

# ISLE OF MAN GOVERNMENT

## E-COMMERCE STRATEGY



### A REPORT BY THE COUNCIL OF MINISTERS

JULY 2000

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# ISLE OF MAN GOVERNMENT E-COMMERCE STRATEGY

To: The Hon Noel Q Cringle, President of Tynwald, and the Honourable Council and Keys in Tynwald assembled.

## 1. INTRODUCTION

In December 1999, the Isle of Man Government, through the Information Systems Strategy Committee (ISSC), a Sub-Committee of the Treasury, awarded a contract to Charteris Limited to "undertake a study to establish the most appropriate means of developing and implementing an effective environment within which electronic commerce can flourish in the Isle of Man".

The terms of reference for the study were to build on steps already taken to identify:

- a. the priority areas to be investigated by the Isle of Man Government as part of the development of an E-commerce strategy;
- b. the possible options for an organisation and structure within the Isle of Man Government to develop, implement, co-ordinate and drive forward the strategy;
- c. areas where the Isle of Man Government may look to be innovative in the use of E-commerce; and
- d. the resource requirements (finance, personnel, etc) capable of economic justification necessary to implement the recommended strategy.

It was agreed early on in the study that the key objective was to provide the Government and other stake-holders (including Island businesses and residents) with clear recommendations to ensure the development of E-commerce on the Island at least as successfully as, and preferably ahead of, other competing jurisdictions. It was also agreed that the study needed to be broad in structure, taking into account activities and opinions across a wide range of Government Departments and the business community.

Charteris carried out their study during a six week period from mid-January to the end of February 2000.

## 2. **WHAT IS E-COMMERCE?**

Electronic commerce is about doing business electronically.

Electronic commerce covers mainly two types of activities; indirect electronic commerce - the electronic ordering of tangible goods which still must be physically delivered using traditional channels such as postal services or commercial couriers and direct electronic commerce - the on-line ordering, payment and delivery of intangible goods and services, such as computer software, entertainment content or information services on a global scale.

E-commerce is already recognised as revolutionising the way business is being done and will, undoubtedly, have significant economic and social implications for the Isle of Man in the medium term. It is changing the way businesses of all sizes work internally, the way in which they interact with their customers and suppliers and will be the catalyst for change on an unprecedented scale across commerce and society. The Island's financial sector is already taking advantage of opportunities made available through E-commerce to market their products and services to customers all around the world. E-commerce is likely to present a significant challenge to governments, both in terms of the policies they pursue and the activities they undertake. Many transactions undertaken by businesses or individuals are already electronically based and an increasing number of transactions will, in the future, be by electronic means. For the Isle of Man Government to benefit from this new medium, it must take a pro-active approach to developing an environment conducive to E-commerce, develop its own electronic systems and procedures to encourage and demonstrate electronic activity (act as a catalyst and role model), encourage the development of relevant skills and develop an appropriate legislative and regulatory framework.

The Isle of Man must embrace E-commerce as it is being developed rapidly and is transforming the commercial environment internationally. There are substantial risks to the Island in falling behind in this field both in terms of loss of tax revenue to Government and loss of economic activity. There are also potentially real opportunities to develop further and diversify the economy and to encourage existing businesses to develop a global approach to marketing and selling of their products and services.

### 3. **WHAT IS THE ISLE OF MAN GOVERNMENT DOING ALREADY TO PROMOTE E-COMMERCE?**

In terms of the rest of the world, our research indicates that the USA and Singapore appear to lead the field in E-commerce. Canada, Ireland, the UK and Bermuda are adopting a pro-active approach, as is the European Union, but each is developing on a different time-scale. There is, therefore, an opportunity for the Isle of Man to move quickly to implement new legislation and make changes to existing legislation as necessary. The Island is capable of responding quickly to such opportunities and can gain a competitive edge if it takes the initiative, rather than waiting to follow what is eventually decided upon in, for example, the UK or the EU.

If the right environment is created by Government, then not only is there the potential for a new industry to develop but that future development and expansion of E-commerce. This is likely to be driven forward by the private sector with service sector businesses competing aggressively for new business, indeed this is very evident from the strategies being formed and adopted within the finance sector. In the process of doing this, such companies will push the boundaries of technology and from this the Isle of Man can quickly develop as an international E-commerce hub.

In addition to Government creating an environment (legislation, taxation etc) in which E-commerce can flourish it is important that Government commits to doing business by electronic means and promotes the philosophy and concept of E-commerce.

There is, perhaps, a misconception that the Isle of Man Government is behind other jurisdictions in developing its approach to E-commerce. Such a perception is far from the truth and much has been done already to across government to develop the right environment for E-commerce to flourish. Where criticism perhaps could be legitimately levelled is that sufficient attention to date has not been given to drawing together all the various initiatives and developments into a high profile and coherent strategy. The following summaries attempt to set out the excellent progress made to date across Government.

#### A. **LEGISLATION**

In 1999 the Department of Trade & Industry prepared an Electronic Transactions Bill the purpose of which is to encourage and facilitate the use of electronic methods in commercial and other transactions and in dealings with public authorities.

This is an important Bill which will, because of its light touch and flexible approach, help to engender confidence and trust and will encourage the take up of E-commerce in the Isle of Man. It will also put the Island at the forefront of E-commerce internationally in having progressive legislation actually in place. It is also of considerable importance to existing businesses and will provide them with the opportunity to compete more effectively in global markets.

The Bill demonstrates a clear commitment from Government to the development and exploitation of the opportunities E-commerce affords and provides an excellent building block from which to promote the Island as a leading international E-commerce centre. It will undoubtedly be of interest to businesses seeking a jurisdiction with a positive and flexible approach to E-commerce.

The Electronic Transactions Bill has now been passed by the Branches, and Royal Assent is expected to be granted shortly. On the 16 May 2000 the Department commenced a further consultation exercise to outline the Department's proposals to bring the Bill into force and to introduce Regulations to deal with exclusions and transitional arrangements. An initial draft of the Regulations (The Electronic Transactions (General) Regulations 2000) was circulated with the consultation documents to public authorities and a wide range of private sector consultative bodies and businesses.

