Fraud Act 2006 and Digital Fraud Committee

Corrected oral evidence: Fraud Act 2006 and digital fraud

Thursday 26 May 2022

10.55 am

Watch the meeting

Members present: Baroness Morgan of Cotes (The Chair); Lord Allan of Hallam; Baroness Bowles of Berkhamsted; Lord Browne of Ladyton; Lord Gilbert of Panteg; Baroness Henig; Baroness Kingsmill; Lord Sandhurst; Baroness Taylor of Bolton; Lord Young of Cookham.

Evidence Session No. 15 Heard in Public Questions 160 - 170

Examination of witnesses

Tom Mutton and Christina Segal-Knowles.

Q160 **The Chair:** Thank you very much to committee members for still being here for our next session on the Fraud Act 2006 and digital fraud. I am delighted to be joined by Tom Mutton, who is the director at the Bank of England for central bank digital currency, and Christina Segal-Knowles, who is the executive director at the Bank of England for financial markets infrastructure. Thank you both very much indeed for joining us this morning.

I wanted to start with the Bank of England's view, and specifically the Financial Policy Committee's view, on fraud. I am sure you know this, but the scale of fraud is truly staggering. It made up 42% of all crime against individuals last year. There were 5.1 million fraud offences in the year ending September 2021, which was 36% up on the year ending September 2019. In written evidence to the committee, the FCA has said that scams in aggregate are important because they affect confidence, which in turn impacts UK economic and financial security. Fraud not only threatens the financial well-being of consumers but imposes significant cost on businesses threatened by fraudsters. My first general question for the Bank is whether the Bank, or specifically the FPC, regards fraud as an issue of economic or financial stability.

Tom Mutton: I can take that. Fraud, as has been well reported, has increased substantially. It is a very serious matter that has a devastating impact on the victims. Financial fraud is the area that is most common and the area which we pay most attention to. In 2020, losses were £1.25 billion. That is a very serious matter. It is a big number, but it is probably not a threat to financial or economic stability at the current time. That is 0.06% of GDP and needs to be set against banking sector capital of £608 billion. It is unlikely to be a financial stability issue right now.

As the FCA has noted, financial stability is rooted in confidence and trust in the financial system. Clearly, fraud erodes that trust. Anything that can be done to reduce fraud and promote confidence will be positive for financial stability. Clearly, fraud losses are rising substantially. Fraud cases in 2021 were up 41% on 2019. If that trajectory were to grow, then it would become increasingly relevant to our considerations around financial stability, even if not a present threat.

In terms of what the Bank is doing to help tackle fraud, we do not have an explicit objective related to fraud, but we are actively supporting those agencies that do. The governor is a member of the economic crime strategy board, and we participate actively in the Financial Crime Information Network, which is chaired by the FCA.

The Chair: I fully appreciate the scale, as you say, of the context of GDP. In terms of people's own confidence, either in their own bank, if they have been defrauded, or in payment systems generally, do you see this as a growing area of concern, as cash payments fall and the use of online payments, digital currencies, contactless payments and bank transfers is growing?

Tom Mutton: I do. Christina may wish to add some things because she is the supervisor of systemic payment systems, but there has clearly been a significant increase in the prevalence of fraud. That is a matter of concern, even if not an immediate threat to financial stability. Clearly, authorised push payment fraud needs close attention, particularly for those who are responsible for that area: the FCA, Pay.UK and the PSR. Equally, in the area of crypto fraud, there are troublingly high levels of fraud. That is an area for clear attention for those who are responsible.

Christina Segal-Knowles: Although we do not have, as Tom said, a direct mandate to work directly on fraud, it is very important to me as a regulator of payment systems that we have the complementary work of the PSR, and also of the FCA for some payment elements. The key thing to me, as you have just mentioned, is that it is very important that people have confidence in payment systems. It is very important to the functioning of our economy that that is maintained, so it is very important that we have agencies that are working on this.

For all of the payment systems that we supervise here at the Bank of England that have a retail element, the PSR has jurisdiction. To us, supporting the work of the PSR and making sure that the PSR is there in order to provide that reassurance is very important. Although we do not have a direct mandate, it is not irrelevant to us. If there were no agency in the UK that had jurisdiction, it would be a concern for us. It is important to us to work hand in hand with the PSR to support each other's complementary duties in this area.

