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### **Information management and the future of London**

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**LEO**

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# **Information management and the future of London**

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**Chairman of Policy and Resources, The Corporation of London**

## **Introduction**

Chairman, thank you for inviting me to speak to this conference today.

As you said, I am the Chairman of Policy and Resources of the Corporation of London which is the authority that provides the City with municipal services.

The Corporation also has the immensely important role of lobbying and liaison with government on behalf of the City. In conjunction with City trade bodies, we also carry out a similar role with the European Commission and Parliament.

The Lord Mayor and the Corporation represent the City on a number of important issues. Both the Lord Mayor, and to a lesser extent myself, travel extensively overseas promoting the UK based financial services industry and its infrastructure.

And it is this infrastructure that I want to talk about today. For the management of information lies at the very heart of the success of the City as an international financial centre.

And here I use the word the City as the brand-name for the London financial services sector, located in the Square Mile, the City fringes and in satellites such as Canary Wharf.

It is the world's largest international financial centre and it is a massive user of technology. The expansion of its services and its business over the last decade has owed much to its successful exploitation of technology.

## **New York**

But before I speak on that I would first like to reflect on the terrible events in New York on 11th September. London and New York are sister cities.

We are indeed living in the wake of the worst terrorist attacks in history. And we have been shocked at the carnage caused by the terrorists. But we also been impressed by the highly professional response of the New York authorities in the most trying of circumstances. And I would like to pay tribute to them.

The attack in New York was clearly intended as a blow against the world financial system as well as one against the infrastructure of Wall Street.

In today's international market place I think it is important that we learn from each other and exchange ideas.

We are examining our own contingency and back up systems to ensure that firms can continue business in the event of an incident in London.

Some of the issues that are being looked at include the maintenance of telecommunications, power, water and fibre optic cabling and particularly the diversification of the telephone system.

But, these attacks have proved not only the resilience of the global financial system, but also the crucial interdependency, which exists between global financial centres. And that interdependency relies on the exploitation of modern technology. And the City of London is at the very centre of this.

## **The City**

The City is a massive user of technology, both in its systems for trading equities, derivatives and commodities; for payments; as well as for foreign exchange and such like.

And here I can tell you that after the New York disaster the Forex business was transferred to London within 30 minutes. We have the capacity here to take on that huge extra volume. And if there was ever a sign of the speed of technology that is it.

There are other examples too.

The London Internet exchange is the world's largest Internet hub with 17,969 mega bytes per second of bandwidth, over 5,000 more than New York, its closest competitor. This is also well ahead of its nearest competitor in Europe, Germany, which has about 15,000 mega bytes per second.

London is also home to the new breed of backbone operators with state of the art high capacity fibre optic networks linking major cities across Europe.

Over the last couple of years or so a tremendous amount of new transmission capacity, or bandwidth, has been added to these links. This extra capacity has led to staggering price declines. For instance, the transatlantic circuit that could be leased for 15 years in 1997 for \$16 million will be priced at only \$850,000 for the same period. And prices are falling at some 50-60% per year, in the face of growing competition.

London is also one of the world's top three elite financial software industry centres, with 61,000 people employed in computer and related industries.

This has allowed the City to become a centre for financial innovation in derivatives, contributing towards highly sophisticated leveraged trading and risk management strategies.

The usage of both private networks and the Internet has allowed City business to spread out its operations, locating back offices or technological hubs in centres outside the crowded city-centres. This means the more efficient running of business from a variety of locations, linked through technology.

And the New York disaster ably demonstrated just how valuable that sort of spread-out system can be.

But in no way does it mean that the City and other centres like it around the world are about to decline.

And here I underline the fact that technology has not sounded the end for large financial centres. Indeed the effect has been, and will continue to be, the opposite.

People can trade remotely from anywhere in the world. But the top people - be they financiers, accountants or lawyers, the analysts and the system designers all need to talk to each other and to their customers. Business is much more efficient when they are adjacent to each other in one place.

History shows consistently that better communications bring greater concentration, and not fragmentation.

And that most central point of concentration is the City of London.

## **Exchanges**

Turning now to the exchanges. All the London financial markets are now electronically managed and driven.

Of these, the London International Financial Futures Exchange, LIFFE, has developed the technology of LIFFE CONNECT, a technological access system open to members throughout the world.

This allows companies to trade commoditised products from across the world and to hedge their positions, all from their home base.

Indeed the system has been so successful that LIFFE now has 462 trading sites in 25 countries providing real-time, fully interactive electronic trading world-wide. 57% of these sites are outside the UK. This is over 30 more sites than EUREX – the combined German Swiss derivatives exchange, its largest competitor.

LIFFE is now the world's largest electronic exchange by value, trading three times more value than the two other major European derivatives exchanges.

