



# **Behavioural study on the digitalisation of the marketing and distance selling of retail financial services**

Final Report

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## Abstract

The objectives of the project were to (i) illustrate the landscape of retail financial services providers using digital means to market and sell their products to EU consumers; (ii) map the commercial practices used by these providers online at the advertising and pre-contractual stages and assess these practices from the perspective of consumers; (iii) assess, via behavioural experiments, the impacts of these practices and corresponding remedies on consumers' decision-making and understanding of products and test the drivers behind these impacts; and (iv) make evidence-based conclusions and policy recommendations. The preparatory phase involved a literature review, online desk research, semi-structured interviews with stakeholders, focus groups and a legal assessment of identified commercial practices. Behavioural experiments were then conducted, in conjunction with a consumer survey, to understand consumers' perceptions of the commercial practices and to test the impacts of the practices and corresponding remedies on consumer decision-making and understanding. The results show, for example, the impacts of digitalisation on the sector, the importance of providing information upfront in a clear, comparable and balanced way and adapting information to the user's device, the effects of a faster/slower purchasing process, and that some identified practices may be legally problematic. Based on these results the study proposes a range of policy options.

## 1. Introduction

The digitalisation of retail financial services is developing rapidly and has transformed this market. Consumers are increasingly purchasing credit, banking, investment, insurance and other financial products online, mainly from domestic providers but also cross-border. This has led established players to adapt their marketing and business practices to this changing market and also to the emergence of new players with new business models (e.g. fintech and insurtech firms).

A previous (2016) study on the impact of digitalisation on the EU single market found that it is changing how consumers and providers interact and is vital for removing barriers to the creation of cross-border markets. While distribution channels have become increasingly digitalised in recent years, the extent of this trend still differs markedly across countries, products and phases of the purchase process. In many countries, online has become the norm for initial consumer search, whereas a combination of online and offline channels is often used for research and purchasing. In some countries, digitalisation of the entire distribution chain is common for some products, while for other products this is unlikely to be achieved in the near future. In particular, for more complex products and products requiring greater personal tailoring, assistance from a physical person is more likely to be required at some point in the process.<sup>1</sup>

The European Commission recognised in its Consumer Financial Services Action Plan that innovative online services are transforming how people use financial services, representing an opportunity for all Europeans to benefit from a deeply integrated Single Market for retail financial services. However, while digital technology can make it easier to reach consumers in all Member States, this alone cannot address all the obstacles to a single market for financial services. Hence the Action Plan acknowledges that more must be done to increase consumer trust and empower consumers and to support the development of digital retail financial services.<sup>2</sup>

The EU plays an important role in ensuring that consumers throughout the Union are protected in the retail financial services market through a range of EU-level Directives and Regulations, including horizontal instruments and more recent product-specific legislation (e.g. related to consumer credit, mortgages, insurance or payment services). The present study can inform the effective implementation of existing EU legislation as well as potential future refinements and developments to it. For example, the study is relevant to ongoing evaluations of two EU Directives (due to be concluded in 2019), namely the evaluations of the Directive on Distance Marketing of Financial Services (DMFSD) and the Consumer Credit Directive (CCD).<sup>3</sup>

While the digitalisation of the marketing and distance selling of retail financial services can deliver substantial benefits to consumers, new consumer protection risks could arise in this digital environment, such as difficulties for consumers to become aware of and understand offers and make the best decision.

### 1.1. Objectives of the present study

The purpose of the present study is to identify the risks consumers face when confronted with practices used online by providers of retail financial services to market and sell their products, especially regarding information disclosure at the advertising and pre-contractual stages, as well as the factors that contribute to their prevalence, and the potential remedies

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<sup>1</sup> COM(2017) 139 final, Communication from the Commission – Consumer Financial Services Action Plan: Better Products, More Choice.

<sup>2</sup> European Commission (2016) "Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance".

<sup>3</sup> The roadmap of the Distance Marketing of Financial Services Directive evaluation is available at: [https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6079786\\_en](https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6079786_en). The roadmap of the evaluation of the Consumer Credit Directive is available at: [https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-3472049\\_en](https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-3472049_en).



available. The study seeks to identify how consumers can become more aware and better understand retail financial products sold online and, ultimately, make the best decision.

Specifically, the project addresses four objectives:

- To illustrate the landscape of **retail financial services providers** using digital means to market and sell their products to consumers in the European Union.
- To map the **commercial practices** faced by consumers during the advertising and pre-contractual stages when searching and shopping online for financial services products, especially regarding information disclosure, and to assess these practices from the perspective of consumers and consumer protection.
- To use **behavioural experiments** to identify and test the drivers behind the effectiveness and propagation of these commercial practices and corresponding remedies, assessing the impact of the practices and remedies on consumers' ability to make the best decision and their understanding of products.
- To make evidence-based **conclusions and recommendations** for policy and enforcement intervention.

## 1.2. Structure of this report

This final report first sets out the methodology of the study (chapter 2). Then, the market developments and landscape of providers digitally marketing and selling their products are then elaborated, including information on business models and the impacts on digitalisation on consumers and providers (chapter 3). Next, the commercial practices used online by providers at the advertising and pre-contractual stages are mapped and a typology of these practices is established (chapter 4). Then, for each category of practices in turn within the typology, we examine the prevalence and legal compliance of the practices, consumers' perceptions of the practices, potential remedies to the practices, and the impacts of the practices and remedies on consumers' behaviour and understanding (chapters 5 to 9). The final chapter then sets out conclusions and policy recommendations (chapter 10).

## 2. Study methodology

The study methodology comprised of three main tasks, namely a preparatory phase (Task 1), a behavioural experiment and survey with consumers (Task 2), and finally an analysis of the results and the development of conclusions and recommendations for policy options (Task 3). Tasks 1 and 2 involved various data and information gathering activities which are briefly described in sections 2.1 and 2.2 (further details are provided in the annexes).

### 2.1. Task 1 methodology

In Task 1, the landscape of operators, products and business models was mapped and analysed based on information gathered via a range of research activities. These research activities included a **literature review, online desk research, interviews** and **focus groups**. Furthermore, an analysis of the compliance of the identified commercial practices with EU-level legislation was undertaken by the legal experts of the study team. These research activities are briefly described below, and detailed descriptions are provided in the annexes.

Data was gathered and analysed for ten retail financial products, namely: credit cards, personal loans, peer-to-peer lending, payday loans, mortgages, travel insurance, current accounts, savings accounts, money transfer and payments and virtual currencies. Several selection criteria were developed and used for the selection of the ten products (see Annex 2). The data collection undertaken in Task 1 covered all EU Member States, plus Iceland and Norway, while other activities under this task (e.g. online desk research) were only carried out in a limited number of representative countries.

#### *Literature review*

The literature review was part of the preparatory phase of this project. The general objective has been to gather and analyse relevant and up-to-date information from secondary sources from the EU-28 Member States, as well as Iceland and Norway, to prepare the ground for the behavioural experiment and survey as well as to contribute to answering the research questions of this study. Overall, the study team has:

- collected information on **market developments** in the retail financial sector;
- provided an **overview of the behavioural (and other) factors contributing to the susceptibility of consumers** to commercial practices used by retail financial services providers to market and sell their products online;
- identified **the key factors behind the use of such practices** by providers of retail financial services products; and,
- identified **the current perspectives and positions of market players**, industry bodies and consumer organisations on the advantages and disadvantages of the marketing and selling practices used online in relation to information disclosure at the advertising and pre-contractual stages.

The literature review has also focused on how commercial practices used online at the advertising and pre-contractual stages (i) differ from those used offline (from the perspective of the consumers and the providers), (ii) differ between a mobile and a desktop environment, and (iii) impact consumers' behaviour when it comes to being aware and understanding the product that is offered to them and being able to make the best choice when being offered different products. The **literature review template** used for by the study team can be found in Annex 1.