The Department intends to bring the Bill into force as soon as possible and, at this stage, 1 November 2000 is proposed as the commencement date.

The Bill does not force businesses and individuals to undertake transactions electronically it merely facilitates it if the parties wish to do so. However, public authorities (including Government Departments, Statutory Boards and Offices) will have a responsibility when the Bill comes into force, to receive transactions from the public electronically, subject to certain safeguards.

To give public authorities time to review their points of contact with the public and to take steps to comply it is proposed that the Regulations will put in place a twelve month temporary suspension of clauses 4,5 & 6 of Part 2 of the Bill (which deal with communications to public authorities) until 31st October 2001. The Department will in due course circulate a further paper requesting submissions by public authorities on exemption for a longer period from any of the requirements of Part 2 of the Bill.

Certain transactions with public authorities cannot, for the foreseeable future, be done electronically e.g. marriages, wills, powers of attorney etc. The Regulations will provide that these transactions are given an exemption.

The Bill is an excellent vehicle therefore, to co-ordinate and advance the implementation of electronic commerce within Government similar to the way the UK Government has set targets for getting the UK on line by 2005.

The benefits to the Isle of Man Government in adopting a pro-active approach are:

- Government can lead by example - This will enhance the uptake rate of E-commerce on the Island, provide tangible proof that the Island is a serious player in the E-commerce world, and be something positive for the Director of E-Commerce to publicise;
- progress across Government will create an opportunity for positive publicity;
- in the fullness of time potential efficiency savings (time and costs);
- whilst the Bill in its present form is appropriate to the present needs of the Island, the pace of change of technology is rapid and new developments are coming on stream daily. The legislation, both primary and secondary will therefore, need to be kept under regular review and it will be necessary to bring forward further proposals for legislation, as appropriate. For instance, It may be necessary to bring forward legislation to accommodate biometric recognition, the electronic reading and recognition of finger prints and retina patterns for identification purposes.

The Isle of Man Government is aware of the electronic investigative powers that are being proposed by the United Kingdom authorities. However, before introducing similar legislation, the Isle of Man Government will wish to take a wider view on best practice in other jurisdictions.

## **B. TELECOMMUNICATIONS POLICY**

The Communications Commission has responded positively to the challenges and opportunities presented by development of E-commerce on two main fronts, namely:

- i. it has issued specific Licences to Internet Service Providers on the Island under the Telecommunications Act, 1984 to enable them to provide Internet and Internet-related services;
- ii. it has sought, and obtained, the agreement of the Council of Ministers to grant Licences for telecommunications systems on the Isle of Man in competition with Manx Telecom for the provision of telecommunications services directly associated with E-commerce, e-business, Internet-related products etc. but excluding the provision of basic voice telephony services.

With regard to the Commission's plans for telecommunications for the future, it will:

- iii. subject to final agreement with the Department of Trade & Industry, grant a Licence (or recommend the granting of a Licence to the Council of Ministers) to the Department of Trade & Industry to provide E-commerce related telecommunication services on the fibres associated with the Manx Cable Company electricity cable;
- iv. subject to final resolution of representations from Manx Telecom concerning modification of the Cable & Wireless Licence, be modifying that Licence to enable connection to it on the Island;
- v. continue discussions which have already started with Manx Telecom, and other interested parties, to determine the new telecom-munications licensing regime for the future. Subject to Manx Telecom agreement it would be the intention of the Commission to revoke the existing Manx Telecom Licence before it expires and for new Licences enabling competition to be introduced;
- vi. be liaising with the Attorney General's Chambers on amendments to the Telecommunications Act, 1984 prior to the implementation of any new licences.

### **C. TRADE AND INDUSTRY**

Encouraging existing local businesses/individuals to exploit the opportunities afforded by E-commerce forms an important part of the Department of Trade & Industry's efforts to diversify the local economy and encourage economic growth.

The Department has endeavoured to encourage local businesses/individuals in the following ways : -

- . The Department of Trade & Industry has extended its existing Business Support Service to embrace E-commerce. Under this initiative, which is administered on the Department's behalf by the University of Salford Enterprises Ltd, eligible businesses seeking to implement an E-commerce business solution can have 50% of the costs of employing specialist consultants paid for by the Department.

This Service has only recently been revamped and a new brochure to promote it completed. This initiative was referred to by the Minister at the recent E-commerce conference at the Mount Murray Hotel and the interest raised has already resulted in three applications being submitted.

- a. The provision of £150,000 to enable the Department of Trade & Industry to fund connections to ISDN, Highway and ADSL for individuals and businesses. So far this initiative has proved successful with over 170 connections having been facilitated.
- b. The Department of Trade & Industry has issued a questionnaire to approximately 200 local businesses to establish their current awareness/use of E-commerce and their likely future requirement for staff training and development in these areas. The response to the questionnaire has been excellent and the Department will shortly seek training providers to deliver appropriate workshops/seminars. This awareness training is likely to result in businesses applying for assistance under the revised Business Support Service in that businesses, having been made aware of the opportunities, may wish to exploit them further.
- c. The Department of Trade & Industry is developing a proposal to introduce E-commerce awards to recognise and reward local businesses who can demonstrate real success in the introduction of E-commerce solutions to develop their business. This will commence shortly and is a prime opportunity to obtain regular publicity to raise the profile of E-commerce on the Island.
- d. The Department of Trade & Industry is currently holding a series of four pilot courses as part of the development of Internet training for people of all ages including those who are in work, but who have not so far had the opportunity to learn Internet skills. The courses are part of the Department's strategy to make the Internet and E-commerce opportunities accessible to people on the Island. Over 160 people applied to attend the pilot courses.

It is relevant to note that the Department of Trade & Industry, in recognition of the significance of E-commerce to the Isle of Man economy and in order to move forward quickly in this area, has set specific tasks and targets in its 2000/2001 annual operating plan for driving the development of E-commerce in its various areas of responsibility.

