

Enabling Growth – Digital and Sustainable Finance

Thank you for giving up your time today to hear my talk. It is great to see so many of you in our new training space (etc.).

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For the more than twenty years I have been involved with regulation in some way or other, I have been concerned at the impact which over-regulation can have on productivity, growth and the general wellbeing of the population.

In this talk, I'm going to focus on growth through the lenses of sustainable finance, digital finance and financial stability, explaining how we are, as the Commission, trying to position Guernsey as an International Financial Centre in the world as it is, rather than the world as we might wish it to be.

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Our Approach to Sustainable Finance

As you will be aware, our approach to sustainable finance gained momentum when we launched the world's first regulated green fund regime in 2018 and the first green insurance capital regime for life insurers in 2020. This was all against the backdrop of a tacit understanding, well argued in the Bank of International Settlement's "Green Swan" paper¹, which stated that attention to green matters was essential for financial stability. We were also motivated by a desire to demonstrate to external critics that Guernsey, as the green isle of Old Norse, offered the world much more than just tax efficiency.

¹ <https://www.bis.org/publ/othp31.htm>

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Sustainability Reporting

Over the past couple of years, our efforts have centred on policy development and most recently we have been exploring the future of sustainability reporting in the Bailiwick, following the introduction of the IOSCO-endorsed IFRS Sustainability Disclosure Standards by the International Sustainability Standards Board (“ISSB”) in June 2023.

Whilst, as we have said, we have no plans to implement mandatory sustainability disclosure standards in the foreseeable future, let me share a few broad insights from the feedback we have received from industry through our discussion and consultation papers.

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Eighty five percent of respondents to our consultation indicated they are already subject to or working towards some form of sustainability reporting, with the international Taskforce on Climate-Related Financial Disclosures (TCFD) and the EU’s Sustainable Finance Disclosure Regulation (SDFR) client reporting being the two regimes most commonly cited.

In respect of sustainability data, 88% of firms reported collecting carbon emissions data, and seventeen firms indicated at least partial collection of Scope 3 emissions data².

Whilst the cohort of respondents to the discussion paper may not be fully representative of the financial services sector as a whole, the feedback suggests a significant level of engagement in gathering relevant data to better understand and manage sustainability-related risks.

² Under ISSB standards, Scope 1 is direct greenhouse gas emissions from owned or controlled sources (e.g., company vehicles, factories). Scope 2 is indirect emissions from purchased energy (e.g., electricity, heating). Scope 3 is all other indirect emissions not included in Scope 2, that occurs in the value chain of an entity, including both upstream and downstream emissions.

The Fiduciary Sector

There was only a modest but a welcome response from the fiduciary sector – which perhaps indicates that the fiduciary sector is in more of an emergent than a fully operational phase when it comes to sustainability reporting with some firms measuring their own carbon footprint.

From our onsite visits, we have observed that fiduciary licensees – particularly trustees – tend to avoid being at the bleeding edge on sustainability matters although there are discussions between firms and younger beneficiaries, who will often express a preference for more sustainable investment policies.

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I was interested to learn recently that trust firms in Bermuda had asked the Bermudan government to change the law there to permit more explicit consideration, by trustees, of sustainability matters. The Commission is not saying that that should or needs to happen here but we thought it interesting that another jurisdiction with a solid trust sector had asked its government to think about these issues.

Having considered the feedback received to our initial discussion paper, we are proposing to issue a Guidance Note next month on anti-greenwashing which will clarify that the requirements of the Minimum Criteria for Licensing encompass an implicit duty not to engage in, or knowingly facilitate, greenwashing. The Guidance Note, in offering this clarity, should negate the need to impose more regulation in this area when proper adherence to well-established decent standards should be more than sufficient to inhibit greenwashing.

Additionally, building on feedback received, we are broadening the current sustainability provisions in the Finance Sector Code of Corporate Governance to make clear that Boards of regulated companies should be thinking about environmental matters holistically. I will explain

shortly why we think this is an important reform which would mark a switch to a more mature approach to environmental sustainability.

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Where next?

Globally, we are seeing an increasing questioning of the drive towards net zero at all costs. I am not here just talking about the reforms made by Donald Trump's administration but also the moves being made by the EU, ever more quickly, to roll back the environmental legislation which it passed only a couple of years ago. I think they may finally have realised that, following Max Weber's view of Confucian China³, it is probably better not to regulate your economy into obscurity through excessive zeal for the precautionary principle.