#### *Online desk research*

The online desk research was carried out on desktop and mobile environments and collected data on market developments, providers, products and practices:

- **Market developments:** information on the latest developments in the market, new products, and new providers entering the market. For the collection of data in all Member States, the study team used a separate template which can be found in Annex 1;
- **Providers:** information collected on 37 providers, including the type of provider, marketing channels, marketing tools used, sales channels, products offered, etc;
- **Products:** information collected on products includes the name, category, type and brief description of each product, the countries where the product is sold, and existing digital marketing and selling channels;
- **Practices:** information on commercial practices used by providers when advertising and selling retail financial products.

Market developments were assessed based on European sources for all EU Member States plus Norway and Iceland. The detailed online desk research (desktop and mobile) collected and analysed information on operators, products and practices in seven Member States, namely Germany, Spain, France, Romania, Lithuania, Finland, and the United Kingdom. Information on providers, products and commercial practices was collected in an Excel data collection tool (see Annex 1) and used for analysis.

### *Semi-structured interviews*

In addition to the literature review and online desk research, the study team collected qualitative information on providers, products, business models, practices and market developments through **stakeholder interviews**. The direct consultation of relevant stakeholders allowed the study team to fill out the gaps observed after the literature review and online desk research, explore the study objectives in more depth and ensure a comprehensive overview of the market developments, providers, products and practices.

Stakeholders were interviewed from the same countries where the desk research took place, namely Spain, Romania, the United Kingdom, France, Germany, Finland and Lithuania. EU-level stakeholders were also interviewed and some interviews were also carried out with stakeholders from Portugal and the Netherlands. An updated list of stakeholder interviews conducted is provided below:

Table 1: Number of stakeholders consulted

Type of stakeholder	Country										Total
	EU	DE	ES	FI	FR	LT	NL	PT	RO	UK	
Consumer or complaint association	1		1	2	2			1	1	1	<b>9</b>
Experts		2				1	1			2	<b>6</b>
Industry Association	2	2			1	2	1	1	2	3	<b>14</b>
Public authorities	1			1	3		1	1			<b>7</b>

An interview guide focused on the ten selected products was drafted and used for the interviews. The interview guide and the final list of stakeholders consulted can be found in Annex 1.

### *Focus groups*

The purpose of the focus groups was to complement and validate information obtained through the literature review, desk research and stakeholder interviews with qualitative insights into consumers' subjective perceptions on information disclosure at the advertising and pre-contractual stages when shopping online<sup>4</sup> for current accounts and personal loans. The exploratory nature of focus groups helped us understand why consumers have specific attitudes towards commercial practices and explore consumers' behaviour when online financial services providers employ these practices.

<sup>4</sup> Shopping online refers to both searching for and buying a product online.

The focus groups were conducted in Germany, Romania and Spain between 17/05/18 and 23/05/18. These three countries were selected because they compose a balanced combination of geographical locations and relevant aspects such as digital skills and accessing the internet by mobile phone. Two 90-minute face-to-face focus groups were conducted in each country, with eight participants per group. All focus groups followed the same discussion guide to allow for comparability and to ensure that the discussions would provide informative results regarding the project's objectives.

Overall the groups consisted of a balanced mix of participants in terms of gender and age, while a certain degree of homogeneity was aimed for in each group to ensure participants could comfortably discuss their experiences. Hence, one group consisted of people with low education level/financial literacy, while the other was conducted with people with high education level/financial literacy. To ensure that participants could actively contribute to the discussion, participants were required to have experience with online shopping (for any kind of product/service). Preference was given to those who had experience with personal loans. Further details of the focus group methodology can be found in Annex 3.

### *Legal assessment of commercial practices*

The legal assessment of commercial practices analysed how commercial practices perform from the point of view of consumers and consumer protection, in light of the relevant EU law. For example, the study team analysed in detail whether and how the required information is provided at the various stages. The study team also identified those practices that have the potential to be misleading, harmful or discriminatory for consumers, irrespective of their legal compliance. This task was undertaken in the following steps:

- An analysis of the legal texts has been undertaken to understand what information must be provided to consumers at each stage (advertising and pre-contractual) for the products included in the scope of the study;
- Based on the mapping of commercial practices, the identified practices have been examined in order to determine whether any are problematic from the perspective of consumers and consumer protection, and whether there may be issues of compliance with the applicable EU legislation;
- Based on the assessment of problematic practices, possible solutions have been considered for the infringing and non-infringing practices;
- The assessment followed a structure allowing a comparison between providers, products and practices.

## **2.2. Task 2 methodology**

Task 2 comprised of two behavioural experiments and a consumer survey. The following sections outline the experiments and the survey. Detailed descriptions can be found in Annex 8 (current accounts experiment), Annex 9 (personal loans experiment) and Annex 11 (consumer survey).

The experiments and survey were conducted in six Member States, namely Finland, France, Germany, Lithuania, Romania and Spain. A total of 8,451 respondents completed both experiments and the consumer survey between 19 November and 3 December 2018. A representative sample was targeted in each country in terms of gender, age, activity status and geographic region, and weights are applied in the analysis to correct any deviations from these targets.

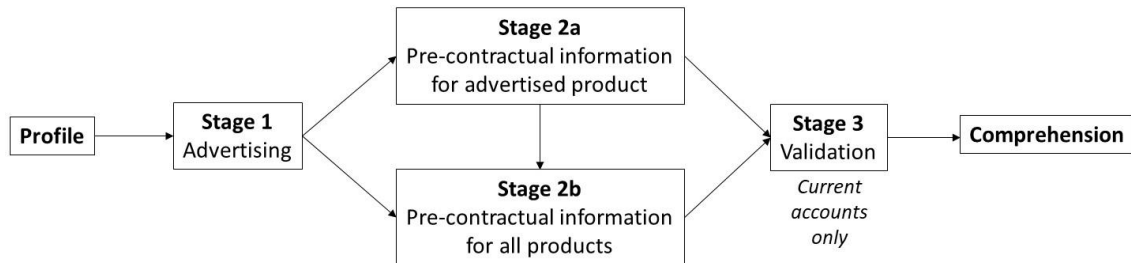
### *Behavioural experiments*

The experiments aimed to test the impacts of commercial practices used online on desktop and mobile devices (as identified in Task 1), as well as remedies to these practices, on consumers' decision-making and understanding of information.

Separate experiments were designed for two different products, current accounts and personal loans. In both experiments respondents were required to choose their preferred

product (an account or loan) within a simulated customer purchase process. A total of three options were available to respondents in each experiment. Both experiments followed a similar structure, with important nuances, as outlined in the figure below.

Figure 1: Structure of the experiments



Before the start of the experiments, respondents were given a profile setting out the account or loan characteristics that respondents were looking for. This profile ensures that decisions in the experiment can be classified as correct – i.e. choosing the optimal account or loan given the information in the profile – or incorrect. The profiles are given in full in sections A8.2.2 in Annex 8 and A9.2.2 in Annex 9.

Following the profile, the experiment started in a simulated online environment that included advertisement for a particular current account or personal loan (stage 1). In the current accounts experiment, this environment was the landing page of a website of a bank. In the personal loans experiment, the environment simulated an online point-of-sale for a washing machine. Respondents could follow the advertisement or decide to explore further information about different accounts or loans. Sections A8.1.2 in Annex 8 and A9.1.2 in Annex 9 provide more detail.

If respondents followed the advertisement, pre-contractual information for only the advertised product was shown (stage 2a). In both experiments, this information was provided in a simulated webpage of either the current account or loan provider. Respondents could either choose to purchase the advertised product or decide to seek out further information. Sections A8.1.3 in Annex 8 and A9.1.3 in Annex 9 provide further information.

