

Financial industry faces challenge of retooling for future

By Jodi Schwan, Sioux Falls Business Journal • March 23, 2011

A 30-year cornerstone of the Sioux Falls economy is at a crossroads.

Economic forces, regulatory pressure and the community's desire for higher-paying jobs have combined to throw the future of the financial services sector into uncertainty.

"Sioux Falls and South Dakota benefited disproportionately from the growth in financial services, with credit cards and student loans," said Dave Rozenboom, regional president for U.S. Bank. "So it only stands to reason that we might disproportionately feel the pain."

For financial services to thrive in Sioux Falls, a generation's worth of thinking has to change, according to industry and community leaders.

"We've defined financial services here for 25 years or more as expansion and growth of the credit card industry; that was the cornerstone," said Dana Dykhuse, First Premier Bank president and CEO. "But the time is right to expand our vision beyond that."

The times leave little choice.

The financial jobs shed in the country's financial center – New York City – have grabbed headlines. But communities such as Sioux Falls might be more vulnerable as the financial services industry tries to emerge from the recession. A greater percentage of people in Sioux Falls work in that industry, something noted by professor and author Richard Florida in his book "The Great Reset."

Florida's research finds one in 10 people employed in Sioux Falls work in financial services. The national average is one in 20.

"The economy no longer revolves simply around moving financial instruments around," said Florida, a correspondent for The Atlantic and director of the Martin Prosperity Institute at the University of Toronto.

"Instead, it depends on generating ideas," he said. "Sioux Falls has to attract the types of

companies and talent that will generate the next big idea or innovation.”

For economic development officials, it’s about finding a balance between growing new business and maintaining the centers of employment that exist.

There’s a hope that as financial services located elsewhere try to trim costs, this area might emerge as the more efficient place to do business.

“We’re very concerned, but I don’t know that Sioux Falls is more vulnerable,” said Pat Costello, secretary of the South Dakota Department of Tourism and State Development. “I’m not sure I’d say that. I would say there’s more opportunity in Sioux Falls.”

Wells Fargo may expand

Wells Fargo & Co., the largest financial services employer in the Sioux Falls area, might find opportunities to grow the business here.

The company is in its third and final year of integration with Wachovia and, according to Regional President Dan Murphy, South Dakota figures into the company’s evaluation of its processes and business models.

“We are evaluating parts of the business that may come to South Dakota and specifically to Sioux Falls,” Murphy said.

In the next 12 to 18 months, he is “quite confident” the company will be growing in South Dakota.

“We have talented team members, and the company has had a great experience here,” Murphy said. “Our executives know our success, and people are very comfortable with South Dakota. Sioux Falls specifically is being given a good, hard look.”

The state’s economic development officials also are stepping up efforts to market South Dakota as a place for banks to do business.

Costello said his office is in contact with “two very large institutions” interested in doing business in the state.

“We’ve been recognized as a low-tax, low-regulatory environment with high productivity, and that’s what’s really driving it,” he said.

Costello is hiring a consultant to compile detailed information that might help businesses decide to move here.

“What’s the work-force availability, what is the skill set, the education level, what facilities are available with high-speed Internet?” he said. “So they can walk into a turnkey operation where they’ve got bodies and desks and a building and parking all in

one place where they can come in and reduce their expenses.”

Costello said financial services institutions started showing more interest this year.

“Some decisions are being made right now, and we want to be in the game.”

Premier recalculates

Sioux Falls-based Premier Bankcard is exploring spinoff operations as it retools its business models.

Changing federal regulations will affect credit card services offered by Premier and already have caused the statewide work force to decline from a high of 3,100 employees. The company expects to stabilize at 1,700 workers.

Premier is in the process of registering a company called Rushmore Service Center in all 50 states, which would allow it to perform collection services for other organizations.

“We’ll do collections not just on financial products but on medical receivables, insurance receivables, because we have the systems and technology to do that, along with the people that have the skill set,” Dykhouse said.

Premier Bankcard President and CEO Miles Beacom said he and others have visited multiple industry conferences recently to pursue new business.

“We’ve talked to other businesses, and we have some commitments, so we can probably start collecting in the next 90 days,” Beacom said.

A second spinoff, Premier Service Center, would offer inbound call taking and customer service to outside companies.

“We’re really just getting it started, putting controls in place, starting some systems,” Beacom said.

Growing local business

Premier’s efforts typify the sort of opportunities economic development officials think exist for Sioux Falls in the financial services industry.