Q161 **Lord Allan of Hallam:** We want to come on to the issue of cryptoassets. We noted that the Financial Policy Committee's latest biannual financial stability report said that cryptoassets possibly posed limited direct risks to UK financial stability. Do those risks include the risk of fraud around cryptoassets?

We are also interested to know your general view on the scale of cryptoasset fraud—you already mentioned that it was prolific—and what measures might be taken to try to prevent that.

Christina Segal-Knowles: I am happy to step in first, and then Tom may have things to add. To take a step back, there are two separable issues here. One is the issue of cryptoasset fraud itself. The rates of cryptoasset fraud, according to studies that have recently been published, are very high compared to the rates of fraud in the traditional financial system. That is partially *inaudible* likely given that quite a bit is outside of the regulatory perimeter at present. The rates of fraud there are quite high.

Thinking about cryptoassets in general, the Financial Policy Committee has said that the scale of cryptoassets is relatively small at present. Although it has grown very rapidly, the amount of crypto is still a very tiny percentage of the size of the general financial system. Cryptoassets in themselves do not yet pose a financial stability risk in general as an entire asset class.

That said, the Financial Policy Committee has been very clear that it thinks it could in future, particularly given interlinkages with the existing financial system and increasing substitution and use of cryptoassets in areas where traditionally financial institutions that are regulated would play. It will be quite important going forward, as the Financial Policy Committee has said, to think about making sure that we are not left in a place where cryptoassets are not regulated in line with existing financial institutions where they are posing similar risks.

The short answer to your question is that, in general, cryptoassets are not a large enough part of our financial system at present. They are not playing a systemic role in the financial system. That said, we are very alive to concerns that it has grown very quickly, and interlinkages are there. In that context, we would be concerned about it not in terms of the Bank of England necessarily being able to regulate cryptoassets for fraud, but thinking about it as we move forward, making sure we have a system that has that same risk and regulation, regardless of what technology you are using, that is important. Thinking about how the existing financial system is regulated to prevent fraud and making sure that is applied where appropriate will be the way forward.

Lord Allan of Hallam: Tom, any additional comments on the scale of cryptoasset fraud would be helpful.

Tom Mutton: Cryptoasset market capitalisation very much depends on the bitcoin price on any day at the moment. It is about $1.6 trillion at the moment, and that is some way down from the 2021 high of $2.8 trillion. If you look at that on a global scale, that is less than 1% of global financial system assets. The Financial Stability Board published a report from the G20 earlier this year on that. We are watching it very closely because there is growing take-up and growing interconnectedness with conventional financial institutions. Therefore, it is something that stands very close vigilance both domestically, through the Financial Policy Committee, and internationally, through the Financial Stability Board and the G20.

In terms of fraud, the most comprehensive source that exists is Chainalysis, which publishes an extensive crypto crime report every year. In 2021, it reported $14 billion of crypto crime; that is a very large number. If you break it down, crypto thefts were about $3.2 billion, up 516% on 2020. Two-thirds of that related to decentralised finance protocols, which are a relatively new innovation. The majority were crypto scams, including things like rug pulling and other fake investment scams. They were worth $7.8 billion, up 82%. In money laundering, there was quite a substantial increase, particularly related again to decentralised finance protocols. That one should be looked at in the context of quite significant recoveries from the authorities as well. In 2021, the IRS in the US recovered $3.5 billion of illicit funds, according to Chainalysis. This is not a systemic threat, but it is certainly something that stands very close attention for those authorities that have responsibility.

Q162 **Baroness Bowles of Berkhamsted:** The Governor of the Bank of England Andrew Bailey recently said that cryptocurrency is the new front line for scams. How do those views on cryptocurrency relate to the Government’s ambitions to make the UK a global cryptoassets technology hub? How will the Government and the Bank work together to ensure that fraud risks are prioritised as the digital economy develops?