If respondents chose to seek further information, pre-contractual information on all available choices were shown (stage 2b). In the current accounts experiment, this information was provided in the bank’s website. In the personal loans experiment, a simulated comparison website was used. The personal loans experiment concluded after this stage. In the current accounts experiment, a choice validation followed. See sections A8.1.4 in Annex 8 and A9.1.4 in Annex 9 for further information.

In the current accounts experiment only, the experiment was concluded with a choice validation (stage 3). Respondents were shown the pre-contractual information of their chosen option and were asked to confirm their choice or to choose another option. Section A8.1.5 in Annex 8 provides more detail.

Both experiments were followed by comprehension questions assessing the respondents’ objective understanding of their chosen product and subjective assessment of the purchasing process. More information is available in sections A8.4 in Annex 8 and A9.4 in Annex 9.

Various changes to the experimental environment, or treatments, were tested in both experiments. These treatments tested the impact that commercial practices, as outlined in section 4, have on consumers’ decision making, and the extent that various remedies can alleviate any harm done. Both advertising practices and pre-contractual practices and remedies were tested in the experiments. A summary of the practices and remedies tested in the experiments is provided in the tables below.

Table 2: Overview of practices and remedies tested in the current accounts experiment

Practice(s) tested	Stage(s)	Biases	Remedies tested
Emphasising benefits over costs at the advertising stage	1	<ul style="list-style-type: none"> <li>▪ Framing (salience)</li> <li>▪ Social proofing</li> <li>▪ Personalisation</li> <li>▪ Channel factors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Message indicating that similar consumers compare offers</li> <li>▪ Message indicating the right to compare</li> <li>▪ Message instructing to think about the account on offer</li> </ul>
Emphasising the time limited nature of the offer in advertising	1	<ul style="list-style-type: none"> <li>▪ System 1 and 2 thinking</li> </ul>	<ul style="list-style-type: none"> <li>▪ Message emphasising that the respondent should be “careful” to compare accounts before making their choice</li> </ul>
Emphasising benefits over costs Locating information where it can be overlooked	2a, 2b, 3	<ul style="list-style-type: none"> <li>▪ Information and choice overload</li> <li>▪ Cognitive limitations</li> <li>▪ Framing effects (including salience)</li> <li>▪ Anchoring</li> <li>▪ Self-generation effect</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fee Information Document provided via a pop-up at stage 2/3</li> <li>▪ Upfront comparison table in style of FID at stages 2 and 3</li> <li>▪ Upfront colour-coded comparison table in style of FID at stages 2 and 3</li> <li>▪ Calculator to help identify the best account</li> </ul>
Information that is complex and difficult to understand	2a, 2b, 3	<ul style="list-style-type: none"> <li>▪ Information overload</li> <li>▪ Cognitive limitations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Concise terms with more info ‘i’ icons</li> <li>▪ Icons to represent account features</li> </ul>

Table 3: Overview of practices and remedies tested in the personal loans experiment

Practice(s) tested	Stage(s)	Biases	Remedies tested
Advertising products as being speedy, or 'one-click' products	1	<ul style="list-style-type: none"> <li>▪ Impulsiveness</li> <li>▪ System 1 thinking</li> </ul>	<ul style="list-style-type: none"> <li>▪ Warn respondents that borrowing money costs money</li> <li>▪ Provide call to action to review loans</li> <li>▪ Provide no message</li> </ul>
Speedy, or 'one-click' credit (a fast purchasing process)	2a	<ul style="list-style-type: none"> <li>▪ Impulsiveness</li> <li>▪ System 1 thinking</li> </ul>	Slow respondent down by: <ul style="list-style-type: none"> <li>▪ Requiring confirmation through pop-up</li> <li>▪ Requiring confirmation coupled with real effort task</li> </ul>
Emphasising benefits over costs at the advertising stage	1	<ul style="list-style-type: none"> <li>▪ Anchoring</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide representative example alongside advertisement</li> <li>▪ Provide representative example and display APR prominently</li> <li>▪ Provide representative example and provide a warning about cost of credit</li> </ul>
Emphasising benefits over costs Locating information where it can be overlooked	2a, 2b	<ul style="list-style-type: none"> <li>▪ Anchoring</li> <li>▪ Bounded rationality</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide information in a standardised order</li> <li>▪ Provide information in a standardised order with additional information available</li> </ul>

The nature of the treatments differed between both experiments and were tailored to the products at hand. For example, treatments concerning commercial practices on advertising with Annual Percentage Rates of Charge were exclusively tested in the personal loans experiment. On the other hand, treatments related to the Fee Information Document (FID)<sup>5</sup> were exclusively tested in the current accounts experiment. Sections A8.3 in Annex 8 and A9.3 in Annex 9 provide details on the treatments applied to the experiments.

Both experiments were conducted in one of two environments. Either respondents journeyed through the experiment in a simulated desktop website or a simulated mobile phone website. These environments were mutually exclusive. Respondents saw either the desktop or the mobile version of the experiments, but not both.

Both experiments were incentivised. That is, the choices made in the experiment influenced the reward that respondents received for participating in the survey and experiment. Since choices in the experiments could be classified as correct or incorrect, respondents could be rewarded for choosing the correct account or loan. Furthermore, questions concerning objective understanding of respondents' choices could be verified and therefore incentivised. Sections A8.5 in Annex 8 and A9.5 in Annex 9 provided further information on incentives.

### *Consumer survey*

The survey aimed to examine consumers' perceptions of the commercial practices found in Task 1 and to gather information to allow more in-depth interpretation of the experiment results, to investigate the factors and drivers that contribute to consumers' susceptibility to commercial practices. To this end the survey included questions on:

- Respondents' socio-economic characteristics
- Respondents' level of engagement with financial products
- Respondents' perceptions of commercial practices
- Respondents' digital and financial literacy
- Respondents' time and risk preferences and disposition to trust

The full consumer survey questionnaire can be found in Annex 11.

## 2.3. Limitations of the methodology

The methods presented above are used to answer the research questions. However, these methods pose some limitations, which are summarised in the table below:

Table 4: Summary of limitations of the chosen methods

Method	Limitations
<b>Literature review</b>	The availability of information varied among countries, with more behavioural studies identified in some countries (e.g. United Kingdom, Spain, EU level literature) than others. Generally, there was a wide range of available sources which provide information on the general market developments of the retail financial markets, but literature that would have allowed us to answer the research questions with a behavioural focus was rather scarce.
<b>Online desk research</b>	Regarding the collection of data about practices used, the research team attempted to click all the advertisements given in the search results, to generate a search pattern for targeted advertising. While this approach allowed the researchers to encounter targeted advertisements, this was not a holistic approach but a qualitative mapping of advertisements. This might have impacted the advertising displayed to researchers (e.g. less

<sup>5</sup> The Fee Information Document was introduced by the Payment Accounts Directive and Commission Implementing Regulation (EU) 2018/34 sets out the format of this document.



