

CITY WALKS

# The City of London



A walk through this hub  
of global business

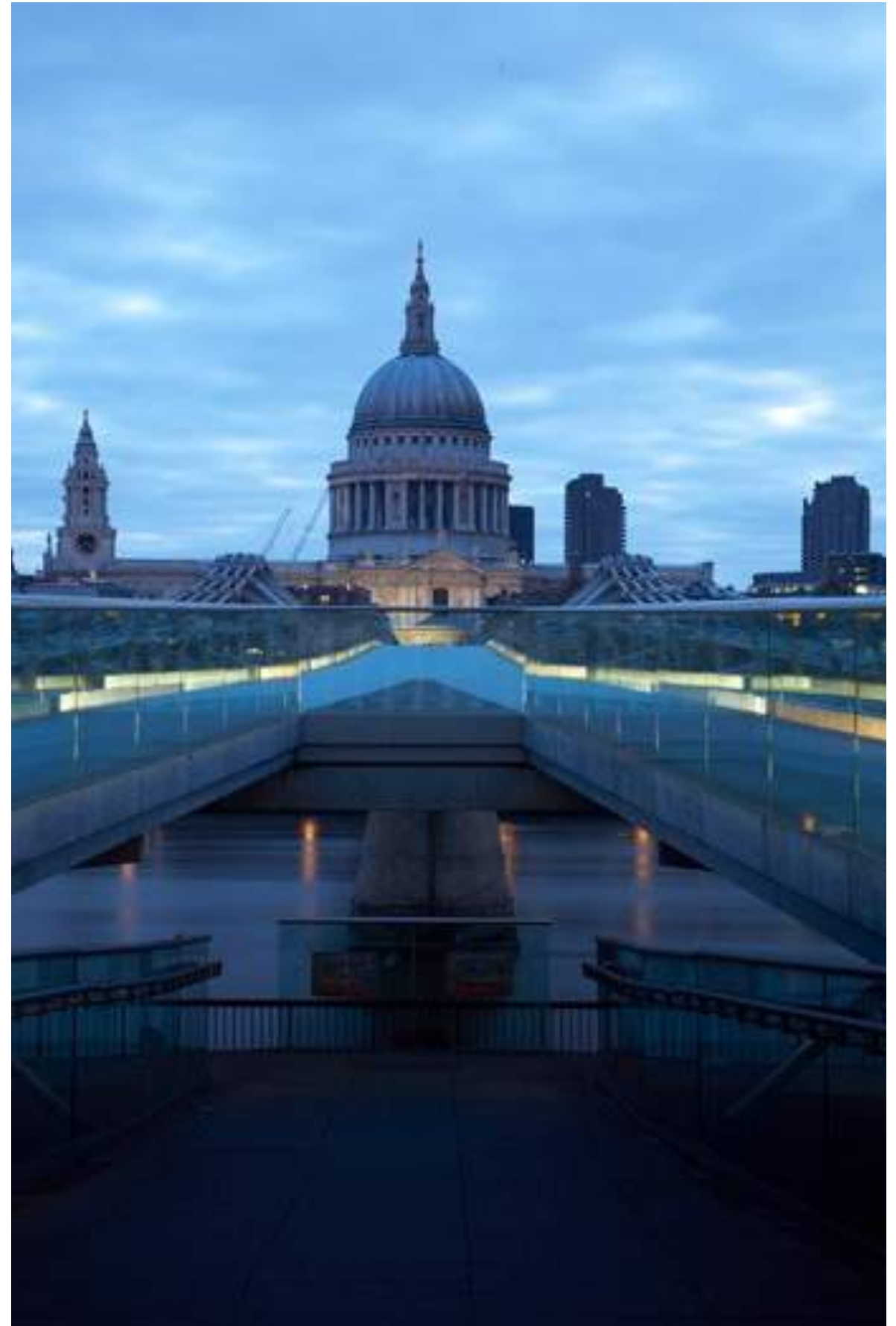
# Introduction

MARK BOLEAT

Chairman of the City of London Policy and Resources Committee

You know the City of London is the capital of international finance. But have you visited Smithfield meat market?

You know the City is home to bankers - from the Governor of the Bank of England to the men and women working in the clearing houses and specialist firms providing private and merchant services to those working for the hundreds of foreign banks crowded into the Square Mile. But did you know one of those banks operates from the site where Rowland Hill, the social reformer, invented the penny postage stamp?



You know the City is old - where, for example, Samuel Pepys climbed up into a church tower and watched the Great Fire of London. But did you know the City's commercial history spans 2000 years from its origins as a Roman port?

Indeed, the City of London may be the best known bit of land in the British Isles that is least appreciated and least understood. The City is sometimes berated as the cause of the 2008 financial crisis. But it goes unappreciated as a generator of export income, tax revenue and hundreds of thousands of jobs. Ask most people what goes on in the City and the response would be money. Ask them what the men and women working in the City actually do and the response may be a blank stare.

We hope the pages that follow will help you get past the clichés and received wisdom and see the City from the standpoints of history, architecture and commercial innovation. On these walks you can get a real feel for the inner workings of global businesses and meet some of the people who, over the centuries, have been its driving force.

Why walks? One of the best ways to bring the City's history, architecture and activities together is to get close to them, on foot. Here are walks that focus on four sectors, the City's insurance business, its banks, its markets and back to its origins as a maritime centre. This is far from exhaustive. There are numerous other City businesses. Managing pension funds, operating hedge funds and private equity firms - asset

management - is just one major City industry warranting a series of walks on its own.

Indeed, almost every inch of the City is noteworthy in one way or another. We want to show you the potential for getting away from books, getting out of the car and off the bus and meeting the City face-to-face. Check out this guide before, or during, a visit or a lunch break. Take the whole route for each theme or just take a look at what's nearest to you. Whether it's your first time in the City, or you've been here for years, see something new - happy exploring!

[INSURANCE](#)

[BANKS](#)

[MARKETS](#)

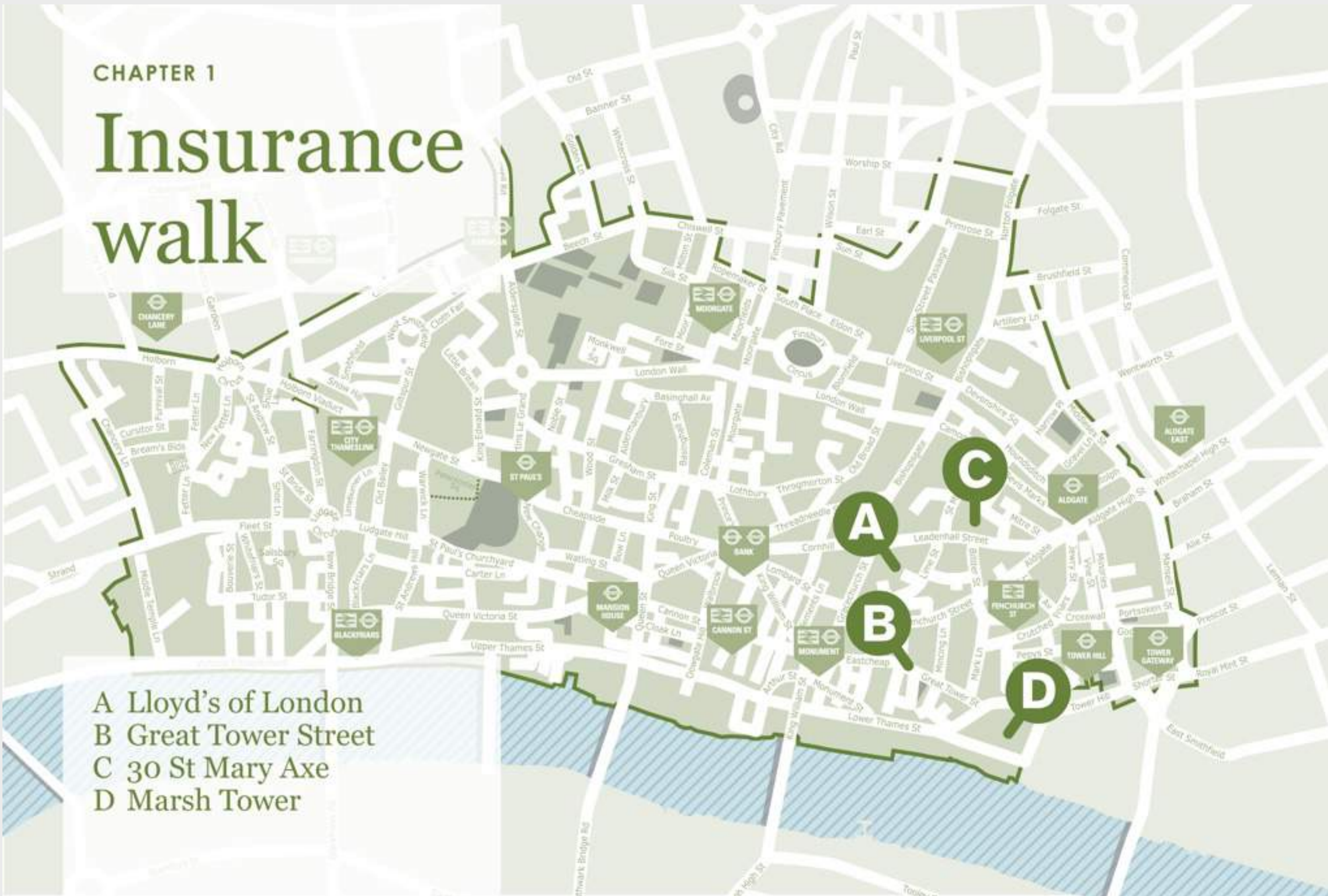
[SHIPPING](#)



## CHAPTER 1

# Insurance walk

- A Lloyd's of London
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- D Marsh Tower





# Lloyd's of London

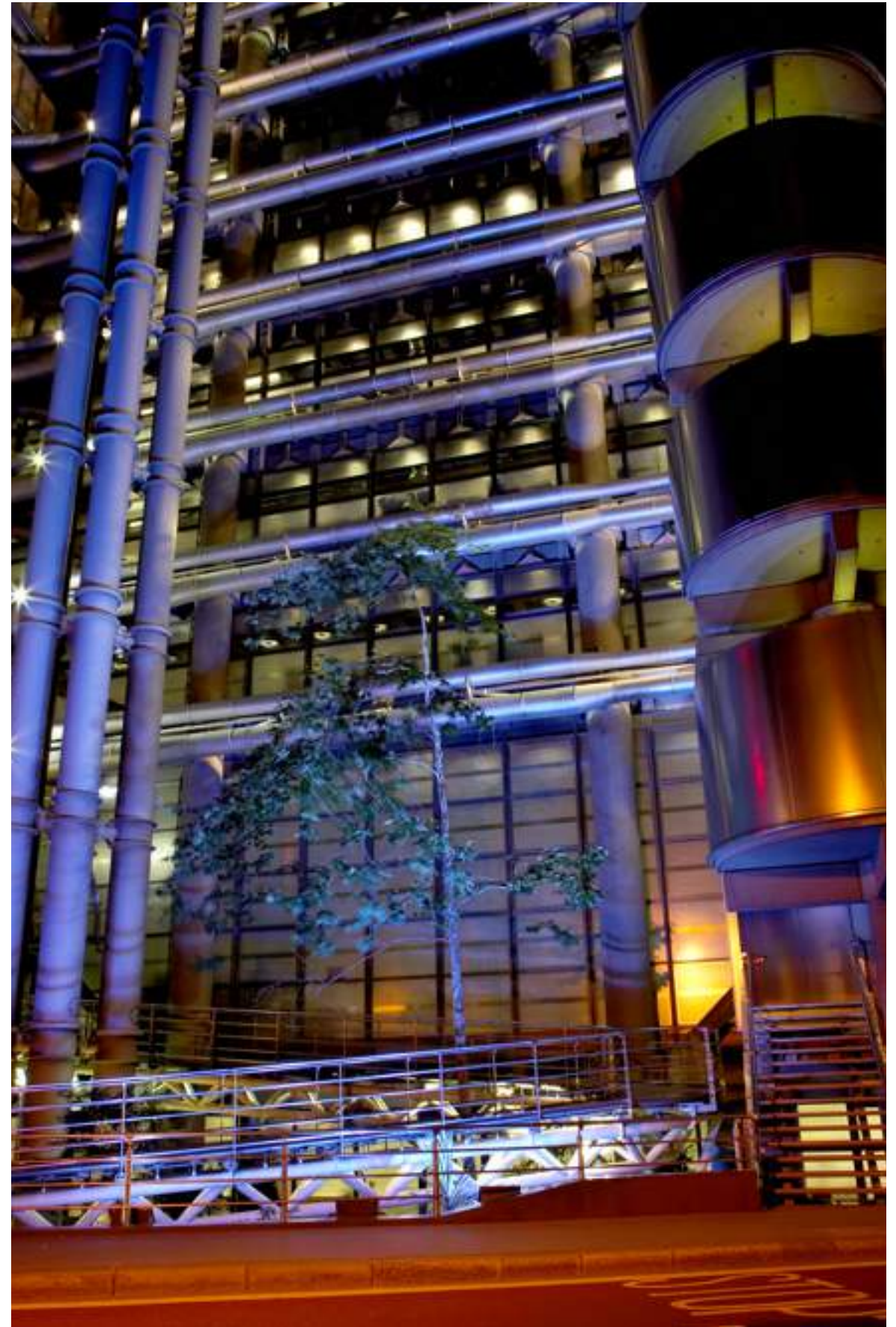
A

Lloyd's of London



Peering up at the Lloyd's of London building at One Lime Street walkers in the City see a flamboyant office tower - steel frame, glass curtain, exterior staircases and ducts, coloured lights. In fact, the building designed by Richard Rogers and

completed in 1986 does not contain offices. It houses a market like the markets at Smithfield, Billingsgate and Covent Garden. Instead of meat, fish or vegetables, however, the goods on sale here are insurance policies, and instead of hawkers the sales people inside the building are highly qualified professionals known as underwriters.



Underwriters act as agents for syndicates charging premiums for insurance against ships sinking, planes crashing, a Premier League football match not being broadcast, a Hollywood star vanishing from a film set. Besides the money syndicates earn from premiums on policies they also profit from investing the sums they set aside against future claims.

Customers in the Lloyd's insurance market are brokers representing all those seeking protection against virtually every type of risk. Brokers flit between polished wood stalls inside the Rogers building looking for the best insurance policies on offer. The bargaining that goes on takes place in muffled tones in a specialised language in the shadow of Lloyd's Lutine Bell.

### **The place**

The Lutine Bell, which is a symbol for Lloyd's belonged to a naval frigate of the same name sunk in 1799 after being handed over to the British by French royalists during the French revolution. It was installed in Lloyd's Underwriting Room in 1858. It was rung when the Titanic sank. It still rings each time a major maritime incident occurs.

Lloyd's is full of such traditions. For example, it houses one of the world's best collections of memorabilia connected to Nelson, the hero of the Battle of Trafalgar. For all its customs and byways, nevertheless, Lloyd's is a modern and efficient place to do business. Indeed, it is the world's leading specialist insurance market.

*Lloyd's has insured Betty Grable's legs, Ken Dodd's teeth, Jimmy Durante's nose, Keith Richard's hand and Egon Ronay's tastebuds. Cutty Sark Whisky once took out a Lloyd's policy against the risk that someone would claim its £1 million prize for capturing the Loch Ness monster alive.*

### **The business**

Lloyd's bread and butter business is marine, aviation and property insurance. But the insurers working in the market also sell something called reinsurance - protection being sought by standard insurance companies against catastrophies from floods, hurricanes and man-made disasters so expensive they cannot cover potential payouts themselves. The market also does a keen business in insuring fine art, and also writing insurance for executives against kidnap and ransom.

