

## **A New Paradigm Applied: The Financial Sector**

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We are facing a new paradigm driven by a discontinuity induced by technology change, i.e. the separation of information from physical goods driven by information technology diffusion.

To recap, the new paradigm has the following factors:

1. enables a massive growth in wealth
2. reduces transaction costs
3. requires trusted custodians of information
4. enables new forms of organisations
5. changes the boundaries between organisations and the market
6. creates the self-interest for people to own information defining their person
7. requires maximum storage of data to realise maximum returns

So, what does this mean for the financial sector? How will it affect the way people store, transfer and measure wealth in an age where information becomes the primary source of wealth?

First, the information society will generate a massive increase in wealth. As information is the dominant form of wealth in an information society, the dominant portion of the increase in wealth is information driven by the large expansion of store data and derived information. Thus, the primary commodity underpinning the measure of wealth will be information, as data gains its economic benefits only when given a context, i.e. when information is created from data. It is reasonable to assume that the industrial era measures will fail, as new measures replace them and individuals shift their store of wealth from the old forms to the new forms as a consequence of greater reliability and circulation, and as the strength of any financial measure is the wealth held by those measures.

Second, the information society reduces the transaction costs involved in storing wealth, transferring wealth and measuring wealth. The primary cost of storing wealth is inflation, which is in large part driven by the structures of the late industrial era financial systems and the hidden wealth tax inherent in inflation, as state monopolists devalue their currency (their measure of wealth) through issuing more credit and erode the wealth of holders of the currency. All information society measures operate in a competitive environment with other measures, and thus it is in the interests of all parties to eliminate inflation in order to maximise the competitive position of the measure. The transaction costs of transferring and measuring wealth are dependent upon the costs of information transfer, which are significantly lower in an information society as a consequence of increasing returns from larger volumes of information.

Third, information society financial measures require a trusted custodian to hold and transfer wealth between parties and to enable a transparent and reliable measuring of wealth. The trusted custodian verifies all parties to each transaction, thus proving all parties with confidence in the wealth held, transferred and measured. Further, the trusted custodian provides a party with deep pockets that can guarantee the value of the measure, thus providing greater trustworthiness to all parties.

Fourth, the information society enables new forms of organisational structures. It can be expected that new organisational forms will appear in the financial sector to meet specific requirements, taking advantage of the information society's virtual elimination of location dependency and to enable skills to be applied to use wealth for maximum benefit. These new structures will likely develop new products to appeal to emerging niches, maximising the application of wealth in society.

Fifth, the boundaries between organisations and the markets will become blurred, partially as a consequence of temporary organisations moving in and out of the market and partially through customer-driven service delivery systems.

Sixth, the new forms of wealth measures provide an increased vulnerability to people, due to the ability to track wealth and target individuals for commercial and political purposes. It is in each individual's self interest to control the information that uniquely identifies the individual, in order to control the use of that information. A property right is the most effect method for a person to legally control the use of individual-identifiable information.

Finally, wealth gains increasing returns from the velocity it circulates in society. The greater the wealth is circulated, the greater the returns to society. Thus, it is in society's benefit to maximise the use for transfer, measuring and storing wealth of the new measures in order to maximise the returns to society.

These changes can all be predicted by applying a new paradigm of an Information economy, but probably represent only a portion of the real benefits, many of which will become apparent only in the context of the new paradigm once it is entrenched. These changes can evolve into a fairer society where information based wealth measures are accessible by everyone, and everyone can enjoy the full benefits of an advanced wealth system.