#### **D. FINANCIAL SERVICES INDUSTRY**

The finance sector at present contributes directly/indirectly 50% of the Island's GDP and therefore is an important component when considering the issue of e-commerce in relation to the Isle of Man. This contribution is likely to increase as the World Wide Web provides a marketing and delivery vehicle with truly global reach and very low cost operation. Financial services such as those provided by banks and investment businesses are intangible and do not require physical delivery; they therefore provide products and services that are truly suited to the electronic delivery medium. Indeed the majority of the customers of Isle of Man banks and investment businesses are based offshore and electronic communication via the Internet aids their relationship vastly.

The Financial Supervision Commission ("FSC") has been aware of the impact of e-commerce on itself and its licenceholders for some time and has taken a proactive approach when liaising with banks and investment businesses.

The FSC is aware of the special factors affecting web-based financial services and has an enlightened and informed attitude. This was key to the decision of the Bank of Ireland to locate F-Sharp, the world's first offshore Internet Bank delivering services to the expatriate community, to the Island.

Detailed discussions have been undertaken with various leading banks to ascertain their plans for the future development of banking via the Internet. All have decided that the Internet is the way forward and have decided either to opt for an add-on service or a stand-alone service or indeed some are considering both. The FSC has also seen a growing number of investment business applications, which are Internet based or have an Internet connection/add-on.

The FSC believes that it is important to strike the right balance between the regulatory control and consumer confidence, and in subscribing to the Basle and IOSCO principles, it also believes that the Isle of Man should embrace e-commerce fully. With this in mind the FSC has again liaised with the industry with regard to the issue of Certification Service Providers ("CSPs"), the implications for "Know Your Customer" procedures and CSP's location.

The FSC is also looking at the issue of the location of servers of businesses located in other jurisdictions and whether this would constitute a licensable activity.

To endorse the FSC views on e-commerce, its officers have attended the newly formed Association of Licensed Banks sub-committee whose remit is to look at E-commerce and the approach of "Isle of Man Plc". The FSC have found these meetings very useful to discover and understand the banking industry's views, thoughts and concerns.

The Insurance and Pensions Authority ("IPA"), as the regulator of the Isle of Man's insurance and pensions sector, is committed to ensuring that its regulatory framework takes account of the changing E-commerce environment and allows companies to take advantage of the technology in a way which does not compromise the Island's reputation as a "First Division" offshore centre. The instant worldwide availability of on-line information and communications can raise special issues for companies operating in international financial services markets with regard to compliance with local and international legislation.

The IPA is also committed to ensuring that its own operating environment moves forward in line with Central Government's strategy in this area. It has recently undertaken a major upgrade of its systems in order to implement this and ensure that it can communicate in the most efficient way with the businesses that it regulates.

The Island's insurance sector has been at the forefront of the development of innovative life insurance and risk-financing products and is therefore well-placed and intends to take advantage of the opportunities being created by new capabilities in e-commerce. Most insurers have strategies in place to ensure that they remain in a leading position within their sector internationally and have committed development resources accordingly. Provision of information on-line is now commonplace but is only the starting point as businesses assess their future needs and opportunities in this area. For such businesses it is vital that the Island continues to respond to the E-commerce challenge and maintains its commitment to create an electronic environment at least on a par with its competitors.

Many insurance companies' plans to use e-commerce as a significant business tool are well-advanced. To this end the IPA has been engaged in dialogue with a number of companies utilising E-commerce solutions and has addressed many issues that arise from these for the regulator.

The International Services Division of the Treasury is developing a promotional strategy to support the e-commerce strategy for financial services. This will involve a new E-commerce brochure published in collaboration with the Department of Trade and Industry and Manx Telecom, the incorporation of an E-commerce presentation in the major roadshow programmes, representation on the E-commerce conference circuit, targeted marketing to legal and accounting E-commerce specialists, and finally, advertising, public relations and promotional activities both off and on our dedicated web site.

## **E. EDUCATION**

The Department of Education's aim is to ensure every student is equipped to meet the demands and opportunities of life in the modern information age.

The Department has made a major commitment to the development of Information Communications Technology (ICT) throughout its institutions. In particular the Department is in the second year of a four year programme to implement its National Grid for Learning project designed to bring not only high quality ICT resources to schools but also to enhance the ICT skills of all teachers.

Every one of the Island's primary and secondary schools and the Isle of Man College has been cabled with voice and data networking linking every classroom throughout the Island. In total nearly 10,000 network points are now installed and modern 100mb switches ensure fast and reliable network traffic. The Department has developed its own dedicated, safe Internet and intranet service to which all schools have been connected for nearly 12 months, making the Isle of Man probably the first Education Authority in the British Isles to have all its classrooms wired up for Internet access.

The Department's target ratios of modern computers to students of 1:7 in primary schools and 1:5 in secondary schools will shortly be met. In most secondary schools a target of all school leavers having attained an ICT qualification has also very nearly been accomplished.

The quality of ICT teaching and resources is being increasingly recognised in school inspection reports. The fifth report on recent ICT innovation in Isle of Man schools has just appeared in the Times Educational Supplement.

By July 2000 every school age pupil from age 8 will have the potential to access their own safe e-mail and web publishing account.

In September 2000, in an initiative thought to be unparalleled anywhere else in the world, every full time teacher will receive a laptop computer for his or her own professional use. The use of these laptop computers will ensure that every Island teacher is familiar and confident with modern computer applications and that their heavy administrative burden is handled as efficiently as possible. Most significantly though, will be the opportunity for teachers to enhance the quality of the teaching and learning process by the use of these computers.

To ensure the successful implementation of such high technology developments, an Island wide programme of training will commence for all teachers. This training will build the confidence of teachers not just in the operation of new technologies but also in the most appropriate methods to enhance the learning process in their own subject area. Further development of the administrative use of computers will increase the efficiency of schools as the need to process information continues to increase.

The new school year in September will see the opening of new post 16 centres with advanced ICT facilities in 4 of the Island's 5 secondary schools.

The Isle of Man International Business School (IBS) will open its doors to students for the first time in September 2000. Prior to this it will host the Isle of Man College training courses for the Government wide MAGIC Project.