In 2011, 88 Lloyd's syndicates sold insurance to 186 brokers seeking risk protection for clients in 200 countries. The backers of - or investors in - the syndicates included rich individuals, known as "Names," and corporate structures representing insurance companies, hedge funds and other pools of capital. Because much of its earnings come from abroad Lloyd's contributes substantially to Britain's balance of trade.

In the 17th century owners of Britain's commercial fleet gathered in City of London coffee houses to compare notes on cargoes and weather conditions. The ship owners took to



sharing risks that property might be lost at sea. Edward Lloyd's coffee house in Tower Street - first mentioned in the London Gazette of 18-21 February 1688 - was a favourite gathering place for maritime gossip.

In 1691 Edward Lloyd's coffee house relocated to Lombard Street, where a blue plaque commemorates its location. Gradually, maritime insurance became more sophisticated. In 1771 Lloyd's ceased to be a coffee house and became a market. Seventy-nine underwriters and brokers subscribed £100 towards new premises in the Royal Exchange.

At the height of Empire Lloyd's embarked on a period of hectic expansion. In 1887 leading underwriter Cuthbert Heath wrote Lloyd's first non-marine insurance policy. In 1906 Lloyd's made its name in America when it was quick to pay out on \$1.4 million in claims arising from the San Francisco earthquake. In 1911 Lloyd's wrote its first aviation policy.

In 1928, with Lloyd's standing in the City of London on a par with the Stock Exchange and the Bank of England, the insurance market moved to new premises in Leadenhall Street. Profits continued to roll in and in 1958 Lloyd's moved again, to a new building on Lime Street.

*Hollywood has used the Lloyd's Building as a backdrop in many films, including Bridget Jones' Diary, Entrapment, with Sean Connery and Catherine Zeta-Jones, Robert Redford and Brad Pitt's thriller Spy Game, Russell Crowe's action flick Proof of Life and Sir Ridley Scott's A Good Year.*

By the time Lloyd's members had spent \$15 million to build Richard Rogers' masterpiece the global insurance business had changed. Lloyd's dominance was being challenged by rivals from Germany, Switzerland and America's offshore insurance centre, Bermuda. The growing size of risks being underwritten began to strain the personal finances of the Names backing Lloyd's policies.

For years Lloyd's Names - including gentlemen farmers, the widows of colonels and wing commanders, solicitors, accountants and other middle-class professionals - had received regular cheques in return for putting their assets, as the saying went, "down to their last cufflink" at the disposal of the market in the event syndicates underwriting Lloyd's policies had to pay out on claims.

But in the 1980s the bill came due. US courts began allowing victims of asbestosis and other occupational diseases to claim against their employers for illness. Many of these employers held insurance policies at Lloyd's. At the same time Lloyd's insurers were hit by a series of destructive hurricanes. On top of this there were man-made disasters such as the Piper Alpha oil rig fire in the North Sea.

For a brief moment Lloyd's teetered on the brink of insolvency as some Names were driven into bankruptcy. Urged on by the government and the Bank of England, however, Lloyd's worked out a schedule to pay off its creditors. In a bid for fresh capital it began accepting corporate money operating under the laws of limited liability.

By 1997 Lloyd's was back on its feet. Today, despite further challenges, the revamped market thrives.

*HMS Lutine - from which the Lutine Bell was salvaged - was carrying a cargo of gold when it sank in 1799. This gold was being sent by English investors to Germany to back up the Hamburg stock market as it faced a panic. The majority of the gold that went down with the ship lies unclaimed to this day. Fortune-hunters still search for it beneath the shifting sands of the North Sea.*





# Great Tower Street

B

Great Tower Street



On Wednesday the 5th of September 1666 Samuel Pepys climbed the steeple of All Hallows by the Tower to get a view of the conflagration razing London. In his notebook he wrote he “there saw the saddest sight of desolation that I ever

saw. Everywhere great fires, the fire being spread as far as I could see it.” Pepys’ 441-year-old account of the Great Fire of London stands as one of history’s great examples of reporting.



It also highlights an irony. London was destroyed by the Great Fire. But out of that destruction came changes for the better. One of these was the advent of modern insurance. After the burning of some 13,200 homes London's citizens wanted financial protection against another catastrophe. In 1667 Nicholas Barbon responded by establishing England's first fire insurance company. Ever since, the City's insurance industry has thrived on the spot from which Pepys viewed the 1666 disaster. In Pepys' time the spine of the City was called Tower Street. Today it is called Great Tower Street.

Typically when people think about insurance in the City they think of Lloyd's. Yet Lloyd's is only part of the story. London's insurance sector extends beyond the insurance market housed in Richard Rogers' Lime Street landmark to a sprawl of insurance companies operating outside Lloyd's. These companies are clustered along Great Tower Street and the roads, alleys and passageways leading off it.

### **The place**

Great Tower Street not only suffered the ravages of the Great Fire but also plague and civil war. Despite this it rose to become a main artery of City commerce. Its taverns became central gathering points for City merchants. Ship captains seeking information about sea conditions congregated at a coffee house on Tower Street owned by Edward Lloyd. (Lloyd moved his coffee house to Lombard Street and his customers set up the fledgling Lloyd's insurance market.) Pepys favoured the Dolphin Tavern on Tower Street. He reports going there to

take a "morning draught". Evenings he went along to have a "very merry dinner of oysters, lobster, beef or smoked herrings."

*Nicholas Barbon who invented fire insurance in 1667 also established the first London fire brigade in 1680. Barbon's men responded to cries for help from those holding his company's fire insurance policies. Private fire fighting remained the order of the day until the 19th century. Then in 1834 the Palace of Westminster burned. In 1861 fires raged through warehouses on the Thames. In 1865 the government agreed to make fire fighting a public utility.*

Tower Street was lined with the homes of some of London's grandest merchants. Often these homes doubled up as places of business. Working people lived on the side streets off the main artery. Walkers detouring into these side streets will find St Olave's Church on Seething Lane. There Pepys was buried in 1703. St Olave's also lists victims of the plague on its burial register and the woman known as Mother Goose of the nursery rhyme who died in 1586.

Venturing into Mincing Lane walkers will come upon a neo-gothic structure fronted by statues of three horses. Local wags have nicknamed them Sterling, Dollar and Yen. A closer look at the neo-gothic structure turns up a recurring motif - the initials LUC. These stand for London Underwriting Centre.

The LUC opened in 1993. It is more international than the still UK-dominated Lloyd's. Insurers from the Americas, Europe



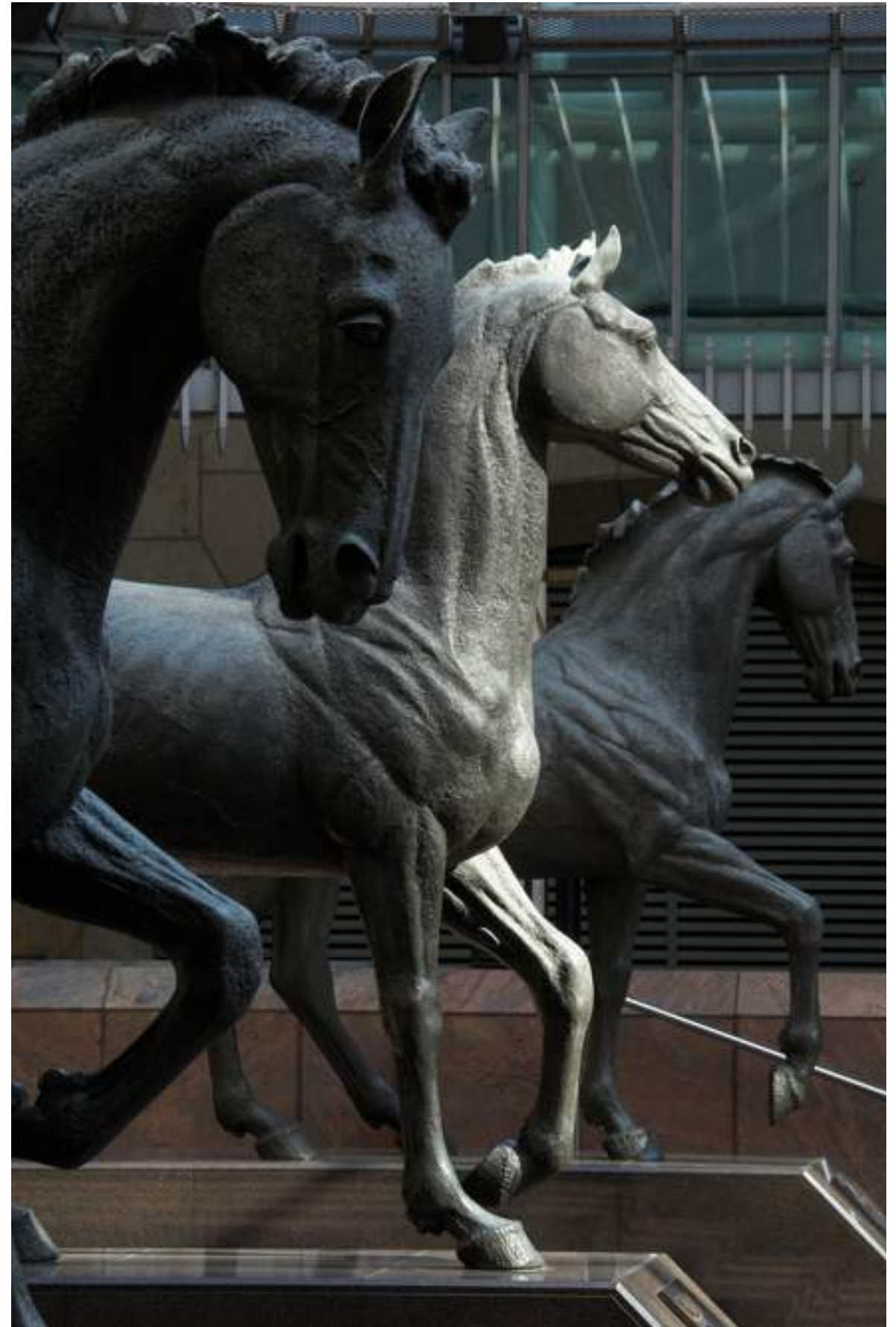
and Asia have offices here. As with bankers, insurers like to huddle together to do business face to face. Before the LUC they would trek from office to office. Now they can transact their business under a single roof.

## **The business**

Insurance, which is about the transfer and distribution of risk, goes back to 3000 BC. It is mentioned in the code of Hammurabi. Babylonian merchants worried about the safety of cargoes on ships plying the Mediterranean. They paid bankers financing these cargoes an additional sum to cancel the debt should a cargo be lost or stolen.

It is no accident insurance came of age in London late in the 17th century. It was a boom time in Britain and merchants seizing on new opportunities were exposed to greater risks. One way to mitigate risk was to buy an insurance policy. Another way was to sell part of a business. Thus was born the joint-stock company which evolved into the public corporations of today whose shares or “stock” are sold on the London Stock Exchange.

*Underwriting is the term used to describe the process by which insurers calculate how much to charge for how much financial protection they are prepared to offer. At the heart of underwriting stands the actuary, the professional qualified to evaluate the likelihood of events and quantify the cost of such likelihoods.*





# 30 St Mary Axe

c

30 St Mary Axe



Walking down St Mary Axe visitors approach Number 30. The Gherkin, as the building is popularly known because of its pickle shape, looms above an ancient skyline. There's St Andrew Undershaft, one of the few City

churches to escape both the Great Fire of 1666 and the Luftwaffe's bombing during the second world war. There's St Helen's Bishopsgate with its medieval courtyard. Then comes the pickle itself rising like a spaceship in *Close Encounters of the Third Kind*.





The closer one gets to 30 St Mary Axe, indeed, the more complicated its architecture appears. Standing before it on the street the building dissolves into a tangle of steel girders anchored to reinforced concrete. Up close it's hard to see the contours of the building. The same holds true for the industry for which the building is known. From a distance insurance seems simple. The closer one looks at it, the more complicated it becomes.

One of the first tenants of 30 St Mary Axe was Zurich-based Swiss Re. Swiss Re is a reinsurer, which means it sells insurance to other insurance companies. There is a market for insurance companies to sell insurance to each other because smaller insurance companies sometimes cover big risks and then look to lay off all or part of those risks, and also because even the largest insurers look to balance the categories of risk they assume in writing policies.

### **The place**

At 591 feet (180 metres) 30 St Mary Axe is the third tallest building in the City after the Heron Tower and Tower 42 at 25 Old Broad Street, and the eighth tallest building in London, with The Shard at London Bridge being the tallest.

The Gherkin has 40 floors. All are for private use. The Gherkin stands on the site of the old Baltic Exchange, the City's shipping market. It was erected after the Provisional IRA detonated a bomb nearby in 1992 damaging the foundation of the old Baltic Exchange.

Constructed between 2001 and 2004, the Gherkin won its architects, Norman Foster and Foster's ex-partner Ken Shuttleworth, the Pritzker Prize, the architectural equivalent of a Nobel. The building's design maximises daylight and natural ventilation. It uses half the energy typically required of an office block its size. Unusually for a skyscraper its windows open. A beneficial draught is encouraged by varying air pressures created by the building's spiral atria. In February 2007 Swiss Re sold the building for £600 million to an Anglo-German joint venture while retaining premises there.

*Lord Foster was born Norman Foster in 1935 in Reddish, Stockport to a working-class family. After leaving school at 16 and serving in the RAF he attended architectural school at the University of Manchester. In the 1960s he worked with Richard Rogers who designed the Lloyd's building. Later he worked with the American futurist Buckminster Fuller. Foster's other works include the Millennium Bridge and the new Wembley Stadium.*

### **The business**

People visiting 30 St Mary Axe in search of fire or car insurance, say, are likely to be frustrated. Reinsurers are the insurance company equivalent of a computer software firm which deals exclusively with other software firms. Insurance companies seek reinsurance for a variety of reasons. Some want to want to transfer excessive risk off their books. Others

want to pass on risks so they can write more policies while remaining within their prudential limits.

Reinsurers take pieces of policies written by primary insurers. A reinsurer will, for example, agree to take 10 per cent of the premiums an insurer collects on a bunch of policies in return for agreeing to cover - “underwrite,” in insurance industry parlance - 10 per cent of potential claims against the policies the insurer writes.

On other occasions reinsurers cover the risks taken on by primary insurers above a certain limit. A primary insurer will, for example, set aside reserves to cover £1 million in losses from flooding. Then the primary insurer will take out a policy with a reinsurer to cover losses from flooding above £1 million.

The splicing and dicing of risk stands at the heart of reinsurance. This splicing and dicing can lead to a complex web of contracts - reinsurers sometimes reinsure their risks with other reinsurers. The purchase of reinsurance by reinsurers is known as retrocession. Retrocession can lead to so-called spirals of intricately interlocking coverage and exposure. At its best the practice spreads risk. At its worst retrocession has the unintended effect of concentrating risk as the complexity of interlocking policies obscures who holds what risks.

This was what happened in the 1980s when the Lloyd’s insurance market briefly flirted with insolvency. The reinsuring of reinsurance at Lloyd’s led to a concentration of

risks on the books of a small number of syndicates. When claims on a spate of natural disasters coupled with claims from American victims of asbestosis came in, these syndicates were overwhelmed and had to be bailed out.