Tom Mutton: Christina may well want to say something, because she is a member of the Cryptoassets Taskforce that includes the Treasury, the Bank of England and the FCA. Clearly, cryptoasset technology has a lot of potential, so it is right that the UK wants to look at this very carefully. The level of fraud is troubling; that is for other authorities.

Some initial steps have been taken, particularly around bringing cryptoassets into the scope of the financial promotions regulations, which a number of previous witnesses at this committee have said is quite an effective and quite a quick mechanism to make change, and also to bring it into the scope of the anti-money laundering rules, so the fifth anti-money laundering directive. There is a longer-term question about how crypto, particularly crypto that is used as a speculative investment, will be regulated. That is principally one for the Treasury and the Financial Conduct Authority. As we noted earlier, that is not currently a systemic threat.

Anything that can be done in terms of regulation to improve consumer protection, investor protection and confidence will be useful. That is principally a matter for the FCA and the Treasury.

Baroness Bowles of Berkhamsted: That sounds a little like, "They are other people's problems". A cryptocurrency—the clue is in the name, "currency"—can become a mechanism for payments, and therefore that totally undermines the notion of currency for which the Bank of England obviously has a great interest. We will come on to whether the Bank is going to go down the crypto route, so I will not pre-empt other questions, but, given that fundamental currency replacement aspect, is it not a good idea to get in early? Is it safe to regard it as outside the regulatory perimeter of the Bank of England?

Tom Mutton: For speculative investments like bitcoin, we prefer "cryptoasset" rather than "cryptocurrency", because they do not fulfil the functions of money. In the Treasury's consultation last year, it introduced a concept that Christina is best to speak to about, because she is responsible for this area. It introduced the concept of stable tokens, which are also known as stablecoins. In some way, they reference and are backed by a conventional financial asset. Those are intended to be much more like a means of payment. My comments were particularly focused on speculative investments and things that the Cryptoassets Taskforce and the Treasury consultation call exchange tokens, which dominate the crypto market at the present time.

In terms of cryptoassets that would become a mainstream, systemic, widely used means of payment, we do not currently have one. We are preparing for the possibility of one. The Facebook Diem project is now no longer. It is wise and good that the Bank, the Treasury, the PSR and the FCA are preparing for the right regulatory approach if one of those types of cryptoassets that is used for mainstream payments were to arrive. The present cryptoasset environment is very much about speculative investments and tools used to bridge and access those. In terms of the Bank of England perimeter, that would principally be for conduct and markets regulators.

Baroness Bowles of Berkhamsted: Christina, I do not know whether you have anything to add.

The Chair: I am not sure Christina is there at the moment. We will come back to her on that. I am going to bring in Baroness Kingsmill. Tom, I appreciate that you are fielding all of this on your own at the moment. Christina will owe you a large drink at the end of this and we fully understand that there may be aspects of this that you cannot answer.

Q163 **Baroness Kingsmill:** One of the attractions of bitcoin and other cryptoassets, as you like to call them, is that they are outwith the regulatory system and that those who are in favour of them regard them as a means of making transactions much faster. There are clearly risks in that, and there is a particularly huge risk for those who are not very sophisticated or experienced in this area.

I know that the Government are thinking of regulating stablecoins. I would like you to give some idea as to how this should and could be regulated. Would you like to comment generally on what sort of regulation could happen without losing the advantages of cryptocurrency?

Sitting suspended.

On resuming—

The Chair: We are going to resume the session. We are sorry to have lost Christina. Tom is going to field the questions, and Christina will follow up in writing if there is anything to be added.

Baroness Kingsmill: You got the gist of what my introductory remarks were about. I am asking you to give us some of your ideas on the way in which the Government could regulate the stablecoins. One of them, Terra, has recently collapsed. As my colleagues just said, there is nothing stable about a stablecoin.

Colleagues of mine consider that cryptocurrency is the way to speed up the financial services industry, and it being outwith the conventional regulatory system is one of its major advantages. Perhaps it is not such an advantage in terms of general financial circumstances. I would quite like you to give us some indication of how it can be regulated, if at all, what the future is and whether it is going to work.