The IBS is currently pursuing two options for courses in E-business. A very comprehensive module in E-Business contained within the University of Surrey MBA programme is being considered; as is an 'off the shelf' package comprising a whole Institute of Bankers Masters Programme validated by the University of Kent.

The IBS has also indicated its willingness to house the Director of E-Commerce and provide accommodation for a small number of 'start-up' units for e-business, both recommended in the Charteris Report.

An e-business Development Centre has been proposed by the IBS for which government and private sponsorship is being sought. The IBS is pleased to report that it has recently secured sponsorship of £100,000 towards this operation from the Scott Cobb Foundation.

The prestigious Nunnery location of the International Business School will be well served by data cables. The high capacity cables will link the site to Manx Telecom's services.

## **F. INTERNAL/EXTERNAL COMMUNICATION**

### **MAGIC**

In April 1999, the Information Systems Division of the Treasury (ISD) was allocated £250,000 to undertake a project to assess the feasibility of providing Government employees with desktop access to the Internet and related services. Following an extensive evaluation process, contracts for technical assistance, support and project management were awarded to Ericsson, an International telecommunications company, and PDMS, a locally based Internet Service Provider.

The scope of the project, code named MAGIC (MANx Government Internet Connection), was to determine and install the necessary infrastructure to facilitate the provision of electronic services to the citizens of the Island in the 21st Century. In the first instance, this will entail providing staff with access from their PCs, or laptops when away from the office, to a range of electronic functions including e-mail, fax, diary, scheduling, voice mail, WEB browser, Government Intranet and the World Wide Web (Internet).

It was obvious at an early stage in the project that success would only be achieved if the technical provision of electronic services was accompanied by the relevant cultural changes within the organisation. Furthermore, it was agreed that a pan-Government project of such complexity must be adequately resourced and properly managed. Consequently, it was decided that:

- a. overall control of the project would be undertaken by the Information Systems Strategy Committee (ISSC), a sub-committee of the Treasury, comprising senior officers from Government and chaired by Mr N Radcliffe, MLC;
- b. the project manager (a senior ISD resource) would chair a steering group consisting of officers from Internal Audit, Department of Health and Social Security, Department of Trade and Industry, Chief Secretary's Office and the Department of Education and reporting directly to the ISSC;
- c. the project would be managed on a day-to-day basis by a full-time programme manager from Ericsson.

The Financial Supervision Commission was selected to host an appropriate pilot scheme and the successful completion of this 2 month exercise, which followed the 4 month planning phase, coincided with the creation of the IT Development Fund included in Budget 2000 and of which some £2.5 million has been allocated to the MAGIC project.

In addition to the purely technical aspects of the projects there are a number of equally important areas that have to be addressed:

- d. in order to raise awareness, keep staff informed and generate enthusiasm, the steering group undertakes a continuous publicity programme. These take the form of staff presentations, articles in Government magazines and local newspapers as well as a regular newsletter;
- e. the project team, which is located in ISD's office in Government Office comprises at any one time some 28 full or part-time members. These include staff from ISD, Ericsson, PDMS, Isle of Man College, administrative staff, hardware and software engineers, an Information Security Officer as well as members of the Steering Group. The co-ordination of the many complex aspects of the project are achieved by weekly project team and monthly steering group meetings.

i. **The Government Web Site**

The Isle of Man Government's Internet web site went live on 1 July 1997. Initially designed as a source of reference material for those with an interest in the Island, it is now developing into much more of an interactive medium, including elements of Government E-commerce.

From the outset, the Government web site was designed to provide information to people on a generic basis, rather than assuming an enquirer to have prior knowledge of Government structures and procedures. Such generic structures are essential on any web site to ensure that enquirers are not frustrated through an inability to understand local hierarchies in order to reach the information that they require. Great attention has also been given to ensuring that navigation around the site is kept as simple as possible in order to again ensure that an enquirer can easily reach the information that they require.

The Isle of Man has benefited from the outset from an integrated Internet policy. Unlike other jurisdictions such as the United Kingdom, policy guidelines were established early on in the development of the Isle of Man Government web site to ensure that all Isle of Man Government Departments, Statutory Boards, Offices, etc were part of the Government web site. Such a far sighted policy has produced dividends in that all information available from the various agencies of Government is available and searchable on one central site and does not, therefore, frustrate those seeking information. It is interesting to note that other jurisdictions are now having to re-engineer their Government web sites, in order to provide the very integration which has been central to the Isle of Man Government web site since its inception.

From the very outset, the Isle of Man Government was determined to maximise the commercial benefits that the Internet presented and in the early days priority was given to maximising information on those areas of the economy most likely to produce an economic return. Early developments work concentrated on financial services, trade and industry, tourism and postal services.

The Government web site now contains elements of E-commerce. The Isle of Man Post Office Philatelic Bureau has a complete catalogue of its stamps viewable on-line with associated on-line ordering available. In addition, the Island's Department of Tourism and Leisure has a fully searchable integrated accommodation database, which allows people to search for any type of accommodation with whatever facilities in any geographical area of the Island that is of interest to them. As with other jurisdictions, the interest in tourism via the web is increasing at a significant rate.

The Department of Trade and Industry has a number of web sites supporting its key initiatives. The Manx Business Connection's web site has a wide range of promotional material and general information about the Island as a location for business. The Film Commission's web site promotes the Island as a film location and the Manx Multimedia Centre has a number of web sites to support educational programmes made by the Centre. The latter is already designing and producing interactive content on advanced digital technologies for potential distribution over the Internet.

Other projects nearing completion, include the placing of job vacancies from the Job Centre live on-line, together with on-line live departures and arrivals information from the airport. Another project nearing completion is to make a wide variety of Government application forms available electronically on the web site.

Government is keen to extend the benefits of its web site to commercial enterprises on the Island and another project under development is to create a comprehensive commercial directory, which will allow people on the Internet to interrogate the commercial database and make direct electronic contact with them, through either their e-mail addresses or their web sites, if available.