*At 180 metres 30 St Mary Axe is three times taller than Niagara Falls. Its lifts are so efficient that 378 people can be transported up and down the building at speeds of up to six metres per second.*

In recent years reinsurers have begun packaging risks in the form of bonds sold to hedge funds and other institutional investors. Often these packages are called catastrophe - or cat - bonds. A cat bond covering say, Florida hurricanes, pays regular - typically high - interest to its holders. If no hurricane strikes Florida over a specified period of time, then the holders not only earn interest, but also get back their principle. If a hurricane does strike during the time period, the bondholders lose their principal, because it goes to the insurance companies covering the costs of damage done to the policy holders.

Reinsurers like Swiss Re employ catastrophe - or cat - modellers. These are teams of computer experts, statisticians, engineers, meteorologists, oceanographers and seismologists. Cat modellers develop scenarios predicting the likelihood and cost of hurricanes, earthquakes, tornadoes, floods, forest fires, terrorist attacks, wars and other acts of Man and God.



Insurers as well as reinsurers use cat modelling to assess the risks in their portfolios and also to price policies.

The parcelling out of risk by reinsurers to hedge funds and other investors in the form of cat bonds is similar to the parcelling out of home loans by mortgage originators. When this parcelling out is done wisely everyone benefits. When it is done recklessly, as happened during the US sub-prime mortgage crisis, it can backfire spectacularly.

In general, however, the parcelling out of risks between insurance companies allows them to extend protection to those in need of it. Selling packages of risks to professional investors allows companies like Swiss Re to smooth out the cost of claims likely to be made against them. It has also opened up a new business for reinsurers - collecting fees for creating such bonds.





## CHAPTER 2

# Banking walk



E Fleet Street  
F 2 King Edward Street  
G The Bank of England  
H Lombard Street



# Fleet Street

E

Fleet Street



Fleet Street is synonymous with print journalism. The world's first newspaper, *The Daily Courant*, began publication there in 1702. Over the next three centuries virtually all of the country's great newspapers were written, edited and printed there.

Today, however, despite the association in the public mind between Fleet Street and print journalism, the actual road running parallel to the north bank of the Thames has nothing to do with newspapers.



In 2005 Reuters became the last of the great news organisations founded in the 19th and 20th centuries to rebase its headquarters elsewhere. The ink stained wretches of yore can now be found in Docklands and across Central London tapping computer keyboards. The thunderous presses that once made Fleet Street rumble and shake have given way to high-tech printing operations dispersed round the country.

Yet, despite its loss of newspapers, Fleet Street today remains a thriving commercial centre. Walkers meandering along will spot a very different industry discretely tucked among the relics of newsrooms and basement presses. Fleet Street is a hub of private banking and other financial and professional services. Private banking there dates back to 1690 when C Hoare & Co moved from Cheapside to what is now Number 37.

Private banking is the upmarket version of High Street banking. Private bankers provide current and savings accounts, but they also provide other sophisticated financial services ranging from investment advice to running great estates in the form of so-called family offices. While the newspaper industry declined, private banking thrived and continues to thrive today.

### **The place**

Picking out private banks on Fleet Street brings home one of the pleasures of City walks. At first glance Fleet Street - named after the River Fleet and opened during the expansion of London beyond its medieval walls in the 14th century -

appears a rag-tag collection of nondescript offices and chain food outlets. Upon closer inspection it gives up tantalising secrets. Fleet Street not only harbours a discrete corner of the financial services industry, it knits together the financial capital and the history of Britain overall.

*Sweeney Todd is believed to have robbed and murdered more than 150 customers in his barber shop at 186 Fleet Street toward the end of the eighteenth century. At 194 Fleet Street the Old Bank of England pub was formerly the Bank of England branch that handled the financial transactions of the nearby Royal Courts of Justice.*

Walkers looking above Hoare's at 37 Fleet Street will see the sign of a golden bottle. The golden bottle was Hoare's identifying insignia when before there were street numbers all of London's businesses denoted themselves this way.

Across from Hoare's is the Fleet Street office of Coutts, now part of the Royal Bank of Scotland. Walkers may peek through the circular windows resembling bank vault doors and note the copies of *Country Life* magazine, an indication of the private bank's client base.

Down from Hoare's is a branch of Barclays Bank. Careless walkers may take it to be one more branch of the high street bank. More observant walkers will note the small brass plate announcing the branch was actually the site of Goslings for centuries, a private bank taken over by Barclays in 1896. At



1 Fleet Street, meanwhile, the Royal Bank of Scotland owns another historic name in British private banking - Child & Co.

In amongst Fleet Street's private banks walkers will come across traces of the City's broader history. In Gough Square to the north there's the 18th century home of Dr Johnson. One of Fleet Street's churches, St Dunstan-in-the-West, has a memorial to Izaak Walton, the fisherman and vestryman who lived nearby between 1632 and 1644.

Fleet Street also has its share of legal and military history. Passages off it lead south to Temple, a long-established warren of barristers' chambers. But it began as an outpost of the Knights Templar, the religious-military order founded after the First Crusade to protect European pilgrims going to Jerusalem.

*In the 19th century there were some 4,000 mainly family-owned private-deposit banks. Today C Hoare & Co is the last one standing in this category. Hoare's customer roster included Samuel Pepys in the 17th century, Gainsborough in the 18th and Jane Austen in the 19th. Of its illustrious 21st century customers the bank says on its website, "For reasons of confidentiality this information is not available."*

## The business

Stereotypically, private banking is about jewel-encrusted cheque book covers and obsequious retainers in morning coats attending dowagers in pearls. The tabloid view is that

private banking is about tax dodgers and footballers' wives shopping while their pets are being shampooed.

The reality is both more and less exotic. The beneficiaries of inherited wealth rely on their private bankers to conserve their wealth, choosing the right hedge fund as well as the right gilts. The entrepreneurs building their own fortunes rely on their private banks to organise their expanding personal empires and to set up family offices - operations that are in effect miniature investment banks.

Modern private banking is done by teams. The contact point is the client relationship manager or CRM. The CRM directs clients to services at their own bank and also to rival banks offering different products. The CRM might, for example, direct an entrepreneur to colleagues who can arrange the sale of the entrepreneur's start-up company. The CRM might then direct the entrepreneur to fund managers who will invest the proceeds. Or the CRM might direct the entrepreneur to brokers providing financing. By investing borrowed money as well as the money made themselves the entrepreneurs increase his potential for profit. This is called leverage. Leverage also increases the risk an investor will lose big.

Private bankers perform an almost endless array of services. For example, they might direct clients to property specialists knowledgeable about the tax angles of getting involved in development. Or they might direct them to international specialists knowledgeable about building businesses abroad.

London's private bankers have competitors. Swiss banks trade on the cachet of Zurich and Geneva to win super-rich and affluent clients. Hong Kong and Singapore are catering to the new rich in Asia. UK, Swiss and American private bankers have long been active in the Middle East where oil has created a class of petrodollar billionaires.

During the 2008 financial crisis the size of the private banking industry globally fell but by 2010 it had begun to rise again. A survey of 198 private banks in 2011 indicated they managed total assets of US\$13.6 trillion for their clients, accounting for 79.5 per cent of the private bank market.

Unlike some of their competitors London's private bankers do not sell themselves as tax or secrecy havens. Nevertheless there is a unique selling proposition. London is considered by many of the super-rich to be the liveliest, most cosmopolitan, most culturally stimulating of financial centres. It is also considered among the most stable - which helps account for the strength of the property market in the parts of London where the international community lives.





## 2 King Edward Street

F

2 King Edward Street



Two King Edward Street stands north of St Paul's at a remove from the warren of crooked streets in the City's centre. The building looks entirely of the 21st century. But a faded description on its front wall makes it clear the building harks back to

the dawn of the 20th century. The inscription begins: "Edward the Seventh, King of Great Britain and Ireland and the British Dominions beyond the seas, Emperor of India, laid this stone of King Edward's Building of the General Post Office on the 16th day of October 1905."



There is, nevertheless, a connection between the eras the building straddles and that connection is based on the old adage that knowledge is power. Financial centres and Empires alike require the reliable, fast and cost-efficient communication of information. The British Empire at its height invented a postal service that allowed people to invite friends to tea by morning post and get a reply back in the afternoon post in time to set out the cups and crumpets.

Two King Edward Street today is the European headquarters of Bank of America Merrill Lynch (BAML) and its computers link to computers across the City's trading floors and to computers in other financial centres round the world. Peering in through windows beneath the faded inscription memorialising the postal service walkers in the City one can see young traders and dealers intensely scrutinizing these computers, studying charts and flickering numbers and animated on banks of phones.

### **The place**

Two King Edward Street and its environs are a pastiche of old and new. The building itself began as a sorting office for the postal service. Attached to its rear is an addition put on when the investment bank Merrill Lynch, acquired by Bank of America during the sub-prime mortgage crisis in the US, completed its renovation in 2001.

Next door stands the ruin of Christ Church Greyfriars built on the remains of a Franciscan monastery dating from 1228. The medieval church was destroyed in the Great Fire of London in

1666 and rebuilt by Sir Christopher Wren. Wren's building was gutted following its bombing in December 1940 by the Luftwaffe. In 1989 the City of London planted a rose garden to match the floor plan of the Wren church.

*Charles E Merrill and Edmund C Lynch met at the 23rd Street YMCA in New York City in 1907. Seven years later they opened a Wall Street firm. In 1929 they established their reputation by warning clients of an impending crash. After the second world war Merrill became known as the stockbroker to Main Street USA. The firm, now owned by Bank of America, is one of a select few of so-called "bulge bracket firms," one of the acknowledged leaders in global investment banking.*

On the pavement outside Two King Edward Street stands a statue of Rowland Hill, the social reformer who invented the penny postage stamp. To the left of the building there's a plaque commemorating Poulter's Hall, which stood on the site from 1630 to the Great Fire. This was headquarters of the guild of London's poultry men. It was one of a string of guilds from apothecaries to woolmen whose memberships controlled medieval life in the City. At the apex of the guild structure was Guildhall located on Gresham Street and built between 1411 and 1440. The Guildhall was the home then, and still is today, of the City of London Corporation, the organisation responsible for governing the financial district. Find out more at [cityoflondon.gov.uk](http://cityoflondon.gov.uk)



## The business

After the second world war some \$13 billion in US aid helped rebuild Europe under a programme known as the Marshall Plan. This resulted in a widespread circulation of the US currency in the region and this circulation increased as US corporations set up European businesses and conducted much of their business in dollars. By the 1960s the dollar had supplanted sterling as the world's reserve currency and changes in US tax law made it advantageous for US companies earning dollars outside the US to hold those dollars in dollar accounts in the international branches of banks based in the City.

In 1963 the British merchant bank SG Warburg floated a European-registered but dollar-denominated bond for the Italian highway authority Autostrade. Holders of dollars in the City used them to buy the dollar-denominated Autostrade bonds. Thus was born the Eurobond market. Eurobonds were registered in Luxembourg. The investors buying them in the earliest days were dentists in Belgium and other continentals fleeing their taxmen. But the brainwork involved in floating Eurobonds was done in London.

*From the roof of a building in King Edward Street, at the time occupied by the Post Office, the inventor Guglielmo Marconi first transmitted wireless signals in 1896.*

As the Eurobond market grew it became more widely accepted and pension funds, insurance companies and other

institutional investors joined individuals on the retail side of the market as buyers. Observing the Eurobond market's profit margins - higher than the gilt and US Treasury bond markets - American banks including Merrill Lynch rented space in the City and began vying with Warburg and other British merchant banks to do the brainwork in the market.

By the 1980s the market had matured enough to attract Triple-A borrowers and in 1986, in an initiative known as "Big Bang", the British government de-regulated securities trading in the City and broke down the barriers between British and overseas financial markets that had co-existed there in separate universes.

Out of this history London emerged as the centre of the global capital market. Before the world's savers and borrowers had met in a series of tightly controlled national authorities. Now, the world's savers and borrowers began to converge in a single capital market and much of the business involved was done on trading floors like the one at Two King Edward Street.

In 1995, as stock trading was going global, Merrill acquired the old-line British broker Smith New Court. Two years later it bought the UK fund manager Mercury Asset Management. In the Bank of America Merrill Lynch Financial Centre at Two King Edward Street BAML advises companies on when to sell shares or bonds to raise capital on what terms. It also offers advice on when companies should make mergers or acquisitions. Simultaneously it manages the capital of savers and acts as a broker for clients buying and selling securities.

At the same time it also deals in the stock, bonds, currency, commodities and esoteric securities market known as the derivatives market on its own behalf. The BAML Financial Centre contains two of the largest trading floors in Europe. Some 4,000 people are employed there and in neighbouring buildings.

Recently, banks such as BAML have taken a back seat to hedge funds and private equity firms. However, BAML and the other big international investment banks have deep pockets compared to the new arrivals.

Across from Two King Edward Street, as if in reproach to those championing globalisation without acknowledging its limits, stands a patch of green called Postman's Park. Created in 1880 from the churchyards of St Leonard, Foster Lane and St Botolph-without-Aldersgate, it was the idea of painter George Frederick Watts. Watts wanted to celebrate the lives of postal clerks and other humble people. Around the park wall tiles commemorate working class heroes - Mary Rogers, a stewardess aboard the Stella, who in 1899 gave up her life belt and went down with her sinking ship, for example.





# The Bank of England

G

The Bank of England



Although the streets of the City of London are not paved with gold there's plenty of it under them if walkers know where to look. One of the largest caches of the precious metal in the world lies in a vault beneath the Bank of England. Exactly how

much gold is stored under Threadneedle Street, where Threadneedle Street meets Bank junction near the 1844 statue of Wellington, is a state secret. But it is known that the bullion is neatly stacked in piles containing 77 bars each with each pile weighing approximately a tonne.



It is also known that the security is so good that, despite the gold's presence in the Bank of England's subterranean bullion rooms being no secret, not a single robbery has been attempted in more than three centuries.

## **The place**

The Bank of England was founded in 1694 to fund King William III's war with France. One thousand two hundred and sixty eight people coming together in the new establishment loaned £1.2 million to the Crown at a perpetual rate of 8%. Many of the original subscribers were Huguenots. Their names are listed in a ledger on display in the Bank's Museum in Bartholomew Lane, just around the corner from Threadneedle Street. Walkers with enough time should definitely pay a visit.

City guilds rallied to provide credit to the Crown because they realized William III could lose the war with France if he did not have sufficient funds to fight it. This was neither pure patriotism nor altruism. The City guilds feared a takeover of their businesses if the French defeated the English. On the other hand, the City guilds believed there would be opportunities to expand their businesses if the English defeated the French. The motives of the City's late 17th century leaders, in other words, were not that distant cousins to the motives driving the City today.

When the Bank opened for business in temporary accommodation in Mercers' Hall in Cheapside in 1694 it had a staff of 17 clerks and two gatekeepers. Later in the same year it

moved to Grocers' Hall in Princes Street. Later still in 1734 it acquired its own premises in Threadneedle Street.

The Bank overcame its first great crisis in 1720, when its credit was almost wiped out by the South Sea Bubble. It recovered and by 1797 was so thoroughly established the playwright Richard Brinsley Sheridan could refer to it as an "elderly lady in the City," a phrase which inspired the cartoonist James Gilray to portray what is now Britain's central bank as "The Old Lady of Threadneedle Street" - a name which has stuck for over 200 years.

The Bank gradually acquired adjacent premises until the present three-acre island site was secured. The Bank's headquarters was designed under the guidance of the great Georgian architect Sir John Soane. Rebuilding by Sir Herbert Baker significantly altered it from Soane's conception but Soane's fortress-like, windowless curtain walls and his interior courtyards, halls and offices remain its signature features.

