Building on the foundations of a trusted jurisdiction

Q&A with Board Member Jennifer Strachan

What are the strengths of the Bailiwick's regulatory regime?
Guernsey and its professional administrators have been famous for decades as a safe, trusted jurisdiction to manage and hold assets. Whether in a trust, fund, or other structure, the Guernsey Financial Services Commission (GFSC) ensures the holders of these assets meet appropriate standards and are continually monitored. This concept is known as the 'walled garden', an approach to the accurate management of client data within the jurisdiction.

This deep corporate culture that controls and delivers high quality data governance results in a strong system trusted by both these companies' client base and other jurisdictions around the globe.

How forward looking is the Bailiwick when it comes to innovative technologies?
Guernsey has a strong reputation for the secure handling of data. Our high standards of data governance provide solid foundations for new technologies in all areas of data management, and the strength of its culture around integrity and security also have much to offer as these technologies become more widespread.

Guernsey's technical expertise has been successfully demonstrated by the telco support for the Alderney-based online gambling platforms, which need secure and robust internet support. The same theme of secure handling of personal and business data are recognised by the international gambling industry who choose Guernsey as a safe and well-regulated place for their transaction processing.

Some exciting developments have seen the island embracing Robotic Process Automation within many of the larger accountancy firms, the use of Deep Learning by some of our local technology companies and Northern Trust introducing the world's first blockchain-based fund.

Why is data accuracy so important for the overall regulatory landscape?
Data accuracy is critical in all organisations and sectors. In particular it supports the key developing areas of **blockchain** and **artificial intelligence**.

Explain a bit more about these two areas in this context.
Blockchain is most famously known as the platform for cryptocurrencies. Perhaps more importantly, it is the distributed ledger technology that contains data, and keys are used to input and control the data. Once input, the data is unable to be changed, which gives the blockchain its security, but it also highlights the risk. The dictum around blockchain is

summed up by "garbage in leads to garbage out". Because the record in the blockchain is immutable, any errors in the data introduced will stay in the 'chain' record forever, meaning accuracy of the data should command a premium. While using the blockchain to carry out low-speed transactions with few key holders, such as when administering a private equity fund, human oversight can identify errors, which while difficult, are not insurmountable to correct. When the data is input at high speed or widely distributed, accuracy is essential to avoid unintended consequences which are impossible to correct.

We are already seeing blockchain being used in a wide range of applications that are of interest to the Guernsey financial sector's clients. It is facilitating accurate tagging of source or origin and the ownership chain. It can control and secure personal document management such as identity and medical records. It is even creating its own asset, whereby the new non-fungible token (NFT) is a unit of data which itself is the asset and is taking the art market by storm. These exciting innovations on the blockchain provide a new level of security, while at the same time creating a new level of risk.

Artificial Intelligence (AI) also relies on data accuracy to function correctly. The data points used by the algorithms to train an AI program are treated as fact because the machine is not set up to make judgements on the facts fed to it. Rather AI is set up to process these data points quickly, mimicking human decisions at a fraction of the speed it would take a person to do this. Yet, unlike if there were a person processing the data, AI has no human logic filter which it would use to stop and check when the results are clearly going wrong.

Decisions made by the AI, based on flawed data in the algorithm, can result in unfair results, sometimes with no comeback to the victim of the unfair decision if the AI is assumed to be based on correct data. This conundrum is spelt out in the recent documentary, Coded Bias which details the flaws in facial recognition programs that have been trained largely on white male faces yet can fail when asked to recognise non-white female and male faces. AI was used as evidence to arrest a black male in the US for having a driving license photo that was very similar to a suspect. Even with a clear alibi, the AI "evidence" was taken as fact, resulting in loss of liberty and jail time for an innocent man.

AI has moved us on from the early days of computer programs, sometimes with flawed results – the infamous "Computer says no" decision making process by banks or other agencies important in our daily lives - when a programmer at the organisation could look at the computer code to see why an error had been made. We are now in a new era where "the AI says no" but no one can determine why or how the decision has been made because it is based on millions of data points and no visibility to the underlying algorithm. The efficiencies gained by using AI are seeing them inevitably replace a wide range of administrative roles. But these decisions increasingly govern our liberty, and we risk accepting a few minor "glitches" in pursuit of this efficiency, while some of these glitches can ruin someone's life.

However, when done right, AI in its many forms can achieve extraordinary things: cures for diseases, reduction in poverty, autonomous vehicles and better transport, informed policy

making, better laws, improved public services – the list is endless. But this all relies on good quality, ethically handled data, regardless of the quantity or context.

What are the opportunities for the Bailiwick?
There continues to be many opportunities for us to embrace new technologies and data management techniques and bring our reputation and culture for data quality and hard-won trust to bear. And business is recognising this, from Guernsey hosting the world-first blockchain-based private equity administration to the first blockchain-based ILS insurance product. In these cases, an existing skilled management function is made better, safer and more trustworthy by the introduction of the blockchain's immutable ledger. More applications are being developed, with blockchain-based products in document management and verification, vaccine certificates, identity and identification of source, all sitting squarely in Guernsey's domain of excellence. These applications support personal ownership of assets, and in the case of NFTs the asset is data.

Private wealth experts estimate over $15 trillion of private wealth will be transferred to the next generation in the next 10 years. This new generation, located internationally, is digitally sophisticated and will aim to hold and grow its assets in a secure, trusted destination. But increasingly, its assets will include crypto currencies, NFTs, and assets that include digital identification. Not only will their assets be digital, but they will also interact in a digital world, wanting secure document transfer over blockchain-based ledgers. And their investments will increasingly be in companies pushing innovation in the digital space.

Data privacy and security needs to be designed into servicing the next generation, as they will expect the same excellence of administration, the same security of their data, and increased efficiency in trading, monitoring and analysing their holdings as they get now. We have the opportunity to further develop the frameworks, policy and expertise to cater for these future needs.

Final words
In conclusion**,** the Bailiwick has much to offer in this new digital world with its expertise and cultural background to protect and administer private data in a well-regulated and secure environment. New technologies are being developed in jurisdictions without such a strong pedigree, and it is certainly the case that if we work together and share learning and approaches, outcomes will be better for all of us. Ensuring accuracy and integrity as well as data security will better protect everyone. Discussions around data governance, quality and security reach into all aspects of our lives. It is about personal data as well as all other data. Good quality data also underpins so many of the decisions we need to take including how to solve the current crises in climate and biodiversity.