I don't think this partial rollback of environmental legislation means that people suddenly think that environmental matters are suddenly unimportant. Rather, I think it is the case that many people think that unbalanced laws (particularly those passed during the Covid era when normal opposition and critical lobbying processes were suspended), which may contribute to making ordinary hard working people much poorer, to damaging their quality of life whilst deindustrialising their countries and shifting pollution and environmental damage to lower cost producers in undemocratic states should be reviewed and revised with some alacrity.

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A number of thoughtful EU officials have been shocked by the underperformance of EU GDP per head growth versus the United States over the last ten years. Drawing on IMF/World Bank

³ p. 104 *The Religion of China: Confucianism and Taoism* (1951 translation by Hans H Gerth), Free Press, Illinois

data, we can probably say⁴ that Euro area GDP is currently at around \$50,500 per person whilst US GDP per head is around \$83,100 per person. By contrast, if we go back ten years to 2015, we find US GDP per person at \$69,600 and Euro area GDP at \$44,900. Whilst the Euro area has shown cumulative growth of 12.4%, the US has shown cumulative growth of 19.4% - quite a meaningful difference with the overall income gap becoming ever more stark.

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Donald Trump's election and his administration's radical reforms over the last nine months have also changed the game - in a way which goes beyond appreciable differences in average incomes. They have exposed the always slightly questionable notion of a "rules based global order" as something of a paper tiger. His administration has permitted an intellectual space in which a lot of thoughtful people can now more easily question the benefits to the West of driving electricity prices to unheard of heights in order to fund investment in wind farms which often produce unreliable base-load power and whose working parts have no easy route towards the recycling one would wish to see in a properly circular economy. To be clear thoughtful commentary on environmental matters is, to my mind, quite different from asserting that big oil and mass fracking are essential for the survival of Western civilisation - rather perhaps there may be more than one viable road to the Rome of materially better treatment of our natural environment.

We might also be pensive about the practises adopted by some enterprises which are engaged in either afforesting prime farmland or in covering prime farmland with solar panels. Whilst solar panels, in particular localities (such as on top of my shed roof where I fitted them fifteen years ago) may have considerable merit as a partial source of power, it is possible to think that

⁴ In constant 2025 USD terms. Source material:
<https://data.worldbank.org/indicator/NY.GDP.PCAP.KD?locations=XC-US> ;
<https://data.worldbank.org/indicator/NY.GDP.PCAP.KD>;

something has gone wrong when so much high-quality farmland, a globally really scarce resource, is being covered with solar panels. To those investing in such projects, we'd say be careful you fully appreciate the real risks to both your physical investments and to the subsidies and legal privileges which enable them. As people increasingly see highly valued farmland taken out of high quality and, by global standards, relatively environmentally friendly agricultural production and turned over to industrial energy production they may question the rationale for the industrialisation with that questioning perhaps, if expressed effectively through electoral processes, leading to likely investment returns over the medium term becoming much more uncertain.

If you talk to people in President Trump's administration, their priority is not net zero but strategic competition with China with the currently non-kinetic battlegrounds including AI, the Western Pacific, trade and access to raw materials. I don't think the Americans particularly dislike the natural environment but, given a choice between preserving some US scrubland of debatable ecological value and facilitating the fast construction of a huge data centre to keep the US competitive in computing power with China, they will change laws or offer permissions to enable the data centre at any hour of the day on any day of the week. They are desperately worried that the long-sighted Chinese have out prepared them on matters such as rare earth elements and are, in consequence, scrabbling to hold onto or increase their lead in other areas where they still perceive the US to have some advantage over its main adversary. It is an entirely different prism through which to view global affairs from that of the net zero enthusiasts and it leads to quite different policy choices. By appreciating the differences in perspective and that there is not the diametrical opposition between the US Federal Government and the environment which is often portrayed, one may hope - my being a habitually glass mostly full person - not to see sustainability entirely sacrificed on the altar of geo-political competition. In this vein, I was talking to a senior US regulator recently about how those of us who like to consider ourselves,

in some sense, environmentalists could help to keep the US interested. Her advice was to start talking much more about conservation and nature and less about biodiversity and net zero which, for many in the US administration, are buzzwords which have been captured by a class of activist with whom they consider themselves to be in perpetual opposition.