Several subcategories related to the sector are part of the Sioux Falls Development Foundation’s business-recruitment plans, which identify targeted business segments for economic development.

“The story is diversification,” said Slater Barr, foundation president.

While economic development officials can’t change the market forces affecting financial

services, Barr said they will seek growth opportunities within the industry and look for other industries that use similar skills.

“The finance and insurance industries are at least moving sideways,” he said. “It’s changing. I don’t know what it will do to the size of it, but I think there will be opportunity there.”

Barr said the city might be an attractive spot for a Midwest headquarters in financial services. He said the city also could attract more data and customer-care centers, which take advantage of area workers’ skills.

“Activity is definitely up,” he said. “We’re seeing more requests for information, more projects taking serious looks at new facilities, and we have had everything from people considering data centers to customer-care facilities to new ventures related to this sector.”

Comparatively low infrastructure and operational costs might appeal to a business, but Barr said quality-of-life-features are important, too.

“We have to bring all the pieces together,” he said. “The river greenway, Phillips to the Falls, that creates a location for them, for their customers, their employees, it gives them access to shopping and dining nearby in a cool place.”

Florida echoed many of those themes. He encouraged the city to foster creative, diverse talent and encourage technology growth and innovation. He also stressed the importance of “territory assets” in attracting people to live in one place instead of another.

“It is the distinct vibe that makes communities unique from one another,” said Florida, whose books about city development have been popular reads among local officials. “People want to live in communities that are unique and inspiring to them.”

The complete experience created downtown contributed to CNA Surety’s decision to build there, according to Bill Peterson, the company’s vice president and public affairs officer.

“We stayed downtown because that’s where our employees like to be,” Peterson said. “A part of that is due to the redevelopment of the downtown core, the restaurants, shops, sculptures; all those things lend itself to a really inviting place to come to work.”

Peterson estimates 425 people work in Sioux Falls, about half of the company’s total work force.

He said Sioux Falls could be an attractive branch location for other companies in financial services, particularly those doing business in states where budget shortfalls have led to tax increases.

“This is not an industry that’s going to decrease in importance even though it is

changing,” he said. “It’s a good, clean industry that can have very attractive jobs attached to it.”

Other cities’ strategies

The challenge of capitalizing on changes in financial services is shared by many communities. They, too, are honing strategies to compete for business.

In Des Moines, insurance and banking dominate the business landscape. The city is home to Wells Fargo, Principal Financial Group and Nationwide/Allied Insurance and many other banking and insurance institutions.

“Their industry has changed a bit,” said Martha Willits, president of the Greater Des Moines Partnership, an economic development organization that represents a six-county region.

“It’s going well here and coming back, and so we’ll be working with them as they come through all of that,” she said.

Willits said her organization is “constantly working” to pursue new business and said flexibility is key in adapting to the changing financial services industry.

“We’re starting to see hiring pick back up,” she said. “Nothing like pre-recession, but it’s picking up, so we’re back into recruiting and trying to get a lot smarter. We have to help our own work force change and upgrade skills. We’ve got to be much more pointed and focused about the kind of work force we need.”

Another metro area centered on financial services is Charlotte, N.C., the nation’s second-largest banking center.

Economic development officials estimate 70 percent of the buildings in downtown Charlotte now belong to banking. The city is Bank of America’s headquarters and was Wachovia’s base before the company merged with Wells Fargo.

While the area initially feared losing jobs in the merger, the impact has been largely positive.

“The affordability of our market for recruiting and retaining talent was a decision for them to say they can do well and grow operations,” said David Swenson, senior vice president for the Charlotte Regional Partnership, an economic development group.

Swenson said the area promotes its accessible airport and a university system that “produces some very strong finance and banking degrees.”

Work force matters

According to Premier's Dykhousé, the Sioux Falls work force is its best resource. "It's because they get things done in a timely and efficient and cost-effective manner," he said.

Rozenboom of U.S. Bank agreed.

"I don't think you'd find a more stable, well-trained, dedicated work force," he said. "We should be finding opportunities for our uniquely qualified work force."

Those involved in the process of strengthening financial services in the city say the rest of the story will depend largely on how the story of Sioux Falls is told to others.

"There's a huge disparity between perception and reality," said Barr of the development foundation. He finds many outside companies don't realize how business-friendly the area can be.

"There's no magic to this," Dykhousé said. "It's just going out and making contacts and making people aware of what we have here. It's going to be an exciting time. It's like we've weathered the storm, now let's look to the future."