

# **e-Business Strategy – five years on**

Isle of Man Government

Version 6.0

21 March 2006

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Notes

## 1. INTRODUCTION

### 1.1 Summary of Amendments History

This version of the document is for full publication.

Version	Purpose	Date
1.0	First draft for discussion with Tim Craine	15 December 2005
2.0	Updated draft with additional material from David Sharp	21 December 2005
3.0	Updated after review with Tim Craine on 9 <sup>th</sup> January 2006	16 January 2006
4.0	Updated following final comments by Tim Craine on 19 <sup>th</sup> January 2006	20 January 2006
5.0	Incorporation of minor typos and amendments	20 January 2006
6.0	Minor changes prior to full publication following presentation to the Treasury committee, the public and private sector IT committee and the Chamber of Commerce IT committee	17 February 2006

## 2. MANAGEMENT SUMMARY

### 2.1 Background

In December 1999 the Isle of Man Government, through the Information Systems Strategy Committee (ISSC), a committee of the Treasury, awarded a contract to Charteris Ltd (now Charteris plc) 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 that 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 recommendations for 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 might 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.

The study report was delivered in March 2000.

One of the recommendations of the report was the establishment of a position within Government of a Director of e-commerce, with the objective of giving a focus to the encouragement of e-business, to build a strategy based on our report and to follow through those report recommendations which were accepted. Tim Craine was appointed to this role in October 2000, initially for a two year term, and since made permanent.

In late 2002, Charteris was requested by the Chief Secretary’s Office to undertake a “three year review” of the Island’s e-business strategy and its execution. We were asked to deliver four items:

1. A review of achievements in following the strategy and recommendations for action;
2. An update to the review of competitive jurisdictions, as provided with the March 2000 report, together with a brief review of how the e-commerce market had moved on in the meantime;
3. Based on the results of the above two items, a set of justified recommendations on how the Isle of Man Government’s strategy for the coming period should be pursued, and where necessary revised;
4. As a result of the review findings, a draft update for the text of the May 2001 brochure: “An e-commerce and e-society strategy for the Isle of Man”;

The audience for the first three items was government itself, whereas item 4 was to provide the publicly disseminated outcome of the review. A separate review of the related issue of the “Digital Divide” issue was also undertaken by Charteris at around the same time.

In the autumn of 2005, Charteris was again instructed by the Isle of Man Treasury to undertake a review of progress on this topic. Based on knowledge obtained in the previous two reviews and the “Digital Divide” study, the purpose of this exercise was to bring the original 2000 review up to date and examine:

- a) The Isle of Man proposition and its current relevance, identifying opportunities for adaptation where appropriate. This would cover all the issues underpinning the proposition as considered in our original review, including fiscal, legislative, business context, educational and workforce capability, support services, grant and aid structure, policy and attitude issues and telecoms;
- b) A review of the current market and dynamics, looking at where and why the Isle of Man has been successful as well as at new and emerging opportunities for exploitation. The output would be a revised target list of business types;
- c) An updated comparison of competitive offerings and the Isle of Man’s positioning, concentrating on the most serious competitors and looking at what has changed in the intervening time;
- d) A review of current marketing and positioning material (printed and Web-based) to suggest updates and changes of emphasis.

## 2.2 Approach to the review

The review was undertaken by John Millar (the lead author of the 2000 and 2003 reports) and by Dr David Sharp (who had provided input to the Isle of Man 2014 study driven by the D’TI), both of Charteris plc. Our approach to the review was similar to that successfully adopted previously, namely:

1. We agreed the scope, approach and required deliverables with our sponsor, Tim Craine, Director of e-business. We also discussed and agreed a prioritised list of stakeholder interviewees from both the public and private sector;
2. We undertook interviews with the high-priority stakeholders;
3. Using documents, published reports, the knowledge of our colleagues in Charteris and Web-based research, we looked at market changes and competitive jurisdictions, in order to

provide an update on the current environment in which a revised strategy needs to be placed;

4. We undertook a number of face-to-face and telephone interviews with organisations whose sectors fell into the category of potential targets to bring to the Isle of Man. As a result of these interviews and information gained from the stakeholder reviews, we also talked to a number of intermediaries and advisors;
5. Using all of the above, we worked through a long-list of possible themes, conclusions and action points, and filtered, prioritised and modified these in order to produce this first draft report;
6. We discussed and reviewed the first draft of the report with Tim Craine, and made a number of revisions in the light of this.

### **2.3 A word about our interviewees**

In planning our stakeholder interviews, we would ideally have liked to have spoken to many more individuals and groups, but this is simply not practicable in the interests of cost, time and the law of diminishing returns. In consultation with our sponsor, Tim Craine, we agreed a prioritised list of stakeholders and achieved near 100% coverage (actually all bar one) of the highest priority interviews, but have had to apply the 80:20 rule for others. To those individuals who would like to have participated but did not, please accept our apologies that on this occasion it was not possible, and we hope you understand why.

For those individuals and organisations, both stakeholders and through our own research who did contribute, we provide our thanks and acknowledgement. For an issue as complex as this, it has not been possible to accommodate every idea that was raised in our interviews. To those who feel that their views have not been considered, we hope that you will understand the difficulty of reaching a consensus and the need to balance inputs from every viewpoint. You have our assurance we have thought long and hard about the matters we discussed. On the other hand, many will recognise their own earlier work reflected in some parts of this report: we make no apology for this, as we are firm believers in grasping the good ideas of others. I hope that we will at least have given your ideas some further exposure, and we acknowledge the special contribution you have made.

A list of participating individuals is provided in Appendix A.

## 2.4 Key observations

**Since our first review in 1999, the Isle of Man has been very successful in maintaining a strong and steady market positioning on e-business compared with its jurisdictional competitors. The decisions to establish an e-commerce strategy and follow this through with the appointment of a director of e-commerce were unquestionably good ones, and we are sure these have contributed materially to the position that the Isle of Man finds itself in today.**

In our 2003 review we noted that the Isle of Man's "broad marketing proposition is clear and has been consistently and persistently delivered" and "has held and probably improved its ranking, certainly in comparison with its most direct competitors". We are pleased to confirm that this remains true today. If one excludes the e-commerce giants, such as Singapore and Hong Kong, which arguably were always in a different league and relatively unchallengeable, the Isle of Man has held its message and standing amongst directly competitive jurisdictions extremely well. Amongst those who are aware of the Isle of Man's positioning, it is seen as a good example of how to get things right, and the standard to be achieved – a number of official publications by competitor jurisdictions explicitly say so.

In 1999/2000 we recommended the appointment of a director of e-commerce, and this led to the appointment of Tim Craine in this role. Tim's appointment, and his continuity in this role, has, we are certain, been instrumental in keeping this consistency and clarity of message in place. Competitors have almost universally failed to maintain a post to cover this activity (though most have tried hard and a few are resurrecting it), far less maintain the personal continuity that has been achieved here. It is vitally important that the Island recognise this and continue to support the further development of this role: the market opportunity is as good as it ever was, and possibly even greater.

We would also note in this context that the Isle of Man has obtained an excellent result for a minimum of investment to date. We believe that the good foundations, business confidence and the prospect of a continually growing market all point to the need to invest more in order to accelerate the returns.

### **There remain competitive threats**

The Isle of Man's commitment to zero corporation tax is clearly attracting attention, but there remain threats from other jurisdictions and the on-line gaming market (given its mobility) remains open to attack from a number of locations, including Alderney, Jersey, Malta and the UK.

**The on-line gaming and related sector has been a significant success over the last few years, despite early set-backs. Although a notoriously mobile sector, there are signs of a mature commitment to the Isle of Man from a number of prominent companies**

In our last report we noted that, amongst others, there was an emerging business in the on-line gaming sector. This has blossomed on a global scale in the last few years, and the Isle of Man has achieved an encouraging degree of success in building a cluster of related companies – not just the gaming companies, but the supply industry (eg Microgaming) and the supporting services (eg Neteller). This has been achieved despite some early disappointments with the on-line casinos. One widely held view is that, because of its lack of substantial physical footprint, this industry will tend to follow the lowest gambling and corporate taxation and least restrictive regulation. Yet, we found quite encouraging signals from companies based in or considering the Isle of Man that it was the rounded proposition (all forms of tax, environment, access to capital markets such as AIM, regulation, quality of life) and the clustering of like-minded folks that was attractive about the Island. This hinted at an element of stickiness that we had not seen before. Of course only time will tell, but it is something to build on.

**There is a marked upturn in confidence across the ICT supply industry on the Isle of Man, compared with what we saw in 2000 and 2003**

When we first visited the Island in 1999 and 2000, we found a small and in some senses fragmented ICT delivery, support and services business community which exhibited some uncertainty about its future direction and security. In 2003 we found that this industry had refocused itself, but that there were still uncertainties and concerns about the future.

This time, we have found a markedly different atmosphere, with the key companies we spoke to being very clear about their strategic direction and showing confidence that the sales pipelines (in the short to medium term, at least) were sufficient to sustain these strategies. Moreover, a new player has entered the market, in the shape of Manx Telecom (MT), which has recently been successful in winning a number of Government contracts in addition to its private sector hosting work.

A strong ICT community is a key asset for any jurisdiction serious about building an information rich business base, so these are encouraging signs.

At the same time, it has to be recognised that the IoM ICT industry still comprises a relatively small number of people and a handful of companies, and if any one were to fall by the wayside or if any one became dominant at the expense of others, the picture could change significantly. We believe it important that maintaining the current, somewhat delicate competitive balance is vital to the future health of this key economic contributor.

**For market positioning, we believe the label of e-commerce/e-business is in danger of becoming old hat. We suggest there is merit in moving ahead of the pack and establishing a new positioning statement better suited to the likely developments over the coming few years. This would keep the Isle of Man's message fresh and relevant, and create an initial differentiator.**

During our initial review in 2000, the term “e-commerce” was very much in vogue, and the dot-com bubble was yet to burst. In our 2003 review, we recommended softening the emphasis on e-commerce in favour of e-business, as electronic trading was simply becoming part of the way most businesses worked. Now we feel even this term is becoming hackneyed, and that there are just too many competitors with similar e-business strategies (we note, for example, that there was a recent approach from Jersey who want to copy the strategy). With the pack closing in, we see the opportunity for the Isle of Man to step up the pace and create some distance by adopting a new branding for the campaign, something attuned to likely developments over the coming years. This will need some thinking through, but our suggestion would be to focus on convergence of the Internet with media – covering such things as voice over IP (VOIP) and IPTV and media delivery. The Island has a number of marked advantages here – such as the 3G/3.5G roll out, the relationship with the film industry and interesting commercial ventures like Call-Key – so something built on this concept would be fresh, relevant and real.

**We are aware of the current review to consider the structure and scope of government in the Isle of Man. We feel activities related to e-commerce and e-business should be considered as candidates for combination with a general economic development capability.**

As we noted above, we believe that the creation of a e-commerce strategy and the appointment of a Director of e-commerce have provided the Isle of Man with a very distinct advantage – one that we strongly recommend the Island does not throw away. That said, we are aware that across government there are activities which can be viewed as general economic development – examples being in the film and gaming promotion work in DTI, the finance sector promotion work in Treasury and perhaps some of the work of the Tourism and Leisure department. We feel there could be considerable benefits of scale and the potential for more effective application of resources if some or all of these were combined in the form of an economic development capability spanning government.

This restructured endeavour would concentrate more on the general market offering of the Island – almost certainly anchored on the zero-corporation tax/low personal tax/access to capital markets proposition – rather than the specific-to-ICT issues covered by the e-commerce role to date. We also note the particular success in the gaming sector of the combination of Government officers (in Treasury and DTI) with industry specialists on term contract, and we think this may form a good model for moving things forward.

**Whilst there have been some real “sales” successes in the last few years, we believe that there remain opportunities to sharpen sales activity and target opportunities moving forwards**

There have been some excellent “sales” wins in recent years, including Neteller, Inca Gold, Microgaming and Poker Stars to name a few, and a good number are still in the pipeline. That said, we remain convinced that improvements to sales processes and target identification and tailored propositions for particular markets would improve identification and conversion of prospects. There are also a number of quite simple and inexpensive things that would materially improve the experience of relocation for newcomers.

**The new telecoms licence and the opening up of some competition for off-Island telecoms traffic have produced some benefits and reductions in costs. However, despite the reality of improved bandwidth costs in comparison with similar jurisdictions, the general perception is that costs are still too high, certainly in comparison with non-island jurisdictions.**

A new telecoms licence has been agreed on a regulated and limited monopoly basis. As a consequence MT has been encouraged to construct a second exchange for disaster recovery, and at the same time construct a purpose-built hosting facility. The licensing of the C&W cable for off-Island traffic has contributed to lower off-Island bandwidth costs. Historical information and a brief review of current data indicate that current rates are competitive with similar island jurisdictions.

However existing, newcomer and prospective businesses all told us that rates were still too high. For example, one of the newcomer businesses to the Island continues to host its customer access facility in the US as it claims Isle-of-Man based hosting would be prohibitive. There remains a chicken and egg problem: rates will come down when the volume increases; companies that offer to introduce new volume will not switch until the rates come down. There are some prospective incomer companies - eg the on-line poker gaming companies - which could contribute hugely to bandwidth usage if this impasse can be broken. They also represent an opportunity to break the impasse.

Any actions which encourage a break through here are likely to pay big dividends. Possible areas are the further encouragement of Cable and Wireless to take an interest in competing for major corporate accounts on the Island and the introduction of MPLS (multi protocol label switching) which should allow suppliers to provide guaranteed-performance virtual circuits in more affordable “chunks” compared with the present.