Moreover LIFFE has seen record volumes in August and September of this year and indeed it has traded more in value by the end of this September (£70 Trillion to date) than in the whole of the year 2000..This successful CONNECT system has also been used to set up deals with NASDAQ in America and TIFFE in Tokyo to provide them with a next generation trading system

Now that Euronext has bought LIFFE, LIFFE will become the centre for the derivatives markets in Paris and Amsterdam as well. This is indeed positive sign of confidence in the City and its markets, its expertise and its technology.

Yet another example is the merger of the International Petroleum Exchange, the IPE, with ICE – Intercontinental Exchange. ICE is an electronic exchange which has now taken over an open outcry one. This will maximise the global order flow for commodities.

And the exchanges with a large order flow are the ones who rule the business.

## **The Wider economy**

In the wider economy there have also been significant developments.

The first of these is B2B which is fuelling new and innovative projects and businesses which utilise the Internet.

In industry and commerce the real beneficiaries of B2B technology are proving to be old economy companies – clicks and bricks, if you like. They have added this technology to their existing business and thrived. The dot.coms, on the other hand, have not been nearly so successful.

Mini exchanges and auctions are being created for all types of business ranging from car parts to office supplies. In financial services alternative trading systems, such as E-Crossnet, Island and Archipelago have sprung up.

This has resulted in large gains in efficiency and a reduction in costs. Less stock can be held and it is easier to change products. And business across borders is more efficient.

The second development is B2C. With the exception of a few people like Tesco Direct, this has yet to take off. But again the successful firms are those who have added technology to their existing operations.

I see no reason why B2C will not be lucrative, but it will take time and effort to market it. After all one of its attractions to the consumer is that it puts power in to the hands of the purchaser.

But the explosion in the use of the Internet in homes as well as offices suggests that this trend is now slowly starting to catch on.

The benefits of all these electronic systems are far reaching:

? They allow the brokers, or consumers, to sit in their own offices, or homes, and trade any market on one piece of kit.

? They cut out inefficiencies as they bring the market to the desk as opposed to the trader going to the market

? The kit can be bought off the shelf and tailor made solutions can be designed – as with TIFFE.

## The Problems

But, despite all this progress, the technological world at the start of the 21st Century is in a delicate period of change. In the aftermath of the Internet explosion in business and personal use, the inherent problems as well as the benefits of the system are becoming apparent, and they need to be tackled.

Firstly there is an enormous glut in bandwidth. For instance in fibre optic technology there are far more lines than we have the ability to use. We have no less than three million miles of them in UK, for instance!

Some estimations put usage of existing capacity as low as 11%. No one can predict how long it will be before this unused capacity, or dark fibre as it is called, is taken up.

Another area is wireless technology. Here the euphoria generated by the auctions in Europe for 3G technology has retreated. Just as well too, as \$100 billion has been spent around the world buying licences and it will be extremely difficult to make them commercially viable.

Thirdly the increasing number of users has also created new pressures everywhere. One of them is a fear that the number of e-mail addresses will be exhausted due to the Internet's foundation being very old.

This has now been solved in part by the creation of a new Internet Protocol, which offers a wider number of addresses, as well as providing a more secure and accessible network.

There are also other areas of concern such as:

the increased danger from viruses spread through personal as well as business computers;

an increase in the numbers of hackers;

greater risks to privacy and privileged information – do you really know who is on the other end?

and a higher incidence of Internet fraud;

## The Future

Looking now into the future, the issue is how to create an accessible system for what is called many2many. How to allow an increasing number of people throughout the globe to communicate with each other freely and efficiently.

There are three key issues that we need to face here.

Firstly, the need to accommodate yet more addresses and users;

Secondly, how do we actually cope with a many2many network;

and thirdly, how do we ensure the physical bands and routes are in place to allow proper communication.

Ladies and gentlemen, these are all issues which must be of concern to the highest levels of business – not only in the City but everywhere.

## The way ahead

What therefore is the way ahead? We must firstly give our support to the Internet Society, that quaintly named international committee which has the responsibility for the technical aspects and the protocols of the Internet.

Secondly we must encourage firms to continue to innovate as well as continually update their trading systems, and to encourage those who still operate manually to turn to technology.

Thirdly leadership is also required to educate governments and overcome institutional inertia. Governments must ensure that the climate, be it legal, regulatory or commercial, is right for the essential modifications for an upgraded Internet and the technological revolution that will go with it. This is particularly so in the European dimension.

The City of London will have a unique position in this framework. The City is therefore seeking to strengthen the existing trust in the virtual market place, addressing issues of security; education, knowledge and understanding; as well as the infrastructure for the Internet

It will do this by encouraging major users of technology, be they financial, industrial or governmental to promote and support the benefits of such developments. It is also strongly lobbying European institutions so as to allow a freer trade via the Internet across the Single Market.

For instance, the government here is developing an education programme to support and encourage innovation and to maintain the technological pre-eminence of London, particularly the financial services industry.

The City has also been working with the European Commission and the Parliament on a broad range of e-commerce initiatives, which also have a wider importance for financial services, both on-line and off-line.