Tom Mutton: On the speed question first, most cryptocurrencies, although not all, are underpinned by distributed ledger technology. Bitcoin is the most prominent, but Ethereum, which is probably the second, also has similar issues. Performance is not a strong point. Bitcoin does four to six transactions a second because of the way that it validates and proves that the transaction is legitimate. Visa can do 50,000 to 60,000, so it is pretty unlikely that some of these early-stage cryptocurrencies, aside from their volatility and stability, would functionally be able to fulfil mainstream payments needs. Innovations such as the bitcoin lighting network are trying to address that.

Second and third-generation distributed ledgers may be able to get over this, and therefore the technology is promising. That leads you into a discussion about how you make sure that it is stable, secure and trusted; that is where regulation comes in. We should be clear that there is not a stablecoin—a form of cryptocurrency that aims to have very stable value—that is currently being proposed for large-scale adoption in the UK, but the Government, the FCA and the Bank are looking at appropriate regulation. The key things to look at are the proposals that were put forward in the consultation paper last year, and particularly the Financial Policy Committee’s principles around a legal claim that is equivalent to existing forms of money, particularly a commercial bank deposit, but also the ability to redeem at par, on demand, in fiat currency, one to one. That will give equivalent protection to existing money, and that is essentially the goal that regulation should seek to achieve.

If you are performing the same economic function as existing forms of money, which are essentially bank deposits and notes for everyday users, then you should have the same ability to redeem and security of legal claim. That is being explored domestically through the tripartite consultation and through things like the Financial Stability Board and G20. Christina will be very happy to follow up in writing on that as well.

Baroness Kingsmill: Yes, that is helpful. The cryptocurrencies are quite fashionable at the moment, but do you see a future? You expressed some doubts. Is this going to be a significant issue that you have to contend with?

Tom Mutton: Yes, it is every day for me at the moment because I do digital money. I am not very good at crystal ball-gazing, but we have seen significant interest in speculative investment cryptocurrencies. The distributed ledger technology is interesting, and we know that people are looking for new and more convenient ways to pay. We already have digital money; it is called a bank deposit. We use a Visa card all the time. That is very secure, well regulated and protected by deposit insurance. We might see a new form, whether it is a stablecoin or a central bank digital currency. The goal is to make sure that they have equivalent security to make sure that they are as safe and trusted as the existing forms of money.

Q164 **Lord Sandhurst:** It just occurred to me as we are thinking about this—I am new to this field—in practice, if not in law, they are outside the tax regime, are they not? That is going to make them very attractive to people who have quite a lot of money and can afford to take speculative losses.

Tom Mutton: As a central banker, I know not to talk about law, let alone to talk about tax, but I understand that cryptoassets are subject to capital gains tax, for example.

Lord Sandhurst: How is that enforced? How does anyone know what transactions are going on?

Baroness Kingsmill: That is the point. That is why they are so popular with a certain class of people.

Lord Sandhurst: Is that not going to be for the regulator? Are you going to have to do that with the Revenue, other tax, the IRS and everyone? Otherwise, there will be vast sums of money lost very quickly.

Tom Mutton: If it is a speculative investment, my understanding is that it is subject to capital gains tax in the UK, but that would be a question for HMRC. If it were an item that is money, then it would be no different to other forms of money. It would be subject to the same things—income tax, et cetera. That would probably be something that other authorities could better answer than me.

Q165 **Lord Young of Cookham:** You have cast some doubts about the practicality of cryptocurrency, but we understand that the Bank is considering a central bank digital currency. What would be the advantages and risks of such an initiative?

Tom Mutton: We are thinking about a central bank digital currency, as are most central banks around the world. According to a study by the Bank for International Settlements, 90% of central banks are looking at this at the moment. Very few have made a decision, at least in the advanced economies. The only live central bank digital currencies are in certain emerging markets, particularly the Caribbean and China. We are studying it very closely, together with all of government but particularly the Treasury, and we have a task force to review that.

A central bank digital currency would not be a cryptoasset or cryptocurrency. It would essentially be a digital banknote. I would think about this as being the equivalent of Bank of England provided cash but in a digital form. That digital form has some significant implications because there are physical limitations on the ability to access and use cash that would not be present in a central bank digital currency, and that will have implications for things like people's ability to run to it in a crisis and people's data trail that they create when using a central bank digital currency. Those are important things that we are thinking about together with the Treasury in particular, but also the rest of government through the Central Bank Digital Currency Taskforce. A CBDC would essentially be a digital banknote, not a cryptocurrency.