**E-transaction and e-commerce legislation is no longer a competitive issue between jurisdictions. However, the Isle of Man could obtain benefit from priority attention to a number of legislation-related issues**

When we first looked at the legislative position in our 1999/2000 review, there was benefit in getting good primary enabling legislation in place, with considered and appropriate secondary legislation to

follow. Some jurisdictions (eg the UK, with the first draft of the RIP Act) had already shot themselves in the foot with unworkably restrictive proposals, whilst others were slow to recognise the implications of e-business and distance selling of goods and services. The Isle of Man was fortunate in being in the vanguard of appropriate legislation. Today, this is no longer a competitive issue.

The introduction of legislation to permit the location of financial institutions' disaster recovery on the Isle of Man without regulatory complexity was a creative innovation, and has been copied – albeit it in a modified form - by competitors, eg Jersey. The scheme adopted in the Isle of Man relies on bilateral agreement between regulatory bodies in order to provide true robustness, but agreeing the detailed memoranda to cover these agreements has taken some time. Meanwhile, Jersey adopted a simpler (and in the long term less robust) scheme, which allowed them, we believe, to win some business in the aftermath of hurricane Ivan in 2004. With bilateral memoranda now in place, it is vitally important for the Isle of Man to mount a campaign to win business from this scheme.

A similar scheme is proposed for gaming, and is being encapsulated within the drafting of the new gaming legislation. Here, too, Jersey is hot on the heels – it has set aside funds and time for production of what appears to be a similar scheme in the 2006/7 timeframe. This emphasises the urgency for getting the gambling disaster recovery legislation and underpinning agreements in place, and then mounting a targeted sales campaign to win some business.

Finally on this topic, there are signs of a need for legislation to cover the money transfer agents such as Neteller and Debit-Direct. We understand that the Isle of Man Government (through the FSC) has been biding its time on this, to understand how best to implement such regulation in the light of UK and EU experience. Strong but appropriate regulatory control will be of considerable benefit both to the Island (through local and more effective regulation) and to the companies concerned, as it will enhance public trust in their offerings. We were pleased to hear of recent decisions which will permit this work now to go ahead.

**There are clear signs of significant improvement in collaboration between business and government on e-business and economic development issues**

The ease of access to government has always been an underpinning feature of the Isle of Man's market proposition. In our previous reports, there was a countervailing concern, expressed by many in the private sector, that this was sometimes more aspiration than reality. We are therefore pleased to report that this time we found no serious concerns of this nature – indeed a good number of interviewees reported very positively on interactions with government.

It was also interesting to note that several newcomers and prospective companies valued this aspect of the proposition quite highly, and felt that expectations before arrival were met in full afterwards.

This is not to say that some things could not be improved – for example there still seem to be some concerns in relation to gaming regulation (of which more later), but it would be wrong not to acknowledge the major steps forward that have been achieved here.

**We were struck by the lack of importance attributed by newcomer organisations to direct financial grants and incentives. Tax issues and (in some cases) access to capital markets are highly valued, and the key drivers. But we noted considerable and sincere emphasis on issues like quality of life, ease of doing business and adequate resources (both physical and people), as well as on the benefits of working in a like-minded community**

At our last review, a number of prospective newcomers we talked to seemed pre-occupied with direct grants and allowances as a driver for decision making. This time, we found almost the opposite: the attitude seemed to be “we’ll accept money if the government wants to hand it out, but it’s unlikely to be sufficient to change our mind one way or another”. Much more stress is being placed on the package of taxation benefits – zero corporation tax, low personal tax, absence of capital gains and Inheritance Tax for principals – together with the ease of access to capital markets in the UK. Clearly, this package is of more interest to companies looking for flotation and partial exit for private owners, and so we recommend retaining grants and allowances in the mix for smaller, early-stage companies. But for established ventures, it is perhaps something that could be de-emphasised, with investment diverted elsewhere.

Almost without exception, newcomers and prospects valued the quality of life issues, the existence of strong support industry and (costs apart, and with a few specific reservations) the telecoms infrastructure and the accessibility of government. This is extremely encouraging, though it is difficult to discern whether this mind set is in some sense prompted by the published policy, strongly and repeatedly expressed – though this is no bad thing in itself.

It is clear, as has long been anticipated, that clustering of like businesses provides both an attraction to and stickiness for the Isle of Man.

All of this might suggest a subtle change in published policy to de-emphasise grants and emphasise those things which appear to be most welcomed.

**The destinations, reliability and cost of air links was a universal grumble**

This was one area where matters seem to have deteriorated since our 1999/2000 review. The demise of Manx Airlines and the ceding of the UK service to BA, with the inevitable loss of Manx-centric interest and the release of Heathrow slots was commented on by just about everyone we spoke to. Although regional UK and Irish flights have increased in number, albeit with limited capacity in some cases, for the serious newcomers what matters is reliable access to a key international and intercontinental hub, and in essence that means Heathrow. Pricing and absence of competition are key concerns and are to some extent being alleviated by the new services to Luton and Manchester

by low cost carrier Aer Arann, providing these survive. But a regular, affordable service to Heathrow is what business wants. Having said this, the Isle of Man is clearly at no disadvantage in this regard to its Channel Island competitors, who have similar limitations.

**The e-government programme has made good progress in delivery of infrastructural technology. It has been slow in delivering e-services on the back of the technology. The impact on inward investment is not significant at present, but will grow, if not tackled.**

The Government's own ICT activity has made excellent progress over the past few years, having completed the roll-out of a completely new infrastructure and technology platform, and made good headway with moving older software applications onto modern, maintainable platforms and creation of a disaster recovery capability. Direct savings in operational costs have already been achieved. However, there has been less progress than we would have hoped for in using this platform to improve the efficiency of business processes and to deliver a range of e-services within government, to business and the public, with work only just beginning in one or two departments. The Isle of Man has fallen behind one or two other competitive jurisdictions here – Malta is perhaps the most obvious example, where a large number of government service are provided on-line.

The Government's own activity and progress in the use of technology will obviously impact the Isle of Man's market positioning as a technology focused jurisdiction, though we would judge this impact to be slight at the moment. However, there are other more direct reasons for government needing to get on with its business process improvement agenda – ones of leveraging the investment so far for even greater savings in cost. Also, we believe that further delay in the delivery of visible e-services, demonstrating government commitment to the use of technology, will increasingly tarnish the image the Island is trying to create in attracting new business.

## 2.5 Some general observations by way of summary

We think it worthwhile to stand back and observe what has happened over the period since 1999/2000 when the first review was undertaken and the e-Island policy and positioning was formulated.

Recognising the heavy dependence of the economy on the financial sector, the Isle of Man made good, clear and early decisions to diversify the economy, one being the idea of establishing the Island as a centre of e-commerce, and promoting the inward investment of business in this sector. Since then it has:

1. Been an early implementer of open, flexible e-legislation – which has stood the test of time, so far;
2. Created a clear policy on its e-strategy, the vast majority of which is as relevant today as it was 5 years ago;

3. Created a strong market positioning statement, which it has delivered consistently over the period, and which has been recognised by competitors and “offshore observers” at least. This positioning is seen as something of a standard by competitors;
4. Clarified uncertainty over telecoms licensing and provision, encouraged the deployment of the latest technologies and eliminated telecoms weaknesses in the shape of single points of failure. At the same time, it has increased the real and potential capacity, introduced a degree of competition to off-Island connectivity and encouraged reduction in costs at least to compete effectively with direct Island-based competitors;
5. Seen its indigenous IT support industry consolidate and mature to the point where there is finely balanced competition and a degree of confidence about the future. A fragmented industry has been avoided;
6. Developed a strong esprit de corps between the public and private sectors, as exemplified (inter alia) by the “Creating the can-do economy” work concluded in April 2005 (which, by the way, we fully support);
7. After a false start, and despite a few mistakes from which lessons have been learned, established what looks to be an encouraging cluster of new businesses around on-line gaming;
8. Become confident about taking more entrepreneurial risks in the balance between regulatory prudence and creation of a can-do environment;
9. Replatformed government with modern technology, making substantial savings and providing a springboard for greater efficiency, improved business processes and better e-based services for the community.

This is a summary, but by any standards a satisfactory performance. Of course, there are lots of opportunities to improve on this, but in our judgement this performance would be the envy of most direct competitors, certainly the island-based ones.

One might be inclined to question, if this performance was so remarkable, why there have been relatively few newcomer organisations beyond the on-line gaming cluster. Performance here has been steady, rather than meteoric, for sure; more tortoise than hare. But extending this latter analogy, the Isle of Man has made steady and positive progress, and with some minor changes to strategy and approach still has every opportunity to win the race. The race is not a sprint.

## 2.6 Recommendations

We recommend:

1. Modification of the market proposition to de-emphasise e-business and to develop a new, distinctive differentiating theme (We suggest “Convergence”) whilst retaining core principles;
2. Adoption of the organisational model that has worked well for on-line gaming: contracted industry specialists working alongside a government officer;
3. Increasing the investment in tackling the opportunity with a view to accelerating the returns;
4. Packaging of specific offerings for DR and hosting (and possibly development and support of IT) in finance and gaming, followed by targeted selling campaigns for each, with sales performance closely monitored;
5. A packaged, targeted and sustained campaign to inform intermediaries. We believe an annual, high quality directory (or perhaps desk diary) containing the sales proposition and key contacts might be a start, coupled with regular information briefings;
6. Consideration of the proposed target sectors, followed by packaging of targeted offerings and a directed sales campaign;
7. Dropping grants from the explicit sales pitch, concentrating on those things that newcomers have told us are of value (taxation, access to capital, quality of life, welcoming environment with like minded people, good infrastructure and support);
8. Getting on with the new Gaming Act, clarification of the DR rules for active and passive users and development of legislation for regulation of e-money issuers and money transfer agents;
9. Continuing focus on delivery of e-government services;
10. Review the competitive threat on VAT and adopt appropriate defensive measures where necessary;
11. Review whether there is any mileage in some aspect of fulfilment of goods, at least for inter EU transfers with profit-taking in the Isle of Man;
12. Encourage the use of the welcoming and hand-holding services for newcomer staff;
13. Consider a register of Manx expatriate graduates as recruitment targets;
14. Ensure that the current campaign to permit Isle of Man marketing of gaming to the UK succeeds;
15. Sustain the improved spirit of entrepreneurial venture.

### 3. DETAILED OBSERVATIONS

#### 3.1 Background and market developments

Much has changed since the time of our last review, in 2003. At that time:

1. The Isle of Man had been successful in attracting a number of on-line casinos (MGM, Rank etc), but there were the first signs of problems with that sector;
2. The MT licence was in the process of being renegotiated, but its terms were not clear;
3. Cable and Wireless had been licensed to make use of its cross-Island cable, but it was not yet clear how they would approach this and the impact it could have on MT pricing;
4. After a first flush of enthusiasm for new types of venture, (eg F-Sharp), there were signs that ICT-work in the finance sector was becoming just part of business as usual;
5. There were continuing concerns about the health and stickiness of the finance sector. Some banks were looking to consolidate IT in Jersey, due in part to the VAT-free environment for IT equipment, and at least one (Abbey National's offshore IT) had already gone. Insurance was having a tough time, and forecasts suggested banking was facing somewhat of a downturn;
6. The local IT industry was unsettled and looking for closer engagement with government to improve prospects and outlook;
7. e-retail and on-line buying had taken hold and was growing rapidly, though the "dot com" bubble had burst, and much of the associated madness had gone;
8. Government had embarked on its own e-enablement programme, but it was early days;
9. The EEC directives on distance selling of goods and financial products were finding their way into national legislation, and proposals on taxation of digitally delivered services were reaching conclusion. Meanwhile the Isle of Man had announced its intention of moving to a zero percent corporation tax regime;
10. The Isle of Man had established its positioning as an e-friendly jurisdiction and had held its ground in relation to its competitors;
11. There had been some successes in attracting new business (the casinos, Inca Gold), but it was proving tough work and a few potential newcomers had fallen away. Progress was steady rather than strong, but there was a strong feeling that the Island had set the right course, with its focus on e-commerce policy and appointing Tim Craine to act as the anchor for this.

In the intervening time, the market has again moved on.

In the finance sector, amongst many others, the impact of the Internet and e-business in business as usual has allowed business increasingly to outsource commodity processes (usually back-office and IT-related work and processes) and to do so remotely to really low-cost jurisdictions, such as India, China and the Philippines. Although there have been a few wobbles – Dell had to revert to its Irish call centre after a debacle with its replacement Indian operation due to cultural and communication difficulties, for example – there has been an inexorable trend in this direction. The two main thrusts have been in call-centre work (which the Isle of Man has thankfully avoided) and in IT mainstream support and development. However, what has not yet developed is a market for truly remote hosting and disaster recovery, in our view because most businesses regard these as critical and core to business, and because of the inherently short time constraints involved, and the need for proximity to high speed, reliable and low latency telecoms, with the quality of support to go with these. Simply, remote “offshore” locations do not yet provide sufficient confidence in stability and skills to warrant the savings in cost. So this remains an opportunity for “near shore” jurisdictions for the time being, at least.

On-line collaboration between companies has continued to grow, but the much anticipated field of collaborative e-purchasing seems to have slowed, and we have not seen any really new concepts in business to business use of the Internet. Rather, the Internet and associated technologies are simply increasingly being used for inter-organisational direct communication, and for the bilateral joining up of electronically enabled processes.

We can also now see the real beginnings of telephony, Internet and IT convergence at a macro level, and anticipate a number of innovations in what was traditionally the telecom provider markets – increased consumer and business use of voice over IP is one example of what we see as the beginning of a wave.

In the business to consumer market growth has continued at exponential rates: it is now possible to buy almost every conceivable item on-line. There has been a consolidation towards known brands, with the well-established high street names usually (but not always) winning out. Fulfilment has become a major industry in its own right, and there are clear signs of companies being smarter in terms of costs and taxation in order to provide the most competitive pricing for products in particular markets – especially Europe.