We think a lot of this background is relevant to Guernsey because the US is our second largest trading partner and we don't want standards imposed by the Commission to cause regulated businesses to antagonise the Chairman of the US SEC who, in October, promised to deem IFRS accounting standards inadmissible for US stock exchanges if the IFRS determined to fully incorporate ISSB standards within its accounting standards⁵.

It is in this context that we think it is appropriate to ask firms to think more broadly about natural risks rather than focusing exclusively on net zero.

At the Commission, we are clearly aware that the world faces multiple environmental challenges and that people sometimes don't like talking about nature risk because it is complex and difficult to represent in simple performance indicators which can easily be tracked. An alternative approach is to try to embrace the complexity of sustainability and to take good quality decisions, weighing multiple environmental factors, aiming to improve sustainability and the natural environment. What we hope we can provide in Guernsey is a regulatory environment which does not diminish the importance of all firms thinking about their use of the environment and the often-undervalued goods which nature brings us. Rather, we hope we can offer one in which firms are encouraged to take a holistic view, balancing different types of environmental consideration in their decision making. If we can do that, we can help people slowly and carefully build a gentle and attractive path towards a new era of environmentally sustainable production and living, one which is likely to withstand democratic interactions because it is

⁵ In public conversation at the International Institute of Finance, 17th October 2025

fundamentally attractive and appealing to the broad mass of the population and also, hopefully, enables good quality global growth.

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Digital Finance

Turning to digital finance, the Commission launched its Digital Finance Initiative in September of this year. This initiative aims to position the Bailiwick as a trusted jurisdiction for digital finance businesses, and serves as an umbrella for three key workstreams led by the Commission.

Firstly, we are looking to modify our regulatory framework to ensure that it supports the use of blockchain, tokenisation, stablecoins, digital asset custody and emerging financial technologies. We are also reviewing opportunities to enhance the guidance within our Handbook on Countering Financial Crime with a focus on making clear how the current rules already allow firms to use technology, including Artificial Intelligence, to combat financial crime efficiently and with low levels of paperwork.

Secondly, we are actively fostering industry engagement through our Digital Forum which has thus far proven highly valuable for gathering practitioner insights to inform policy improvements. The input from the Digital Forum roundtables held so far has enriched the proposals on which we plan to consult next month.

Lastly, we have rebranded our sandbox as a sandbox which, in conjunction with our concierge service, offers an environment in which firms can launch innovative products and services within a structured framework. We are grateful to Guernsey Finance for supporting the concierge element - it is helping those firms interested in applying for a licence which are not already familiar with the jurisdiction to make meaningful connections across Guernsey's financial services sector. Between our two organisations, we think we are able to ease the burden of setting up in Guernsey for new organisations and entrepreneurs.

We have been encouraged at the digital business already being serviced in Guernsey. We welcome the local innovation focused communities that are forming, well exemplified by the recent Digital Assets conference hosted by a local fiduciary firm recently.

Our roundtable events have also drawn out how local trustees are already acting as self-custodians for digital assets, often as a result of a business need from clients (including new clients) who have made significant money from cryptocurrency and wish to have crypto assets in trust arrangements.

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Artificial Intelligence

We are encouraging firms to consider adopting AI in their business processes in order to remain competitive. I'm sure you'll be glad to hear that we are not devoid of caution in this area and have read McKinsey's recent reporting⁶ which suggests that all has not gone swimmingly in terms of agentic AI for some early adopters. We appreciate that some activities are much more easily automated or augmented using AI than others and that AI is far from easy to implement, despite there being a number of highly plausible use cases. Despite acknowledging that it is not necessarily easy to adopt quickly in practise across a wide number of use cases, we take a positive stance on AI because we think it is essential for firms to consider and to gain experience in adopting what promises to be the next General Purpose Technology.