Method	Limitations
	personalisation). Another possible limitation of this approach is that only a small number of providers were screened; hence researchers might have missed out other commercial practices.
<b>Semi-structured interviews</b>	The limitation of this approach is the responsiveness of stakeholders in some member states, which varied (e.g. France or the UK were more responsive than stakeholders from other countries, e.g. Spain). In addition, certain types of stakeholders were more accessible than others. Industry Associations, for instance, were more responsive than public authorities.
<b>Focus groups</b>	The collection of information about current accounts in Romania was restricted, partly because in some cases the participants' employers strongly recommended the bank where they should open a current account and have their salary transferred to, and generally due to a low switching rate and rare search for alternative current account offers. Participants were also not aware that it is possible to open a current account online, which is possible at one bank in Romania or take out a personal loan online. This consumer behaviour is further reflected in statistics that show that 2% of the population in Romania undertook financial activities over the internet in 2017, while the proportion is much higher in Germany (17%) and Spain (8%). <sup>6</sup> Similarly, 58% of the population (aged 15+) in Romania had an account at a financial institution, while this number was over 90% in Germany and Spain (99.1% and 93.8% respectively). <sup>7</sup>
<b>Identification of remedies</b>	The identification of remedies is dependent on the availability of information gathered through the use of the methodologies above. Thus, the limitations above might have affected the identification of remedies as well.
<b>Behavioural experiments</b>	<p>The behavioural experiments provided a simplified environment and customer journey to purchase current accounts and personal loans. For example, respondents were obliged to choose an account and a loan in one session; they could not interrupt their search, to continue later on, or decide not to take any account or loan. Similarly, the offered products were simpler than one would observe in the market.</p> <p>An important consequence of simplification relates to the experimental environment. Some respondents made their decision as if they were browsing websites on a mobile phone (see Annexes 8, 9 and 10 for more details). Out of technical necessity, this "mobile environment" was nonetheless accessed on a normal desktop computer. The mobile phone was merely simulated, and no respondent completed the experiments on an actual mobile phone.</p> <p>In experiments, simplifications are necessary. However, the environment and customer journey in the experiment have been designed with real-world environments and journeys in mind.</p>

<sup>6</sup> Eurostat [isoc\_ec\_ifi]. Available at: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ec\\_ifi&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_ifi&lang=en)

<sup>7</sup> The World Bank, Global Financial Inclusion Database. Available at: <http://databank.worldbank.org/data/reports.aspx?source=global-financial-inclusion>

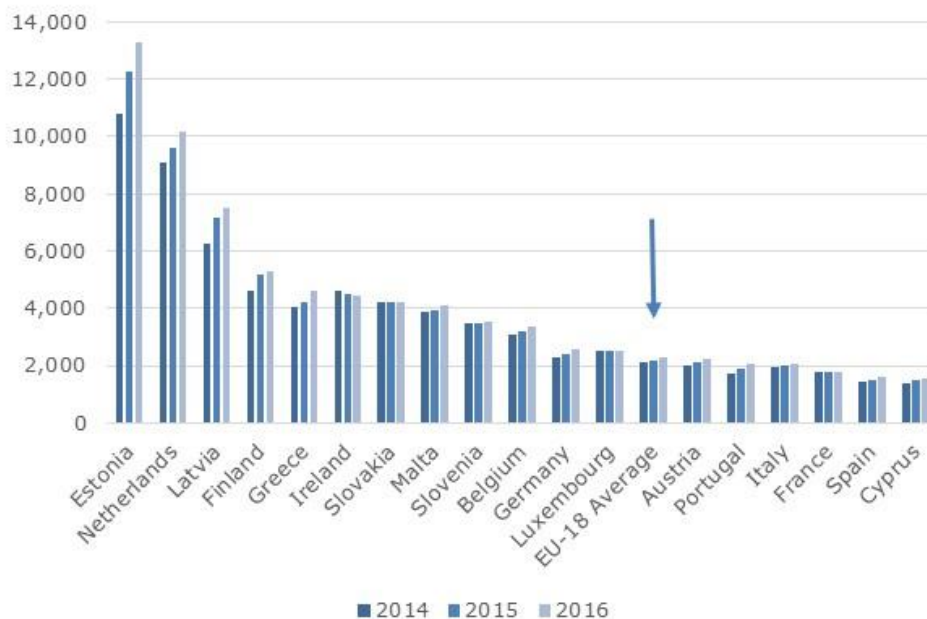
### 3. Impact of digitalisation on the retail financial sector

This section presents the latest market developments relating to retail financial services, including the main providers on the market and their business models, trends on the market and impacts of digitalisation on consumers and operators.

#### 3.1. Digitalisation: a driver for change in the retail financial services sector

According to the European Bank Federation, the traditional banking sector in the EU was worth EUR 43.4 trillion in total assets in 2015; the banks in the EU had a total worth of outstanding loans of EUR 23.5 trillion and total deposits worth EUR 22.3 trillion. The total number of banks in the European Union has been declining over the last years. While there were 8,383 credit institutions in 2007, this number had dropped to 7,049 in 2015, a decline of 16%. During the same period, the total number of people employed by these institutions has dropped from 3.26 million to 2.86 million, a decline of 12%.<sup>8</sup> These numbers confirm the trend seen throughout Europe of smaller bank branches in the villages closing and banking becoming more centralised. This also means that the average population per local bank branch has increased in the Eurozone from 2,102 to 2,278 between 2014 and 2016 (see Figure 6 for the numbers for all Eurozone countries). This trend is confirmed by a Portuguese sectoral association which stated that offline retail is slowly diminishing as some banks are closing some of their branches.<sup>9</sup> The ECB considers that this decline is mainly due to rationalisation of banking activities which in the literature has been explained by the digitalisation of the banking sector and technological developments allowing for a reduction of costs.<sup>10</sup> However, broadly speaking, the same products are being offered online and offline<sup>11</sup>.

Figure 2: Population size per local bank branch in the Eurozone countries



Source: Statista 2018

In parallel, the FinTech market has been developing at a fast pace in the few last years: the total transaction value of the FinTech sector is currently EUR 682 billion, compared to EUR 1,415 billion in China, EUR 1,146 billion in the United States and EUR 152 billion in Japan in 2018 (Statista, 2018). The forecasted total transaction value growth until 2022 is

<sup>8</sup> [https://www.ebf.eu/facts\\_and\\_figures-2016/#part2](https://www.ebf.eu/facts_and_figures-2016/#part2) (consulted 01/06/2018).

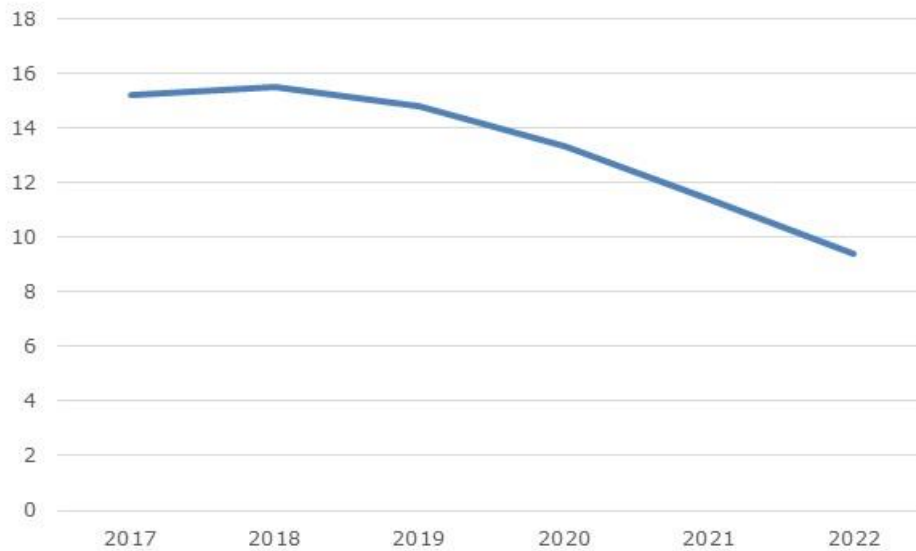
<sup>9</sup> Interview with a sectoral association from Portugal (04-06-2018).

<sup>10</sup> Milko Hascher, "Physical banking in a digital world: The digital revolution and the impact on consumers and banks", *Journal of Digital Banking* 1, No. 3 (2017): pp. 258-265.

<sup>11</sup> Interview with a sectoral association from Portugal (04-06-2018).

13.3% so that the total transaction value of the FinTech sector would be EUR 1,082 billion in Europe in 2022. In Figure 3 it can be seen that the forecasted growth rate of the total transaction value of the FinTech sector is declining, but it is still high if we compare it to the forecasted general real GDP growth.

