Over the Water -- The View from the UK

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Biography

Dave Birch is a Director of the UK consulting firm Hyperion, which he helped to found in 1986. He provides analysis, creation and facilitation expertise to clients, specialising in the field of electronic commerce where he is recognised as one of the UK's leading consultants.

Prior to Hyperion, Dave spent several years as a consultant specialising in communications after having graduated with a degree in Physics. Dave has lived and worked in Europe, the Far East and North America helping organisations ranging from SWIFT and AT&T to Mondex and the Indonesian PTT: he therefore has a broad knowledge base and is able to synthesise experience from a variety of market sectors.

Dave is a visiting lecturer in IT Management at the City University Business School and London and facilitates senior executive seminars for the Nortel/Aspen Institute for Information Studies in Europe.

In recent months, Dave has appeared on the BBC, CNN and NBC as a commentator on electronic commerce issues and is well-known as an author and speaker in the UK.

Column One: Interesting Times

When I was first invited to be a contributing editor to the Journal of Internet Banking and Commerce, I wondered how exactly I would be able to provide material of sufficent interest. It's not that there isn't anything interesting happening in this field -- on the contrary, I believe it to be one of the most exciting and dynamic areas to work in -- but that the role of an editor should be to provide personal insight and reflection. After all, in this Internet age, we all have access to broadly the same information and a simple regurgitation of recent news items is a waste of bandwidth.

I decided, therefore, that I would try to make the column more of a platform for exploring some of the issues -- in the Internet banking and commerce field -- that I come into contact with in my role as a consultant and commentator. This will mean that readers will be exposed to real issues and debate: I hope that this will prove stimulating and I look forward to receiving ideas, suggestions and comments in response to it.

Naturally, there will be a UK bias. The UK is an interesting testbed for many of the concepts that will be discussed in JIBC, because it has probably the most liberal telecommunications regime in the world (with competition in both local and long distance communications) as well as history of innovation and leadership in the banking and commercial world.

There are initiatives already underway -- the NatWest/BT interactive banking trial, for example -- that will provide useful experience, so I hope that I will be able to pass on some of that experience to readers in other countries. We have one very successful paradigm experiment in operation already: First Direct, the telephone banking service of Midland Bank (subsidiary of HSBC). Launched in 1989, it is a low cost, high service telephone-only bank with no branches. The ABA Journal estimated its cost-income ratio at 40% compared to 60-70% for a typical European clearing bank. It may be that we can learn something of what an Internet-only bank might look like by studying First Direct.

What's more, the UK population seems to be ready for these changes: a September 1995 MORI poll revealed some interesting statistics, including:

- 40% of UK adults have access to a PC with more having access at home (28%) than at work.
- Almost half said they would be prepared to bank at home using a PC or the television.
- 65% of adults could accurately describe what the Internet was and 8% had access to it (this is around 1.5 million people).

While the UK might not (yet) have the near 40% household Internet presentation of the US but it is coming along rapidly.

The purpose of this column will be to provide input to business planning: helping banks and commercial organisations to formulate their strategies for business. In the business planning process there are a spectrum of scenarios and timescales -- none of us would be so foolish as to imagine that we understand exactly how things will evolve -- and it is sensible to explore all of them. In the Internet world, there has for some time been an implicit assumption of a near-future scenario predicated on the "Internet e=ADcash will destroy banks and bring down governments" position. This is certainly an interesting position, but we shouldn't let the extent to which it is propounded on newsgroups blind us to the realities of banking and commerce.

The source of this widely=ADheld suspicion that everything is about to change is the inexorable line of thought that begins with strong cryptography and personal computers, passes through issues of reputation and liquidity, finally arriving at electronic cash as far removed from the national currencies of today as US $10 bills are from the wampun (seashell) money of colonial America. What makes this particular line of thought most interesting is that it involves a discontinuity, a break between the way things have worked in the past and the way that they will work in the future. So what will this future look like?

It's hard to tell. The relationship between money, banking and communications is simply not so straightforward that a simplistic projection is possible. There is no "law of physics" that dictates the nature of the relationship between them. In the near east, for example, banks predated money by more than 2,000 years. In the west, on the other hand, money came 2,000 years before banks. In the UK, we can trace the smooth evolution of money from coinage through paper to electrons but this is simply one among many possible development paths. Thus, there is no extrapolation from the physical cash past to the e=ADcash future.

Another factor often overlooked is the rather transient nature of our existing paradigm. The operation of the marketplace -- governments make money, banks distribute it to people, people give it to each other and back to banks -- is a rather recent development (in the early years of this century there were still banks in the UK issuing their own money, and it was only in 1921 that the last one ceased) and not an inviolable state of nature. We have no reason to suspect that the paradigm prevailing in the marketspace will be the same, because we have so little to go on (we have no reason to suspect any particular paradigm, so far as I can see).

My argument is, centrally, that the crucial perspective for banking and commerce is that of paradigm experiment: the Internet today is a laboratory, not for the technologies of the information superhighway -- who knows what these might be -- but for the business paradigms. In other words, the ways in which business is beginning to work on the Internet are the best (probably the only) indicators we have as to the way business will work as the superhighway evolves.

So if we are experimenting rather than building, and trying to look past a fundamental shift, we are involved in a

complex planning process. Given this level of complexity, how can we as either bankers, economists or technologists begin to formulate strategies for the future? I think the place to start, and the niche which I believe that the JIBC can occupy, is to facilitate structured interchange between the disciplines.

The JIBC can help economists -- who understand the functions of money and can at least conjecture its relationship with the economy -- to understand the Internet (in its role as proto-superhighway) as an economic phenomenon. I feel very strongly that business planning processes would benefit directly from this view: Internet as transaction space (the "marketspace" or "virtual agora") rather than some modems and protocols.

The JIBC can help bankers -- who understand the business of banking and its dynamics -- to develop new strategies properly underwritten by both a macroeconomic perspective on electronic cash and a sound knowledge of what the Internet can do (rather than how it does it). Many recent articles and papers have highlighted the Internet's role as a delivery channel for banking and commercial services, but this is a very narrow view, especially at a time when banks are under threat. One of the recent Killen & Associates reports predicts that within five years non-banks and high technology companies will capture more than 25% of the $800 billion in global electronic commerce and electronic payments revenue stemming from the Internet.

The JIBC can help technologists -- ranging from from cypherpunks to bank IT strategists -- to recognise that the future options for banking are not solely a technology issue and that an understanding of money and banking is very important at this critical juncture. The role of banks in supporting commerce, I think, is quite distinct from their role in the money system.

Since I think it's important to undertake some concrete action in this field, I propose to develop a money "primer" for information technologists and load it on our web site in HTML format. I would greatly appreciate any suggestions from readers as to the key topics they would like to see addressed: my idea is essentially to float ideas in this JIBC column, listen to the reasoned and informed arguments that develop and then synthesise them.

As it's the fashion to end Internet communiques with a quote, here's my current favourite on the subject at hand by David Riccardo (1772-1823) taken from his Proposals for an Economic and Secure Currency (1816): "In the use of money, everyone is a trader".