We appreciate that, in the wealth administration space, the competitive pressure to adopt AI early may be markedly less than in some other Guernsey sectors but we'd commend having good quality conversations about its potential uses at the very least. If we think of past general purpose technologies they may, in some instances have been slow starters but those who resisted

⁶ *One Year of Agentic AI: six lessons from the people doing the work*, McKinsey, September 2025

adoption did not end up prospering. Whilst it took time for steam power to transform factories, mines and transport, once it did horsepower, ox power and human manual labour in fixed settings became largely obsolete and so inefficient as to be more of a hobby than a viable alternative. Similarly, when electricity became widespread, factories were able to reorder their production much more efficiently, free from the constraints of the central steam driven driveshaft and its pulleys and to produce far more efficiently than was possible in a steam powered factory. The advent of the world wide web made many paper-based systems and means of purchasing, tracking and supplying goods and services completely obsolete over the span of a short number of years. We would expect much administration which is currently done manually in our financial services sectors to be automated swiftly - with those who cannot automate securely and safely whilst reducing cost and increasing output quality being doomed to be out competed by rivals from within or without our islands who can. Some financial services sectors are likely to be more quickly changed than others - such as the fiduciary sector - where the human touch is more critical but the change is likely to be considerable across all sectors over the next few years.

Please consider your business model: which aspects are most at risk of becoming obsolete as a result of AI? Are you, for example, particularly sensitive to time spent charges on tasks that can be or are being automated?

Separately, where do you see opportunities to streamline processes and improve efficiency from a business model perspective?

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In terms of where we would like to end up as a result of our Digital Finance Initiative, we are never, as a small micro-state, going to be the biggest domicile but we would like to be known as one of the most hospitable domiciles in Europe for good quality digital finance. We would

like to be a place where experimentation is known to be possible and where, contra the precautionary principle perhaps overly beloved of some overseas regulators, you are not required to employ a man to walk with a red flag in front of your AI vehicle in a fashion similar to that required in the rather risk adverse UK prior to 1896. We wish our new regime to incorporate the better features of the digital finance approaches being trialled by the Monetary Authority of Singapore and those set out for stable coins under the US Genius Act which became law in July.

In this regard, to give due praise to the UK, it is noteworthy how it has written the Data (Use and Access) Act 2025 to significantly amend the GDPR law in the United Kingdom. This new act eases data use for innovation through streamlining legitimate interest tests and providing clarification on automated decision making whilst providing AI friendly research exemptions. Data protection is not an area of policy for which we are responsible but we certainly think others may like to consider whether the regime in Guernsey might be renewed in a way which was helpful for easing the adoption of AI and other digital technologies.

Interestingly, the EU appears to be indicating, in terms of initiating a formal review for the UK's equivalence with GDPR further to the UK's adoption of the Data (Use and Access) Act 2025, that it may well renew the UK's EU equivalence. Thus, it is possible that the UK may be offering the Bailiwick an example of a helpful pathway towards sensible improvement of the current GDPR regime without having to give up EU equivalence. At the Commission, we are keen that Guernsey's data regime is at least as hospitable as that in the UK so that, in broad terms, the dominant US AI stack is at least as available to firms domiciled in Guernsey as it is to those domiciled in the UK. What we do not want is to arrive at a situation where, through not modifying key laws to recognise the age of AI - which is upon us - we are not assured of access to the dominant US tech stack. We are kidding ourselves if we think that US headquartered businesses which are prepared to entertain restricting EU access to their technology out of

concern for the costs of complying with risk adverse EU technology laws, are going to hesitate in restricting Bailiwick access to their services if they cannot be reassured that our data protection regime closely mirrors that of the UK.

I am conscious that there will be more than one view in the room on the use of AI in children's education and on the utility of smart phones for children. We are certainly not seeking, as the Commission, to have views on such subjects - subjects where the Bailiwick has the freedom to make its own choices. The Commission is, however, suggesting that large parts of the financial services sector cannot afford not to adapt themselves to cope with the new technologies if they are to continue to be commercially competitive and that the Bailiwick laws need to support rather than hinder them in this endeavour.

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A Few Concluding Thoughts on Financial Stability and its Relationship with Growth

Having talked a little about sustainability and digital finance reform, I'd like to conclude with a few words on the subject of financial stability. Before you all start running away, this is a really important subject and far from a dull one. There are certain prerequisites for financial stability – a fiscally continent state alongside the rule of law and sensible capital standards for banks and insurers, properly applied. Thereafter we tend to think financial stability is best delivered in the longer term through economic growth, provided of course that that growth is compatible with maintaining the societal stability which reinforces financial stability.