*The gilded statue on the roof at the northwest corner of the Bank of England, where Princes Street meets Lothbury, was sculpted by Charles Wheeler and is called Ariel after Shakespeare's spirit in the Tempest who "could put a girdle round the earth in forty minutes".*

Pausing outside the Threadneedle Street fortress walkers may glimpse gatekeepers in uniforms of swallow-tailed coats. The



colour of the coats is known as Houblon Pink, as it's believed the servants of the first Bank governor, Sir John Houblon, dressed in a livery of that hue.

## **The business**

Stewardship of the state's gold beneath Threadneedle Street is only one of many duties that sets the Bank of England apart from the City's numerous private banks. Indeed, the Bank of England is not really a bank at all as people commonly understand the term. It is a central bank, which means its primary function is not to make a profit for shareholders but, along with the Treasury, to ensure the smooth functioning of the financial system.

In 1844 the Bank was formally given monopoly powers to make and issue banknotes in England. In 1946 it was nationalised. The Bank helped Harold Wilson manage the 14% devaluation of the pound in 1967. By limiting the supply of credit available to borrowers, the Bank played a role in containing the inflationary impact of the 1973-1974 oil price shock. It helped the City ride out the 1987 stock market crash. In 1992 it helped the Treasury manage sterling's withdrawal from the Exchange Rate Mechanism after hedge funds led by George Soros attacked the pound.

In 1997 then-Chancellor Gordon Brown rejigged the City, moving power to set interest rates from the Treasury to the Bank. At the same time the government shifted the Bank's regulatory duties to the Financial Services Authority. Now under the Chancellorship of George Osborne a good portion of

the old FSA's regulatory powers have been moved back to the Bank.

The Bank of England ensures there is sufficient credit in the financial system day-to-day to keep the wheels of commerce turning. The Bank also makes sure there is enough good old-fashioned currency in circulation so companies and individuals have enough cash on hand to make necessary cash payments.

There are some two billion banknotes in circulation at any given moment. The aggregate value of these notes varies between £35 and £40 billion, or £750 - £800 per adult. The most common note in circulation, accounting for 65% of all paper money, is the £20 note.

Because London is the capital of the 24-hours-a-day, seven-days-a-week, 365-days-a-year global financial market, the Bank also works with its counterparts round the world, including the Federal Reserve in the US, to ensure the smooth functioning of the global financial system. This gives the Bank a central role at times of crisis. It also means the Bank remains ever vigilant in the never-ending struggle between officials seeking to keep markets calm and private companies, funds and individuals inclined to over-invest during booms and under-invest during downturns.

The Bank of England injects money into the financial system when the wheels of commerce are turning slowly. It damps down the money supply when the wheels of commerce are spinning fast. As one former head of the US Federal Reserve

once remarked, the job of central banks like the Bank of England is to “to take away the punch bowl just as the party gets going.”

There are many reasons why the City of London has emerged as the capital of international finance. English is the language of commerce. London is geographically central. City financial markets begin trading just as the Asian markets are closing. They remain open until the US markets start their day’s trading.

But the rise of the City to the status of premier international financial centre probably owes as much to its clever oversight by the Bank of England as it does to time and place. Financial centres need just the right amount of regulation. Not enough regulation leads to an exodus by bankers fearful of losing their money to fraudsters. Too much regulation tends to prompt an exodus of bankers complaining of red tape.

*The origin of Threadneedle Street’s name remains a matter of debate. One theory is that it takes its name from the three needles in the crest of the Needlemakers’ Company. Another theory is that it takes its name from the needle and thread used by the Merchant Taylors who have their Hall in the street.*





# Lombard Street

H

Lombard Street



“I venture to call this Essay ‘Lombard Street’ and not the ‘Money Market,’ or any such phrase, because I wish to deal, and to show that I mean to deal, with concrete realities. A notion prevails that the Money Market is

something so impalpable

that it can only be spoken of in very abstract words. . . But I maintain that the Money Market is as concrete and real as anything else.” So Walter Bagehot began *Lombard Street*, his classic 1873 study of finance.



Bagehot's 19th century Money Market has been overtaken by the City's global securities and banking markets of today. The bearded, top-hatted bankers, brokers and jobbers busy in the City in Bagehot's time have given way to gym-toned hedge fund managers, buyout specialists and derivatives dealers of today.

The relatively parochial 19th century panics about which Bagehot wrote have been comprehensively eclipsed by the current era of financial crises beginning with the Latin American debt crisis of the 1980s and extending to the sub-prime mortgage crisis of 2008.

Still, Bagehot's observation remains relevant. The City seems mysterious. Its language can induce vertigo. But anyone walking along Lombard Street and listening carefully to the mobile phone conversations there will understand the people whose shoulders they are rubbing are business people dealing in a market where money, as opposed to cars, chemicals or clothes, is manufactured, bought and sold.

### **The place**

Banking in its modern form was invented in Italy at the start of the Renaissance. It came to Britain in the 13th century when Edward I borrowed £400,000 from the goldsmiths of Lombardy to finance the conquest of Wales. To thank his bankers Edward granted them a piece of land in the City.

The Lombard goldsmiths used the land to establish a banking business in Britain and named the street that became the

centre of their activities after themselves. Even today, with its narrowness and the sharp shadows cast on a brilliant day, Lombard Street can evoke Milan. England's earliest Italian immigrants gradually developed their core businesses of lending and assaying gold into new businesses including changing sterling into Venetian ducats and other currencies.

Looking up walkers along Lombard Street will see hanging signs. These existed before street numbers to denote places of business. The grasshopper over 68 Lombard Street was the sign of the Gresham family. Sir Thomas Gresham was a 16th century banker who believed that bad money drives out good. This concept is now known as Gresham's Law.

*Gresham's Law may be stated more formally as follows:  
"When an authority compulsorily overvalues one type of money and undervalues another type of money, people will hoard the undervalued currency while using the overvalued currency to pay their bills."*

Queen Elizabeth I established the pound sterling in 1561 with the advice of Sir Thomas Gresham as a way of standardizing English money. Gresham's plan was to make the pound stand for exactly 5,400 grains of high purity silver (known as sterling silver). The new currency brought order to the monetary chaos of Tudor England. By setting a precise standard for coinage it made debasement and adulteration more difficult.



## The business

While the City hosts the widest and most esoteric range of financial businesses imaginable, one business remains its bread and butter. This is called commercial banking which involves a company attracting deposits by persuading the public that money is safe in its hands and then by paying interest to depositors. Commercial bankers lend the money they have attracted at interest rates higher than those which they are paying out.

*According to ancient legend, the founder of the family, Roger de Gresham was a foundling abandoned as a new-born baby in long grass in Norfolk in the 13th century and discovered there by a woman whose attention was drawn to the child by a grasshopper. In the system of English heraldry, the grasshopper is said to represent wisdom and nobility.*

With the money commercial bankers attract they make loans. On the assumption that not all depositors will demand their money back at the same time they make loans greater in value than the sum of their deposits. When the business of lending out more money than a bank takes in is managed well it generates economic growth. When it is managed badly it can lead to financial panics and recession.

Commercial banking became a large-scale retail business in the 19th century when the practice of saving trickled down to the burgeoning middle classes. Cheques and bank statements

go back to the 17th century but retail banking received a tremendous boost after the second world war with the introduction of credit cards.

Until the 1970s discrete national capital markets were kept separate from one another by financial regulations. Then there was a worldwide push to deregulate financial markets. New technology turned money into blips on computer screens zipping through the ether courtesy of satellite communications technology. Discrete national capital markets coalesced into a single global market. London became its centre as banks flocked to set up their international headquarters there and set about borrowing from and lending money to each other in the City's burgeoning inter-bank market.

In the first phase of global banking the number of financial institutions in the City exploded. Gradually there has been a consolidation. Among British banks, for example, HSBC took over Midland Bank and the Royal Bank of Scotland took over National Westminster Bank. Throughout the period, nevertheless, the volume of financial business done in the City has grown - so much so that demand for City premises eventually outstripped supply. London's financial district burst its boundaries. The heart of London's financial capital remains the square mile round the Bank of England. But international finance operates throughout London and the UK.

The City is the place where commercial banks from all over the world congregate to transact business with one another. Hundreds of foreign banks have offices in the UK, most of them in London's financial districts.

The hanging bank signs in Lombard Street commemorate Edward VII's coronation in 1902. For a period they were taken down after a particularly heavy one fell on a passerby.





# Marsh Tower

D

Marsh Tower



Walking up from the Thames and Tower of London visitors see how different generations of insurance brokers have lived and worked in the City. Across Tower Hill, the area's main thoroughfare, and to the left of Trinity Square Gardens, stands Ten

Trinity Square - stone-pillared, griffin-adorned, built in 1922 with all the self-conscious pomp and circumstance of Empire. To the left of Tower Hill stands Marsh Tower, equally self-consciously contemporary, the new face of insurance.





In the 1970s the magnificent structure designed by Sir Edwin Cooper as the headquarters for the Port of London Authority became the European headquarters of the insurance broker Willis. It remained so until 2008 when Willis moved to new premises designed by Norman Foster at 51 Lime Street opposite the Lloyd's Building.

Ten Trinity Square represents an older era of insurance broking. The building is solid and proper. It has ornamental flourishes but it is staid and in keeping with the stereotype that insurance brokers are smooth public school boys (while insurance underwriters are East End barrow boys - quick-witted but lacking in formal education and polish.)

To the left of the Willis Building walking up from the river, before walkers come to the main road, stands Marsh Tower. Throwing off staid proprieties it's made of glass and steel, full of unlikely curves rather than formal right angles. There's a pedestrian mall with restaurants advertising happy hours and salsa nights. Marsh Tower announces that insurance has detached itself from the City's imperial connections and the class-consciousness that went with them. Marsh Tower announces that insurance has joined the law and accounting as a meritocratic service industry.

### **The place**

Even though it's self-consciously contemporary Marsh Tower, and the streets spiralling out from its pedestrian mall, contain a large number of ancient churches, commemorative plaques and eccentric monuments.

At the edge of the Mall near the Tower of London stands All Hallows by the Tower, a church built on grounds sacred from Druidical times. Founded by 13 knights, the church was so badly damaged during the second world war that the only remaining bit of its 12th century origins are its foundations. In All Hallows Sir William Penn, the Quaker founder of Pennsylvania, was baptised. John Quincy Adams, the sixth president of the United States, was married there.

Behind All Hallows there's an empty concrete square providing an island of calm from which visitors can watch the hurly-burly of the City's money-making machines. In front of the church there's a monument to commemorate the breaking of the siege of Malta in 1942. Across from the church, on the far side of the pedestrian mall, visitors can peer over at Sugar Quay and see into the office of the hedge fund company Man Group. This sight offers few clues about what hedge funds do. People are at their desks much as in any office. If they are borrowing money to leverage investments in esoteric securities, they are doing it discretely.

*Marsh Tower was designed by Lord Foster and his former partner Ken Shuttleworth. Opened in 2003 the complex has two self-contained seven-story buildings. Into the two high-ceilinged lobbies file a steady stream of employees and clients. The employees and clients mix with tourists wandering over from the Tower of London in search of refreshment.*



Across the road in Tower Square Gardens there is a monument dedicated to all those who gave their lives for their country at sea, a vestige of the pre-war era when Ten Trinity Square was the Port of London Authority headquarters. There is also a place in the gardens for a ground-level plaque marking the site where a scaffold stood to hang some of Britain's greatest martyrs, starting with Simon of Sudbury, the Archbishop of Canterbury, hung during the Peasants' Revolt in 1381.

The contrast between Ten Trinity Square, which is now owned by Chinese investors redeveloping it into a luxury hotel, and Marsh Tower speaks to one of the City's most enduring truths: nothing ever stays the same. Buildings come and go and the same for the people working in them. These people have deep roots in England, but they may also be immigrants. Immigrants have always flocked to the City. Protestant Huguenots fleeing Catholic France came in the 17th century. Jews fleeing persecution came in the 19th and 20th centuries. Today the City is a melange of young ambitious professionals from all over the world.

## **The business**

Insurance brokers are agents. They act for individuals and businesses buying insurance policies. At the retail level brokers typically get paid by insurance companies selling policies. At the wholesale level - the level at which Marsh and many other City insurance brokers deal - brokers often get

paid by clients for finding them good policies at the right price.

City insurance brokers tend to act for large companies. The world's airlines are an example. Each needs to insure itself against the risk of catastrophic loss should one of its planes be involved in an air crash. Often, the world's airlines secure the insurance they need to protect themselves against air crashes from City insurance brokers negotiating on their behalf with City underwriters.

*Marsh received planning permission to build in the Tower of London conservation area in 1998. It signed a deal with the New York-based property company Tischman Speyer in 1999. Under the deal Marsh sold its site to Tischman and Tischman took responsibility for developing it within the guidelines Marsh had negotiated with planning authorities. Upon completion in 2003 Marsh leased virtually all the 387,000 square feet of office space back from Tischman.*

Marsh is a publicly-owned company based in New York whose shares trade on NASDAQ. Marsh Tower is the company's European headquarters. Founded in 1871 Marsh pioneered the concept of acting for buyers of insurance rather than sellers. Through its Guy Carpenter & Co subsidiary it is also involved in reinsurance. Its Mercer Human Resource Consulting arm helps clients deal with its employees. Its Oliver Wyman arm does management consulting. Its NERA arm does economic analysis.

Investment banks, hedge funds and private equity firms grab City headlines but lower-profile professional services firms such as Marsh account for a growing share of the British economy's invisible imports, earnings generated abroad by UK-based service firms. Britain's banks, insurance firms and other financial services companies, as well as law firms and chartered accountants, bolster the country's interests in international trade.