Lord Young of Cookham: Would this be available for retail customers?

Tom Mutton: That is something we are going to consult on, but our starting point on this is that it is very much a digital version of cash. It is available for everyday payments by individuals and households to businesses. It is not something for specialist payments. It is not a savings product, and it is not something that financial institutions would use. It is very much intended to be essentially a digital banknote, but this is subject to consultation.

Lord Young of Cookham: Would you know who your customers were? Would you be able to trace a transaction back to an individual?

Tom Mutton: This is a really big question that we are going to have to look at through the consultation. This is probably the biggest question. If we have a central bank digital currency, we want it to have very strong financial crime controls. We want, as far as possible, to make sure that it is reducing financial crime such as fraud. Most of that comes to the question of identity verification. At the same time, if we are to have trust and confidence in the money, we need to make sure that it is upholding society's reasonable expectations of privacy. A big part of that might be reducing, or even ideally eliminating, the central bank's ability to see personally identifiable information.

Within something like a digital banknote, there is this question about how we balance reducing crime, which will mean identity verification, and promoting trust and confidence, which means privacy. Privacy and anonymity are different things, by the way. Anonymity is a feature of cash, but it is not really a design feature. It is just a by-product of the technical nature of cash, which is that it is a physical item.

Often, when people talk about fraud reduction and the possibilities of reducing financial crime through digital currencies, particularly central bank digital currencies, they are not really talking about central bank digital currencies. They are talking about identity verification, and particularly digital identity. That concept of digital identity, ideally privately provided and voluntary, is something that we have seen in a number of countries. It is already very well established in the Baltics and the Nordics. That extends well beyond central bank digital currency and goes into things that could include privately issued digital currencies and bank deposits.

Much of this debate about fraud reduction and digital currency is about digital identity, which is slightly separate. There is a question that we will have to address through the Central Bank Digital Currency Taskforce, together particularly with the Treasury, DCMS and the Information Commissioner’s Office, which is whether there is any scope for small-scale anonymous payments in a central bank digital currency.

Q166 **Lord Young of Cookham:** Can you say anything about the timescale of this? When are you likely to come to a decision?

Tom Mutton: We will make a consultation this year, which will cover some of these high-level policy issues, policy objectives and what the design of the currency might look like at a very high level. That will be a public consultation, and we have committed to doing it this year. If we tried to develop such a digital banknote—that is very much an “if”; we are really very open minded on that—it would take a considerable amount of time to build the technology and launch it. The end of the decade is the earliest viable point given all the security and other considerations that are involved. It has some very complex public policy issues that deserve thorough consideration.

The Chair: Just to confirm, you talked about focusing on reducing crime. Will you, as part of this, work with law enforcement or those who see the end product of people trying to cash out of the system or defrauding others? Obviously, you do not want to pre-empt the consultation. I am asking about safety by design incorporated from the start.

Tom Mutton: A really good thing about how we are approaching central bank digital currency in the UK—no decisions have been taken yet—is that we have a task force that is jointly led by the Bank and Treasury but has the opportunity for all the agencies and regulators to be involved. At the moment, we are in the early days. We are thinking about the public policy goals and high-level public policy implications, but as we start to consider if we decide to proceed—it is very much an “if”—we will have to consider some of the very complex and significant questions around design. Fraud and financial crime are right up there.

As I said, we want to reduce financial crime, if at all possible, but at the same time we also have to ensure that people have trust and confidence and that their privacy is protected. That is why we need to work with the Government, because those are well beyond the narrow remit of a central bank.

Q167 **Lord Sandhurst:** The Governor of the Bank of England has called for a clampdown on big tech companies that allow fraudulent advertisements to be hosted on their platforms. Additionally, the Lending Standards Board has said that this cannot be a fight that is left just to the financial services industry. It says that there has to be collaboration and commitment from utilities companies, social media platforms and telecoms. That is the context.