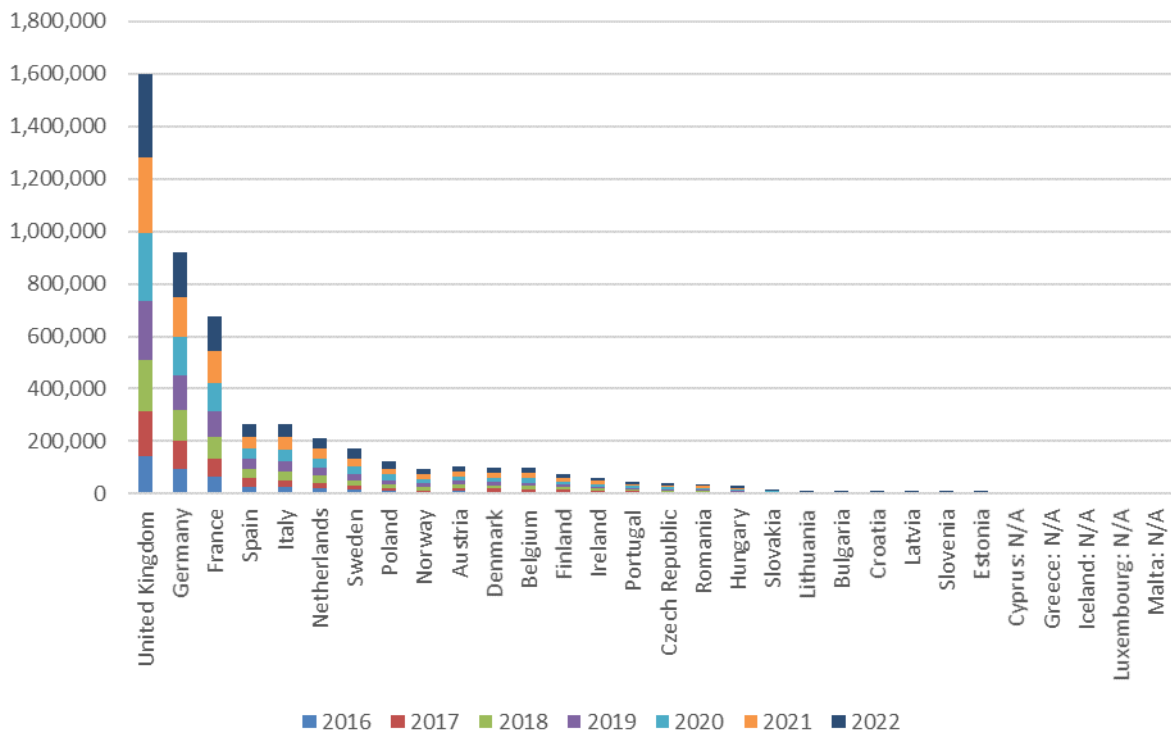
Figure 3: Forecasted total transaction value growth of the FinTech sector in Europe, in per cent, 2017-2022



Source: Statista, 2018

Considering the different sectors within the FinTech sector, alternative financing (average forecasted growth of 32%), personal finance (36%) and alternative lending (31%) are predicted to have an important role in the growth of the FinTech sector, while digital payments (7.9%) and InsurTech (7.1%) are forecasted to also steadily grow but at a slower pace, apparently because of reasons of maturity as these two sectors are the most developed, resulting in less spectacular growth figures but a higher market share all together. In the figure below, it becomes clear that the size of the total transaction value of the FinTech sector in any EU Member State is mostly decided by the size of that country in general: the biggest FinTech sectors are to be found in the Member States with the biggest economies: the United Kingdom, Germany and France, followed by the medium-sized Member States, the smallest FinTech sectors are to be found in Estonia, Slovenia and Latvia. Because of the higher expected growth rate of the sector compared to the expected growth rate of the general economy, the importance of the FinTech sector to the European economy is predicted to continue to grow.

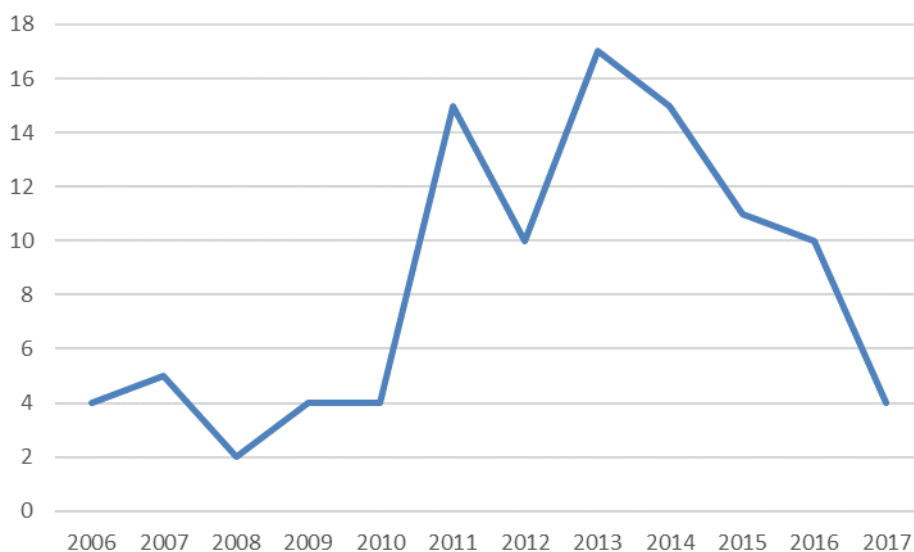
Figure 4: Forecasted total transaction value growth of the FinTech sector in Europe, per Member State in EUR million, 2017-2022



Source: Statista, 2018

A new wave of FinTechs companies has been established after the financial crisis was ending around 2011. The mapping of providers of retail financial services using digital channels in seven selected EU-Countries (Romania, Germania, Spain, Finland, France, Lithuania, and the United Kingdom) has shown that of the 114 new providers, only 11 were founded before 2006, 15 were founded in the period 2007-2010, until the boom started in 2011 when 16 FinTechs were founded in one year(see Figure 5 for the number of FinTechs founded in each year since 2006).

Figure 5: Number of FinTech companies founded per year in the seven selected countries as found by the mapping exercise



Source: VVA own elaboration (mapping exercised in seven selected countries, based on a representative sample of 200 providers)

The approaches chosen by Member States to accompany these developments vary. Some countries have implemented a specific legislative framework allowing for new business models to emerge and develop. For instance, in Belgium, the government is particularly engaged in developing the FinTech sector. For instance, the “tax shelter” for start-ups adopted in 2015 favours investment towards young and innovative companies active in the country, among which FinTechs and InsurTechs. Another example is the contact point for FinTech companies set up by the Belgian financial authority, FSMA, to allow start-ups and regulators to exchange information about this new ecosystem, and to ask questions about the regulatory framework.<sup>12</sup> Similarly, the Luxembourgish government offers a welcoming regulatory framework for financial start-ups, which may encourage the development of innovative retail financial services. With this “Digital Lëtzebuerg” strategy launched in October 2014, the government put innovation in financial services on top of its priority list. Furthermore, the Luxembourg government has invested in ICT infrastructure and data centre parks, which provides an environment for the development of innovative activities.<sup>13</sup>

One of the most important developments triggering the rise in the founding of new FinTechs and their subsequent growth is blockchain technology. Most importantly, this is the technology underpinning virtual currencies, cryptocurrencies such as bitcoins, but it also had an influence through distributed ledger technology (DLT) which is increasingly being used by both traditional banks and new operators. There are several possible benefits of this new technology such as more certainty and immutability, smart contracts, disintermediation of market players and compliance benefits.<sup>14</sup>

Much of future developments will depend on the reaction of the regulatory authorities to big developments such as digital finance, FinTech and big data. In transactional banking, the prediction is that the new providers will not make a big difference as the big banks will adopt and adapt to the developments caused by FinTechs and thus traditional providers will be able to retain their market share. Big new providers (e.g. Amazon or Google) might decide to come to the market but their success will depend on whether they will be able to get a full banking license, if not, they will be interested only to own the last part of the interaction with customers.

