in these programs.



Industry Expert



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