The market for digitally delivered goods has also grown hugely, as expected. Legal downloading of music and video is now commonplace (after a spate of peer-to-peer bootlegging), and sales in this dimension are now reported in published statistics. Video on demand and TV over the Internet are not yet proven technologies on a public scale, but with increased bandwidth to the home it is only a matter of time: advanced trials of this are being undertaken by industry majors as we speak. Even delivery of premium information is beginning to gain some traction, as consumers and businesses become more attuned to the concepts of paying for value in data. And e-ticketing and booking for airlines, theatres and cinemas and other forms of transport are becoming the norm. These zero-mass

services are ideal for island jurisdictions like the Isle of Man, and these still have lots of growth potential.

Against this general backdrop, in the following sections we review how things have moved on for the Isle of Man and distil out what we see as the opportunities and threats for further economic development, based on ICT-rich business.

### **3.2 The importance of the strategy and the role of e-commerce director**

There can be little doubt that the Isle of Man has demonstrated its ability to “stay the course” over the past 5 years, in a way that is recognised and respected by competitive jurisdictions. Although Charteris had a hand in helping formulate the e-commerce strategy of the Isle of Man, and in the appointment of a director of e-Commerce, and therefore comes with an inherent bias on this topic, we believe that the establishment of the strategy, the appointment of Tim Craine to his role and the continuing support and consistency that has been given to both of these has been key in achieving the Island’s strong position.

Where other jurisdictions have published strategies, they either failed or commitment to them has faltered. Those jurisdictions who did appoint a champion have in all cases suffered substantial turnover and more than a few “accidents” along the way. In the Isle of Man the strategy has adapted in subtle ways, but has been consistently re-affirmed and applied. Tim has managed that strategy through some tough times – the departure of the large on-line casinos being one case – and periods of uncertainty. Whilst there remains much to be done, much has been achieved:

1. The telecoms environment has improved considerably over the period, with the strategy as a key driver for change;
2. The local ICT industry has grown in business confidence and strength;
3. Facilities for hosting have improved considerably;
4. Private-public sector involvement has improved significantly;
5. Digital divide issues have been addressed and have shown the way under the Anglo Irish agreements. Agreed actions have been fulfilled;
6. There is well-founded enthusiasm that the strategy is beginning to achieve real results in terms of economic contribution;
7. Although we propose some subtle adaptations of the strategy, its core remains as a foundation on which the benefits of the “zero corporate tax” proposition can be built.

### **3.3 The ICT support industry**

The Isle of Man has always had the benefit of a small but skilled and competitively balanced IT support industry, something which is a real advantage (or at the very least, not a disadvantage)

compared with virtually all island-based competitive jurisdictions. In our two earlier reviews, however, we found an industry that did not exhibit particular confidence about its future. For example, we found concerns that there was insufficient dialogue between the public and private sectors to ensure that growth opportunities were pursued and worries that government policy might increase competition in an already tight marketplace.

This time, we found none of these problems. Certainly, we would not characterise the ICT supply industry as complacent – yes, we heard a healthy number of suggestions on opportunities for government to improve (and would have expected no less) – but the overall impression is of an industry that is clearer about its strategic direction and much more confident about sustaining and perhaps even growing its business. We attribute this to the growth particularly in the on-line gaming sector of late and the belief that this time there will be some stickiness in this sector and it will not evaporate overnight. And the joint public-private sector work on the 2014 “can do” economy was described as “cathartic” and universally welcomed as focusing everyone on the future.

Two words of warning, however. Firstly, the ICT industry needs the opportunity for long-term growth, and this will only come if the Isle of Man is successful in its continuing quest to build a new pillar of the economy based on ICT-rich businesses. The initiatives here need to continue and, hopefully, accelerate – the job is far from done.

Secondly, there is an inherent fragility in the competitive balance between the on-Island businesses. They are still relatively small and (with a few exceptions like PDMS which has a high proportion of off-Island business) reliant on the local economy for their continuing health. If any one business were to fall by the wayside – due to a persistent lack of business success over a period of time – then there is a danger that the industry could become less stable and able to service the economic growth desired for. There will always be the opportunity to buy off-Island, and some will continue to do so. However, with respect to on-Island procurement if a single player became dominant, there is a risk that competition would disappear, leaving the Island with a significant disadvantage. We are not suggesting that market forces should be distorted in order to sustain unhealthy businesses – that would quickly lead to disaster. However, we do recommend that care is taken in any decision likely to have a bearing on the local ICT industry because of the inherent vulnerability in a small market with a small number of keenly balanced suppliers.

We were also much heartened to find a number of innovative offerings from the ICT industry in this review, building in a strongly entrepreneurial way on the advantages the Isle of Man has to offer. We would single out both Debit-Direct and Call-Key in this regard. Debit-Direct, an offshoot of Skanco, provides a very targeted set of money-transfer services to specific communities of interest – initially to the Australian expat community in Europe and expat owners of property in Spain. It provides simplicity and ease of transfer of funds at very competitive exchange rates using on-line Web-based facilities. [One of the authors of this report has already used it to good effect].

Call-key (supported in part by PDMS) is an interesting venture taking advantage of the ability to use the Web to create low cost calls using centre-out dialling of both ends of a call. Further innovations use specially created SIM chips to automate the difficult bit of the call set-up process and leverage the special relationships between MT and global mobile operators for roaming to offer global mobile telephony at much reduced rates.

Both of these ventures are in the early stages. We do not know how successful they will be. However, they appear to have been thought through carefully and have good backing, so they deserve success. For the time being, they seem to us good examples of the entrepreneurial spirit that exists in the Isle of Man and which is to be encouraged.

### **3.4 Hosting and disaster recovery**

As we have mentioned above in the background to this section of the report, we feel that there remain some untapped opportunities for hosting and disaster recovery services. These have not yet become part of the wave of offshore outsourcing, probably because of the need for control of business critical performance in this area, and because of the need for accessibility of world-class telecoms services and support. But even when the mass market for hosting and DR inevitably goes the way of offshore outsourcing, there will remain a niche market which the Isle of Man is in an excellent position to service – there is an opportunity now, and one which does provide a long-term reliable option for the Isle of Man to market.

Since our earliest review, the Isle of Man has had hosting and DR facilities on offer: the Skanco/Restart facility on then outskirts of Douglas, the Datacentre facility near the airport (now owned by 2e2, but not, apparently, actively marketed) and Manx Telecom's "data hotel" facility at the exchange represented the main offerings. Since our last review, Manx Telecom has significantly upgraded their capability by building a purpose-built hosting centre next to the new exchange at Douglas North, and has a potential for doubling capacity there. We understand that other investments in facilities are being considered and actively worked upon, too.

It was suggested to us by a number of newcomer and prospective companies that the on-Island hosting facilities were not quite up to world standards. We find this a bit hard to swallow. For sure, the facilities do not perhaps compete with the massive scale hosting available in North America and with the features of some government hosting facilities. But then, that is not the competitive market: the competitive market is for medium scale offshore hosting of finance, gaming and similar services and for DR support of these. We remain convinced that the Island has top-class facilities, and should market these aggressively.

The Isle of Man cannot seek to provide hosting on a very large scale (at least, not as a first step), but it does offer some niche capability in the regulated finance and insurance sector and in gaming. Indeed, the Isle of Man had the foresight to enact legislation to enable the siting of DR facilities for

regulated financial industries on the Island with no need for local regulation, provided there is mutual recognition with the regulatory authorities in the home territory.

So far there have been no material successes based on this legislation, largely because it has taken time to put in place the bilateral memoranda with the “owning” regulators. The first tranche of these is now done, so marketing and selling now needs to start in earnest. Some competitive jurisdictions (Jersey being the most obvious) implemented a simpler scheme and have also taken advantage, we hear, of the aftermath of events like hurricane Ivan in 2004. Nevertheless there is a window of opportunity that remains open. This is in our view a real opportunity, but one on which fast action is now required before it disappears forever.

Similar legislation is now expected in the new Gambling Act, currently being drafted. Here, too, some jurisdictions (again notably Jersey) are already planning similar legislation. It is important to recognise that it is not only legislation that is required, but also the practical rules for implementation. One prospective company in the gaming sector we met shed some light on the practical difficulties: for them the key issues include:

1. What periods of time does the waiver last for?
2. If a company wishes to run a hot-standby (as opposed to a passive back-up) and have the capability to run live operations from the Isle of Man for a period of time, when would regulation kick in, what taxes and duties would be payable to whom and what regulatory rules would apply (eg on testing)?
3. If resources needed to be brought in, what waivers of work permits and visas would apply?
4. What about jurisdictions where there is no mutual recognition?

These and the many other practical questions are presumably not that difficult to answer. It’s just that it needs to be done.

What do we think the Isle of Man offering should be? We believe you need to create a completely packaged solution for the offshore banking and insurance sectors, and a separate offering for the gaming sector. The complete package should be drawn together quickly, by marshalling the resources of the vendors (Domicilium, MT, Restart, Go), the regulators and representatives for economic development (Tim Craine, DTI), together with input from relevant companies, such as Neteller, Mohawk, Microgaming, Poker Stars etc. in gaming and the major banks and insurers for finance. The package would contain good summaries of facilities available, and straightforward explanations of the go to market proposition.

In the finance sector, we think the Caribbean banks and insurers would be a good target. This is a region that suffers from a major geographic disadvantage in being located in a hurricane zone. They therefore have good reason for needing a safe haven in case of emergency. Those banks which are

part of larger groups are already likely to have provisions in place (but not necessarily), so the prime target would be the smaller and independent companies.

There is a very real need: one example is the aftermath of hurricane Ivan, which is well described in <http://www.continuitycentral.com/feature0253.htm>. This represents one statement of the problem, and this, with a bit more research could provide a very good basis against which to formulate a packaged offering. Our judgement is that it is worth some concerted effort and targeted marketing, as it would be easy to establish whether this was a “winner” or not.

Similarly, a packaged solution could be put together for gaming, and then marketed directly to every on-line gaming company in every competitive jurisdiction. Even if the proposition itself failed, it would be a good way of meeting with and speaking to the companies involved about what the Isle of Man has to offer.

Both of these probably need DR, IT and sector expertise to sell, alongside government officers.

We should make one other observation here: from our remarks about Bermuda elsewhere in this report (and we feel the same may apply to other locations), there may be an opportunity to propose the Isle of Man as an “offshore” development centre as well as providing hosting. If the Bank of Bermuda sees the need to set up facilities in Stirling in Scotland, would the Isle of Man not offer a better opportunity? Key targets would be jurisdictions where there are serious immigration, skill shortage and space limitations. The positive sell for the Isle of Man would be taxation, regulation, understanding of the sector and its implementation in an offshore environment, highly developed infrastructure and telecoms and a European time-zone. Again, we think packaging of this, followed by targeted selling might produce some good results.

Finally, banks and other institutions which are unable to recover VAT will always find the Isle of Man (compared with those locations committed to a direct tax regime) an expensive place to operate a data centre, because of the VAT on computer equipment. We recognise that because of the common purse with the UK, there is no wriggle room available here. However, it will be important to recognise this weakness in creating the positioning statement for the Island. Clearly, if it were possible to find some counterbalancing benefit for investment in DR equipment that would soften this blow, it would help.

### **3.5 Competitive positioning**

In our last report we observed that the Isle of Man’s policy and positioning had stood the test of time, and we are pleased to report that we feel the same is true again. In the direct positioning for e-business a number of jurisdictions have fallen by the wayside, although a number have also picked themselves up and are dusting themselves off for what they describe as the second wave.

We have provided a detailed commentary on the main competitive jurisdictions in section 4 below. We would summarise our findings as follows:

1. Jersey: has lost the plot on e-commerce per se, but has been hugely successful in building a fulfilment business aided by the £18 VAT de minimus threshold, although this now seems under some threat, too. They see this as the fourth pillar of the economy alongside finance, agriculture and tourism. On e-commerce, there are some signs of regrouping and we note they are copying some Isle of Man initiatives (eg. DR hosting, strategy).
2. Guernsey has also lost the plot on e-commerce, and seems resigned to developing its indigenous skills and e-capability. However, Alderney has, under the leadership of Andre Wilsenach, been successful in developing a substantial on-line gaming business, in our view largely because of its willingness to take more risk than the Isle of Man. It is also getting around some of its telecoms limitations by allowing hosting on Guernsey for gaming purposes.
3. Bermuda is no longer a viable contender in the e-commerce market. Conversely, for some activities (eg hosting) it could become an attractive customer.
4. Gibraltar has had very limited success in general e-commerce, due to physical limitations, poor telecoms and the dispute with Spain. It has, nevertheless, built a substantial on-line gaming capability, but in our judgement this is at some risk due to uncertainties in taxation direction and ongoing telecoms and skills issues.
5. Malta has emerged as a further well-regulated on-line gaming centre and is marketing itself strongly in this area, using special deals on corporation tax rebates and low gaming duty caps as the attraction. More generally, its efforts on e-business marketing are quite muted, and it appears to be concentrating on developing e-government (where it is probably ahead of the Isle of Man) and in increasing local skills and maturity (where it has problems).
6. Luxembourg is not marketing itself strongly in e-business (and not at all in gaming), but has been fortunate in the incorporation of Voice over IP leader, Skype. The attraction of Skype to Luxembourg illustrates the benefits of having a local venture capital industry. Mangrove Capital Partners, which attracted Skype to Luxembourg, has a new technology venture capital fund (NTVC), targeting European technology startups. The NTVC fund is supported through the European Technology Startup Facility, a program under the Growth and Employment Initiative of the European Commission. In addition, Luxembourg has a potential VAT advantage for selling of digital services, due to its low (15%) rate of VAT.
7. The UK and Ireland continue to provide a threat, due to their proximity and relative size. On the UK side we are particularly concerned that secondary legislation and policy following publication of the gambling act might undermine the Isle of Man's on-line gaming business, particularly if the right of advertising in the UK is denied. Ireland will continue to target hosting and DR in the finance sector, using its Freeport capability.