### 3.2. Impact of digitalisation on business models in the retail financial services sector

This section explores what are the main business models of providers of retail financial services that use digital means to advertise and sell their products. The business models of traditional and new providers are investigated, followed by a description of the main features of the main representative providers identified by the study team. Various forms of cooperation and competition between providers are also presented. Moreover, given the study’s focus on digitalisation, the study explores what are the retail financial products that are marketed and sold digitally, as well as the cross-border selling of these products and services.

#### *Traditional providers and their business models*

As shown in the previous section, as a result of digitalisation, a dichotomy has emerged between ‘traditional’ banks and new, innovative ‘non-traditional’ banks/operators. There are currently three traditional groups of universal banks<sup>15</sup>:

- Private commercial banks: privately owned banks (including publicly traded banks), which focus on profits and commercial activities;

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<sup>12</sup> [https://www.belgiumfilm.be/sites/default/files/content/brochure\\_tax\\_shelter\\_2018\\_angl\\_a5\\_new.pdf](https://www.belgiumfilm.be/sites/default/files/content/brochure_tax_shelter_2018_angl_a5_new.pdf) & <https://www.fsma.be/fr/point-de-contact-FinTech>

<sup>13</sup> <http://www.innovation.public.lu/en/decouvrir/pourquoi/secteurs-innovants/finance/index.html>

<sup>14</sup> [https://www.ebf.eu/facts\\_and\\_figures-2016/#part2](https://www.ebf.eu/facts_and_figures-2016/#part2) (consulted 01/06/2018).

<sup>15</sup> Schmidt, R. H. (2016). The persistence of the three-pillar banking system in Germany. Available at: [https://www.researchgate.net/publication/299561757\\_The\\_persistence\\_of\\_the\\_three-pillar\\_banking\\_system\\_in\\_Germany](https://www.researchgate.net/publication/299561757_The_persistence_of_the_three-pillar_banking_system_in_Germany)

- Public savings banks: financial institutions, owned by a state or public sector; i.e. a bank under state control which aims at consumer savings and lending;
- Cooperative banks: jointly-owned by customers and democratically-controlled banks that are autonomous associations of persons.

In traditional banking, four business models have been distinguished by the European Central Bank:

- **Traditional commercial banks:** medium-sized banks and classic financial intermediaries, with assets mostly consisting of loans from other banks, funded mostly by deposits and derivatives primarily used for hedging;
- **Complex commercial banks:** hybrid category of medium-sized banks with assets mostly consisting of loans and securities, funded mostly with deposits and derivatives which are mostly used for trading purposes;
- **Wholesale funded banks:** generally large banks depending mostly on debts for their funding and to a lesser degree on household deposits, assets consist mostly of loans, large use of derivatives both for hedging and trading;
- **Securities holding banks:** usually small banks with a relatively large securities portfolio and cash buffer, funded mostly by deposits and little use of derivatives.

The differentiation between these four types of banks is largely based on two criteria: the amount of risk they take and the amount of returns they generate.<sup>16</sup>

To better illustrate the role of digitalisation in the business models, the study team has looked at 12 most representative providers. The main observation emerging from the analysis of the most important providers shows that traditional providers, in particular banks, have adapted to digitalisation by either cooperating with FinTech start-ups or supporting the development of new technologies. Most providers have started own hubs or innovation labs that aim to supporting start-ups. One example is Deutsche Bank's innovation lab<sup>17</sup>, which enables the provider to adopt emerging technologies quickly. Furthermore, Lloyds bank provides mentoring for FinTech start-ups.<sup>18</sup> Other cooperation models with new providers are not only aiming to adopt new technologies but also to provide new products, such as virtual currencies. Banco Santander, for example, has entered a partnership with the start-up Ripple, a San Francisco based company offering blockchain-based foreign exchange payments to consumers.<sup>19</sup> Also Deutsche Bank sees FinTech companies as potential partners rather than a threat.<sup>20</sup>

When looking more closely at Member States, we see that the Netherlands is particularly developed in this area, being a leader in services revolving around virtual currencies and advice during the process of buying financial products. Banks have experience in adopting FinTech concepts, implying that there are less FinTech companies that operate independently. ING Bank is a frontrunner in the area of the application of FinTech technology.<sup>21</sup>

If we consider the European insurance market, we can establish that it is smaller than the banking sector as of the fourth quarter of 2016, with total assets of insurance corporations and pension funds amounting to almost EUR 10.2 trillion (Statista, 2018). The total gross direct written premiums collected by insurance companies amounted to EUR 1,189 billion in 2016.

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<sup>16</sup> Matteo Farnè and Angelos Vouldis (European Central Bank), Working Paper Series: Business models of the banks in the euro area. Available at: <https://www.ecb.europa.eu/pub/pdf/scpwp/ ECB.WP2070.en.pdf?ee58f8028aa3d7b55dd977292218b268> (consulted 05/06/2018).

<sup>17</sup> <http://labs.db.com/>

<sup>18</sup> <https://www.lloydsbankinggroup.com/Media/Press-Releases/2016-press-releases/lloyds-banking-group/mentoring-match-ups-with-fintech-start-ups/>

<sup>19</sup> <https://www.coindesk.com/santander-launching-blockchain-payment-app-this-week/>

<sup>20</sup> <http://uk.businessinsider.com/deutsche-banks-fintech-strategy-2016-7?r=US&IR=T>

<sup>21</sup> Interview with a regulating authority from the Netherlands (06-06-2018).

The insurance market is traditionally divided between the life-insurance market and the non-life insurance market where the former is clearly larger: the total gross direct written premiums for life-insurers in 2016 amounted to EUR 696 billion, while for non-life insurers this amounted to EUR 492 billion. On the other hand, the total claims and benefits paid were EUR 963 billion. On average, Europeans spent on average EUR 1,981 (per capita) on insurance in 2016.<sup>22</sup>

### *Non-traditional providers and their business models*

Recently, non-traditional providers have emerged in the European Union alongside, or sometimes in parallel to, traditional providers. Most of the non-traditional providers are founded as start-ups in the financial technology (FinTech) sector which has recently developed and uses new technologies to improve activities in the financial services sector. There are currently more than 1,500 FinTech companies in Europe.<sup>23</sup> Also, companies that were active in other sectors before (e.g. asset management and information and communication technology) started examining the possibility of offering retail financial services and non-life insurances. The size of the FinTech sector is still almost negligible compared to the traditional banking sector: for instance, the total assets of the largest FinTech company, Klarna, were EUR 12.8 million in 2017 while that of the largest bank was 2,076 billion and of the largest traditional insurance provider, AXA, EUR 802 billion.<sup>24</sup> The total number of users of FinTech products in Europe is currently 508 million and is forecasted to grow by 4.5% by 2022 to a total number of 531 million users.<sup>25</sup> The average transaction value is currently EUR 1,343 and is forecasted to grow by 51.7% by 2022 to an average transaction value of EUR 2,038.<sup>26</sup> (Statista, 2018).

The fifteen biggest FinTechs in the EU are listed in Table 5.

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<sup>22</sup> Insurance Europe (2016), European Insurance in Figures, 2016 data (consulted 26/07/2018). Available at: [https://www.insuranceeurope.eu/sites/default/files/attachments/WEB\\_European%20Insurance%20in%20Figures%20-%202016%20data.pdf](https://www.insuranceeurope.eu/sites/default/files/attachments/WEB_European%20Insurance%20in%20Figures%20-%202016%20data.pdf).