The number of "sessions" or visits to the Government web site has increased significantly since 1997 and these sessions are now running at approximately 20,000 per month and "hits" at approximately 450,000

ii. **A Government Intranet**

One of the major challenges facing the MAGIC team is the need to change the cultural mindset within Government. Because of its diversity and the need to maintain vast quantities of paper, Government is, of necessity, a highly structured and bureaucratic organisation. This has resulted in an environment in which information is predominantly held on paper, there is a reluctance to share information between Departments and a tendency to secrecy through over-classification of documents.

In order to overcome these issues and to encourage a more open approach to the sharing of information, a fundamental requirement of the MAGIC project is the development of a Government-wide Intranet. This will enable Departments and individuals to publish information on to a central database, which all Government employees, subject to appropriate security clearance, will be able to access. It is intended that the Intranet will contain a wide variety of documents including regulations, job adverts, directories, legislation, minutes of meetings, internal magazines, etc.

iii. **A Government Extranet**

In addition to the creation of an Intranet, which will mainly be of interest to Government employees, it is intended that the general public could have electronic access to information stored within Government. This is classed as an Extranet and could enable Manx citizens to have limited access to their personal details relating to Taxation, Health and Social Security. This will require a high level of security as well as the introduction of sophisticated technology to encrypt data so that only the intended recipient can read it.

4. **GOVERNMENT'S REACTION TO THE CHARTERIS REPORT AND RECOMMENDATIONS**

Charteris submitted their report to ISSC and the Council of Ministers at the end of April. The Council of Ministers agreed that because of the importance of this issue a report and recommendations should be submitted to the July sitting of Tynwald.

The key Charteris recommendations and Government's response to them are as follows:

- . **The Government needs to take action now to bring together and co-ordinate all on-Island initiatives to focus on achieving a common well-publicised goal and avoid further friction or loss or miss targeting initiatives. A single common mission should be established and then conveyed to all parties.**

The Council of Ministers accepts that much is already being done to promote and develop E-commerce on the Island and to publicise the Island's benefits as a centre for E-commerce to those who may wish to locate or develop here. The Council of Ministers also accepts however that there is a need for better co-ordination together with a comprehensive strategy, to set out clearly what the Isle of Man Government strategy is on developing E-commerce.

- A. **There is a real and immediate need to capitalise on the enormous potential of Government and industry working in close co-operation. Divisiveness and uncertainty needs to be eliminated at all costs. We recommend the establishment of a Government and cross-industry steering group, to advise the Council of Ministers to further joint aims and act as a communication forum on all aspects of E-commerce. We feel that given the high degree of autonomy on individual Government Departments, implicit in the Manx constitution, this body needs to represent a fair cross-section of Government units. It should meet regularly to set a schedule and publicise its activities widely.**

This recommendation is, again, accepted by the Council of Ministers, particularly the need to work closely with the private sector. The Council of Ministers accepts the need to create a body to co-ordinate Government initiatives and proposes that a committee be formed under the Chairmanship of the Chief Minister made up of the Chairman of the Communications Commission, the Minister for Trade and Industry, the Minister of the Treasury and the Chairman of the Information Systems Strategy Committee. Such a Committee would be supported by the Director of E-Commerce, the Head of the Information Systems Division, Treasury, the Director of the Communications Commission, the Chief Executive of the Department of Trade and Industry, the Chief Financial Officer and the Chief Secretary. It is believed that a group of this composition will have the ideal structure and authority to bring together and co-ordinate the various component parts necessary to give this important area the profile and attention that it needs.

The senior officers who support this Committee would be keen to establish liaison with appropriate private sector groups at an early stage. This co-ordinating committee would be chaired by the Director of E-commerce post (see recommendation iii) below).

- B. If the Island is serious about development of E-commerce, this message needs to be conveyed often from the very top, led by the Chief Minister and echoed by all Departments of Government. Management leadership will be required too and we recommend the appointment of a senior IT or Telecoms industry figure to act as an e-envoy or e-evangelist. This should be a position of responsibility and appropriate authority acting as a focus for on Island co-ordination, mobilisation and the marketing and selling of the Island as an E-commerce centre. This position should report to the Council of Ministers. The position should be adequately funded.**

The Council of Ministers agrees that the Island's commitment to the development of E-commerce needs to be led from the very top and, as a result, endorses the recommendation that this development should be led by the Chief Minister. As referred to above, the Council of Ministers proposes the recruitment of a Director of E-commerce who will chair the cross-departmental committee and report directly to the Chief Minister and Council of Ministers. This post will be responsible for the development of a high-profile, coherent and dynamic E-commerce strategy and will act as a focus for on-Island co-ordination, mobilisation and driving the marketing and selling of the Island as an E-commerce centre. It is envisaged that additional specialist advice and expertise would be contracted to supplement Government's in house resources. This advice and expertise would be engaged as required.

The Council of Ministers has agreed to propose that in the first year the sum of £500,000 should be allocated to fund this initiative, with the sum of £750,000 allocated for 2001/2002. The initial sum of £500,000 will cover administrative costs, additional professional services and marketing costs.

- C. **A complete and powerful marketing proposition for the Island as a centre of E-commerce should be developed. This should include competitive taxation, location within the EEC VAT zone with free access for goods, stable and trustworthy Government, closeness of Government to business, innovative and enabling attitude to e-business, a supportive education system, space, no residency controls, cost effective labour force, modern Telecoms infrastructure and with plans to enhance. Early efforts should be applied in targeting good opportunities to attract new e-business to the Island with the aims of getting location onto the agenda and creating a "snowball" effect.**

The Council of Ministers endorsed this recommendation and envisages that the Director of E-commerce would engage the specialist services of market leaders in the field of E-commerce marketing in order to identify the best opportunities to attract new e-business to the Island. This approach of engaging appropriate external specialists reflects the response to recommendation (iii) above