The market propositions of most competitive jurisdiction have followed the Isle of Man lead and are now beginning to look almost indistinguishable. We suggest the Isle of Man story should be subtly changed to maintain some separation from the pack.

Overall, the Isle of Man has held its own, and we recommend more of the same, with a light touch on the policy tiller to maintain a differential.

### **3.6 The on-line gaming sector**

During our last review, the on-line casinos were very much present on the Isle of Man, but were showing some initial signs of discomfort. Since then, that particular wave of gaming has collapsed. We were obviously interested to know why, but found it difficult to get a consistent story from the people we met, or from our researches.

There appear to have been three main factors:

1. Firstly, the companies and the regulatory regime had initially been set up on the assumption that every reasonable measure would be taken to prevent access to US citizens, for whom on-line gambling is illegal. This was important to the likes of MGM, as they wanted to protect their extensive investments in Nevada, Mississippi and New Jersey. In practice, it appears that the market, without the huge contribution from the US, just didn't offer a viable business model, which explains why some of the companies (eg MGM) haven't just relocated somewhere else – they have stopped business for the time being, at least (though we understand they are watching events in the UK, however).
2. There was some concern, which we reported last time, that the promise of flexible regulation had been oversold, and when particular problems arose the expected flexibility did not manifest itself.
3. There were unexpected difficulties relating to KYC

It was perhaps also inevitable that as first to market, the Isle of Man's experience in legislation, regulatory control and customer service was going to come under pressure. Somewhat frustratingly, and led by Alderney, most jurisdictions subsequently decided not to police the laws of restrictive jurisdictions like the US and leave licensees themselves to decide from which geographical territories to accept wagers. However, this came to late to save the day.

In the event, the on-line casinos went, and the Isle of Man suffered a bit of competitive knocking as a result. But lessons appear to have been learned, and with a re-energised marketing effort through the DTI – using a series of industry specialists under temporary contract to support the officer-led initiative – a significant turn-around has been achieved. A number of on-line gaming companies, and support organisations in the shape of Microgaming and Neteller have established themselves on the Island.

When we spoke to the newcomers, we were struck by the emphasis they put on not just the taxation benefits (which are unquestionably the primary incentive) but also the other factors, such as stability, quality of life and the existence of a community of like minded people. It is too early to be sure, but this sounded like the beginnings of a benefit of the stickiness that will come with successful critical mass in clusters of similar businesses. If this can be built on further, it is conceivable that the Island will be able to retain this new pillar of the economy on a long term basis

Neteller has proved to be a significant catch for the Island, and it is almost universally referred to as providing a turning point. Its origins are as a Canadian company and it still retains a call centre in Calgary. However, it was looking towards a flotation and the combination of access to London markets, a highly-regarded regulatory jurisdiction and a low corporate and individual tax environment for its principals proved to be a convincing proposition. In the event, Neteller has had a very successful flotation on AIM and is now a highly profitable and rapidly growing organisation, headquartered in Douglas.

We have two observations about the bringing of Neteller to the Isle of Man. The Isle of Man currently has no formal regulation for businesses of Neteller's (and, we assume Debit Direct's) type, having consciously chosen to see how EU legislation for e-money providers works out before committing. This seems a sensible approach – similar to that adopted for the e-commerce legislation in 2000 – when the Island took a broad view of emerging legislation around the world and opted for the beneficial and open Australian model, and then became an early, second round adopter. This has turned out to be a good decision, avoiding the pitfalls of those who rushed in with ill-considered legislation. Because of the absence of legislation, the pragmatic decision was made to have Neteller fall under the auspices of the FSA in the UK for the time being, taking advantage of the proximity and closeness of working ties with the UK authorities. We believe that this pragmatic and prudent approach should be applauded as an excellent example of the flexibility of government.

We understand that agreement has now been reached that new legislation will be passed to cover this, and that FSC will take over responsibility for regulation following this.

The second issue of interest is that we understand that, when it decided to look for an appropriate jurisdiction in which to locate, it approached its then auditors. Although those auditors have a branch in the Isle of Man, the Isle of Man was never raised as a potential target. It was only by accident that the opportunity was identified, and a fast response by the Isle of Man Government saved the day. This is one example showing why we believe that more needs to be done with intermediaries both directly, and through their on-Island representation. We have some suggestions about how to do this in our recommendations section of this report.

From what we understand, there exists a reasonable pipeline of opportunity in the peer-to-peer on-line gaming and related market, and we can only comment that as there seems to be a winning formula, this should be adhered to for the time being. Peer-to-peer gaming is likely to demand low-latency heavy off-Island telecoms bandwidth, and so represents both the solution and problem on

the bandwidth cost issue. These companies will want lots of bandwidth cheaply, and the providers will be able to reduce costs when the bandwidth is committed to. This leads to a potential impasse which needs to be broken somehow, and soon.

We should also report that there is a mood of optimism that regulatory control is showing itself to be much more flexible than previously, which is encouraging. We did observe, however, that there was a rumbling undercurrent of discontent regarding the rules to be applied for testing of on-line gaming software, with the industry opposed to disclosure of source code for this purpose, and the GCC taking an apparently opposing position. It is not our role to adjudicate on these matters, but we wish to make three observations:

1. A number of the Island's most direct competitors (eg Malta) explicitly do not require access to source code.
2. From the perspective of current software state of the art, we believe that there is little or no value in inspection of source code, as what matters is how the source code, when translated into object form, operates in reality. Examining source code could lead to misleading views about how the software operates in its target environment. The operation of a given piece of source code is not deterministic – it depends on how it is translated and operated.
3. One competitive jurisdiction (Alderney) takes the simpler route of requiring audit and, following audit, delivery of such things (including source code) as might reasonably be required to allow a full investigation of anomalies or issues. It appears to take the view that if there is something suspicious in practice, it then has the right to get to the bottom of it. This would seem to take the steam out of the argument about whether source code disclosure is required or not.

Finally, we understand that redrafting of the Gambling Act is under way. This seemed to be universally welcomed, as was the engagement of top international lawyers in the field to draft this. We heard some concern about the pace of this work, and the timetable for delivery, however.

### 3.7 Telecoms

In our last report, we reported good progress on telecoms – since our 2000 review the limitations in cable access to the Island had been removed, a new licence was in the throes of negotiation and a conditional licence had been issued to C&W to introduce an element of competition for off-Island traffic as well as to provide access to a further cable for resilience purposes. Since then, the licence terms have been concluded, and on the back of this MT has invested in building a second exchange – providing long-needed resilience – and a new, world class hosting centre.

The 3G trial was arguably a considerable PR success, even if the system was never really used in anger, and MT have now just launched the world's first 3.5G HSDPA mobile service.

These are all good news for the Isle of Man, keeping it ahead of most of its most direct island-based competitors, who are some years behind in terms of telecoms maturity.

The introduction of competition through the licensing of off-Island access via the Cable and Wireless cable appears to have had some effect on lowering off-Island bandwidth costs, though more might be expected if C&W were to take the opportunity to sell more aggressively and competitively to major businesses.

Our limited review confirms what was found in the December 2004 report by Pure Pricing – for leased line costs, the Isle of Man is cheaper than directly comparable competitors like Guernsey and Jersey for connection into key centres like London – and there is marked downward trend in costs overall. However, it is clear that there remains a perceived problem here, as newcomer companies, existing firms and prospects all told us that in order to stimulate business and create an environment where hosting is really attractive, the Isle of Man has to compete not just with other islands, but also locations like the UK and Eire.

There is no easy answer to this: long-haul telecoms costs are a capacity game – the more you use, the lower the price. The danger for any telecoms provider is in offering lower prices on the basis of a promise that has not been fulfilled, and we are aware that in the past there have been occasions on which MT has fallen into this trap. There seems little doubt that the opportunity is there to break this impasse – the peer-to-peer gaming providers need capacity likely to be many times the total current demand, and this ought to lead to generally lower costs for everyone. There is also the prospect of MT launching MPLS (multi protocol label switching) which allows much finer subdivision of long-haul capacity without compromising performance and resilience, and this could lead to better affordability by allowing customers to buy only capacity that is needed, and not have to suffer large price increases when the next step-up has to be acquired. If this problem can be cracked – and it looks as if the probability is that it will be in the near term, then this will really provide an additional lever to aid the opening up of the hosting market place.

We also heard concerns over mobile costs, the implications of roaming with respect to the UK providers, and the absence of certain technologies which are popular amongst high-tech companies – eg Blackberry devices which are unavailable in the Isle of Man. MT is aware of this last point and says it has tried to get Blackberry to take up an interest, but so far without success.

We received a few complaints about the issue of MT both providing ADSL and ISP services and being the monopoly wholesaler, and some incidents involving the openness of pricing changes which led to a margin squeeze for non MT providers. These concerns seemed to us in proportion to the kind of issues that get raised in any economy – there have been similar issues in the UK – and this ought to be a matter that can be dealt with by effective and active regulation, with appropriate penalties being applied.

A final point on telecoms: we understand the Government intend to invite tenders for the lighting and operation of some of the MEA cable fibres, as an alternative off-Island carrier to MT and C&W. We are sure that the Government is right in ensuring it remains at arm's length from any such use of the MEA cable – any implication of Government managing critical telecoms resource is likely to distort the market and damage some of the excellent progress the Island has made. It will be interesting to see how much interest there is in this tendering process. We keep an open mind, though we have doubts as to the commercial viability of this given the massive over-capacity in off-Island cables and the likely downward trend in pricing over the coming years.

### **3.8 e-government and public/private partnership**

The development of the Government's own e-business activities is often key to underpinning the image of a jurisdiction with respect to the development of e-business in its economy. In the past three years, the Government in the Isle of Man has made significant steps forward in providing a modern technology platform for government, and in integrating its telephony and data networks thereby making substantial reductions in ongoing operating costs. The project has also been an important vehicle for creating on-Island expertise in the design and roll-out of enterprise-scale desktops and networks using the latest technologies. We are sure this will have spin-off benefits for the Island in its market positioning for inward investment.

On the other hand, we observe that the Government has been slower than many of its competitors (eg Malta, UK, Jersey) in using this technology platform for significant business change, efficiency gains and headcount and cost reduction (or at least, release of funds for other investment). Initiatives have started, and we understand work is in hand in a few departments. Our judgement is that this has not so far impacted the Isle of Man's positioning on e-business, but there is a risk if take-up is not accelerated. We understand this is an issue being tackled within the scope of the government organisational review, and we would encourage this to ensure that the government obtains the maximum return on its investment in the technology programme

At the time of our last report, we noted there was some feeling that one of the key pillars of the Isle of Man's market proposition – private and public sector working together – was more aspiration than fact. Since then, it is clear that major strides have been taken. All of the indications this time show that there is a feeling of openness and collaboration between private and public bodies. In particular, the 2014 study – creating the can-do economy – work is seen as being an important turning point.

### **3.9 Workforce, education**

We have previously reported on the high quality of ICT education in the Isle of Man's schools and the high density of PCs available to students. In our work on the "Digital Divide" issue, we encouraged the extension of DTI awareness education as well as the development of targeted training for special communities of interest. Much of this action has been taken, and we understand

that the DII is now putting much more emphasis into vocational skills training, including team leadership and the like.

This is all very commendable, and places the Island well in this respect. However, the reality will continue to be that there is close to full employment, and that new business and growth is likely to mean the recruitment of staff from overseas. In reasonable numbers, this is no bad thing, and the Isle of Man's freedom here is an important differentiator compared with other island jurisdictions, with some exceptions, such as Malta.

Given this, and given the continuing loss of Manx graduates to the local economy, we wonder whether consideration should be given to creation of a register of Manx students overseas, so that these can be targeted by newcomer companies as suitable recruits. It might be possible to tie registration to the provision of a Manx grant or fee support. Even if this scheme had a low success rate, the benefits could be substantial: Manx graduates are much more likely to return and stay, and build local strength for newcomer companies. A newsletter including an e-business update could be used to stay in touch with these graduates, in much the same way as the UK universities are now striving to maintain and leverage relationships with their Alumni.

### 3.10 Legislation

As we noted in our last report, e-commerce legislation is no longer a competitive issue for market positioning, since all competitive jurisdictions now have some form of such legislation in place. There are many variations, but we doubt that the subtle differences mean much in terms of the attractiveness of a particular jurisdiction over another, compared with taxation and regulatory matters.

There are a few things that we do believe need attention, however:

1. As we have noted in our comments on hosting, we think there would be immense value in developing, in the context of a go-to-market offering for finance and gaming, clear operational rules to be applied to the hosting of DR facilities in the Isle of Man, covering both passive backup and hot-standby type arrangements. We understand that memoranda of understanding have recently been agreed with other regulators in the finance sector, and that work has commenced on drafting the rules for gaming;
2. There is a clear need for legislation covering e-money issuers and money-movers, such as Neteller and Debit Direct. We understand this has been agreed in principle, and that the FSC will act as the regulator. This will allow robust, local regulation of such firms;
3. There is a need to keep the pace up on redrafting of the Gambling Act. Matters need to be brought up to date and the flexibility of an enabling Act with subsequent secondary regulation will be helpful. Some competitors are catching up – Jersey, for example;
4. The right to advertise gaming in the UK needs to be explicitly agreed.

### 3.11 Taxation

The promise of zero percent corporation tax is now a reality, with some industries already having been brought into the scheme and the rest to follow in April 2006. This, combined with low personal taxation, absence of CGT and IHT, have caused a considerable stir and, we are sure, has aided the development of an improved “sales” pipeline. We are in little doubt that this alone will be an attractive proposition to those who find out about it, and that for existing private companies looking for a partial exit, the powerful combination of zero corporation tax, low personal taxation and absence of CGT and IHT with access to capital markets, including AIM and LSE in London, will prove irresistible.