As I have mentioned in other talks, it is relatively easy for a regulator to deliver the stability of the graveyard, a growth free semi-existence, perhaps akin to the fate of souls waiting to be transported across the river Styx by Charon the boatman on their way to the ancient underworld⁷.

⁷ *The Aeneid, Book 6, Virgil*

Sadly public sector career structures can often incentivise safety first approaches. After all, safe oligopolies which deliver super normal profits and reasonable capital levels make for nice routine hours for a regulator and lower probabilities of supervisory failure than if he or she engages in building and operating a regulatory framework which enables and encourages risk taking innovation.

In the UK, politicians sometimes complain about the risk aversion of UK regulators. What they forget is how loudly their predecessors called for the heads of the supervisors responsible for overseeing Equitable Life when it couldn't pay the guarantees on its insurance products. That political whiplash infected a generation of UK prudential regulators with a very precautionary approach to prudential risk. This was perhaps reinforced by the experience of the Global Financial Crisis although, to be fair, not that many heads rolled at regulators following the failure of the banks as inadequate supervisory systems and greedy bankers rather than individual regulators were generally blamed for the widespread prudential problems which led to both taxpayer bailouts and extraordinary levels of quantitative easing.

It is helpful, if depressing, to consider the knock-on effects of a very precautionary approach to bank capital, insurance capital and to pension risk management. In summary, risk capital becomes scarce and things such as the London's capital markets become shadows of their former selves as vast quantities of capital previously available for equity investment become tied up in model driven risk adverse investment strategies which keep pension trustees and life insurance company directors legally safe at the expense of their members being able to be invested in risk assets which might well offer decent investment returns. As a result, a country becomes poorer with its citizens having less fulfilled lives than might otherwise have been the case. Risk aversion is not risk free - it has a significant and a real cost for the citizens of countries and economic zones which become excessively risk adverse. Why, one might ask, has US GDP grown rather more than EU GDP over the past few years – perhaps because one political and

regulatory culture understood the value of risk in pursuit of life, liberty and happiness whilst the other was remarkably precautionary in its attitude because precautionary centralised regulation helped Brussels-based power brokers assert control over a diverse range of national or regional risk cultures.

I published a paper seventeen years ago called, “The Costs of Regulation and How the EU Makes Them Worse”. In it I argued against the adoption of the precautionary principle in regulatory and legislative matters⁸. Today, in the novel new world which the US President’s administration is busy encouraging the rest of the world to entertain, I’d like to make a related point, namely that when international circumstances permit, the Bailiwick should be guided by common sense and a high regard for individual freedom rather than the precautionary principle. Leaving moral philosophy to one side for the sake of focusing on simple economic logic - in this speech at least - I make this case because such an approach facilitates innovation and growth. If the economy is growing, generally speaking, workers and capitalists have more money and the jurisdiction is wealthier. If the jurisdiction is wealthier, it is likely to be more able to weather economic shocks and thus, to be more financially stable. In other words, without at all arguing for a departure from sensible prudential standards (bank failures which cost depositors money tend to be very expensive and unsettling for example), I think a good case can certainly be made that, international standards having been given due consideration, regulators should not try to eliminate risk from the system but rather ensure that those taking the risks are helped to understand the assets in which they are taking risk positions, alongside the potential rewards which may result from their risk taking. Regulators should not be insisting that the downsides of risk taking must always dominate informed public discourse but they should rather promote a balanced discussion of risk and reward.

⁸ p. 62

Risks don't always work out of course. Hopefully, with sensible governance at entities taking risks, risks taken will work out more often than not thus making the jurisdiction and its people better off. That said, the quid pro quo of wishing your regulators to encourage sensible risk taking is that you don't come hunting for us every time a risk taken by a privately capitalised entity goes wrong. As I hope some of our actions over the last year have demonstrated - both from a policy and an entity specific authorisation perspective - we have been happy to encourage innovation, without at the same time losing the courage to say no to plain daft and dodgy schemes.

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At the Commission, rest assured that we have no interest in merely guarding the souls of those wishing to cross the Styx to Hades, rather we want to be the regulator of the alive, the innovating, the growing and the prospering. We will continue to look to you for ideas and suggestions which we can combine with our own ideas to hopefully create a more prosperous future for the Bailiwick. Thank you for coming along to listen this morning.