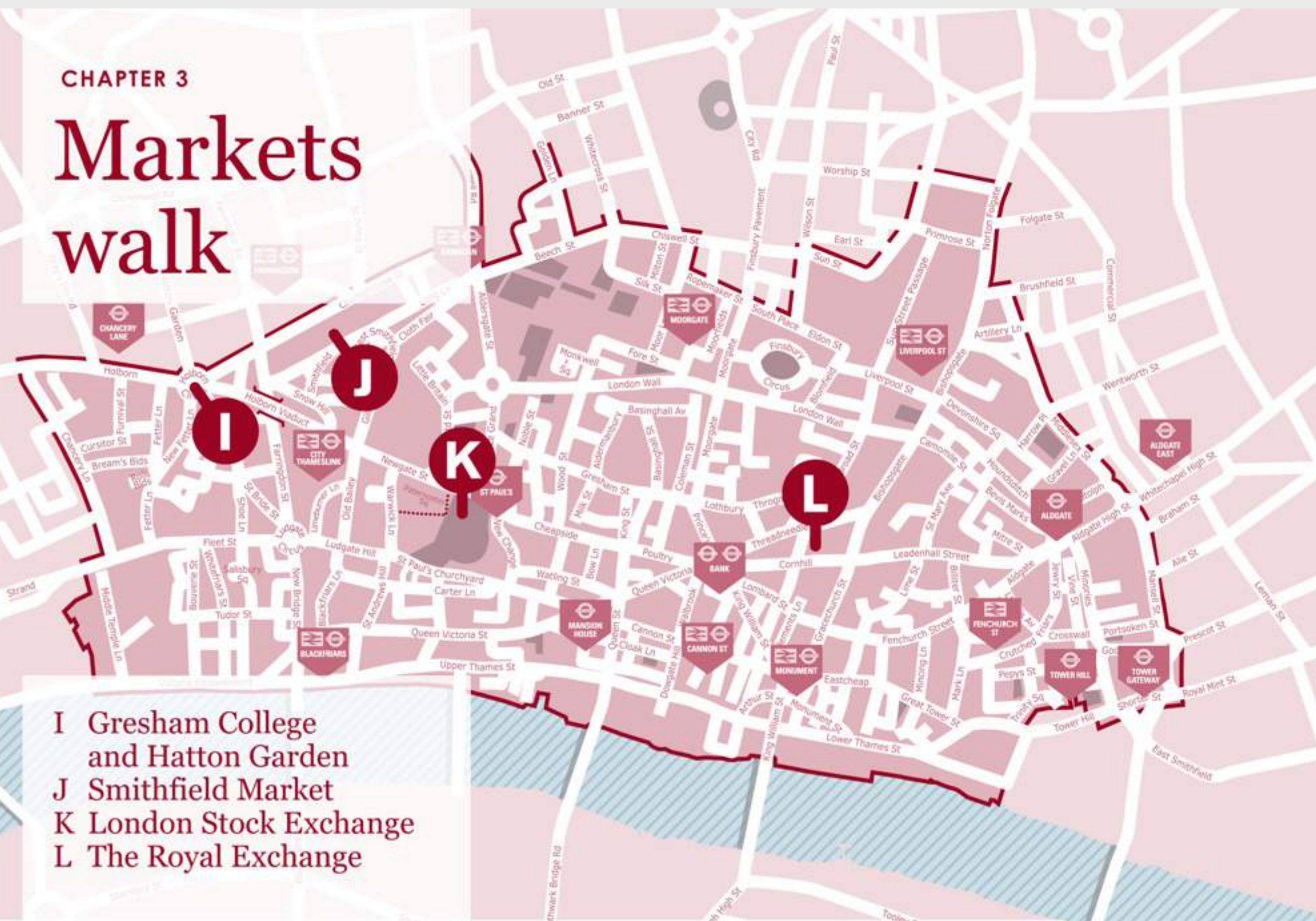
Marsh has evolved from insurance broking to advising and selling a wide range of risk management products and services. Its growth-through-acquisition policy reflects the wider consolidation in the professional services sector overall. The trend is a result of globalisation. Large companies want relationships with the same lawyers, accountants and insurance brokers around the world. The City is at the forefront of this trend.





## CHAPTER 3

# Markets walk





# Gresham College and Hatton Garden

I

Gresham College



Sauntering along the south side of Holborn past fast food outlets and dusty gents clothiers, walkers in the City draw opposite a red-brick building that is the former headquarters of the Prudential insurance company. Those nipping

down an alley identified by a sign indicating Gresham College will come to a 15th Century former Inn of Chancery mentioned in Dickens' *Great Expectations* called Barnard's. Visitors entering the hall with stained glass windows will find portraits of Sir Thomas Gresham.





Visitors may also attend lectures from world authorities holding one of Gresham College's seven ancient professorships: Astronomy, Divinity, Geometry, Law, Music, Physic and Rhetoric - or the Chair of Commerce added to the College in 1985. Subjects vary widely. One day the topic might be "A Millenium of Mathematical Puzzles." Another day it might be "How to get ahead in commerce: the sure-fire ways to make money."

Gresham College is delightfully paradoxical - art-for-art's-sake or science-for-science's-sake on the one hand, but entirely practical on the other. All lectures given at Gresham College can be found online at [www.gresham.ac.uk](http://www.gresham.ac.uk).

Walkers with enough time can wander back from Gresham College to Holborn Circus and from there make their way up to Hatton Garden just outside the City's formal boundary. Along with Antwerp, a district in Manhattan centred on West 47th Street and certain African capitals, London's Hatton Garden is one of the great capitals for the world's most valuable mineral - diamonds.

### **The place**

Gresham College and Hatton Garden are the walks furthest to the northwest in the City. Gresham College is discrete in the sense that it is geographically tucked away. Hatton Garden is discrete in the sense that behind its shops with their glittering displays there is a world-class industry whose origins vie with the City itself for antiquity.

Gresham College began in the mid-16th century in a Bishopsgate mansion bequeathed jointly to the City of London and the Mercers' Company by Sir Thomas Gresham. Sir Thomas made his fortune as an agent for Edward VI, Mary I and Elizabeth I in Antwerp. He built the Royal Exchange. He remains admired by economists today for Gresham's Law which, at the risk of oversimplification, decrees that bad money drives out good.

In developing Gresham's Law Sir Thomas drew on the work of the astronomer Copernicus as well as on observations of how money changed hands during the reign of Queen Elizabeth I. In this period unscrupulous adventurers would counterfeit, adulterate and simply clip bits off the coins of the realm. People would hold onto real, unadulterated, whole coins and use coins that had been tampered with to pay for goods and services.

In 1842 the college endowed by Sir Thomas Gresham opened new premises in Gresham Street. In 1892 the Mercers' Company purchased Barnard's Inn, established as an Inn of Chancery in 1454 on land recorded as part of the estate of Sir Adam de Basyng, Mayor of London, in 1252. There it housed the Mercers' School until its closure in 1959. In 1991 Gresham College moved to Barnard's Inn.

Hatton Garden, meanwhile, started as a medieval orchard connected to the Bishop of Ely's London Palace as well as St Etheldreda's Church, the oldest Catholic church in the capital. In 1581, Elizabeth I insisted that it be leased to her friend Sir

Christopher Hatton at a rent of one red rose, ten stacks of hay and £10 a year. By this time the neighbourhood had already become the centre of London's jewellery trade.

On Hatton Garden today there are more than 50 shops selling jewellery. Some are the poshest of the posh. Others sell budget engagement rings on part purchase plans. Around, above and behind the shops there are some 300 businesses connected to the sale of valuable stones and pearls, although diamonds remain the heart of the business.

### **The business**

For over 400 years Gresham College has offered free public lectures, fulfilling Sir Thomas' wish to improve the wealth-making capacity of his City by 'sharing the new learning for free'. In an average academic year more than 15,000 people will attend lectures, chamber concerts, symposia and other events. A further 120,000 will read the lectures on-line.

Up the road in Hatton Garden, in contrast, it's all about commerce. Aside from diamonds and other jewels and gold and platinum there is a concurrent trade in gold bullion and a minor side business in jewellers' tools and equipment.

While the retail trade can be readily seen from the street there is also an active wholesale trade going on behind the scenes as dealers flog stones to one another much as City bankers flog shares and bonds. There is even a firm specialising in providing security for jewellers. Plain clothes detectives watch

as men carry tens of thousands of pounds worth of stones around the streets in their pockets.

*Diamonds are the world's hardest natural material. They are allotropes of carbon. They have been treasured since pre-Christian times, but their popularity has increased since the 19th century as both supply and demand has grown. Diamonds have been in the news because African paramilitary groups have muscled in on the trade to finance their military adventures. Blood Diamond, the 2006 film starring Leonardo DiCaprio, dramatised this situation.*

The diamond trade is divided between the sale of gem diamonds and the sale of industrial-grade diamonds. Hatton Garden is almost exclusively concerned with the gem stones. Unlike gold and platinum, gem diamonds never sell as a commodity, but are valued according to carat, clarity, colour and cut. Roughly half the world's diamonds come from central and southern Africa - the other half from Russia, Australia, India, Brazil and Canada.

Antwerp is the world's number one centre for handling and cutting rough diamonds. New York is the world's number one centre for the sale of diamonds by value. Hatton Garden runs a close second in both categories. The diamond quarter - which today is spreading as offices and workshops in nearby Greville Street and other offshoots convert to retail outlets - bustles with dealers, some in the garb of ultra-orthodox Jews.



The centre of action is the London Diamond Bourse at 100 Hatton Street. Here some 800 members hang around deliberately shabby premises as if it were a club. Many operate without physical offices, earning their livings on one percent commissions they collect on each sale.

*Ely Place in Hatton Garden is technically a part of Cambridge. At its north end, Bleeding Hert Yard marks where in 1662 the beautiful Lady Elizabeth Hatton was found torn limb from limb, her heart still pumping blood.*

Michael Flanders and Donald Swann, whose lyrics have amused generations since the 1960s, commemorated Hatton Garden with a song about a sewage worker. It's called "Down Below":

"Hatton Garden is the spot, down below  
Where he likes to go a lot, down below  
Since a bloke from Leather Lane,  
Dropped a diamond down the drain,  
We'll be going there again, down below."





# Smithfield Market

J

Smithfield Market



“The ground was covered, nearly ankle deep, with filth and mire, a thick steam perpetually rising from the reeking bodies of the cattle. The unwashed, unshaven, squalid and dirty figures constantly running to and fro, and

bursting in and out of the throng, rendered it a strange and bewildering scene, which quite confused the senses.”





So goes Dickens' description of Smithfield meat market in *Oliver Twist*. Today, by contrast, Smithfield is clean, modern and efficient but there lingers something of the 19th century about it. This is signalled most clearly in the architecture: it evokes that air of civic self-confidence typical of the Victorians. The finials, flutes and famous clock hanging between the East and West Market Buildings have an air of Victorian civic pride and self-confidence. But the architecture also makes it clear Smithfield is that rarity in the City - a market not focused on money and abstractions, but on the concrete and visceral instead.

Smithfield today remains a centre set up for butchers and their customers. Both, for example, can take advantage of special licensing hours to drop in at the Cock Tavern for an early morning pint and steak breakfast. The area around Smithfield today, however, is radically different from the neighbourhood Dickens described.

To the south Barts Hospital is surrounded by upmarket restaurants. To the north walkers encounter public relations and marketing agencies, restaurants and gastro-pubs. Instead of Fagin's artful dodgers, walkers in the City are likely to run into well-heeled traders looking to let off steam.

### **The place**

Smithfield dates back to the 10th century when a religious brotherhood called The Butcher's Company was granted the right to kill and sell cattle in London. In 1174 William Fitzstephen, clerk to Thomas a Becket, described Smeeth

Felde - Saxon for Smooth Field - as a market "where every Friday there is a celebrated rendezvous of fine horses to be sold, and in another quarter are placed vendibles of the peasant, swine with their deep flanks, and cows and oxen of immense bulk."

*Until 1854, Smithfield was the one place in London where you could buy and sell your wife although, according to statute, men were not allowed to drag wives there against their will. An issue of The Times contained the following passage regarding a wife sale which took place in London in 1799: "On Friday a butcher exposed his wife to sale in Smithfield Market, near the Ram Inn, with a halter about her neck, and one about her waist, which tied her to a railing; when a hog driver was the happy purchaser, who gave the husband three guineas and a crown for his departed rib. Pity it is there is no stop put to such depraved conduct in the lower order of people."*

Smithfield meat market was part of Bartholomew Fair, one of Europe's best known medieval commercial gathering points. Its name was taken from St Bartholomew's Hospital, founded in 1123 by Rahere, a clergyman and favourite courtier of King Henry I. Once standing well outside town boundaries its business gradually became incorporated into London life as the capital expanded.

Not only livestock were butchered at Smithfield. The place was popular for public executions - by burning, boiling,

beheading, branding, mutilation and hanging. In 1305 Sir William Wallace - also known as Braveheart - was hanged, drawn and quartered there.

On the south-west corner of the square, under a statue of a golden boy marking where the Great Fire of 1666 stopped, stood a pub called *'The Fortune of War'*. It was notorious for grave robbers laying out their corpses on its bar-top. Surgeons from Bart's Hospital would come to the pub and haggle over the corpses.

Over the centuries there were complaints of rowdiness and debauchery at the market. In 1789 the Lord Mayor issued a proclamation against the "loose idle and disorderly persons" at Smithfield. Sixty years on shopkeepers and citizens were still complaining about drunken drovers stampeding cattle through London's streets. In 1852 London's civic leaders dealt with the problem by relocating Smithfield's livestock market to Copenhagen Fields in Islington and the City Corporation set about refurbishing Smithfield.

The present building opened in 1868. It went up over four acres of underground rail sidings. These sidings featured some of the world's earliest hydraulic lifts and other cutting edge technology of the day and made it possible to automatically lift carcasses coming in on the underground railway to ground level.

Extensions were added in 1875 and 1899 until the market covered ten acres. In 1958 the poultry section burned down. It was rebuilt five years later with an internal dome in the shape

of an egg shell. Committed to keeping the market open the City of London Corporation invested £70 million in 1995 to bring it into conformity with EU hygiene regulations. At the same time the underground railway sidings were converted into an underground car park.

The tenants of Smithfield are the preferred suppliers to many of the country's premier names in the meat trade. But individual customers can also shop there. Prices of goods are not set and deals are often struck between market traders and customers.

*The London Encyclopedia traces the phrase "bull in a china shop" to Smithfield. The theory is that the phrase originated from the practice of cattle being driven through the streets of London on their way to Smithfield. To escape the torments of drunken drovers renegade cows would take refuge in shops where, the story goes, they trashed the china and other goods on display. Not everyone accepts this theory. An Internet group known as the Mythbusters says it's a libel. Mythbusters mocked up a shop and let bulls run around it. They reported that the bulls deported themselves with grace and dexterity in the mocked up premises. The bulls, they said, only knocked over a single shelf.*

## **The business**

A 1927 *Times Guide* to the City of London shows a photograph of Smithfield at the height of its commercial splendour: no Dickensian mire and muck; everything pristine;



the market teems with orderly activity. Along with Covent Garden (vegetables) and Billingsgate (fish), Smithfield in 1927 was one of three great London wholesale food markets. Some 3,000 people worked at 162 stalls putting through as much as a half million tons of meat a year. Today Covent Garden and Billingsgate have been moved to less central London locations. Smithfield is the only wholesale food market which remains on its original site.

The food business has changed even if Smithfield market hasn't. Supermarket chains today use their own butchering and distribution systems. But in the face of this challenge Smithfield still has 40 modern stalls selling 150,000 tons of meat each year. Taking the initiative, many of the Market's wholesalers make deliveries to customers rather than wait for customers to come to them. Moreover, beef, pork, lamb, veal, offal, poultry, rabbits, hares, grouse, partridge and pheasants are sold direct to the public - from four am to noon on weekdays. Meanwhile, some traditions survive. On a wall inside the market there are posters advertising upcoming boxing matches in Hackney.





# London Stock Exchange

K

London Stock Exchange



With St Paul's Cathedral casting its shadow over the London Stock Exchange at 10 Paternoster Square God and Mammon stand in stark relief. The cathedral bells toll the immemorial hour. The Stock Exchange bustles with people working

second to second. Standing in the Square visitors can switch their gaze from Wren's masterpiece to the Exchange and dwell on the difference between heavenly and earthly pursuits.





## The place

In the Middle Ages, when St Paul's clergy would daily process down Paternoster Row fingering their rosary beads and reciting the Lord's Prayer, the Crown remained sovereign over all earthly matters including commercial affairs. As the parliamentary system took root the Crown's influence over commercial affairs shrank. By the 16th century a new, independent merchant class emerged and this new class busied itself establishing companies and selling parts or shares in these companies.

As the practise of buying and selling shares in companies gained in popularity much of the action took place in the Royal Exchange, the majestic 16th century building started by Sir Thomas Gresham to act as a centre of London commerce.

By the 17th century, however, merchants engaging in share trading had developed a reputation for rowdiness and were banned from the building. Share trading moved to London coffee houses. One was Jonathan's founded around 1680 by Jonathan Miles in Exchange Alley, a narrow alleyway off Lombard Street. Another was Garraways, also in Exchange Alley which is also known as Change Alley.