This policy has put a “cat amongst the pigeons” with competitive jurisdictions. Guernsey, Jersey and Gibraltar all have direct taxation policies with zero VAT or sales tax. In consequence companies have to be offered special status, increasingly under pressure from the EU and OECD, to compete. Gibraltar is considering introducing a payroll and commercial property tax, and it is believed Jersey and Guernsey are considering likewise, but the EU is taking exception to this in the case of Gibraltar, as it puts non-resident companies into an unfair position. Malta, as a full member of the EU is likely to be put under pressure, too, to remove some of the special deals for non-resident companies before much longer. All of this points to the Isle of Man having a taxation advantage, and for this window of opportunity to be around for a while.

Clearly, with its position in the “common purse” and its reliance on indirect taxation, the Isle of Man has some disadvantages, too. The introduction of EU legislation for the taxation of digitally delivered services means that Manx-based companies have to charge 17.5% VAT on digitally delivered services to consumers in Europe. This gives it a slight advantage over higher VAT regimes, such as Denmark (25%), Belgium and Ireland (both 21%). It is at a disadvantage to lower tax jurisdictions, such as Luxembourg and Madeira (which both charge 15%).

We note with interest that some jurisdictions have especially beneficial rates of relevance to digitally supplied services. The most obvious examples are travel agency (Denmark and Ireland have these zero rated) and cable and pay-TV (where France and Italy have low rates). Whilst the rules on place of supply are notoriously difficult to follow, there is a general principle that for an EU-resident company supplying to an EU consumer, digitally delivered services are taxed at the rate in the supplier’s country, unlike for physical goods where the customer’s country rate is applied. Non-EU resident companies pay VAT at the rate in the customer’s country, irrespective of whether it is a digital service or physical goods that are supplied.

This may lead to EU-resident companies taking advantage of incorporation in a country with low VAT rates on its services. On the face of it, a company selling video on demand to consumers over the Internet, for example, (and this is a technology that will be with us soon) could take advantage of the French and Italian low rates applying to TV. The Isle of Man, with an average rate of VAT, has a neutral attraction in this regard, and, of course, is able to offer other tax benefits which may

compensate. However, this potential disadvantage, especially in the emerging area of media, telecoms and Internet convergence, needs to be considered in establishing the Island's sales message.

For the delivery of physical goods, it seems unlikely that there are any opportunities for the Isle of Man, as the key current advantage appears to be for non-EU jurisdictions to take advantage of the £18 de minimus charge and to fulfil goods supply to EU consumers. Jersey has made a substantial business from this, though is probably under increasing pressure to close this loophole. Also, it might be questionable whether fulfilment represents the kind of high value, knowledge industry that the Isle of Man is seeking to attract.

The one other issue on VAT is the fact that banks are unable to recover VAT, and therefore in comparison with, say, Jersey or Guernsey, the costs of ICT equipment and brought-in service is high. This is a disadvantage for Banks considering hosting in the Isle of Man, and possibly for DR for such companies. It may be worth considering how to position this issue, and whether there are other means by which such disadvantage could be defrayed, possibly by capital allowances or some such mechanism..

### **3.12 What newcomers and prospects think**

As with our previous reviews, we spoke to a number of companies who have chosen to base in the Isle of Man, as well as some still considering the position. Given the current upbeat state of the market we had a little more to work with this time than previously.

We found a surprising degree of consistency about what these companies and individuals told us. The following were all highly valued:

1. A strong business environment, with good support companies and infrastructure and first-class ratings and standing;
2. A safe, secure and welcoming social environment – “great place for young families”, “nice place to live”;
3. For some, the existence of a group of like-minded individuals for corporate and social contact;
4. Excellent taxation proposition, both corporate and individual;
5. Close and easy access to UK and European capital markets;
6. Sound regulation, where relevant;
7. Easy access to government, and a flexible attitude, and for those companies already incorporated it was notable that this was the reality as well as the sales pitch; and
8. A government with a clear policy, the will to make things happen and the resources (in Treasury and DTI) committed to the task.

The persistent negatives were:

1. Absence of air links via Heathrow;
2. Absence of a hand-holding resource to smooth the arrival of newcomers onto the Island (though we understand that there are some private sector initiatives addressing this issue, which should be encouraged); and
3. Concerns about off-Island telecoms bandwidth costs.

An interesting consistent theme was that there was little interest in direct grant funding. The attitude was “if the government wants to give us a bit of cash, we’ll take it...but it would not sway our decision”.

The other factor which came out strongly, mainly but not solely amongst prospects, was that intermediaries – lawyers, financial advisors, boutique deal-makers and VC-like organisations – are key influencers regarding the jurisdictions that companies choose. They have a habit of recommending the well-trodden path, and networks of friends and colleagues are vital in this respect. The Isle of Man is not yet on the well-trodden path for most of these, which leads us to believe that much more effort needs to be put into getting through to these companies, in the UK, Europe and more globally. We have some suggestions about this in our recommendations section.

### **3.13 Approach to the market**

What thoughts, then do we draw from this analysis in terms of the Isle of Man’s positioning with its market?

Our first observation is to strengthen our view, expressed in our last report, that e-business as a label has become old hat. We feel that there is a risk in persisting with a separate “e-business” agenda – the risk of looking set in our ways and not moving forward with the market. What really interests the Isle of Man now is general incoming businesses to support a broader based agenda of economic development. Many of these businesses will have a heavy dependency on ICT, and therefore the underpinning benefits positioning may not change all that much. But we feel that the headline and strapline need restating and refreshing.

As we will come to in our suggestions about market sectors a new, fashionable theme is emerging – convergence. This is a term being applied to the way in which business to business and business to customer relationships, mobile technologies, telecommunications, information, media, television and entertainment are all coming together. New opportunities are being forged by the bringing together of capabilities in different technologies. Voice over IP is revolutionising telephony with increasing numbers of people using the PC, rather than a telephone; IP television is about to emerge (it has been pre-announced by Microsoft, for example); instant messaging and teleconferencing are becoming indistinguishable; mobile payments are beginning to get to the practical level, the wi-fi, 3.5G and GPRS continuum is set to replace some fixed telecoms; new options in affordable telecoms

appear virtually daily – these are all examples of the start of a revolution in the way we use technology at business and at home.

The Isle of Man has many assets that place it well in this arena: 3.5G, a growing online business sector serving global markets, early switchover to digital TV. It has some potential advantages for the hosting of digital services (if it can counter the countervailing VAT issue). It has superb capacity and connectivity. It has been fast to react to opportunity, and has the space and determination to achieve growth. We think with this in mind, a positioning on the theme of “First in convergence” might be one option, worthy of some debate.

In practical terms, we observe that the model in the on-line gaming sector of coupling an industry specialist on a term contract with the solid anchor of a government officer has worked well, as has special attention to packaging particular offerings for a particular market. We feel that this is the model for moving forward: individual target markets should be chosen, offerings drawn up and packaged, and secondees from those sectors engaged to take the proposition to market. Possible markets to consider are described in more detail in the following sub-section, but we would include, amongst others:

1. DR for banking
2. Hosting and DR for on-line gaming
3. Further on-line gaming and mobile gaming
4. Hosting and headquartering of digitally delivered services
  - a. Music
  - b. Video/video on demand
  - c. Digital information services
  - d. E-ticketing (transport and entertainment)
  - e. Travel agency
  - f. White label mobile and internet services
5. e-money issuing, transfer and management
6. Innovative telecom services
7. Brokering and registration services

We also see renewed efforts in keeping intermediaries informed and network as key to success across all of these sectors, and would advocate renewed efforts in that direction.

We feel sure that focused sales and marketing effort in this way will help achieve continued and improving results.

### 3.14 Looking forward

#### From Technology Convergence to Business Convergence

In the first wave of e-business adoption towards the end of the last century there was a wave of technology convergence in which digital technologies replaced the existing technologies used for a wide range of previously disparate areas including telephony, television, cinema, printing, photography, written communication, business records, musical recording/playback, medical diagnosis and publishing.

Now that the older technologies have been replaced by digital technology, we are now entering a second wave of convergence in which the businesses based on these digital technologies are converging. Examples of this convergence are as follows:

1. NTL expanding from cable television to telephony to video on demand to mobile telephony through its recent bid for Virgin Mobile.
2. France Telecom, previously a fixed line operator, buying Orange mobile telephones and the Freeserve (Wanadoo) Internet Service Provider and announcing a rebranding of the entire offering to the Orange brand.
3. The merging of America On Line (Internet Services Provider) and Time Warner (Entertainment) and the subsequent investment by Google (Internet Search company) in 5% of AOL.
4. Apple Computer expanding into musical and video digital downloads through its iTunes service. According to NPD, which tracks people's buying habits, in the USA iTunes is now in the top ten list of US record sales. Also, the Recording Industry Association of America has published figures indicating that digital music sales have reached 4% of the market compared with 1.5% in the first half of 2004.
5. eBay on-line auctions buying Skype on-line Voice over IP telephony.
6. Encyclopaedia Britannica discontinuing its paper encyclopaedias and publishing through digital media in competition with a competitive offering (Encarta) from software supplier Microsoft.
7. Sony buying Ericsson.

These converged businesses have a common need for packaged software to run the business (including for example customer relationship management and enterprise resource planning software)

and increasingly these companies want to deploy such software centrally and have it accessed remotely through virtual private networks over the internet or managed telecommunications services.

Remote access to centralised services is the driver for a new wave of internet business, sometimes referred to as “Web 2.0”. Web 2.0 is about services delivered over the web without the need for users to install software on their local computers. Web 2.0 opens up opportunities for businesses to centralise their IT services for access through Internet browsers and also opens up opportunities for third parties to offer business services accessed directly over the Internet.

The Isle of Man is well placed to attract third parties offering web-based business services because of its physical proximity to the UK for flying over to negotiate deals, its strong telecoms infrastructure and the tax advantages. An example of such a service would be to trigger the initiation of two outgoing telephone calls to connect two parties in response to an electronic message from a dating Internet site (Call-key is one example of this, though there are others). Connecting buyer and seller through eBay using Skype is another example of the value of triggering calls from Internet sites.

### **Harnessing the power of Intermediaries**

From our conversations with professional advisers and entrepreneurs we found that in considering where to locate its business, companies are influenced by a range of professional advisors including accountants, brokers, lawyers and personal contacts. Information from these professionals, combined with information gleaned from other sources, such as trade shows and trade magazines, influences the decision making process leading to detailed evaluation of particular locations of interest by a company’s directors followed by visits by key staff.

There is an opportunity for the Isle of Man government to consider stimulating this process through:

1. Ensuring the professional advisers have up to date information about the IOM. In general we found that professional advisors were aware of the Isle of Man. However, few had up to date knowledge of e-business activity on the Island and some mentioned that it would be helpful to have an Isle of Man directory of useful business information to help companies and advisors interface with on-Island resources. Here are some actions to consider:
  - a. Publish a directory of on-Island advisors, including on-Island non-executive directors who could become non-executive directors of businesses moving to the Island. The non-executive directors can play a helpful role in engaging with potential entrants to facilitate their move across. Guernsey publishes a directory of on-Island advisors in paper form annually and professional advisors find this helpful.
  - b. Send round a newsletter to on-Island and off-Island professional advisors highlighting news of e-business activity in the Island and news of upcoming tax changes. Currently advisors who are aware of the tax advantages of the Island are

not able to articulate its advantages for e-business but would be able to do so if sent appropriate material.

- c. Encourage on-Island advisors to network with off-Island advisors within their own businesses and externally. (We note from our conversations that some on-Island advisors are quite active in promoting the Island externally within their own businesses and others are quite passive).
2. Ensuring that target industry sectors (such as gaming) continue to be made aware of the advantages of the Isle of Man through promotion of the Isle of Man at key industry conferences, through the key industry magazines and through relationships with analysts or industry commentators who can write editorial about the Isle of Man. We note that the Isle of Man has now grown a good reputation in gaming such that brokers now prefer to direct their clients towards the Isle of Man rather than other jurisdictions. This is because of the pro-active steps the government has taken to welcome this industry and the “safe pair of hands” reputation of the Island.
  3. Encouraging the set up of an on-Island satellite of one or more private equity investors to provide a local source of cash to catalyse growing companies and pull them to the Island.
  4. Activating the network of Manx ex-patriots to promote the Island in their businesses. For example, it was the combination of Tim Craine’s enthusiasm and the enthusiasm of a Manx ex-patriot Virgin employee that influenced Virgin’s recent consideration of the IOM as a business location.

There is also an opportunity to network with intermediaries to find out more about upcoming areas of e-business activity and private equity investment. For example, Draper Fisher Jurvetson and Mangrove Capital Partners, co-sponsors of Skype, particularly look to attract companies that achieve dominance in a niche such as peer-to-peer computing, gaming, mobile value added service or network management.

### **Targeting companies with the appetite to move to the IOM**

We noted the following characteristics of entrepreneur-run companies that were able to move location or to set up an additional location on the Isle of Man:

1. A workforce with deep skills in a narrow niche mainly comprising young, mobile, staff who did not in general have families and children to move across;
2. A small number of large customers with whom they have very close relationships;
3. A global approach to recruiting because they find that the local talent pool, even in a large city, is limited;

4. A growing stream of significant profits that make the tax advantages of the Isle of Man attractive.

We found that early stage companies and early stage company advisors were less likely to consider or recommend a move to the Isle of Man because such companies are not yet making sufficient profit to benefit from the Isle of Man's tax advantages.

We were advised that taper relief on UK capital gains means that, in practice, principals of UK-based businesses would be taxed at significantly less than 40% on capital gains. This meant it was less likely that a well established businessman with strong family ties to the UK would be likely to uproot to the IOM purely for tax reasons.

We therefore suspect that there is a sweet spot concerning the characteristics of target companies and intermediaries to whom the IOM would most benefit from focusing its marketing activity.