We urgently need a genuine single market in financial services based on mutual recognition throughout Europe (indeed, mutual recognition is desirable with similarly well-regulated countries outside Europe, such as the United States).

We need this mutual recognition not only for on-line financial services but also for off-line services. Whilst it is needed urgently for wholesale business, the retail markets are also important.

For there are still too many countries who are protecting their domestic markets by hiding behind national consumer protection legislation.

A new E-commerce Directive is due to be implemented early next year.

This is a major spearhead for the single market. It will re-organise the regulation of Europe-wide on-line trading under the "country of origin principle".

This means that, subject to a few exceptions which focus on consumer protection, firms will be able to provide on-line financial services across Europe subject only to the laws and regulation of the country from which the service is provided.

Member States will not be allowed to impose their requirements on incoming cross-border business. This eliminates the cumbersome and expensive need to cope with all of the legal and regulatory systems of all EU member states.

The country of origin approach is a genuine win-win solution: it should reduce costs, enhance competition within the EU, make the EU more competitive internationally, and increase investor choice.

Aside from the benefits to business, the "country of origin" principle, in combination with cooperation between regulators, will make regulation and investor protection more effective. The 'country of origin' regulator is much better placed to monitor the service provider than a 'country of destination' regulator hundreds of miles away.

However, the comprehensiveness of the E-commerce is limited by 'derogations' (these are exceptions) from the 'country of origin' approach

And some countries are still hoping to exploit the “derogations” to continue to apply inappropriate or protectionist local requirements. For example, Spain is seeking to exclude financial services from the country of origin principle altogether. This would be a clear breach of the Directive.

Here in the UK, the Government has still not published detailed proposals for implementing the Directive into UK law. With the deadline for implementation fast approaching, it is important that the UK Government effects implementation, particularly of the ‘country of origin’ principle - and as soon as possible.

The E-commerce directive deals with the internal market in on-line financial services. But more must be done. Many financial services, particularly in wholesale markets, have a hybrid ‘on-line/off-line’ character.

The City is therefore pressing Brussels to extend the ‘country of origin’ principle to off-line financial services and to all aspects of consumer business.

This is relevant to a number of measures in the Financial Services Action Plan, most particularly the proposed revision of the Investment Services Directive.

It is sometimes said that it will be necessary to harmonise investor protection standards across Europe before mutual recognition of country of origin requirements can take place, so that consumers are not exposed to poorly regulated financial services from other Member States.

That is rubbish, for there are no ‘banana republics’ in the EU. And the Committee of European Securities Regulators is already in the process of developing consistent investor protection standards in Europe.

And, far from causing a ‘race for the bottom’, mutual recognition should provide a powerful mechanism for convergence of investor protection standards at an appropriate level, eliminating under-regulation as well as over-regulation.

If such a principle can be established throughout the internal market directives, it will provide a more rational and coherent structure to the internal market, allowing regulation to be applied from a local base.

At the same time as all this the City is continuing to make every effort to improve and support our telecommunications network, particularly through our programme of improving the below road ducting throughout the City.

We have also commissioned extensive research into the network infrastructure, and the Internet data centre provision and management over the next ten years.

The research looked at our neighbours and competitors, for it is only through learning what we can from them that we can compete most effectively against them.

For example we found that: the ICT sector in New York and Hong Kong, although no more advanced than that of London, is structured in a more coherent way; New York has set up the Technology Steering Committee and an Office of Technology to oversee the technological development of the city. New York also is planning a tax reduction plan to reduce the financial burden on the suppliers and producers for the technological sector by \$1.2 billion over the next five years.

London certainly needs to take heed of such measures when formulating its own attitudes and actions in the technological sector.

If we are to retain the edge in technological innovation, we need to ensure that the various elements of the sector are in contact with one another and able to discuss developments in a free and easy manner. We must use the models of other wired cities to create our own technological metropolis.

## **Conclusion**

Ladies and gentlemen. All of us here are users of the Internet and technology both in business and as a part of our daily lives. It is a revelation of 20 th Century life which is not going to go away, nor would we wish it to do so.

But the realisation of the permanence and the importance of technology to business today brings with it challenges to all of us. For now we must learn to police and to monitor a system which by its very nature is more wide ranging and freely structured than any, which has existed before.

In many ways we are all pioneers in the technological landscape and for that reason we must tread carefully..The challenge of the next few years will be to sustain and build upon the technological revolution that has occurred over the past decade.

Also issues such as security will be vital to maintain confidence in the system. Despite expensive encoding practices, the Internet and much technological data is still dangerously open to abuse and hacking.

More needs to be done to prevent these practices before they start to inhibit the levels of usage and trust in the technological systems which reach around the world.

Cities like London need to work together with other technological centres throughout the world to develop and sustain the remarkable levels of innovation and co-operation on which the system depends.

In the network of world cities, the future lies in working together for a brighter, more interconnected global system

For soon it will not be just a case of many2many, but the need to provide a network for everyone2everyone.