In 1698 John Castaing, an habitu   of Jonathan's, began publishing a list of stock and commodity prices. This stirred public interest in the new practise of buying and selling shares in companies. The new practise developed into a craze. One company in particular out of the estimated 140 joint-stock companies of the time caught the popular imagination. This

was the South Sea Company which enjoyed monopoly rights to trade in South America under a treaty with Spain.

South Sea Company shares climbed from  128 in January 1720 to  1,000 in August 1720. The soaring price made little economic sense - the company's prospective earnings could not justify it. The bubble in South Sea shares burst. The collapse caused one of the earliest financial panics in history. Of the South Sea Bubble Isaac Newton, who lost  20,000 in the affair, said, "I can calculate the motion of heavenly bodies, but not the madness of crowds."

In 1773 brokers who had formed a club at Jonathan's erected their own building in Sweeting's Alley. The building came to be called The Stock Exchange. There followed more than a century of boom and bust in Sweeting's Alley.

*The eight storey kinetic sculpture in the Stock Exchange atrium is called The Source. It was made by Andrew Shoben of Greyworld, a group of artists specialising in works for urban public spaces. Greyworld equates the sculpture's constantly moving spheres to the changing names and fortunes of stocks traded in the building.*

In the boom times of the Edwardian era the Stock Exchange once again thrived. In the Depression of the 1930s it barely survived. During the Second World War it remained defiantly open for business. In 1945, when a V-2 rocket stuck Sweeting's Alley, brokers shifted their activity to the basement

of their building. Between 1939 and 1945 the Exchange missed only two days of trading.

In the 1950s and 1960s the Stock Exchange flourished again on the back of the post-war boom. In 1972 it moved to a new 26-storey building on Threadneedle Street. With the advent of the computer the market became more and more electronic and in 2004 a largely electronic Stock Exchange moved to Paternoster Square.

*Paternoster Square was once the centre of London's printing world. The flaming ball atop the pillar in front of the LSE is monument to the 6 million books burnt in the Second World War Blitz. The pillar itself is a replica of the pillars designed for the porch of the Old St Paul's Cathedral by Inigo Jones which was burnt down in the Great Fire of 1666.*

## **The business**

The Stock Exchange exists to raise money for entrepreneurs seeking to start, build and expand companies. It is the place where investors buy slices of companies' future earnings. In the primary market companies sell shares to investors in what are known as initial public offerings. In the secondary market investors sell shares listed on the Stock Exchange to each other. Investors in shares earn money in two ways - first, by collecting dividends and second by selling the shares in the market for capital gains.

Several kinds of financial specialists operate in a stock exchange. First, investment bankers advise companies wishing to raise capital on when to sell shares and on what terms. Second, firms "make markets" in shares, meaning they hold inventories of shares and offer prices to those wishing to buy or sell. These middlemen earn their livings on the difference - or "turn" - on the purchase and sale prices. Third, brokers link market makers to clients. Fourth, individuals or funds - groups of investors collected together and pension funds and insurance companies - act as the suppliers of capital to the stock market.

Until the Big Bang reforms of 1986 the LSE drew strict distinctions between brokers and market-makers known as jobbers. After Big Bang the businesses of investment banking, stockbroking, market making and fund management were amalgamated so that investment banks could do all of these businesses. Also membership of the London Stock Exchange was opened up. This was good for the City. It attracted a wide variety of firms including foreign banks to set up shop in the City in the newly combined businesses.

Today some 5,000 brokers working at some 300 firms trade electronically through computers linked by satellite. The Stock Exchange's old face-to-face dealing room has given way to professionals linked by phone and computers linked to each other. Electronic trading is less picturesque. But it is cheaper and it makes it easier for investors round the world to buy and sell shares in the approximately 2,500 UK and foreign companies listed on the London Stock Exchange.



*Investors keep track of what's happening on the Stock Exchange by monitoring averages of share performance. There are many indices managed by many data compilers, but the most followed average is the FTSE Index. The Footsie 100 Index tracks the average performance of the hundred largest companies on the Exchange. The Footsie's owners, the Stock Exchange and the Financial Times, set its base at 1000 on 3 January 1984.*

So global is financial activity today that ferocious competition for the business of handling share trades has broken out. As a result, stock exchanges are merging and buying up one another. In 2000, for example, the bourses of Paris, Brussels and Amsterdam merged to create an exchange called Euronext. To date the London Stock Exchange has seen off several hostile bidders, and declined to voluntarily enter into any alliance with another exchange.

Part of London's financial success can be traced to the Stock Exchange's promotion of start-up companies seeking to sell shares. Much of this activity takes place on an annex of the main exchange called the Alternative Investment Market. British start-up companies seeking capital use AIM, but so do foreign companies as diverse as Californian high tech ventures and natural resources companies from East Europe and Africa.



# The Royal Exchange

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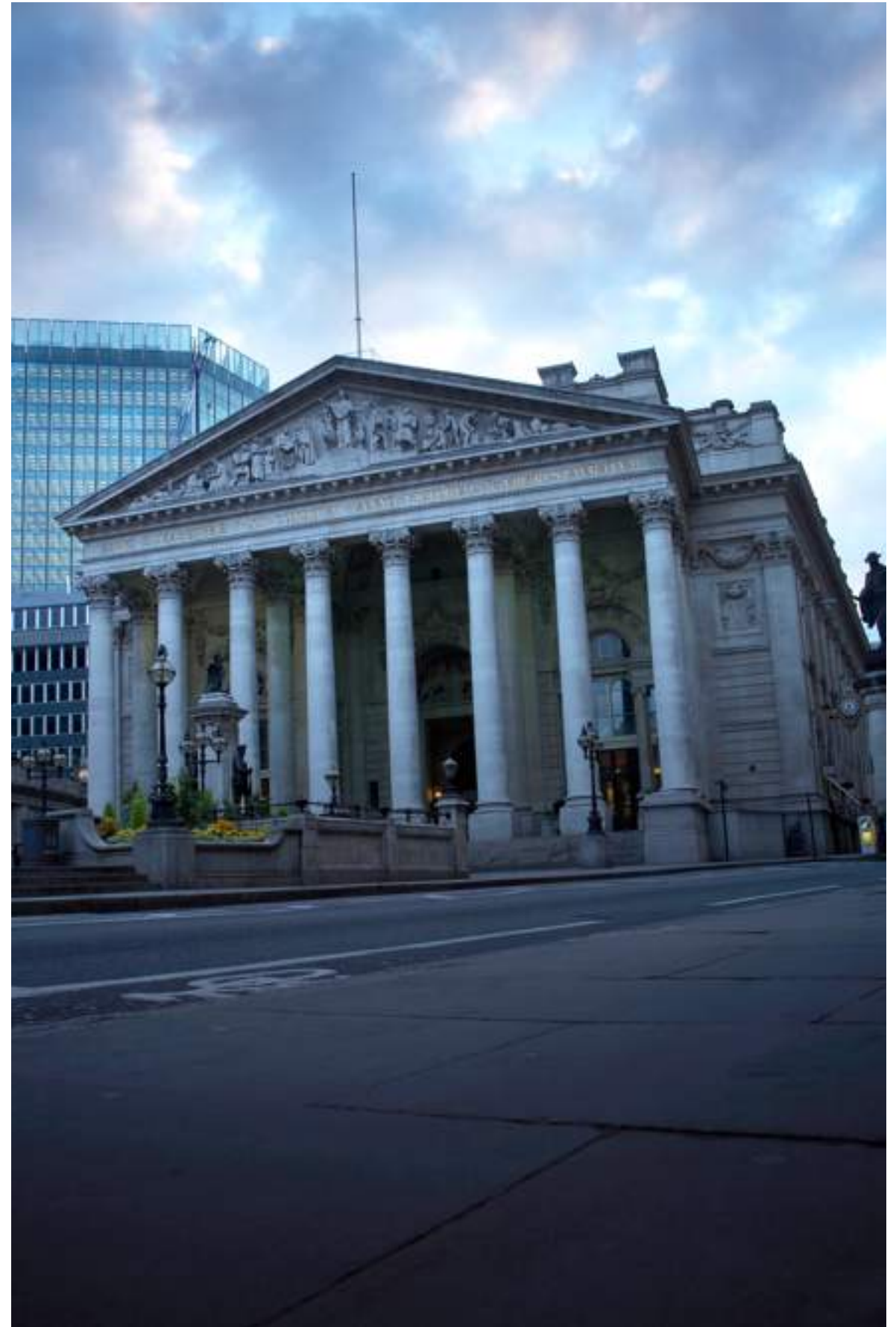
The Royal Exchange



Sipping a cappuccino in the café of the Royal Exchange across the street from the Bank of England, casting an eye around the gleaming outlets for Hermes, Gucci, Chanel and other luxury brands in the building, walkers could

be forgiven for

wondering what's going on. The Royal Exchange is supposed to be a centre of financial activity - so where has all the financial activity gone?





The answer is into cyberspace. Prints of London from the 1600s to the 1950s show formally dressed bankers lounging around the Royal Exchange. Photographs and video of London's financial district today show casually dressed young men and women at multiple computer screens allowing them to keep track of the markets and model alternative scenarios for investing in the markets at the same time.

The chronology of the transition from finance as a gentleman's club to finance as a super high-pressure global business coincides with the story of the Royal Exchange. The building was erected in the 16th century to help London compete against Antwerp. At that time Antwerp was the leader in pushing Europe from a commercial system based on medieval trade fairs to a commercial system based on banking. The Royal Exchange was created as the British counterpart to Antwerp in its promotion of financial capitalism - where bankers met to buy and sell shares in companies, government bonds and other financial contracts.

Over the next four centuries the fortunes of the Royal Exchange waxed and waned through boom and bust and war and peace. As the need for a physical place for bankers to interact diminished the Royal Exchange reinvented itself as a historical site and shopping mall.

### **The place**

In the 16th century continental European merchants crossed the Channel to trade in taverns, the homes of businessmen and on street kerbs. Richard Gresham, the London Mercer (or

silk merchant) who supplied the tapestries to Hampton Court for Henry VIII, came up with a plan to build an exchange where these merchants could meet and feel secure from the risks of both street violence and unscrupulous fraudsters. The Royal Exchange as he conceived it would be a place where merchants would know their contracts would be guaranteed and would also find the credit they needed to do business.

Richard Gresham never realised his dream but his son Thomas did. As principal fund raiser for Queen Elizabeth I, Thomas earned a fortune as well as a knighthood, and in 1567 built the Royal Exchange on land supplied by the City of London. The original building with its extravagant promenades burned down in the Great Fire of 1666.

In the second Royal Exchange erected in the wake of the Great Fire merchants continued to invent new forms of finance. For example, discounting of bills of lading in the Exchange became common. This involved selling contracts for future shipments of goods. Merchants would buy future shipments at a discount to their value on the speculation that they could profit by collecting the full value in future.

The Royal Exchange also operated as the bazaar where shares in the newly invented joint stock companies were bought and sold. It made sure the purchase and sale of these shares was conducted to a high standard. Indeed, it set a standard for all financial business done under its roof. When a merchant or banker fell short of that standard he was kicked out of the

exchange. In 1760, for example, 150 brokers were expelled from the Exchange for misconduct and general rowdiness.

Across from the Royal Exchange - in Exchange Alley also known as Change Alley - the expelled rowdy brokers took to meeting at Jonathan's and Garroway's Coffee Houses. Gradually, different coffee houses began attracting different specialised groupings of merchants. Businessmen interested in company shares would go to one coffee house, those interested in metals, coal, corn ship cargoes to others, those interested in insurance to still others.

In 1838 the second Royal Exchange burned down. Six years later the present building was put up by the Mercers' Company and the City of London Corporation at a cost of £150,000. The building ceased operations in 1939 at the start of the Second World War. It was brought back into use the 1980s, when it became home for the new London International Financial Futures Exchange. It was after LIFFE moved to its current premises in Cannon Street the Royal Exchange became an upmarket emporium.

*A statue of Paul Julius Reuter stands on the esplanade between the Royal Exchange and offices at its rear known as the Royal Exchange Buildings. Reuter was born in 1816 in Kassel, Germany. In 1851 he founded the news agency that is known by his name at No.1 Royal Exchange Buildings. In 1899 he died in Nice, France, a rich man.*

## The business

London took its first step toward becoming the post-war capital of international finance in 1979, when Britain scrapped foreign exchange controls. Businesses and individuals were allowed to buy and sell sterling for other currencies as they wished. In the 1980s other nations scrapped foreign exchange controls. Through this, the general deregulation of financial markets and the advent of communications technology linking the world's trading floors, discrete national financial markets blended into a single global financial market.

To help cement the City's place as the capital of international finance the government cleared the way to make London the seat of derivatives trading as well as stock, bond, currency and commodities trading. A derivative is a financial contract derived from a more basic financial contract.

In the futures market, for example, investors sign contracts to buy or sell stocks, bonds, currencies and commodities for delivery three, six or more months in the future at prices set in the present. Investors make or lose money by assessing what the prices of these stocks, bonds, currencies and commodities will be in the future.

In 1982 the London International Financial Futures Exchange was set up in the Royal Exchange as the physical site for the writing and trading of futures contracts. In 1992 LIFFE merged with the London Traded Options Exchange and became the London International Financial Futures and Options Exchange. In the merged exchange options as well as

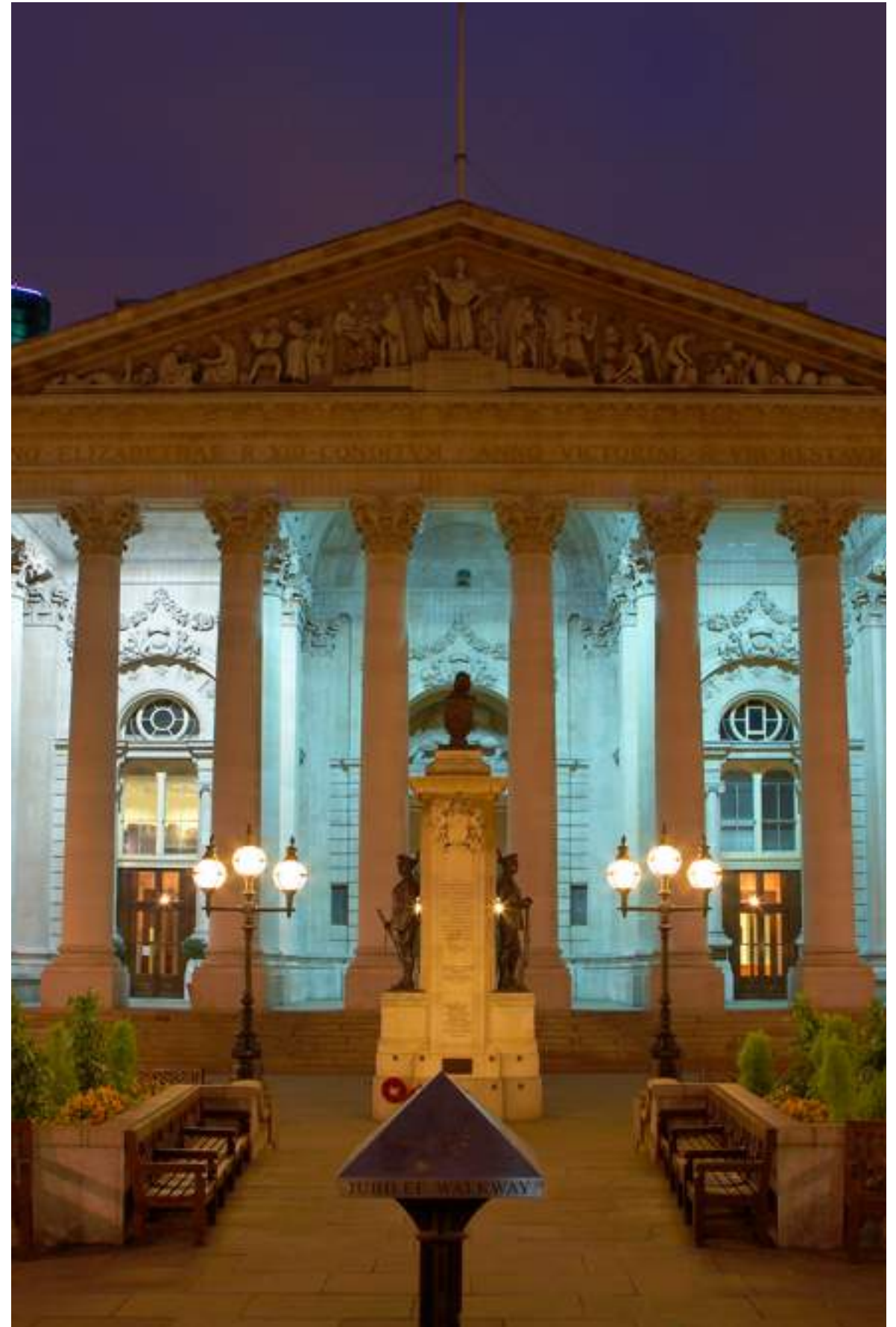


futures were traded. An option gives investors the right, but not the obligation, to buy or sell currencies, securities or commodities in the future.