#### **An illustration of differential competitive advantage**

Skype's move to Luxembourg offers some insight into the factors that can create a differential competitive advantage for a jurisdiction. Our understanding is that Luxembourg was a good home for Skype because of the following:

1. The rate of VAT is low and there is the opportunity to use VAT as a means to manage cash flow;
2. There is strong legal protection for customer data and data management;
3. Within EU trading is easy;
4. The strong financial sector has created a good pool of local people from whom ventures can recruit staff to provide back office administration and financial administration;
5. There is easy access to senior members of government and there is appropriate regulation. For example, it was easier for Skype to become a telecommunications company in Luxembourg than in some of the other countries it considered. Also Skype's telecoms licence is less likely to be revoked in Luxembourg than elsewhere (e.g. in the USA);
6. There are good local sources of development capital, including venture capital and private equity investors, and the investors have local managers to provide strategic support to their ventures;
7. There is a growing cluster of technology companies. For example, within the last two years AOL and Microsoft have been attracted to Luxembourg. Luxembourg also benefits from a cluster of satellite infrastructure businesses. Key upcoming areas include data cleansing, payment clearing, genetics, satellite and e-payments.

An obvious area where the Isle of Man could strengthen its position in relation to the above is in the availability of further local sources of cash/investment along with the strategic advice that comes with such investment.

### **The continuing opportunity in Information Technology Enterprise**

The venture capitalist Draper Fisher Jurvetson (DFJ) notes that the pace of innovation in information technology is still accelerating and that opportunities to address markets globally are increasing. Key areas of focus for them are web-based applications and services, software infrastructure – including peer to peer infrastructure, data communications/bandwidth enhancement, information services and wireless applications/services/technology.

In our view all of these areas are also compatible with the strengths of the Isle of Man. In aggregate, DFJ estimates that such markets have reached well over \$2.5 trillion in size and there is increasing potential for building large, highly valuable enterprises.

The global success of Google, celebrated in the Financial Times by naming its two founders the two men of the year 2005, is an illustration of how rapidly a simple idea – in this case sponsored keyword search – can explode into a disruptive force in a previously stable industry (advertising sales/corporate communications in this case).

A particularly exciting area that is still yet to emerge from its embryonic stage is that of mobile services. The combination of global positioning systems, RFID and mobile communication technologies (including GPRS, 3G, Wi-Fi, Wi-Max and High speed packet download/upload) working alongside payment technology, Internet-triggered dial-out and ADSL wireless broadband access to fixed infrastructure has created a new, largely unexploited infrastructure ripe for innovative commercial services that can be created by off-shore companies.

The Isle of Man should continue its reputation as a leading adopter of these technologies and actively promote experimentation with new services. Mobile gaming is a good example.

Analysts predict that the mobile gaming market is expected to grow explosively with up to 220 million people playing games on mobile phones by 2009. So far small independent companies, such as I-Play and In-Fusio have dominated the mobile gaming market. Gameloft, the mobile gaming subsidiary of Ubisoft has sold almost as many mobile games as its parent has sold non-mobile. As a demonstration of how companies can become valuable in mobile gaming, we note the announcement this month of the acquisition of Jamdat by Electronics Arts for \$680m. Jamdat has 350 employees in several locations around the world, including London. This payment, approaching \$2m per employee, is a good indication of how a bit of focused activity in the Isle of Man might build value.

Many mobile games have a relationship with cinema films. It would be particularly smart if the Isle of Man could connect its successful film sector with some innovation in mobile games.

## 4. MARKET AND COMPETITOR ANALYSIS

### 4.1 Scope and context

In this review, we agreed that we would update our view of competitive jurisdictions, but would do in a lighter and more focused way. In our last review we looked at the UK, Ireland, Jersey, Guernsey, Bermuda, Singapore, Hong Kong, Gibraltar, Luxembourg and Liechtenstein. This time we have dropped Singapore and Hong Kong on the grounds that these are not really playing in the same league – they are e-commerce superpowers, which the Isle of Man is unlikely to be able to challenge. We have also dropped Liechtenstein, on the grounds that its early promise has not borne much fruit. We have, however, added in Malta, which has made some strong running in online gaming of late.

### 4.2 Detailed analysis

#### 4.2.1 Jersey

In some senses, Jersey, which was unquestionably a serious competitor in years past, has fallen by the wayside. Jersey was an early entrant into the offshore e-commerce market place, and appointed the equivalent of a Director of e-commerce early on as well as creating an organisation called the Jersey Information Strategy Committee (JISC). As we commented on in previous reports, however, the early marketing seemed to us “more puff than substance” and this has proven to be correct. Jersey appears to have spent a great deal on glossy marketing material and events at the expense of applying funding more directly to securing business. The now-infamous and expensive “2020.je” study is acknowledged, even on their government website, to have been a fiasco.

According to the latest public reports, Jersey has, since mid 2004 been trying to resurrect initiatives in e-commerce. These reports (<http://www.edd.gov.je/site.asp?NavID=52&SubID=2&bhcp=1> is a good starting point) make interesting reading and show both the belatedness with which Jersey are addressing this issue and also the fact there is far from a consensus on the island about the value. It is also obvious that Jersey view the Isle of Man as one of the jurisdictions to follow:

*Jersey needs to put some investment in Industry, replicate other models - Dublin, IDA; Singapore, IOM - these are our competitors.*

It is also striking that the recommendations arising from this work are almost a complete copy of the recommendations being considered by the Isle of Man back in 2000.

However, it would be wise to be wary. Jersey has been immensely successful in building its postal and fulfilment businesses. Jersey has had a traditional postal fulfilment sector since the early 1980s, but the Internet boom has spurred this on to significant growth. In 2003 it is estimated that they achieved 60% year on year growth in dealing with 15.6 million items, there were 12 businesses employing 850 people generating revenue of £250M. Growth expectations continue in the period up to 2015, a large volume of which will derive from electronic, on-line ordering and Internet-based

direct mailing, electronic document management and consumer billing consolidation activity. This is e-business.

Jersey is, of course, able to leverage its non-VAT position and the £18 de minimus threshold to good advantage. One of Charteris' other clients ships Internet ordered books, CDs and DVDs to the EU via Jersey, splitting the VAT savings with its customers to maintain margins whilst keeping prices low, and taking advantage of Jersey's low postal costs. They are not alone: Tesco, Asda, Woolworths, HMV, Amazon, D&A and Boots all have similar schemes selling everything from CDs and DVDs to contact lenses and food supplements.

With the Isle of Man's VAT position, such advantages are not so readily obtained, but nevertheless we wonder whether there are some lessons to be learned from Jersey's strength in this field. Jersey talks seriously of this business as the "fourth pillar of the economy", after finance, agriculture and tourism.

Jersey is also putting considerable effort into on-line gaming, and is working on legislation to that end. They have also copied the disaster recovery waivers pioneered (but not yet fully exploited) by the Isle of Man : in the finance sector this is already in place, in gaming it is planned.

Clearly, a close eye needs to be kept on Jersey, and there may be lessons that could be learned.

#### 4.2.2 Guernsey

In our research, we found very little to suggest that, apart from on-line gaming in Alderney (see below), Guernsey is seriously pursuing the development of an e-commerce based industry. In the periods covered by our first and second reviews, Guernsey was quite active. It was an early adopter of e-enablement legislation and appointed a director of e-services. Very little progress seems to have been made, however, and after a first rush of enthusiasm, the focus seems to have diverted towards encouraging existing local businesses to become more e-aware in their activities, and develop the economy from within.

The government's own website (<http://www.guernseyhome.com/about/index.jsp>) provides case studies of e-businesses on the island, but these all appear to have been started by locals – no inward investment is referred to at all. Very little on the web site has been updated since 2003, which is usually a good indicator of stagnation. The technology businesses referred to are mainly small systems companies supplying the local market, or are web design type companies. Cable and Wireless offer a hosting facility at centres on Guernsey and Alderney, similar to that now offered by Manx Telecom although there is a small group of ISP and Web-hosting companies, such as Urja (<http://www.urjaonline.com/docs/aboutus.asp>), Junpak (<http://webhosting.junpak.com/guernsey/>) and Guernsey net (<http://www.guernsey.net/index.cfm>) .

It is difficult to obtain objective information on telecoms infrastructure and off-island capacity and resilience, as this all sits in C&W's hands. We believe that off island traffic is dependent on two

diversely routed fibre cables to Jersey (from where it obtains connectivity to France and the UK), but we suspect there are limitations and capacity issues: C&W have just announced a £6.5M investment in two new cables “to connect the island into C&W’s global network”. Clearly, this points at some problem.

Alderney continues to provide serious competition to the Isle of Man in the field of on-line gaming. Although a tiny island (1.5 miles by 3.5 miles, population 2500) it has built a world reputation as a reasonably well regulated location for such activity. Most ascribe its success to the appointment of Andre Wilsenach as their e-gaming ambassador, a South African with considerable industry connections and knowledge. Compared with the Isle of Man, Alderney has been less risk averse in its attitude to licencing and regulation – for example in going public on the issue of allowing the licence holders themselves to self-regulate in territories where their activities are not permitted - and that has probably paid dividends.

Alderney suffers from a number of physical constraints. Its off-island telecoms depend on microwave with single points of failure. For this reason, and true to their creative style, Alderney has now designated Cable and Wireless hosting centres on Guernsey as falling within Alderney’s jurisdiction for gaming purposes. It also suffers from transportation limitations – there is no ferry (only a freight boat once a week), and it depends on air links which are vulnerable to frequent weather outages.

Alderney remains a serious competitor to the Isle of Man for on-line gaming. It has not succeeded in developing the cluster of physically resident companies that is emerging on the Isle of Man, so it probably remains more vulnerable to the mobility of the industry. On the other hand, it has been more courageous than the Isle of Man in positioning itself, and it has a very skilled hand on the tiller – as long as he remains in post.

#### 4.2.3 **Bermuda**

In each of our last two reports, we have considered Bermuda as a competitor. In 1999/2000 there were some grounds for believing it represented a serious threat. Similarly successful in the financial service sector, it made early headway in establishing legislation and appointing a world-class individual to head up its e-commerce initiative, James Martin – an IT industry guru and Bermuda resident. They were also fast to set up good e-payments infrastructure in the shape of First Atlantic and Promisant and attempt to tackle the secure identification of individuals, through Quo Vadis.

In our 2003 report, we reported that Bermuda had fallen behind the pace, on virtually every measure. James Martin had been sacked or had resigned, probably as a result of speaking out against government policy on telecoms monopoly and through involvement in an alleged scandal relating to a resort on the island.

Despite this, we spoke to a number of people in our interviews who continue to regard Bermuda as competitive and have seen reports listing Bermuda alongside the Isle of Man as a jurisdiction to beat.

We find this very hard to swallow. One of the authors of this report, John Millar, spent 8 months on Bermuda in 2004 and 2005, implementing an IT system for one of the two large banks. Based on this experience, and the knowledge gained, we are sure Bermuda does not pose a significant threat, for the following reasons amongst others:

1. The consensus of most surveys is that Bermuda is the fourth most expensive place on earth to live;
2. With a similar population to the Isle of Man (60,000 versus 70,000), it has less than one tenth of the land area (53 km sq versus 572 km sq). Virtually every usable space on the island is used. There is little, if any, scope for expansion;
3. Bermuda has a highly restrictive immigration policy. It is impossible to employ a non-Bermudian without going through a long process of consultation, often taking 6 months. Except in very unusual circumstances, a non-Bermudian is permitted to stay only for 7 years maximum, with 3 yearly reviews at which many are expelled. This leads to an unstable skilled work force with short-term attitudes;
4. The state education system is poor and constantly short of resource. The few good students often leave for tertiary education and do not return. Those that do return are in extremely short supply. The IT sector is one area of chronic shortage – all major companies operate with between 25% and 50% of key roles vacant. There is a very small group of talented indigenous IT managers;
5. The level of IT professionalism on the island is not comparable with Western Europe, and there are work-ethic issues, too. It is common for Bermudians to hold multiple part-time jobs;
6. Much of the IT sector is staffed by expatriates on temporary work permits, mainly Canadian nationals. Even these are in very short supply;
7. Telecoms costs are prohibitive, and still exhibit monopoly-like characteristics. On-island reliability is very poor: local businesses have to install private microwave systems to obtain anything viable. ADSL is available, but even slow-speed connections (128kb maximum) cost four times the price of a 2Mb link in the UK, and the service is subject to frequent failures, often for days at a time (eg a complete service failure on Friday night not repaired until a reboot of the servers until Monday lunchtime). Off-island latency is unacceptably bad - it is easy to observe this by trying to load a major site like [www.theroyalgazette.com](http://www.theroyalgazette.com);
8. Accommodation for business visitors and non-Bermudians is in extremely short supply and expensive. Non-Bermudians even on annual contracts are not allowed to have a car – they have to rely on infrequent buses, expensive and unreliable taxis or scooters which have to be

rented at short-term, prohibitive rates, and are dangerous (there were several expatriate deaths from scooter accidents in 2004);

9. Bermuda is about 700 miles from the nearest land-mass. There are once or twice daily flights to Boston, New York, Philadelphia and Toronto, with occasional flights to other locations. Flights to London are 4 times per week. The minimum fare to the US is about \$700 single; the standard fare from London is more than the fare from London to Australia;
10. There is a degree of political instability and continuing racial tensions. The current government has expressed a desire to break ties with the UK as soon as is practicable. There are also some serious social issues, including extensive illegal drug usage, with recent estimates of a per capita spending of \$3200 on illegal substances;
11. Customs duties are applied punitively and often indiscriminately, especially on expatriate workers;
12. Bermuda is in the high-risk Atlantic hurricane zone. It suffered a disastrous direct hit by hurricane Fabian in September 2003 (many phones were out of use for 2 months) and serious tropical storms are a common occurrence. It is not a suitable location for disaster recovery or hosting.