I have three related questions. First, what action would you like to see online platforms and others take to combat online fraud? Are there sectors you would like to see action from, or more action from? Thirdly, would a duty to prevent fraud that was enforceable by a regulator or regulators assist in this, particularly if it had the power to levy civil penalties and so on, which would then fund further enforcement?

Tom Mutton: I have read the previous hearings that have happened, and I can see that the committee has rightly paid a lot of attention to this question. I am afraid that it is quite far outside my area of expertise, so I will have to agree to follow up in writing. Andrew, the governor, has pointed out that there appears to be a gap between standards for certain technology and telecom companies and those expected of financial institutions, and that that is a matter worthy of consideration.

Although I do not know the answer, I know that the entry of big techs into finance is a matter we are going to have to deal with. It calls for collaboration with a much wider range of institutions and authorities than perhaps has been typical with financial regulation and the central bank. If I think about central bank digital currency, the entry of people who are not conventional financial institutions in providing services around central bank digital currency could be a really positive matter for inclusion, innovation and welfare, but it is also going to bring some new regulatory challenges because these are different types of institutions.

Although I cannot speak specifically about the issue you raised, it is already a reality that co-operation with things like the Digital Markets Unit, DCMS, and the Information Commissioner’s Office is a much bigger part of the work of the Bank of England than it probably ever has been before. From my vantage point, looking at financial technology and central bank digital currency, I would really welcome more collaboration with those authorities because it is going to be a really critical issue.

Lord Sandhurst: Just to follow up, the third question was a more general one. Do you or the Bank have views about a duty to prevent fraud being imposed, which would be enforceable by a regulator or regulators?

Tom Mutton: I am afraid that I do not have any views. I am not aware that the Bank has any, but we will definitely check that for you.

Q168 **Baroness Taylor of Bolton:** The Bank of England has talked about the need to have financial education and has developed some educational packages for schools. I wonder if you can tell me how effective those have been, whether they have had any real impact, what assessment you make of the programmes that are being put forward and what response you get. There is also a big gap in awareness amongst young adults. We have heard quite a lot of information suggesting that young adults are sometimes particularly vulnerable to being brought in as money mules and sometimes just for the ordinary scams that we all hear about.

What is happening with your school programmes? Are there ways that you can help to get the message across to students in particular, and to other young adults who are particularly vulnerable? I am not sure whether this is your area of particular expertise, but can you give us a bit of a steer, and perhaps follow it up if necessary?

Tom Mutton: I have some real-life experience of this. As the Chair knows, we really pay a lot of attention in the Bank to education, transparency and, more broadly, accountability for our activities, to people who are not going to read the financial media and may want to understand it from different channels. Certainly in my area of the Bank, all staff are expected to visit a school at least once a year. We have a standard set of resources for talking to students at different levels of their progression through the school.

Of the most recent two that I have done, one was in my local area in Brixton, and another was in Staffordshire. In both of them, it was very enlightening for me to hear what students and younger people wanted to hear about. When I do these school trips, I prepare to answer questions about gold. On my visit to Brixton, over 90% of the questions were probably about bitcoin, which was frankly worrying. I can understand why they are interested as well. We get out there and get into schools. We have a really good set of resources, and we expect everybody in the Bank to do that. People are very much encouraged to do that.

We have two specific resources that I would like to raise attention to. We have EconoME, which is a set of four modules to support teachers in schools, aimed at 11 to 16 year-olds. One of those is focused on saving, borrowing and protecting money. It includes educational fraud and tips on how to avoid fraud. I am afraid I do not have any follow-up on reach or impact, but it is certainly a priority for us. It is a really important resource. Secondly, we have Money and Me, which is aimed at 8 to 11 year-olds. That includes information on fraud, both online and offline.

More generally, investment in education and outreach is really important for us. Our social media channels are really important to us, and we have spent a lot of time trying to work on them. We have KnowledgeBank, which is intended to be a very accessible resource for everybody to access to understand financial topics. That has 463,000 impressions and

15% year-on-year growth. This is a really important aspect of the work of the Bank of England. It is a very important topic, and financial education is hugely important.