<sup>23</sup> <https://www.bbva.com/en/FinTech-map-europe-31-companies-unregulated/> (consulted 01/06/2018); according to the Crunchbase.com database, there are 1,518 FinTech companies in the EU exactly: <https://www.crunchbase.com/search/organization.companies/ed914ad9304d9d70644a48fa5f81bb51fe0e9070> (consulted 01/06/2018).

<sup>24</sup> European Commission (2016), Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance, available at: [https://ec.europa.eu/info/system/files/study-digitalisation-01072016\\_en.pdf](https://ec.europa.eu/info/system/files/study-digitalisation-01072016_en.pdf) (consulted 07/06/2018).

<sup>25</sup> Statista, 2018

<sup>26</sup> Statista, 2018

Table 5: Fifteen biggest FinTech companies in the EU<sup>27</sup>

No.	Name	Country	Sector	Year founded	Value (EUR million)
1	Klarna	Sweden	Digital payment	2005	2,142
2	Adyen	Netherlands	Digital payment	2006	1,970
3	Transferwise	United Kingdom	Digital payment	2011	943
4	Funding Circle	United Kingdom	Alternative lending	2010	>857
5	iZettle	Sweden	Digital payment	2010	428
6	WorldRemit	United Kingdom	Digital payment	2010	428
7	Kreditech	Germany	Alternative lending	2012	404
8	Starling Bank	United Kingdom	Digital banking	2014	400
9	Raisin	Germany	Alternative financing	2013	343
10	Revolut	United Kingdom	Digital banking	2015	331
11	N26	Germany	Digital banking	2013	223
12	RateSetter	United Kingdom	Alternative lending	2010	223
13	Scalable Capital	Germany	Alternative financing	2014	191
14	Nutmeg	United Kingdom	Alternative financing	2010	158
15	Spotcap	Germany	Alternative financing	2014	114

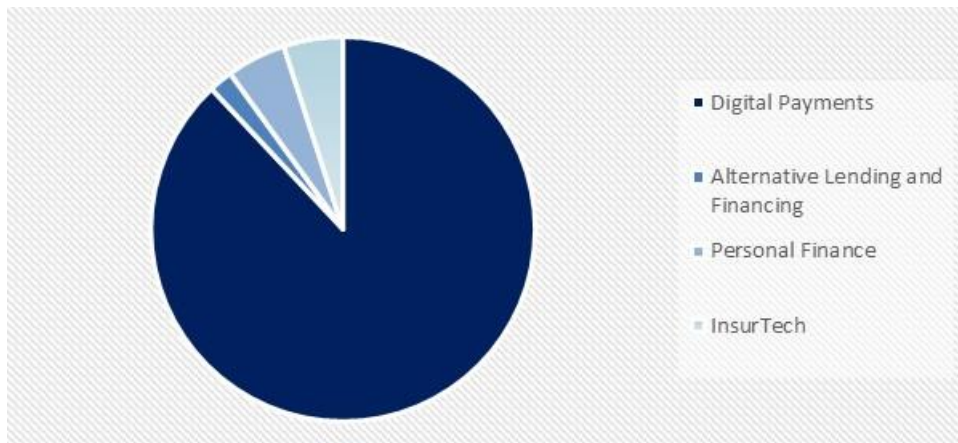
All of the companies listed above have been founded recently, but the slightly older companies have a higher value, secondly, most of the companies are active in the digital payment sector: 5 out of 15, while 3 others also perform digital payments but do not focus exclusively on this as they are digital banks, digital payments is traditionally also the most developed FinTech sector. Lastly, most of the companies are based in either the United Kingdom (7) or Germany (5).

As can also be seen from the table, these new operators often offer a different kind of retail financial products. Digital payments constitute the largest share of the total transaction value (88% in 2018), followed by personal finance (5%), InsurTech (5%) and personal lending and financing (2%), (see the figure below). Additionally, there is a trend visible where companies traditionally not active in the financial services market have started to offer some retail financial products and services, mostly payments solutions, examples of this development are: Google, Facebook, Samsung, Apple, Orange and Amazon.

<sup>27</sup> [https://paymentandbanking.com/die-10-groessten-FinTech-unternehmen-der-eu/?utm\\_source=Paymentandbanking+FinTech+Newsletter+Abonnnenten&utm\\_campaign=dada2b9d5a-Paymentandbanking+FinTech+Newsletter&utm\\_medium=email&utm\\_term=0\\_9b54dd24a0-dada2b9d5a-%5B%5D%5D&ct=t%28Paymentandbanking+FinTech+Newsletter%29&mc\\_cid=dada2b9d5a&mc\\_eid=%5BUNIQID%5D](https://paymentandbanking.com/die-10-groessten-FinTech-unternehmen-der-eu/?utm_source=Paymentandbanking+FinTech+Newsletter+Abonnnenten&utm_campaign=dada2b9d5a-Paymentandbanking+FinTech+Newsletter&utm_medium=email&utm_term=0_9b54dd24a0-dada2b9d5a-%5B%5D%5D&ct=t%28Paymentandbanking+FinTech+Newsletter%29&mc_cid=dada2b9d5a&mc_eid=%5BUNIQID%5D) (consulted 06/06/2018)



Figure 6: Share of different sectors in the total transaction value of the FinTech sector in 2018, in per cent



Source: Statista, 2018

These new providers also predominantly use different business models based on recent technological developments. The new business models are often more flexible, small-scale and more consumer-oriented and they also often include elements from other sectors such as the sharing economy, collaborative economy, and peer-to-peer economy. Technological developments in digital infrastructure, big data, data analytics and mobile devices allow FinTechs to disseminate unique, niche, and personalised services both directly to consumers and to traditional providers as intermediaries. The business models of the non-traditional providers also focus more on online channels both for marketing and distribution and e-finance; some of the providers even offer their services exclusively online. The operational costs, often significantly lower than with traditional providers, and capital structure are also different in comparison to traditional providers.<sup>28</sup>

#### *Representative providers of retail financial services*

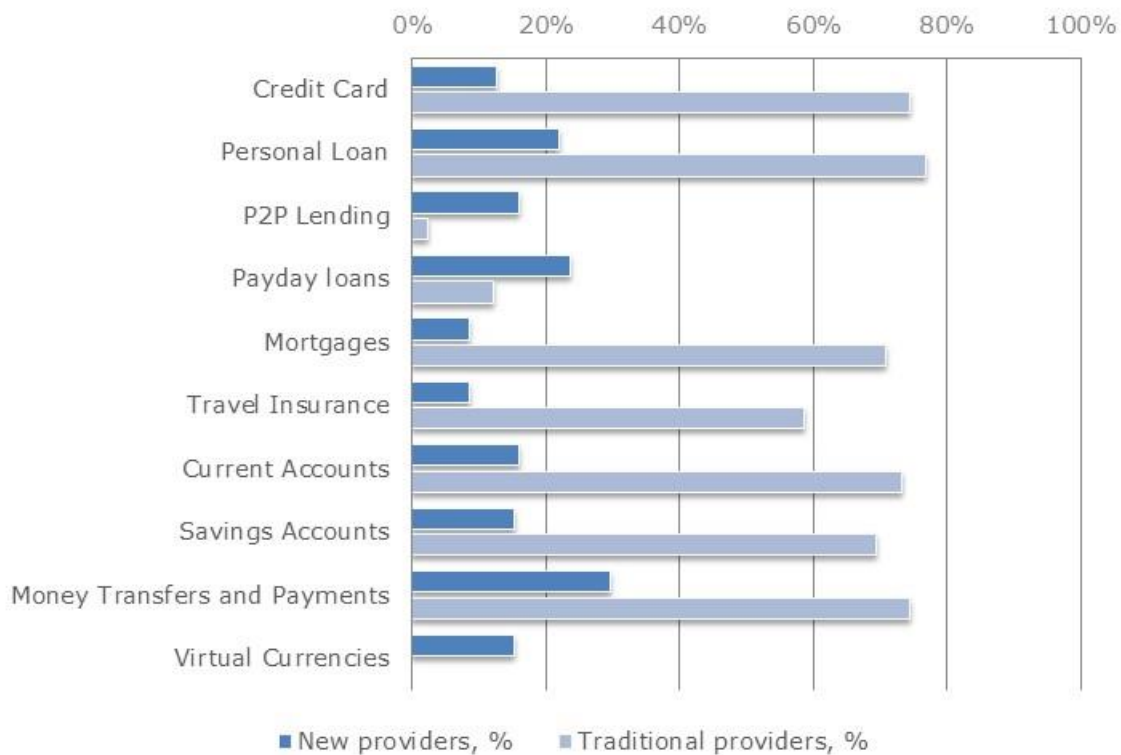
For this study a total of 200 providers were mapped in seven EU countries (Finland, France, Germany, Lithuania, Romania, Spain, and United Kingdom). In total, 18 to 37 providers were analysed in each country (see Annex 4 for the list of providers analysed). The sample was, to the extent possible, equally distributed between traditional providers and new providers.