For years traders stood in a “pit” at LIFFE and bought and sold futures contracts through an “open outcry” system. But then in 1998 LIFFE moved from open outcry trading to electronic trading.

*In 1973 an American economist named Robert Merton modified the work of two other economists named Fischer Black and Myron Scholes, and came up with a model for determining the pricing of options. The Black-Scholes model led to an increase in the value of options trading, because it gave investors confidence they were looking into the future rationally. Black Scholes quickly became a cornerstone of modern finance and in 1997 Merton and Scholes won the Nobel Prize in Economics.*

The evolution of the Royal Exchange mirrors the evolution of the City. Financial services used to be about solid appearances and doing business with handshakes. Today financial services are about being quick and clever and trading globally. In this brave new world there is no need for the Royal Exchange as a physical space for trading.





# Shipping walk





# Queenhithe to Billingsgate

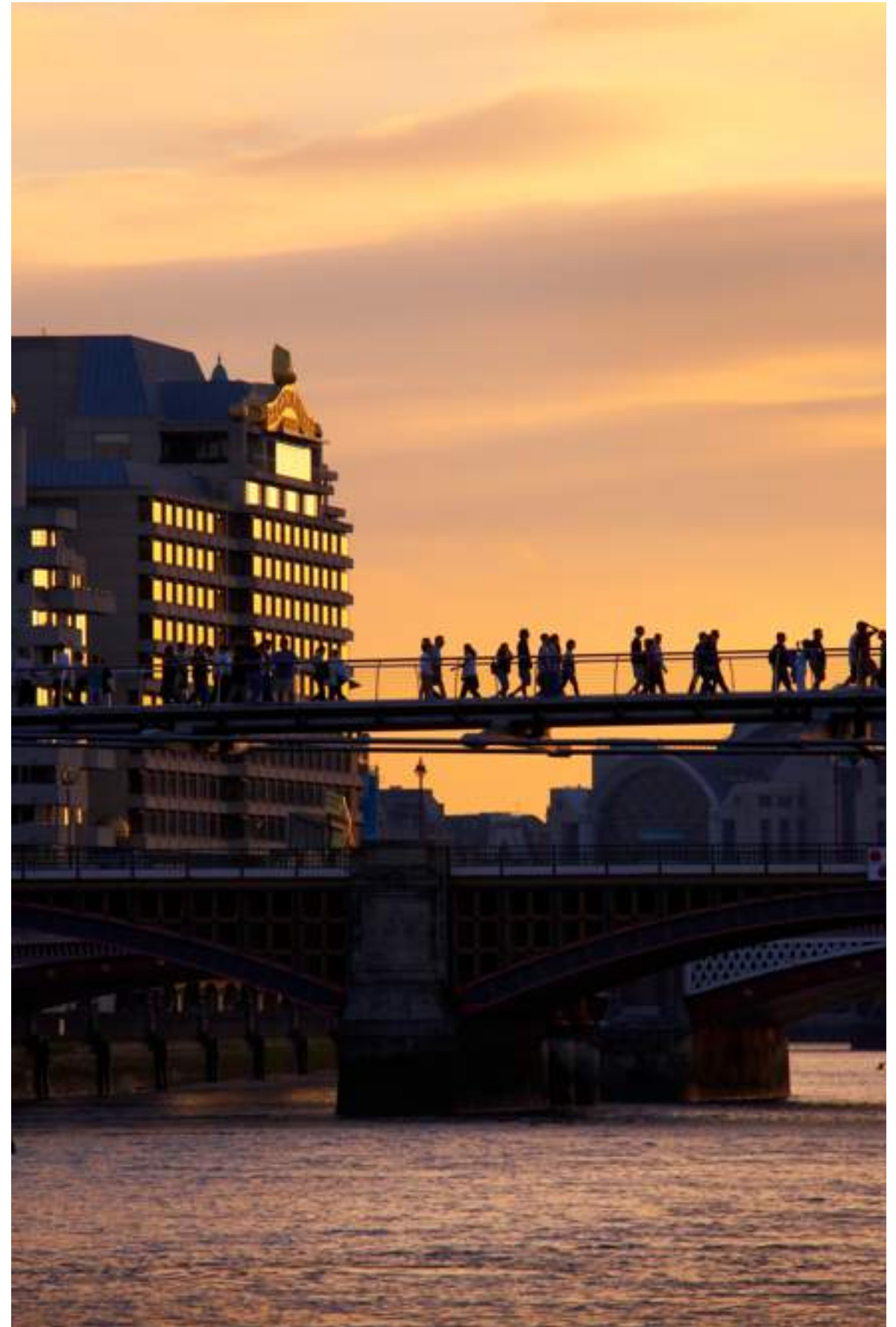
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Queenhithe



Of all the paths for walkers in the City the Thames River Walk running from Queenhithe to Billingsgate is for the most intrepid. Visitors must negotiate traffic along Upper Thames Street. Once safely

across they enter an ancient ward of London called Queenhithe. The name probably derives from “Queen’s Dock” or “Queen’s Quay”. It marks a dock or harbour probably in used from Roman to pre-Norman times. Today Queenhithe seems little more than a lay-by for the onrushing traffic.



But the effort of getting there is worth it. Heading down the lane the mood lifts as the urban jungle gives way to a panoramic view of the Thames. The roar of traffic dulls and the sound of lapping water can be heard. Looking up, walkers see feet crossing the Millenium Bridge above them.

The physicality of the river - the wet rocks along the shore, the gulls, the salt air, the seaweed smell - makes a stark contrast to the abstractions bankers are wrestling with up and down the river.

The river's edge also evokes a time before the City was concerned mainly with banking. Under Southwark Bridge tiled reproductions show London in 1616 with St Paul's dominating and London in 1710 as seen from the south bank, houses on the bridges crossing the river. Moving east on the River Walk - heading from Queenhithe toward Old Billingsgate - visitors might almost feel they were in Venice. At dusk London Bridge Hospital on the south bank of the Thames looks like a Doge's Palace.

Arriving at Billingsgate walkers encounter filigreed ironwork over stone arcades and fish weathervanes. Billingsgate was London's fish market from the 16th century to 1982, when the market relocated to the Isle of Dogs in east London.

### **The place**

The Vikings attacked Britain in the ninth century. Alfred the Great consolidated the English forces and counter-attacked. Victorious he built a city on Roman remains which the Saxons

called Lundenburg. With his fortifications in place Alfred handed London over to Ealdorman Aethelred of Mercia.

Aethelred established Aethelred's Hithe, later renamed Queenshithe, as a small port. Aethelred also established a hithe or port at Billingsgate. As London became a commercial centre the stretch of the Thames between Queenshithe and Billingsgate became its heart.

*The City was a commercial district before it was a financial district but by the 10th century it already had eight "moneyers". Moneyers date back to ancient Greece. They were the men who physically created money and as such were the precursors of mints. To make half-pennies in the time of Alfred the Great moneyers literally chopped pennies in half. During the reign of Alfred someone had a bright idea and began making separate coins worth a ha-penny.*

By the 10th century London was the country's leading commercial centre. After the Norman invasion of 1066 it continued to prosper, partly because its inhabitants were quick to acknowledge their fealty to the new Norman king and his successors. While Queenhithe remained a tie-up for river craft, the hithe at Billingsgate became a market for corn, coal, iron, wine, salt and poultry as well as fish.

By the 16th century, the Billingsgate market was almost exclusively associated with fish. Into the 19th century fish were sold from stalls ranged round the small harbour. In 1850 the first Billingsgate market building was put up on Lower



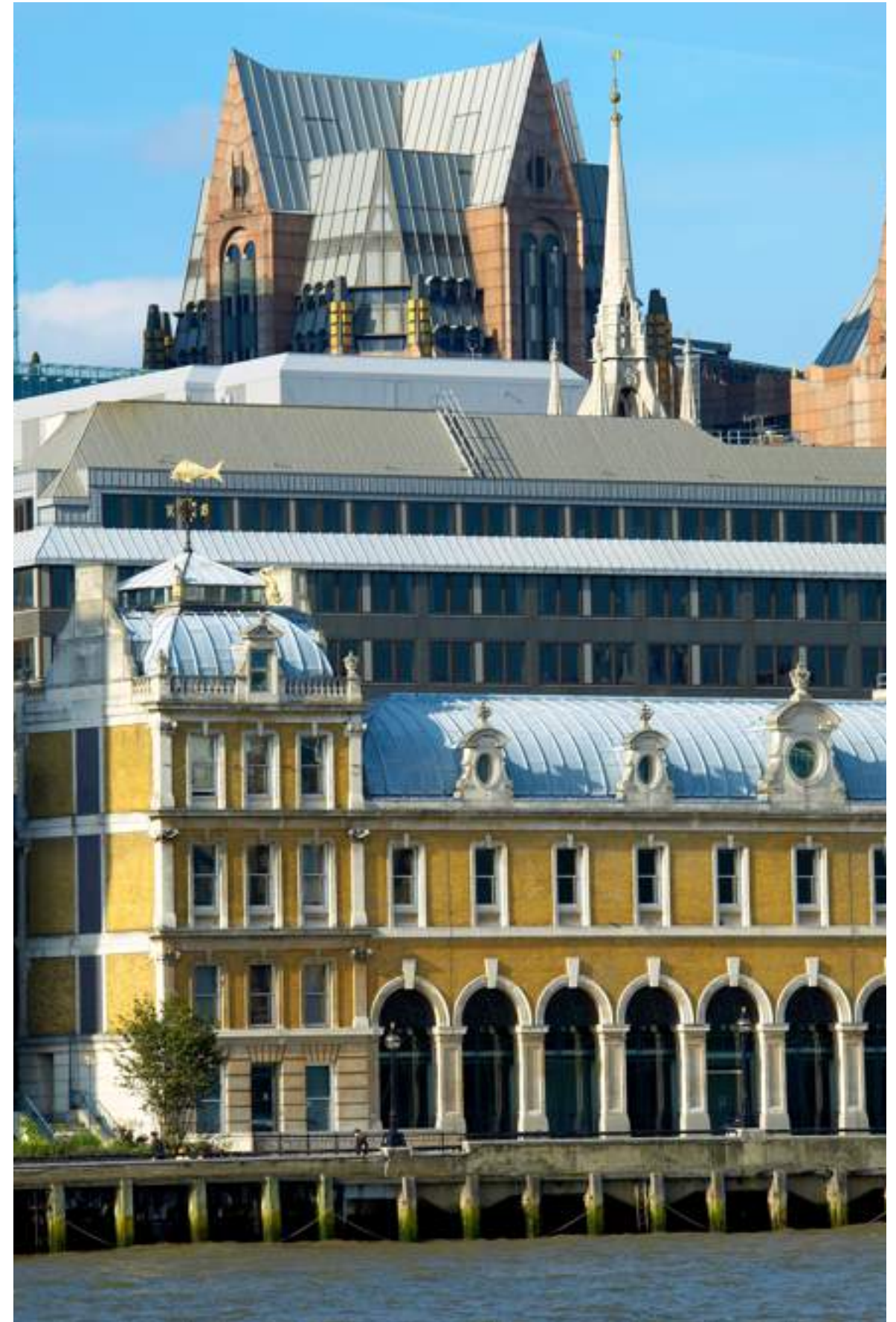
Thames Street. When the building burst its seams, the present arcaded structure designed by Horace Jones was erected in 1873. In 1982, when London's fish market moved near Canary Wharf, Jones' structure became a commercial venue.

### **The business**

The path from Queenhithe to Billingsgate is now part of the City of London Corporation's ambitious project to clear a walkway from Victoria embankment at the western boundary of the City to Tower Pier at the eastern end. Strolling along the section from Queenhithe to Billingsgate walkers can easily imagine the great shipping centre the City once was.

A fair portion of what goes on in the City today remains about shipping. Trinity House and the Baltic Exchange, not to mention the marine underwriters at Lloyd's insurance market, testify to this fact.

Strolling along the river walkers are likely to see and hear considerable building and refurbishment going on. This is not temporary. The ultimate business of the City sometimes seems to be the perpetual reinvention of itself. The paradox is the more the City changes, the more it stays the same. Old financial firms go, new firms come. New firms need bigger trading floors with more technology linking them to New York, Zurich, Tokyo, Shanghai and beyond. Through it all London remains the world's leading international financial centre.





# The Baltic Exchange

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The Baltic Exchange



Walkers interested in the shipping dimension to the City need to check out the Baltic Exchange. This involves two stop-offs. First, to 30 St Mary Axe Here the Baltic was headquartered for 90 years until 10 April 1992, when the Provisional IRA

detonated a bomb nearby, condemning the old building to demolition and paving the way for construction at the same address of the Gherkin. Second, a few paces along, to 38 St Mary Axe, where the Baltic Exchange resides today.





## The place

The exterior of the new building is modest and peering through the front door walkers will see a handsome but unspectacular domed lobby. The building's low profile sends an appropriate signal. Shipping remains a mainstay of the City but is perhaps the least heralded. Yet shipping was the founding business of the City and the whole of London can trace its origins to its days as a Roman port.

The Baltic Exchange is unique in the world of shipping. It is the only independent source of maritime market information for the trading and settlement of cargoes. 38 St Mary Axe is the place where that information comes from. It takes its name from the coffee house on Threadneedle Street called the Virginia and Baltick where sea captains and shipping merchants met to do business.

Over coffee imported from Sumatra captains and merchants would haggle over the terms by which cotton and tobacco would be shipped by schooner to the UK from the colony of Virginia. They bargained over the rate for importing candle tallow from northern European ports on the Baltic coast.

In 1810 regulars at the Virginia and Baltick Coffee House took their business further up Threadneedle Street to the Antwerp Tavern. There in 1823 they devised a set of rules to govern the shipping business. A private meeting room was established. Admission was strictly controlled.

In 1857 sea captains and merchants organised themselves into the Baltic Company Limited and moved to a third set of premises on Threadneedle Street, South Sea House. In 1903 the City's shipping market moved to 30 St Mary Axe where its members constructed an ornate, marble-clad building equal in majesty to Britain's maritime trade at the height of empire.