We recently published a quarterly bulletin article, which was essentially a research piece, and we heard from it that the largest challenge that teachers face—63% reported this as the biggest constraint on financial education—is curriculum time. I wonder whether there is an opportunity to start to embed certain financial topics, whether fraud or cryptocurrency, into other disciplines. Perhaps people could have debates about cryptocurrency or fraud in English classes. Curriculum time, especially post pandemic, is very tight for teachers.

Baroness Taylor of Bolton: It is indeed. Teachers are under a lot of pressure, and some of them may not have much expertise in these areas.

Can I just press you about young adults? The proportion of these scams that hits young adults is very high, particularly with students at universities facing extra pressures and changes to the way they are going to repay loans and so on. There is a temptation to go for easy money, as money mules or whatever. There does not seem to be a lot out there that is informing and discouraging them. I wonder if people like you could get involved with universities and try to get packages that might help freshers to be aware of some of the dangers.

Tom Mutton: I quite agree. We are building out our programme of resources. We are focused on schools, and it is quite right that, according to Action Fraud, the group that is most vulnerable to fraud is 20 to 29 and female. Collectively across all the authorities, we need to think about that. That is certainly something that I can take back and discuss with the Bank of England's education team around what we are doing for universities. As I mentioned, we try very hard with schools. Perhaps we need to think about the 18-to-25 group and what we can do for them as well.

Q169 **Lord Browne of Ladyton:** Tom, your answer to that question was really interesting for a number of reasons, not least of which is that, in respect of almost every harm that is out there and every positive action that we would like people to engage with, we have this big challenge of behaviour change or awareness. We have campaigns about gambling awareness; if you watch sport, you see all this GambleAware stuff. We have obesity challenges that we are trying to get people to be aware of. Periodically, awareness of drugs goes up and down.

We now have this enormous challenge about behaviour awareness that the Climate Change Committee has given us. Something like 60% of our ambition for reducing emissions is going to depend on behaviour change. In fraud, as you identified, we have this massive problem of 42% of crime against persons. Every time I check on the web how much this costs the United Kingdom, the figures vary greatly, but they terrify me. They are massive figures.

The question is whether we can really impact any of these things by getting awareness and behaviour change to the scale that is necessary. You clearly do things personally in your local community that are very credible and worthy, and you should be congratulated for doing it. They instruct quite well the policy decisions that you made, but there is a behaviour change unit at the centre of government that is pretty sceptical, to be honest, about the degree to which any of this stuff can be scaled up.

It seems from the bits of public policy that I get involved in that there is something to be said for us bringing all of these concerns together into some space. I am not suggesting we should make teachers responsible for this, but we all have a responsibility for it. The impressions on your social media platform are probably quite impressive from starting at zero, but they are nothing compared to the sort of stuff that a social influencer can get. Some of these people are out there promoting fraud, to be honest.

The Chair: They are promoting crypto, yes.

Lord Browne of Ladyton: I am sorry; it is a bit of a rambling question, but it is not unusual for me. You prompted me to say that. You are at the heart of quite an influential institution. If some of the things you had said to us were shared in the conversations you had in government, it might be helpful. I am just encouraging you to continue to think in the way that you do.

The Chair: I am not sure you need to respond, Tom, but that was an encouragement to carry on thinking in the way you do.

Tom Mutton: The only thing that I would say in response is that I do not have any expertise in financial education. I do have some lived experience. The thing that is really difficult is that being financially literate and savvy involves being sufficiently sceptical. From my personal experience, I think about some of the financial choices that my parents made back in the 1980s and 1990s, which were from authorised institutions. They were not sufficiently sceptical. They were both teachers and did not make great choices.

The other day I was talking to a friend who is a smart lawyer; they fell victim to a cryptocurrency scam. Afterwards, the main thing they said was, "I can't believe I did it, and how did I get to that place?" It is about behaviours as much as it is about giving people resources and education. People who are much more expert in that could give a really valuable perspective.