- D. **The leading position of e-legislation should be maintained by ensuring the current Bill is placed on the statute book as soon as possible and publicising it widely. Efforts need to be kept up to establish secondary legislation that provides certainty to the legal position of using new technologies and which keeps the Island in step with or preferably ahead of initiatives from the EEC, OECD (Organisation for Economic Co-operation and Development) and UNCITRAL (UN Commission on International Trade Law), as well as competitive jurisdictions. The current attitude of "enablement" rather than "control" should be maintained and publicised.**

The Island's Electronic Transactions Bill is expected to receive Royal Assent before the summer recess. The Island's Electronic Transactions Bill was drafted after bench-marking against similar legislation being developed in other parts of the world and is a good example of Government's ability to "fast-track" legislation, when necessary, in order to maintain or enhance the Island's competitive position. The Isle of Man is ahead of other jurisdictions with its legislation in this area, which should, certainly in the short term, give the Island a competitive advantage. Already, the Department of Trade and Industry has the necessary Orders/Regulations to be made under the Bill at an advanced stage and these are likely to be introduced in the very near future. The Council of Ministers also endorses the attitude of "enablement" in order to maximise the commercial opportunities available.

- E. Consider the future of the Telecoms "monopoly", recognising that this is either an inherent weakness which has to be given a positive marketing spin or by seizing the opportunity to develop a clear and unambiguous Telecom strategy. This latter might contain an ongoing and extended monopoly on on-Island infrastructure but with limited competition on international and valued-added services. Whichever route is chosen, action needs to be taken to ensure that Telecom's resilience - vulnerability to single points of failure - is improved.**

The Isle of Man Government is fully aware that there is a perception that the Island has a statutory Telecoms monopoly. Whilst the perception is not correct, the present distribution of licences does give Manx Telecom exclusivity in certain areas. However, it is undoubtedly the case that the Isle of Man has been well served by Manx Telecom in terms of infrastructure investment, which has only been possible because of the certainty which their licence agreement has given them. It is recognised by both the Government and Manx Telecom that when the original 20 year Telecoms licence was issued, it had not been possible to identify the E-commerce opportunities that would develop during the course of the licence agreement. As a result, it has been accepted by both Government and Manx Telecom that there is a need now to enter into a constructive dialogue over the future of the Isle of Man's telecommunication needs in advance of the expiry of the current agreement in 2006. Government is already in discussion with Manx Telecom regarding the Island's telecoms' needs and the future of the telecoms licence.

With regard to telecom's resilience, this is currently provided by a single submarine cable to the UK with backup facilities via microwave links to the UK and Ireland. This resilience will be further improved in the very near future by the laying of a BT cable from the west coast of the Island to Ireland and via the fibre-optic cables attached to the MEA electricity inter-connector cable being laid between the Island and the United Kingdom. This resilience could also be further enhanced by tapping into the Cable and Wireless cable that traverses the Island.

- F. Consider in support of the Island's marketing position an innovative approach to the development of a "kite mark" for Island based businesses coupled to the use of the .im Internet domain and development of a certification authority sponsored by Government for the issuing of digital identifications and encryption keys. Consider also the development of a bonding arrangement for non-regulated businesses adopting the Island's "kite mark" to provide unique element of consumer protection. Develop secondary legislation that supports these schemes and consider the possibility of an e-ombudsman to oversee them and deal with disputes and complaints. In our view such a role would be innovative, PR worthy and would enhance the image of trust. Consider issuing all Island residents with a digital identity as a positive PR exercise.**

The .im is the National Top Level Domain (TLD) for the Isle of Man. The domain was formed in 1996 by way of a joint project between the Isle of Man Government and Advanced Systems Consultants who are also the domain's designated managers at present.

National TLDs are important to all countries as they make an Internet address readily identifiable with a geographic area which is important for branding and marketing purposes.

As the Isle of Man uses .im, the United Kingdom, for example, uses .uk and Japan .jp.

Already the Isle of Man Government has done much to enhance the Island's reputation as a centre for E-commerce by restricting the use of the .im domain to those with a tangible and genuine affiliation with any domain name. In other words, the .im domain is not a domain of "convenience" as in some other jurisdictions. Although undoubtedly the Isle of Man Government has not taken full advantage of the commercial potential of the .im domain, it has, by restricting its use and sale, already started to develop the .im domain as "a mark of quality" and it is the strategy of the ISSC to continue to develop the domain in this way. The Council of Ministers, therefore, believes that the .im domain can be developed almost as a "kite mark", as recommended in the Charteris Report.

The Council of Ministers also fully endorses the recommendation of exploring the possibility of issuing all Island residents with a digital identity. Being an Island, the Isle of Man is in an advantageous position geographically to be able to clearly identify its residents and accepts the advantages of issuing such an identity. The Council of Ministers also sees benefit in exploring the possibilities of making available to all Island residents with an e-mail address, which, over time, would form the basis of increased communication and dialogue between the Government and the residents of the Island.

The Council of Ministers fully supports the principle of developing a certification authority for the issuing of digital identifications and encryption keys.

- G. Look at opportunities for attracting new technology business to the Island, including the creation of an Isle of Man Technology Venture Capital (VC) Fund and the establishment of a technology campus to house a small cluster of such businesses as well as other forms of start-up incentives. Irrespective of whether a local VC fund can be created, market the offshore location benefits to key VC and private equity businesses (eg Amadeus, Granville, MTI, Northern Venture Capital, 3 i etc) in the UK at least.**

A number of venture capital initiatives have been developed and promoted in the Island in the past. However, because of the availability of Government development incentives, it has seldom been attractive for companies to make use of venture capital. The Council of Ministers nevertheless accepts the suggestion that the offshore location benefits should be promoted to private equity businesses.

- H. Continue to invest in and promote the issue of Internet and e-business technologies within Government. Ensure all Government Departments participate in the MAGIC Project so that the Government becomes accessible electronically and uses the technologies to become more efficient.**

The Council of Ministers fully endorses this recommendation and is pleased to note that the roll-out of the MAGIC Project to some 2,500 Government users is scheduled for completion before April 2001. Undoubtedly, the roll-out of the MAGIC Project will act as a spur to further increase the use of electronic communication within Government and between Government and the citizen.