Even today the Baltic Exchange retains its historic and physical links with the City's other maritime businesses. The Lloyd's insurance market on Lime Street is a short walk from St Mary Axe. The immediate neighbourhood is full of offices trading in maritime insurance.

*The Baltic Dry Shipping Index is one of a half dozen indices maintained by the Baltic Exchange. The BDI registers the fluctuating cost of moving major raw materials by sea. To set the index the Baltic Exchange asks brokers round the world how much it would cost to move coal, iron, grain and other commodities over 40 major shipping routes - eg Australia to China, or Japan to California. The index can be accessed by subscribing to the Baltic Exchange or through financial data providers such as Reuters. Because the shipment of coal, iron and other commodities gives a clear signal of the plans of the world's producers the BDI is a good indicator of the strength of the world economy.*

## The business

The Baltic Exchange is owned by its approximately 500 members. These hail from virtually every maritime nation. In

contrast to the business of fixing long term shipping leases the Baltic Exchange specialises in tramp cargoes - those arranged between exporters and importers and ship owners and managers from one voyage to the next. In this domain it is the leading global marketplace for ship owners, ship brokers, ship charterers and others looking to move cargoes round the world. It also serves as a cross between a showroom and street market for those buying and selling vessels.

In its Edwardian heyday the old Baltic Exchange at 30 St Mary Axe featured men with beards in starched collars haggling in person. The new Baltic Exchange at 38 St Mary Axe operates electronically. It publishes indices charting price fluctuations for carrying cargoes. It provides a futures market allowing businessmen to hedge themselves against the rising or falling cost of taking space aboard ship.

A significant percentage of the Baltic Exchange's business can now be traced to China, importing raw materials and exporting finished goods from and to all corners of the globe.

The Baltic Exchange is subject to booms and busts just as much as the City's financial markets. In 1999 the average daily rate for hiring out capsizes - super-tankers and cargo ships too large to navigate the Suez or Panama Canals - was in the range of \$7,000 to \$20,000. In 2008 the daily rate exceeded \$114,000. Today the Baltic Exchange is experiencing challenging times.





# Trinity House

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Trinity House



Considering the City's history walkers may conjure up images of snuff-taking merchants in powdered wigs taking tea in Edward Lloyd's coffee house while Nelson patrolled the seas during the Napoleonic Wars These images would be spot on.

The historic links between the City and British naval power run deep and long.



In 1514 Henry VIII granted a Royal Charter to a fraternity of mariners called the Guild of the Holy Trinity “so that they might regulate the pilotage of ships in the King’s streams.” In 1566 Elizabeth I transformed the Guild of the Holy Trinity into a guardian of Britain’s shipping lanes by empowering it to set up “so many beacons and signs for the sea. . . whereby the dangers be avoided and escaped and ships the better to come unto their ports without peril.”

To ensure a high standard for ships sailing to France and the ports of the Hanseatic League and across the Atlantic to the American colonies James I in 1604 granted the Trinity guild the right of compulsory pilotage of shipping, and the exclusive right to licence pilots in the Thames. In 1609, Trinity built its first lighthouse at Lowestoft. In the wake of this Trinity was in 1836 given compulsory powers to acquire and maintain all private lights on the coast.

In recent centuries the City has evolved from being mainly a port to mainly a financial centre. But the district has never lost its links to the sea. Standing just to the right as walkers exit Tower Bridge tube station, Trinity House remains the home of the General Lighthouse Authority for England, Wales, the Channel Islands and Gibraltar.

The Corporation of Trinity House maintains 71 lighthouses, nine light vessels and more than 500 other navigation aids, ranging from buoys and beacons to a satellite navigation system around British coasts.

## The place

First stop for many walkers is the patch of green in front of Trinity House. Restored in 2002, the south-facing Trinity Square Gardens form a sun trap that even in winter provides a place for relaxed investigation. Its sunken enclosure serves as a memorial for 24,000 merchant navy and fishing fleet victims who “have no grave but the sea”, as the inscription there reads. There is also a small enclosure marking the site of a scaffold where 125 martyrs were hanged between 1388 and 1747 “for the sake of their faith, country or ideals.”

*Keepers were withdrawn from the last manned lighthouse, North Foreland in Broadstairs, Kent, in 1998. Those attracted by the romance of lighthouses can, nevertheless, gain access to them by joining the Association of Lighthouse Keepers ([www.alk.org.uk](http://www.alk.org.uk)). Or enthusiasts can rent one of a dozen lighthouses available for holidays through a joint programme of the Trinity Lighthouse Service and Rural Retreats ([www.ruralretreats.co.uk](http://www.ruralretreats.co.uk)).*

Trinity House today is both a place and shorthand for the full name of the guild that looks after lighthouses. As a place, Trinity House is a two-storey structure designed by Samuel Wyatt, master carpenter and later clerk of works for Robert Adams, the Scottish neo-classical architect. Its foundation stone was laid by William Pitt and it was completed in 1796. The building has five state rooms containing artefacts such as



the bell from the Royal Yacht Britannia and an extensive maritime library available for viewing upon appointment.

As an organisation, Trinity House moved from Deptford, the site of Henry VIII's naval dockyards, to its present location upon completion of Samuel Wyatt's neo-classical masterpiece. From Trinity Square the organisation oversaw the construction, renovation, maintenance and operation of lighthouses at Longstone, Skerries, Lundy, Bishop Rock, Eddystone, Beachy Head and other coastal outcroppings as well as Lowestoft. Today Trinity House serves as the General Lighthouse Authority's historical headquarters, while the actual operation of the lighthouses is managed from Harwich.

### **The business**

The City's ancient seafaring traditions quietly co-exist with a layered complexity of financial activity. The City of London today serves as a collection point for Britain's High Street bank headquarters, the European headquarters of global giants ranging from America's Citigroup to Switzerland's UBS to China's "Big Four" including the Industrial and Commercial Bank of China. The Broadgate complex near Liverpool Street Station houses the headquarters of the European Bank for Reconstruction and Development, the institution set up in the wake of the break-up of the Soviet empire to spur the liberalisation of markets in Russia, former Soviet republics and East Europe. The City serves as home to hundreds asset managers, including hedge fund and leveraged buyout fund managers. There are currency traders,

commodity dealers and insurers as well as law, accountancy and other firms that serve banks, brokers and fund managers.

Trinity House fits contentedly within this heady mix and is, among other things, a tourist destination for visitors interested in the history of Britain and the sea. And another nice spot to take in the panorama of the City is the gravel forecourt of Trinity House.

Trinity House is one of the City's more than 100 guilds still operating, still benefiting from ancient endowments. Typically, these guilds, a medieval form of today's trade associations, formed themselves into livery companies and became known as "the worshipful company" of this or that trade or profession.

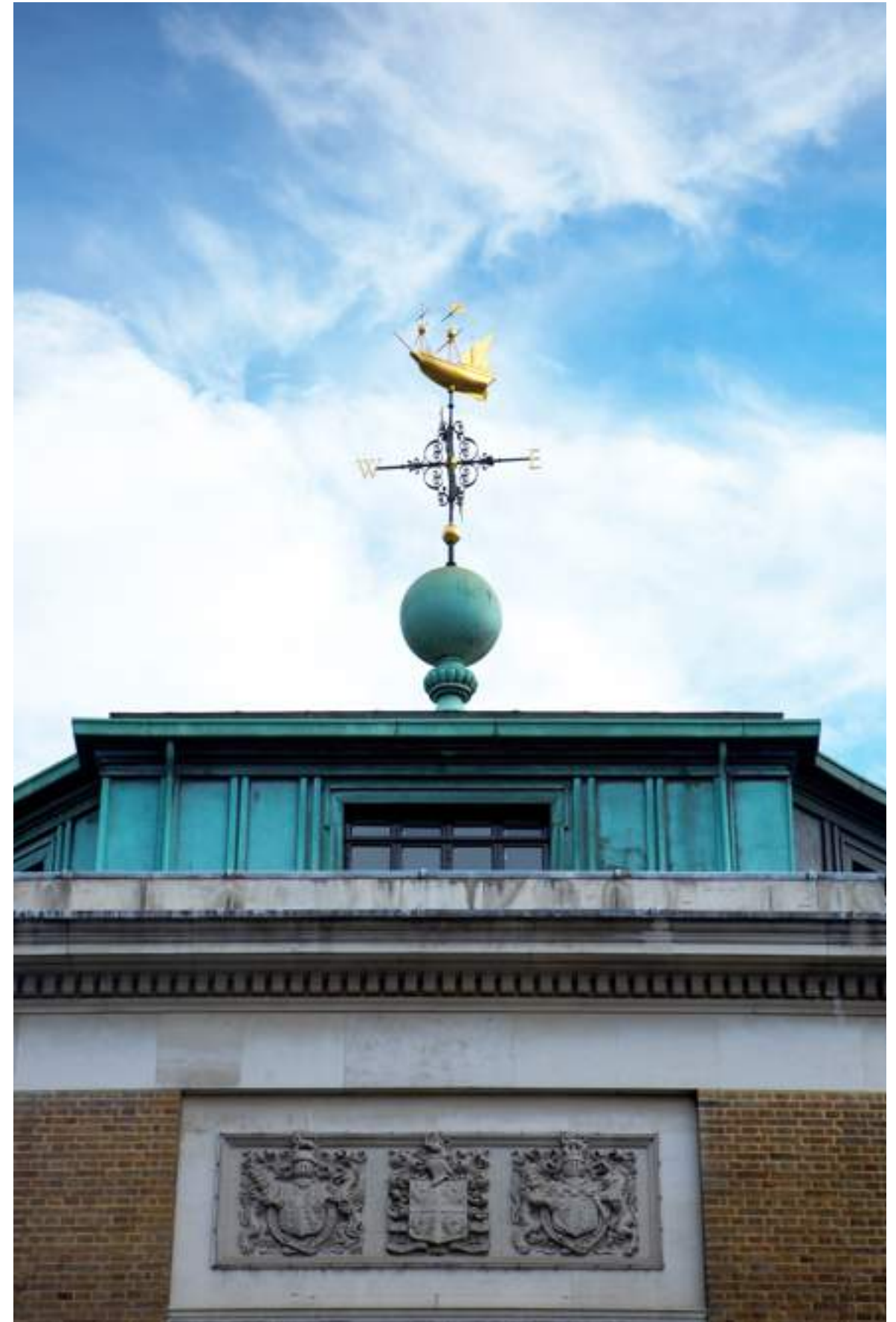
*As the current Master of Trinity House HRH The Princess Royal is the latest in a long line of illustrious figures. The Duke of Wellington was a master of the Trinity guild as was Samuel Pepys. The famous diarist was by profession a navy man. In 1660 he was appointed clerk of the acts to the Navy board. In 1679 Pepys was imprisoned in the Tower of London for selling naval secrets to the French. After being cleared of all charges, he was for two years, from 1685-1686, Master of Trinity House.*

The governing structure of Trinity House is arcane. The organisation consists of approximately 300 Brethren drawn from the Royal and Merchant Navies and leading figures in

the shipping industry. These members are ruled by a court of 31 Elder Brethren presided over by a master.

Trinity House has three main functions: The first is caring for lighthouses. A programme to modernise many of them was completed in 2011 when wind, solar and hybrid sources of energy were introduced to cut their carbon footprint. The second function of Trinity House is to maintain aids to navigation. The third is to oversee two charities to look after old mariners and train new ones.

Aside from Trinity House's endowment revenue is derived from "Light Dues," which are set by the Department of Transport and payable by each commercial vessel using a UK or Irish port. Having seen its heyday many years ago Trinity House still finds ways to make itself useful today. And its long history leaves walkers with a question. Given the changes in the City of London over the past 100, 200, 500 years what will the City look like 100, 200, 500 years from now?





# Tower Bridge and the Port of London

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Tower Bridge



Standing on Tower Bridge walkers can take in the sweep of the City and consider its two millennia of history. Looking up and down the Thames it's not hard to imagine the founding of Londinium by the Romans in about 47 AD and to imagine goods being imported from and exported to the rest of the Roman Empire through the fifth century.



During Saxon and Norman times the Thames ports of Queenhithe and Billingsgate became centres of activity. By the time Henry VIII died in 1547 the Port of London extended from these Saxon indents in the river east to Woolwich and Deptford where Henry built most of his warships.

Gazing northwest, walkers can make out the top of Tower 42. At the foot of this landmark stands Lombard Street where medieval Italians, the inventors of modern banking, set up shop in London in the 15th century. Closer to hand, on Tower Street, walkers can imagine Lloyd's coffee house where in the 17th century maritime insurance was invented.

To the right of Tower Street stands Trinity House, the headquarters for the General Lighthouse Authority which made Britain's waterways safe for the nation and so facilitated the country's sea-borne empire. Tower Bridge itself symbolises Victorian prosperity while to its left stands the glass-fronted Tower Place. This relatively new addition to the skyline symbolises the City's emergence as the capital of international finance in the post-war era of globalisation.

### **The place**

Tower Bridge is 800 feet long and 213 feet tall. It opened in 1894. It was designed by City Architect Horace Jones. Jones' engineer, Sir John Wolfe Barry, conceived of the span as a drawbridge with two towers built up from piers in the river.

To let vessels pass the bridge is raised to an angle of 83 degrees some thousand times a year. The owners and captains

of these vessels must give 24 hours notice to minimise the disruption to the 40,000 people crossing the bridge daily in vehicles and on foot.

The structure is maintained by Bridge House Estates, a charitable trust dating back to 1097. Today the trust is overseen by the City of London Corporation.

### **The business**

In its modern form The Port of London dates back to 1909, when the newly established Port of London Authority took control of the enclosed docks from Tower Bridge to Tilbury. The PLA's jurisdiction gradually expanded until in 1992 the government's privatisation policy led to Tilbury becoming a free port. Having surrendered its role as port operator, the PLA remains responsible for the Thames river bed.

*In the 1980s American banker Michael von Clemm was looking for a storage site for the London restaurant Le Gavroche which he part-owned. Happening upon West India docks and realising the City of London was running out of space, he conceived the idea that the derelict port site could be rebuilt into a centre for international bankers. The result was the Canary Wharf property development.*

The Port of London actually dates back to its establishment by the Romans 2000 years ago. Its fortunes have always waxed and waned. In the 18th century the Port of London was Britain's premier centre for the construction of ships. But as



metal-hulled ships replaced timber, London lost out to dockyards nearer sources of iron ore, coal and other materials, such as the Clydeside, Liverpool and Newcastle.

In the 20th century, while the Port of London was still recovering from the Blitz, it suffered another blow. Shipping was revolutionised when containers the size of lorry backs were introduced to standardise cargoes. Containerisation made redundant the cranes and manpower of much of the enclosed docks of London's East End.

Victoria Deep Water Terminal on Greenwich Peninsula was able to handle containerised shipping and lasted into the 1990s. Until 2000 Convoy's Wharf in Deptford handled shipments of bulk paper - much of it from Scandinavia bound for the printing presses of Fleet Street. Today there is still port activity in Tilbury, on Canvey Island in Essex and at the Isle of Grain in Kent. Wharves as far upstream as Fulham still handle aggregates brought upstream by barge

But London has slipped to third place in the country in terms of tonnage handled, behind Grimsby and Tees and Hartlepool, and has fallen behind on other measures. Comeback hopes are pinned on the current redevelopment of the 1,500 acre Shell Haven refinery site into London Gateway, a port capable of handling the biggest container ships. Meanwhile, over the last quarter century, flux along the Thames has been mainly about turning crumbling port sites into luxury flats.



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