For all of these reasons, Bermuda is not an attractive prospect for incoming high-tech businesses. Indeed we are unaware of any such businesses which have been established in Bermuda in recent years. Conversely, in order to avoid some of these problems the Bank of Bermuda, before its acquisition by HSBC about 18 months ago, established its own offshore IT development and hosting centre in Stirling, Scotland. We wonder if there might be similar opportunities based on the Isle of Man as a location.

Lest there is any doubt about these shortcomings, we would point to the Bermuda Government's own green paper, published in 2003 which says, amongst other things:

*There are, however, a number of weaknesses we have to address, some of which are structural, and by their nature, can be overcome, while others simply reflect our geography and economy and are therefore more difficult to change. The former issues include communication costs and service delivery (particularly for broadband data services), e-business awareness in the workforce, and an emphasis on IT skills in education and e-government. It is in respect of the latter issues (such as space restrictions, cost of accommodation / employment and travel costs) that we need to be realistic about our potential for all types of e-business. Clearly we are not, even if we wanted to be, a prime offshore jurisdiction for bulk, high bandwidth, e-business transactions such as found in the pornography or gambling sectors. We do not have space for large server farms or call centers, the energy resources or the people required to staff them.*

The paper goes on to suggest the key targets should therefore be: “**on sophisticated and added value services generally found in business-to-business transactions (B2B) rather than on general business to**

*consumer (B2C) provision.....*” and then goes on to describe 4 categories of these which are all dependent on hosting services so explicitly dismissed as unrealistic in the paragraph above. Perhaps not surprisingly, there has been no follow-up on any of the recommendations of the report.

The green paper itself, which includes an analysis of several competitive jurisdictions, including the Isle of Man, and makes interesting if at times difficult to believe reading, can be found at:

[http://www.gov.bm/portal/server.pt/gateway/PTARGS\\_0\\_2\\_3036\\_457\\_-457\\_43/http%3Bportalcontent.gov.bm%3B7087/publishedcontent/publish/ministry\\_of\\_telecommunications\\_and\\_e\\_commerce/e\\_commerce/dept\\_e\\_commerce\\_legislation/articles/e\\_business\\_green\\_paper\\_3.pdf](http://www.gov.bm/portal/server.pt/gateway/PTARGS_0_2_3036_457_-457_43/http%3Bportalcontent.gov.bm%3B7087/publishedcontent/publish/ministry_of_telecommunications_and_e_commerce/e_commerce/dept_e_commerce_legislation/articles/e_business_green_paper_3.pdf)

Note that this web server is unreliable, so downloads may take several attempts. This, in itself, speaks volumes.

#### 4.2.4 Gibraltar

In some senses, Gibraltar has, apart from the on-line gaming sector, come relatively late to marketing itself as an e-commerce centre, its e-commerce committee only being set up in 2004 (after somewhat of a false start in 2000, which fizzled out). It has had some success in attracting a new business in futures trading (Mac Futures –owned by the REFCO group which is now in some disarray), but it is early days.

In 2000 it was very successful in attracting telephone and then on-line betting in the first flight from the UK, attracted by the absence of wager tax (until abolished in the UK), low betting duty (and caps) and in some cases exempt company status – giving them no exposure to corporate taxation in Gibraltar. This is now quite a mature industry with a good reputation for regulation. On the back of the betting successes, Gibraltar has now built a substantial on-line gaming business, including arguably the largest on-line poker system, Party Poker.

Gibraltar is in a unique position with respect to the EEC. A full member, with an MEP shared with Cornwall, it has a zero VAT, direct taxation approach to revenue generation. Like many direct tax jurisdictions it has operated a discretionary exempt and qualifying companies policy, which has been challenged as unfair by the OECD. In 2003 it made its first move towards change, by proposing zero corporation tax and replacing this with a payroll and commercial property tax, capped at 15% of profits, though exempt and qualifying company status was retained.

This was then challenged by the EEC on the basis that non-resident companies (with no staff and no property) would pay zero tax, essentially extending the distortion to which the OECD had taken exception. A battle has commenced in the European courts over this. It is reported that the EEC has

given Gibraltar until 2010 to remove the exempt companies status. It seems likely that Gibraltar will have to review its payroll and property tax approach at some time, too.

The best one can say about the present situation that it is somewhat confused, and the outcomes far from clear. For gaming companies with exempt status, this presents an uncertain future, and there has been some talk of companies being attracted to moving elsewhere. For example, in a very recent press report Victor Chandler, CEO of one of the first betting companies to establish in Gibraltar, upped the pressure on the UK (which is considering how to implement changes following the enactment of new gambling legislation) to make the taxation position attractive to companies like his to return to the UK. Interestingly, he cited problems of lack of access to inexpensive bandwidth and poor availability of staff as reasons for possibly leaving Gibraltar.

It is clear that, gaming apart, Gibraltar does suffer from a number of obvious disadvantages, including limited space, insufficiency of skilled resource and high telecommunications costs. The dispute with the Spanish brings problems, too, since it has restricted the development of secure, redundant telecomms, and because of border controls. Gibraltar has not, moreover, been able to take advantage of the VAT de minimus threshold for the fulfilment of physical goods, in the way that Jersey has, due to space limitations, difficulties with land border access and physical location on the edge of Europe.

Gibraltar is not part of the EEC customs union, which exempts it from VAT. For the purposes of the EEC rules on VAT on digitally supplied services, it is deemed not to be part of the EEC. This gives it no advantages in the supply of digital services to consumers in Europe.

One final comment that is directly relevant to the Isle of Man: Gibraltar is the only jurisdiction which has so far persuaded the UK Government to name it explicitly in the recent Gambling Act, permitting it to continue to advertise its gaming services in the UK. We understand the Isle of Man is continuing to rely on grandfather rights inherited from prior legislation in the UK, but so far this has not been incorporated in law. Failure to clarify this would leave the Isle of Man in a substantially disadvantageous position with respect to Gibraltar.

#### 4.2.5 Malta

Malta has in the past few years become one of the front-runners in competitive jurisdictions, though most of its successes have been in the on-line gaming sector. Much of this has developed leading up to and as a result of accession to the EEC. The main attractions are low gaming duties – a range of fixed and capped costs is applied – and low corporate taxation (as low as 4.17% after dividend rebates) for international companies with non-Malta owners.

On-line gaming legislation was enacted in 2004, and provides for a high standard of regulation. We would highlight, in the light of the debate currently taking place in the Isle of Man, licensed software suppliers are not required to disclose source code.

Outside the gaming sector, it is clear that Malta has some catching up to do in the development of skilled resources (IT resources are in particularly short supply). The government established in 2004 an e-business commission, but this appears more focused on internal development than on inward investment. Indeed, its Web site on inward investment (<http://www.miti.gov.mt/site/page.aspx?pageid=74>) is very muted. One major success has been a link up with Microsoft, who have established a presence in Malta for education and for access to Africa and the Middle East. The enterprise software company SAP recently established a foothold there, too, and was given much government publicity.

Unlike Gibraltar, Malta has space for development, but it, too, suffers from a lag in terms of telecoms reliability and cost of bandwidth.

As a full member of the EEC and a VAT rate recently raised to 18%, it offers no particular advantages for fulfilment or supply of digital services. General tax rates (35% for corporations) are more akin to major EEC jurisdictions, and certainly do not compete with the leading offshore locations.

Overall, we see Malta as continuing to provide a threat to the Isle of Man on gaming, but not on other IT and technology based inward investment.

#### 4.2.6 Luxembourg

In our last review we noted Luxembourg had made steady progress in establishing itself as an e-community. However, given that it does not compete with the Isle of Man and other offshore locations on direct taxation, we might have been inclined to drop it from the list this time: as onshore locations go, the UK and Ireland are far more important to the Isle of Man than Luxembourg.

One thing caused us to change our minds. We have long felt that innovation in telecomms services was something for the Isle of Man to track and grasp as opportunities when the time was right. During the last 18 months, there has been a massive surge in take up of Voice over IP services (VOIP) and the leading consumer-focused company in this field has been Skype. Skype offers free software and a service which permits PC to phone, phone to PC and PC to PC telephony using broadband, with the last provided free of charge, and other services offering global calling to major countries for about one Euro per hour. To date, some 217 million downloads of the Skype software have been performed. It turned over \$7M in 2004, and anticipates \$60M in 2005 and \$200M in 2006.

The company was started by a couple of Scandinavian entrepreneurs in August 2003 and was recently sold to eBay for a base price (before performance uplifts) of \$2.5 billion. It is incorporated in Luxembourg. We wondered why.

At first our view was that this was a calculated measure, designed to minimise VAT costs for EU citizens. Because Skype offers a digital service, by incorporating in Luxembourg it is able to charge its EEC customers one of the lowest VAT rates in Europe – 15%. In fact, when we discussed Skype's

choice of Luxembourg with Niklas Zennstrom, CEO and co-founder of Skype, it turns out that the Luxembourg decision was based on nothing more complicated than that happened to be where their initial advisors were based.

This emphasises two points for us: firstly, it is important to be tracking technological developments very closely to try to identify major opportunities when they occur and secondly, it is crucially important to put effort into being close to key intermediaries in chosen fields. Getting Skype to incorporate in the Isle of Man was entirely possible, would have delivered significant benefits for the founders and would have placed the Isle of Man very much in the spotlight. The trick will be to find the next such company.

The Skype case exemplifies another aspect of the EEC rules on VAT for digital services. Given the common purse and its position within the customs boundary, the Isle of Man offers no advantages for the fulfilment of supply of physical goods (such as has been tapped by Jersey), nor much advantage on VAT on digital services to consumers (except where the local rate is higher than the 17.5% currently charged in the Isle of Man, and even here the margins aren't great).

#### 4.2.7 The UK and Ireland

Like Luxembourg, the UK and Ireland are onshore jurisdictions and therefore do not obviously feature as competitors, particularly on taxation grounds. However, as the two closest and large neighbours, they clearly have a major impact on a number of aspects of the Isle of Man's inward investment policy and its success.

Some aspects of the relationship with the UK and Ireland are unlikely to change materially: the UK will continue to retain a proportion of good Isle of Man graduates, though we wonder whether measures to track and headhunt such candidates for newcomer and new startups on the Island might help improve things somewhat. It seems likely that such help with identifying candidates who were likely to want to move back to the Island and then stay would be a big plus for newcomer companies.

There is always going to be a threat from both jurisdictions for attracting hosting business – Dublin seems especially keen on this – and the only real defence will be to encourage the development of even better facilities on the Island and strive to crack the telecoms cost issue. In this regard we are aware that, given the current market confidence, there are companies considering further investment in facilities in the Isle of Man and this can only be good news for the Island's competitiveness.

The UK, which has recently enacted new gambling legislation, is in the process of considering how this will be implemented. Clearly, an aggressive lowering of gambling duties might impact the Isle of Man badly, but arguably less so than Gibraltar (with its somewhat confused position on corporation taxes and physical limitations) and Malta (where there is still a burden of corporation tax, albeit a small one). This has to be watched carefully, and the Isle of Man needs to continue its current pressure on the UK Government to ensure its continuing right to advertise on-line gaming in the UK, matching Gibraltar's explicit right.

Ireland does not pose much of a threat in gaming, due to its restrictive legislation. However, even here there is an angle to be considered. We spoke to a company in the gaming field considering locating its disaster recovery service on the Isle of Man. Key competitors were alleged to be Guernsey and Ireland. The Isle of Man has the potential advantage of legislation in hand to allow hosting of foreign on-line gaming disaster recovery on the Island without any additional regulatory overhead. Ireland could provide a similar service, but only for passive back-up of data – it could not allow hot switchover of gaming to an Irish based location. Here is an advantage that the Isle of Man holds: we would urge the completion of the work on the emerging legislation and encourage effort to be put into defining the operational details that will make the capability attractive to companies wishing to place hot standby servers on the Island and run live operations for a period of time. We suspect others are hot on the Island's heels – Jersey being an example.

London, and to a lesser extent Dublin, hosts many intermediaries who should be explicitly targeted by the Isle of Man, as suggested elsewhere in this report..

### 4.3 Summary

Whilst there are challenges, a few threats and lessons to be learned from all of this, our view is that the Isle of Man's market proposition, steadily and consistently applied, has left it in a strong position in comparison with its most direct competitors. It is, of course, difficult to be truly objective, but our view both from conversations and from the research undertaken, suggests that most competitors regard the Isle of Man as one of its serious competitors, and a good many also regard the actions of the Isle of Man to be worth copying.

One particularly striking aspect of this is the way in which a number of jurisdictions have replicated the Isle of Man's positioning statement. Jersey, for example developed this list of factors in 2004:

1. Telecoms infrastructure
2. Political stability and reputation
3. Committed government
4. Appropriate legislative framework
5. Corporate tax regime
6. Government assistance
7. Availability of skilled labour
8. Support services
9. Attitude to business

And Gibraltar has set out its stall, as follows:

1. Favourable fiscal environment
2. Exempt from VAT
3. Excellent telecommunications infrastructure
4. Liberalised telecommunications market
5. E-commerce legislation enacted
6. State of the art technology
7. Strong professional and financial infrastructure
8. A British international finance centre within the EU
9. Separate and distinct jurisdiction
10. Regulated to EU and UK standards
11. High quality of lifestyle
12. Highly educated bilingual workforce

It is easy to see that there is a sameness creeping into these positioning statements. For this reason alone, we believe the Isle of Man should revise its own statement to something much more distinctive. Our suggestions on what this might contain are provided in our recommendations in this report.

## 5. RECOMMENDATIONS FOR THE FUTURE

In this section we identify the recommendations we are now making as a result of our investigations.