The Chair: We are almost at the end of the session. I was struck by your comment that, when you meant to a school near you, the kids were mainly asking about bitcoin. I do not know whether that was in the context of thinking about investing in it and wanting a return. Building on Lord Browne's question, it strikes me that one of the things we often hear from victims is a lack of scepticism, but also desire, particularly in a low interest rate environment, to have more return on their money and investments. I do not know whether there is a role for the Bank in terms of its expertise and explaining to people that, when somebody is offering an interest rate of over 10%, particularly in the current climate, it is going to be too good to be true. Is that something that you could work on with other regulators to get that message across?

Tom Mutton: Yes, absolutely. Some of our materials that we use in schools have things around how to think computationally, essentially, about basic financial questions and to help people think realistically about, "Is this a plausible thing that I'm being offered?"

The key thing that the FCA would very much endorse is that people are first and foremost asking, "Is this person who is offering me an opportunity somebody who is regulated or not?"

Lord Sandhurst: This is a follow-up on the Chair's question. Nowadays, most people do not read a newspaper or watch television as we would understand it. Influencers appear to be the people they look to. Should the Bank, the FCA and people like you get some influencers on board to put these messages out there? That is the only way you are going to get at a lot of people.

Tom Mutton: It is a really interesting idea. I have not thought about it before. It probably falls in with some other questions that happened in the session earlier this morning about how you work with friendly hackers, for example. We sometimes think within the regulatory community and the authorities and use somewhat conventional mechanisms.

As we have started to explore central bank digital currency, I have been thinking quite a lot about how we explain this so that people can take a dispassionate view on what it is or is not. That is quite a challenge for the central bank. I did some stuff earlier this year with Which? and found it really hard to describe my work to a different sort of community to people who might usually receive it. Whether it is thinking about influencers or commentators, there is an interesting consideration there. Particularly in the context of central bank digital currency, we might have to think, together with the Government, about how we make sure that people have impartial but accessible information about what we are thinking about.

The Chair: It is a challenge for the Bank of England marketing department.

Baroness Kingsmill: I have a tiny little point about regulation. Regulating the cryptocurrencies themselves or the producers themselves is a very complex and difficult area, but one of the areas that it struck me might be a more productive place is with the big crypto exchanges like Binance and others. They would be an easier target for regulation because they are established. They are not in the wind, so to speak, in the same sort of way. Do you have any view about that at all? It is a thought I just had, so it is not part of our formal questioning.

Tom Mutton: It is very real. In the Financial Stability Board, and then reporting into the G20, the Bank is quite fortunate that it has quite influential positions in considering the regulatory approach to cryptocurrency internationally, at least in the G20. I chair the group that looks at crypto-related vulnerabilities, and then Andrew Bailey, the governor, chairs a much more senior group that looks at the policy response. Importantly, within that, he is not just thinking about the cryptoasset itself, but also the on and off ramps and the mechanisms for accessing.

That may be the point at which authorities have a more comprehensive grip because those things tend to be onshore and have defined legal status. It is harder for them to shape-shift. That will be a very relevant consideration, but it is something that I know that the Financial Stability Board and others will be looking at.

Q170 **The Chair:** On the broader subject of online digital fraud, I do not know whether the Bank has any one recommendation for the Government in this space. I appreciate that, as we have explored, there is not quite direct involvement in the way that other regulators might have. Is there one message for the Government on this?

Tom Mutton: It involves fraud, but it is much more widely about how our financial services work. We published an independent review, the *Future of Finance* review led by Huw van Steenis, and the former governor, Mark Carney, responded to it. We raised a number of questions about the future of the UK financial system. One of the things we highlighted in that report was that digital identity, privately provided and voluntary, was a complex topic, but one that really needed to be addressed by Government. I really welcome the work that DCMS is doing on the trust framework.

It is not really for the Bank to decide on this, but any work that could be done on digital identity would be very welcome. This is not about identity cards. It is voluntary and private, but we can see it working in areas, particularly the Baltics and Nordics. It has both an inclusion consideration and a fraud one. It is not for us to say yes or no, but it should clearly be looked at very carefully.

The Chair: Tom, we really appreciate that. Thank you so much as well for soldiering on on your own. We will hopefully liaise with Christina and her team. She can read the session; if she wants to add anything in writing, she would be very welcome to do so. Thank you very much for your time this morning.