## **5. CONCLUSIONS**

The Council of Ministers broadly welcomes the findings and recommendations of the Charteris Report and endorses the actions necessary for the Island to take full advantage of the commercial opportunities presented by the development of E-commerce.

In effect, E-commerce places the Island on a level playing-field with other economies around the world and the fact that the Island is physically distant from many markets becomes much less important.

The Isle of Man Government acknowledges the proposals contained in the E-Europe 2000 Draft Action Plan and would wish to meet, if not exceed, the targets set out in this document.

The Isle of Man has already developed a reputation for quality in the various sectors of its economy and, undoubtedly, it will build further on this quality reputation as it fully develops and exploits the opportunities of E-commerce. Hopefully, it will be the quality image and the standards of service provided that will allow the Isle of Man to compete successfully in this growing global market.

## 6. **RECOMMENDATIONS**

The Council of Ministers recommends that:

- . Its responses to the recommendations in the Charteris report, as set out in paragraph 4 i) - ix) be approved; and
- A. That the sum of £500,000 be approved by way of a supplementary vote to fund the necessary expenditure in 2000/2001.

June 2000

Signed on behalf of the Council of Ministers

.....  
Chief Minister

## **APPENDIX**

### **CHARTERIS REPORT EXECUTIVE SUMMARY**

In December 1999 the Isle of Man Government, through the Information Systems Strategy Committee (ISSC), a sub-committee of the Treasury, awarded a contract to Charteris Ltd to "undertake a study to establish the most appropriate means of developing and implementing an effective environment within which electronic commerce can flourish in the Isle of Man".

The terms of reference for the study were to build on steps already taken to identify:

1. The priority areas to be investigated by the Isle of Man Government as part of the development of an E-commerce strategy;
2. The possible options and recommend an organisation and structure within the Isle of Man Government to develop, implement, co-ordinate and drive forward the strategy;
3. Areas where the Isle of Man Government may look to innovate in the use of E-commerce;
4. The resource requirements (finance, personnel etc), capable of economic justification, necessary to implement the recommended strategy.

At the study initiation meeting with Charteris it was agreed that the key objective of the study was to provide Government and the other stakeholders (including Island businesses and residents) with clear recommendations to ensure development of E-commerce on the Island at least as successfully as, and preferably ahead of, competitive jurisdictions. It was also agreed that the study needed to be broad in structure, taking into account activities and opinions across a wide range of Government departments and the business community.

Virtually the first question Charteris were asked when starting their study was "Why bother - didn't the financial services sector develop on its own accord without Government involvement?". Their response to this was threefold:

1. Firstly, the development of the financial services sector was not just an accident.
2. Secondly, there is a need for risk management as a defensive strategy: almost 50% of the GDP of the Island is directly or indirectly financial services based. With the advent of e-business, some of the companies already here can easily transact business anywhere in the world they choose. The local proposition for e-business has to counter the pressures being applied from other jurisdictions.
3. Thirdly, with the ability to base an e-business anywhere, the opportunities for optimal tax planning and geographic location come to the fore, and there is a real opportunity to attract new businesses to the Island, both in the financial sector and in other sectors, offering the potential to diversify the economy. The Charteris research showed that location was not on the agenda for most prospective businesses (the exception being betting and gaming where there are significant tax and duty issues). Left to their own devices, it would not even occur to those companies to consider the Isle of Man, and once decisions were made to locate elsewhere, there would be substantial inertia. The Isle of Man needs to evangelise about the opportunity whilst these decisions are being made.

The second question we were asked was "What benefit does the Island obtain?". Here, too, we think the answer is straightforward. E-Business brings the opportunity to diversify and grow the economy and to do so in a way that does not require massive immigration and investment in improved infrastructure. With increased economic activity come the opportunities for Government revenue growth, without significant up-front capital cost. It is for this reason that every single competitive jurisdiction is looking at ways of stimulating their E-commerce activity.

The third question was "What are the timescales?" The simple answer is NOW. The e-economy is developing at a frightening pace, and there simply do not exist the opportunities to consider in detail and reflect. Winning in this market is about grasping opportunities and then running with them, and the trick in succeeding is in not making too many incorrect decisions along the way. There are no prizes for the runners-up. During the period between our submission of proposals for the study and the production of this report, many competitive jurisdictions made announcements on matters covered by the study - Guernsey announced an e-Envoy, the UK announced a "trust UK" endorsement for Web sites, Jersey and Guernsey announced privatisation and limited deregulation of telecoms - and there is a real risk of the Isle of Man being too slow out of the blocks. We are also conscious that virtually all of the ideas in this report have already been debated by one or another party on the Island, but in some cases have not been progressed for six months or more. The Island doesn't have this luxury: it needs to remain ahead of the competition, even if it is only a step ahead.

If we deliver no other message, this is the one that is important: if you want to succeed, act now.

The main findings from our review are:

1. Considerable attention has been given to the development of E-commerce by Government and business alike: there is a strong head of steam. However, activities have not been co-ordinated fully and in a number of cases suggestions and recommendations not reacted to or acted upon. As a result there has been considerable frictional loss. A single co-ordinated approach is needed, with a single "hymn sheet" for everyone to sing to.
2. Some of the Island's major competitors are doing a better job of co-ordinating and marketing their offering, though in virtually all cases this is a surface gloss that is not entirely supported by activities under the surface. The Isle of Man has advantages over its competitors in most areas relating to E-commerce, and by clever market positioning can take advantage of these and mask areas where there is some weakness. Being part of the leading wave of jurisdictions in enacting E-commerce legislation is of strong marketing value, for example.
3. Given the strength of the financial sector on the Island, and the ease with which most financial products can be sold across the Internet, this sector is the obvious place to start in the development of E-commerce. The success with F-sharp is of tremendous value. However, it needs to be recognised that most on-Island financial institutions are only a small part of bigger businesses elsewhere, and it should not be taken for granted that on-Island representatives have either the influence or the predisposition to promote the Island's interests. In virtually every case they are willing to do so, but need the support and co-operation of Government in presenting cases to boardrooms off the Island. This is in order to ensure that appropriate senior attention is given and that the benefits are committed in a way that can only be done with the authority of Government. This is one example of a more general need: for Government and industry to work in close collaboration on a matter of common interest.
4. Our research shows that, literally without exception, off-Island businesses and parent companies do not have location, far less offshore location, on the agenda. In the last week, for example, we have been in contact with a financial institution which is developing E-commerce activities, and which was genuinely and pleasantly surprised when we raised the possibility of the Isle of Man. The Government, supported by business, needs to target companies with the aim of getting offshore location and its benefits on the agenda. This involves pro-actively knocking on the boardroom doors of suitable targets.
5. Other suitable target businesses for attraction to the Island are those where the delivered goods are "intangible". We recommend considering businesses such as travel and leisure agencies, employment intermediaries and agencies, companies selling digitally delivered products (such as software, music and eventually video), distance learning organisations as well as Internet-enabled new forms of business such as Web "portals" (like Yahoo and Visto), Web hosting, business to business intermediaries and companies delivering outsourced software services over the Internet (or Application Service Providers - ASPs). Companies where physical good fulfilment is involved should not be discounted (and indeed Bigsave.com is an existing Island-based example), as there exist opportunities for triangulation and fulfilment in the country of destination.

6. Telecoms is a major issue and an area of potential weakness for the Island. The off-Island connectivity is not currently sufficiently resilient to failure and will act as a deterrent to new business. We know of one company which located its business elsewhere for that reason. The on-Island infrastructure is modern, but needs further investment to keep ahead of the game. The apparent telecoms monopoly will act as a deterrent to businesses used to free markets, whether justified or not. Uncertainty over the future telecoms strategy for the Island is a problem for Government, industry and MT as well as being a negative influence on E-commerce development. The possibility of being a leader in the roll-out of the UMTS mobile technology is a marketing opportunity that must not be missed.
7. The Island has a good legal, accountancy and company formation support industry on which an E-commerce strategy can build. Its IT and telecoms support industry is appropriate for the current economy, but lacks the critical mass necessary to allow it to develop in its own right, to increase the proportion of GDP deriving from it, and to act as a magnet for attracting and retaining high quality staff and Island school-leavers.

Our key recommendations are as follows:

1. The Government needs to take action now to bring together and co-ordinate all on-Island initiatives to focus on achieving a common, well-publicised goal and avoid further frictional loss or mis-targetted initiatives. A single, common mission should be established and then conveyed to all parties.
2. There is a real and immediate need to capitalise on the enormous potential of Government and industry working in close co-operation. Divisiveness and uncertainty needs to be eliminated at all costs. We recommend the establishment of a Government and cross-industry steering group to advise the Council of Ministers, to further joint aims and act as a communication forum on all aspects of E-commerce. We feel that given the high degree of autonomy of individual Government departments implicit in the Manx constitution, this body needs to be represent a fair cross-section of government units. It should meet regularly to a set schedule and publicise its activities widely.
3. If the Island is serious about development of E-commerce, this message needs to be conveyed, often, from the very top, led by the Chief Minister and echoed by all departments of Government. Management leadership will be required too, and we recommend the appointment of a senior IT or telecoms industry figure to act as an e-Envoy or e-vangelist. This should be a position of responsibility and appropriate authority, acting as a focus for on-Island co-ordination, mobilisation and driving the marketing and selling of the Island as an E-commerce centre. This position should report to the Council of Ministers. The position should be adequately funded.
4. A complete and powerful marketing proposition for the Island as a centre of E-commerce should be developed. This should include competitive taxation, location within the EEC VAT zone with free access for goods, stable and trustworthy Government, closeness of Government to business, innovative and enabling attitude to e-business, a supportive education system, space, no residency controls, cost-effective labour force, modern telecoms infrastructure and with plans to enhance. Early effort should be applied in targeting good opportunities to attract new e-business to the Island, with the aims of getting location onto the agenda and creating a "snowball" effect.

5. The leading position of e-legislation should be maintained, by ensuring the current bill is placed on the statute book as soon as possible, and publicising it widely. Efforts need to be kept up, too, to establish secondary legislation that provides certainty to the legal position of using new technologies and which keeps the Island in step with, or preferably ahead of, initiatives from the EEC, the OECD and UNCITRAL as well as competitive jurisdictions. The current attitude of "enablement" rather than "control" should be maintained and publicised.
6. Consider the future of the telecoms "monopoly", recognising that this is either an inherent weakness which has to be given a positive marketing spin, or by seizing the opportunity to develop a clear and unambiguous telecoms strategy. This latter might contain an ongoing and extended monopoly on on-Island infrastructure, but with limited competition on International and value-add services. Whichever route is chosen, action needs to be taken to ensure that telecoms resilience - vulnerability to single points of failure - is improved.
7. Consider, in support of the Island's marketing position, an innovative approach to the development of a "kitemark" for Island-based businesses coupled to the use of the .im Internet domain, and development of a Certification Authority sponsored by Government for the issuing of digital identifications and encryption keys. Consider also the development of a bonding arrangement for non-regulated businesses adopting the Island's "kitemark", to provide a unique element of consumer protection. Develop secondary legislation that supports these schemes, and consider the possibility of an e-Ombudsman to oversee them, and deal with disputes and complaints. In our view, such a role would be innovative, PR-worthy and would enhance the image of trust. Consider issuing all Island residents with a digital identity as a positive PR exercise.
8. Look at opportunities for attracting new technology businesses to the Island, including the creation of an Isle of Man technology Venture Capital (VC) fund, and the establishment of a technology campus to house a small cluster of such businesses as well as other forms of start-up incentives. Irrespective of whether a local VC fund can be created, market the offshore location benefits to key VC and private equity businesses (eg Amadeus, Granville, MTI, Northern Venture Capital, 3i etc) in the UK at least.
9. Continue to invest in and promote the issue of Internet and e-business technologies within Government. Ensure all Government departments participate in the Magic project so that the Government becomes accessible electronically and uses the technologies to become more efficient.