### 5.1 The market proposition

We have three reasons for suggesting that the market proposition of the Isle of Man should subtly be changed. These are:

1. Since the original positioning statement, there has been much copying of this by competitors. The message is no longer sufficiently distinctive;
2. The explicit targeting of e-business now looks hackneyed, and a bit tired. We suggest the emphasis should be more on general economic development, knowing that it is highly ICT dependent companies that will be targeted. There is a new wave of buzz emerging around “Digital business” and “Web 2.0” that refers to the increasing appetite for business to be delivered using Internet technologies. The Isle of Man should indicate its strength in these areas in its positioning material;
3. There are a few other changes that we would recommend anyway, such as the de-emphasis of the grant aid as an explicit offering, and perhaps more emphasis on the things that newcomers have told us they value.

It is probably, in any case, time for a refresh of the documents related to this positioning. Some thought needs to be given to producing a distinctive theme for the positioning statement. One suggestion might be the concept of convergence (of telecoms, media, information and the like), as this would set the tone for the types of business the Isle of Man is seeking to attract, and also has connotations of clustering and the “bringing together” of resources and infrastructure. We recognise, however, that this requires some specialist marketing guidance.

### 5.2 Organisational structure

We note that the structure of a government officer (as anchor) coupled with an industry specialist working on term contract has worked well in the gaming sector. We think this should be replicated for other chosen target sectors. At the same time, it will be invaluable to introduce clear measurements for performance assessment of the work, to ensure that there is the essential feedback to promote efficient return on investment.

The Isle of Man has achieved much, and an excellent return on the minimum of investment to date. Serious consideration should be given to additional funding and resource to accelerate work in the excellent market conditions that now prevail.

### 5.3 DR and hosting

We feel that DR and hosting opportunities have yet to be exploited by the Isle of Man. The innovations in legislation to allow DR without additional local regulatory control were innovative, but are now being copied by others. There remains a window of opportunity. We recommend an approach, as follows:

1. Bring together government officers, industry specialists, hosting/DR providers, the regulators and prospects or newcomers in the field to brainstorm and develop
  - a. A set of clear working guidelines for how things will work in practice (eg including rules on time constraints, authorisation for expat personnel, rules on taxation and regulation for live operation etc);
  - b. A market specific, targeted proposition and sales collateral to go with it;
2. Run a concentrated sales campaign, using industry specialists, to target the finance sector in the Caribbean and the on-line gaming sector in all directly competitive jurisdictions;
3. Be ready to sell the general benefits of the Isle of Man in every presentation, as well as the specific DR opportunity;
4. Kill or modify the campaign if the early feedback does not create significant interest.

### 5.4 Marketing the Isle of Man proposition through Intermediaries

The Isle of Man's success in getting its message across to intermediaries, such as lawyers, accountants, auditors, VC funds and boutique deal makers has been patchy, and there is an opportunity for improvement. The Neteller case and the evidence from Skype shows to us that the Isle of Man needs to establish its offering with the people who are advising companies of interest. We are sure this will need to be consistent and often-repeated (Chinese water-torture). Briefing a few law firms once every two to three years is not likely to be sufficient.

We are sure that face-to-face presentations will form an important part of this task, but it will not be enough. One suggestion, which came from a discussion with an intermediary, was that perhaps an annual, high-quality directory could be produced and sent to all potential target intermediaries. This would contain the sales pitch as well as contact details for relevant professional advisers and on-Island business including law firms, accountants, CSPs, government departments and sources of funding.

It is clear that most intermediaries will follow a "well trodden path", and that in the case of London firms, this is often to Jersey and Guernsey, where there are long-established personal relationships. The Isle of Man has some catching up to do here, and we wonder whether some investment in showing these people the Isle of Man might produce dividends – a visit to the Island, a briefing on the sales pitch, the opportunity for a round of golf, sailing or fishing with local businessmen could

well help start the building of some relationships. Perhaps some notable local personalities could be engaged to assist.

On this topic, we did hear concerns that some of the local intermediaries are not, in comparison with the position back in 1999/2000, as active in selling the Isle of Man within their own global organisations and through their networks. There is an opportunity to provide more briefing material to the on-Island accounting firms concerning the benefits of doing digital business on the Island that they can use in their interactions with off-Island colleagues. We note that some on-Island accountants would welcome such material and make immediate use of it whereas others would be less proactive. There may be a case for effort to rekindle the esprit de corps amongst this group.

From our telephone conversations with professional advisors and companies it appears that the highest influence concerning choice of off-shore location is personal contacts, then investors, then accountants, then lawyers. Marketing material could be prioritised accordingly. Personal contacts includes meeting Isle of Man representatives at relevant industry conferences (eg a conference bringing together developers of gaming software).

## **5.5 Packaging for other target sectors**

We believe the key market targets for the Isle of Man need to be:

1. Telephony innovations;
2. Digital booking services – eg theatres, travel and transport;
3. Digital media delivery – music, video, IPTV, perhaps digital TV generally;
4. Digital media and software production – including animation and games;
5. Value-added information services;
6. Broking and trading (digital finance);
7. Management of global assets;
8. White label business services.

For all of these we recommend the preparation of a packaged proposition, followed by a concerted and targeted selling. These should be approached serially, not in parallel, which would dilute the effectiveness of the campaign. Industry specialists should be used wherever possible.

## **5.6 The sales proposition**

The current sales proposition is built around the following (taken from the policy statement on the Web site):

- a) Clear and unequivocal Government support for e-commerce;

- b) State of the art telecommunications infrastructure;
- c) High bandwidth self-healing fibre ring connectivity;
- d) 3rd generation (UMTS) mobile phone service during 2001;
- e) Unmetered Internet access;
- f) Legislation in the form of the Electronic Transaction Act 2000 to provide the necessary legal framework for e-commerce to grow;
- g) Political stability and enviable international reputation;
- h) New tax strategy designed to reduce standard rate corporate and personal tax down to 10% within a period of 3-5 years;
- i) High computer to pupil ratios in schools, coupled with training programmes designed to meet business needs on the Island;
- j) Generous financial packages of support available to qualifying businesses;
- k) Comprehensive support services of the type and quality expected of an international finance centre;
- l) A clear commitment to deliver seamless Government to the citizen and business electronically;
- m) Internationally accredited financial regulation providing customer and investor confidence;
- n) Proportionate and effective consumer and data protection, again, providing confidence to the customer and businessman.

This was fine in 2000, and was adequate in 2003. Now, it is partly out of date and what remains looks exactly like what most competitors are offering.

We recommend adopting something like the following:

- i. Clear Government commitment to development of a knowledge –rich economy, consistently and successfully applied since 1999;
- ii. World-class telecommunications with the latest high availability on and off-Island capability, massive growth capacity, competitive long haul options, 100% broadband coverage and one of the world's first 3.5G mobile networks – leading the field in telecoms and media convergence;
- iii. Superb hosting and disaster recovery facilities, supported by legislation simplifying processes for regulated industries;
- iv. A complete, balanced and competitive local ICT support industry with state of the art skills;
- v. The top-class support infrastructure to be expected of a triple A rated global financial centre;
- vi. Highly respected and proportionate financial and gaming regulation;
- vii. Zero corporation tax, no capital gains or inheritance taxes and low personal taxation;
- viii. At the heart of Europe and within the EU customs boundary, giving ease of access to the EU for goods, services and digitally delivered items, and easy access to capital markets;
- ix. A friendly, welcoming and safe community with the space for families and business to grow;

- x. A positive, entrepreneurial business community of like-minded people, together with a listening and flexible government.

This needs some word-smithing, but we believe these are the key principles.

## 5.7 Legislation

We understand that work on redrafting the Gambling Act is in hand, and that recent agreement has been reached on the need for legislation covering the regulation of e-money issuers and money movers. We support these, and suggest that these need to be progressed with some urgency, as a number of competitors are hot on the Isle of Man's heels.

We also recommend, in conjunction with other recommendations, that the detailed modus operandi are established for DR for finance and gaming sectors.

## 5.8 E-government

We recommend that, now the government re-platforming is reaching successful completion, real attention is given to using this to implement e-government services. The Isle of Man has lost some ground in comparison with the likes of Malta and the UK. We recognise this does not have much of a bearing currently on the ability to attract incoming business, but there is a risk that it will increasingly become a factor. The government needs to practice what it preaches.

## 5.9 Taxation issues

In the light of comments made to us during our review and our researches, we believe that, on VAT: given the fixed nature of the common purse with the UK, the Isle of Man needs to prepare a well-thought-out defensive case against more attractive VAT regimes, especially those who might seek to attract companies delivering digital services. The total package including very low direct taxation needs to be stressed..

## 5.10 Fulfilment and invoicing

We suspect that the result may not be positive, but we think it is worth considering again whether there are any options for the Isle of Man in improving its offerings in fulfilment of goods. Jersey has made a very substantial business of this, by leveraging the £18 de minimus VAT threshold for selling of goods to consumers in the EU. The Isle of Man does not share this advantage, of course, but we recall that there are some opportunities in the imbalance of postal volume to and from the Isle of Man which might be exploited.

We also wonder whether it is worth advertising the benefits of re-invoicing of goods in the Isle of Man (and the taking of profits here) for EU-to-EU VAT-based goods transactions, whilst avoiding transshipment of the goods through the Island. This is unlikely to be attractive to large corporations

which consolidate group accounts in higher tax jurisdictions, but may be attractive to SME mail order companies throughout the EU, looking for low-tax HQ incorporation.

### **5.11 Welcoming newcomers**

During both the last review and this, we heard from a number of newcomer companies who, whilst they had been given red-carpet treatment during the pre-decision phase, felt they had been left to their own devices once personnel started to arrive. The costs of providing a hand-holding or welcoming service are not likely to be great and the benefit (in terms of satisfied customers) likely to produce a good return on investment. Often, small things count for a lot. We note that there are one or two private ventures in this area: these should be encouraged

### **5.12 Recruitment**

It is becoming clear that, with continuing full employment in the Isle of Man, newcomer companies will need to bring core staff with them and may need to recruit from overseas, in many cases the UK or Ireland. It occurred to us that, given the number of Manx graduates from UK (and other) universities, there is a potential soft target for recruitment, if only someone knew how to access it. Perhaps as a condition of Manx grants or fee assistance, or even on a voluntary basis, a register of Manx graduates could be established. Even if this was on the basis of a Web site – a bit like a Manx chapter of the Friends Reunited Web service – it might allow Manx graduates overseas to be kept abreast of news and opportunities.

### **5.13 UK Gaming Act**

The Isle of Man has, since the previous incarnation of the UK Gaming Act in 1968, held the rights to advertise Isle of Man gaming in the UK. When the current (2005) Act was being drafted, promises were made to include the Isle of Man in a list of exceptions to the exclusion of advertising in the UK. In the event, only Gibraltar was explicitly mentioned, so the Isle of Man is currently reliant on grandfather rights. Clearly, the ability to advertise on-line gaming in the UK is crucial, and needs to be pursued as a specific, documented right. We understand that work is already in hand.

### **5.14 Finally**

We observe that in the last few years, the Isle of Man has become slightly less conservative in its decision making and is showing some signs of taking measured risk in supporting the development of new opportunities. We believe that it is this ability in Alderney (albeit relying on one individual and in respect of gaming only), for example, that has led to the success of that jurisdiction in on-line gaming, despite the physical limitations. We do not advocate reckless decision making, but are certain that success in developing the economy will require taking further calculated risks in a pragmatic way. We would urge the Government and people of the Isle of Man not to lose this valuable skill.

## APPENDIX A : PARTICIPATING INDIVIDUALS AND ORGANISATIONS

During this study we held discussions with the following stakeholders, whose contributions are acknowledged:

1. Hon. Allan Bell, MHK, Treasury Minister
2. Anthony Hewitt, Director, Communications Commission
3. Allan Paterson, Director, Information Systems Division
4. John Aspden, Chief Executive, Financial Supervision Commission
5. Mark Shimmin, Chief Financial Officer, Treasury
6. Chris Hall, Managing Director, Manx Telecom
7. Deb Byron, Hansard International and chair of the Chamber of Commerce ICT committee
8. Jon Allen, Managing Director, Domicilium
9. Phil Adcock, Technical Director, Domicilium
10. Andy Scott, Chief Security Officer, Neteller plc
11. Chris Gledhill, CEO of PDMS
12. David Butterworth, Chief Executive of Skanco, Restart and Debit-Direct
13. Richard Holmes, CEO of IncaGold plc
14. Paul Martin, Deputy Assessor, Income Tax Division, Treasury
15. Mark Horne, Billing Systems Group and Muir International
16. David Black, Director of Mohawk Internet Technologies
17. Chris Corlett, Chief Executive of the DTI
18. Bill Mummery, Head of e-gaming development, DTI
19. Jane O'Rourke, Chair, Gambling Control Commissioners (GCC)
20. Derek Cannon, Inspector, GCC
21. Tristan Head, Cains
22. Denis Maxwell, Controller of Customs and Excise (by telephone)

23. Gregory Jones, Partner, KPMG (by telephone)

As part of our research, we also interviewed the following individuals and organisations:

24. Chris Rees, Partner and Head of IT and e-commerce group, Herbert Smith solicitors

25. John Wood, Partner and Head of Trusts and Charities Group, Herbert Smith

26. Nigel Ware, audit partner, Baker Tilley

27. Niklas Zennstrom, CEO, Skype

28. Craig McAree, Partner, Grant Thornton

29. Denis McGurgan, Partner, Grant Thornton (IoM)

30. Jason Purcell, CEO, First Stage Capital

31. Gerard Lopez, Managing Partner, Mangrove Capital Partners

32. Danny Rimer, Index Ventures

33. Mike Simpson, PWC (IoM)

34. Neil Postlethwaite, Producer Managing Director Designate, Splash Damage

35. Catherine Bond, Head of Sport, Leisure and Media, Seymour Pierce.