As regards the products offered, in 48% of the cases the providers mapped were offering money transfers and payments<sup>29</sup>, followed by personal loans (45%), current accounts (40%), credit cards and savings accounts (38%), mortgages (34%), payday loans (19%), P2P lending (11%) and virtual currencies (9%). Most traditional providers mapped offered multiple products of the ten products in scope, while new providers tend to focus on one product. The figure below provides an overview of the products offered by the providers identified through the mapping exercise.

<sup>28</sup> In Lee and Yong Jae Shin (2018). FinTech: Ecosystem, business models, investment decisions, and challenges, Business Horizons, Vol. 61, Issue 1, January-February 2018, pp. 35-46.

<sup>29</sup> Note that consumers' possibility to make payments and transfer money through their current account, was also considered

Figure 7: Products offered by provider type



Source: VVA's assessment based on the mapping exercise

Of the providers mapped, the business models of 12 representative providers in the selected countries were examined more closely. The main rationale for selection of these 12 providers was to give a balanced overview of providers across the seven Member States and a balanced number of traditional and new providers. For countries with more sophisticated financial sectors (Germany, France, Spain and the United Kingdom) we analyse two providers and only one provider in the other Member States (Finland, Lithuania and Romania). Some of the providers selected are the top performers in the respective country/sector.

Table 6: List of the 12 illustrative providers

Country	Traditional provider	Products offered	New provider	Products offered
DE	Deutsche Bank	<ul style="list-style-type: none"> <li>credit cards,</li> <li>personal loans,</li> <li>mortgages,</li> <li>travel insurance,</li> <li>current accounts,</li> <li>savings accounts,</li> <li>money transfers and payments</li> </ul>	N26	<ul style="list-style-type: none"> <li>personal loans,</li> <li>travel insurance,</li> <li>current accounts,</li> <li>savings accounts,</li> <li>money transfers and payments</li> </ul>
ES	Grupo Santander	<ul style="list-style-type: none"> <li>credit cards,</li> <li>personal loans,</li> <li>mortgages,</li> <li>travel insurance,</li> <li>current accounts,</li> <li>savings accounts,</li> <li>money transfers and payments</li> </ul>	Coverontrip	<ul style="list-style-type: none"> <li>travel insurance</li> </ul>
FR	Orange Bank*	<ul style="list-style-type: none"> <li>personal loans,</li> <li>current accounts,</li> </ul>	Paymium	<ul style="list-style-type: none"> <li>virtual currencies</li> </ul>

Country	Traditional provider	Products offered	New provider	Products offered
		<ul style="list-style-type: none"> <li>money transfers and payments</li> </ul>		
UK	Lloyds Bank	<ul style="list-style-type: none"> <li>credit cards,</li> <li>personal loans,</li> <li>mortgages,</li> <li>travel insurance,</li> <li>current accounts,</li> <li>savings accounts,</li> <li>money transfers and payments</li> </ul>	Revolut	<ul style="list-style-type: none"> <li>travel insurance</li> <li>P2P lending</li> <li>current accounts,</li> <li>savings accounts,</li> <li>money transfers and payments,</li> <li>virtual currencies</li> </ul>
			Zopa	<ul style="list-style-type: none"> <li>P2P lending</li> </ul>
FI	-	-	Ferratum Group	<ul style="list-style-type: none"> <li>payday loans</li> </ul>
LT	-	-	Paysera	<ul style="list-style-type: none"> <li>money transfers and payments,</li> </ul>
RO	Banca Transilvania	<ul style="list-style-type: none"> <li>credit cards,</li> <li>personal loans,</li> <li>mortgages,</li> <li>current accounts,</li> <li>savings accounts,</li> <li>money transfers and payments</li> </ul>	-	-

\* Orange Bank is a combination of traditional and new provider.

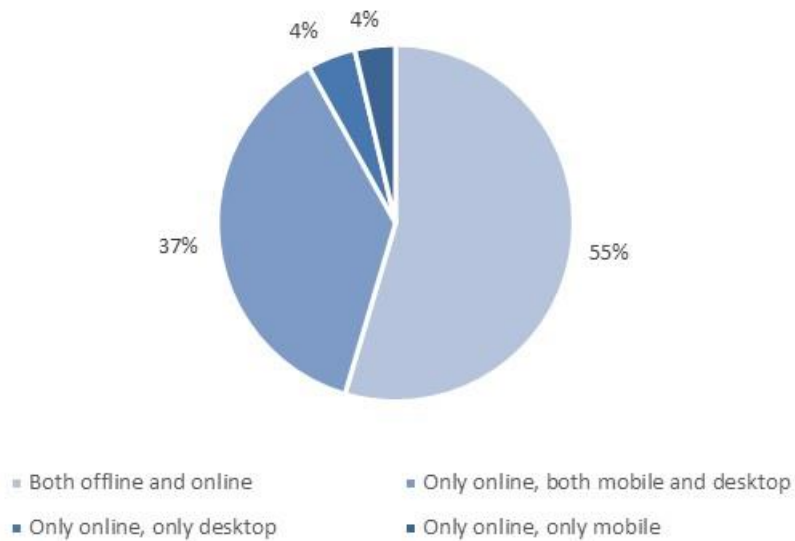
Overall, the analysis of the 12 providers shows that most of the consumers visiting the providers' websites are doing so actively, either through direct access to the webpage or via search engines using key terms referring to the provider's name. The traditional providers analysed were especially accessed through these channels<sup>30</sup> (from 95% to 98.8% of all website visitors). New providers, being less known, were accessed directly up to 20%-points less often (from 76% to 90.2% of all traffic). In general, rather few unique visitors are redirected through external websites such as via referrals, social media platforms or even display advertisement. New providers rely more strongly on referrals from external webpages to their website (6.9% of all traffic on average) than traditional providers (2.2% on average). The most successful platforms in redirecting visitors to the providers' pages are YouTube, Facebook and Twitter – the top social media platforms used by all providers. Moreover, many of the websites showing providers' display advertisements are online news websites. Nevertheless, this analysis has focused on only the 12 most relevant providers and these trends might differ for smaller providers.

All of these 12 providers, both traditional and non-traditional, had at least one social media account. Amongst the most used social media platforms by these providers are Facebook, Twitter and YouTube.

The mapping of providers of retail financial services has shown that in the selected seven countries, in total 42% of the 200 providers under consideration use both offline and online sales channels, while 58% of the providers are exclusively active online. Just below half (46%) of the operators use both desktop and mobile sales channels, 7% of the operators use only mobile sales channels, and 5% of the operators use only desktop sales channels (see Figure 8). The distribution channels vary between provider types. Almost all traditional providers offer their services offline and online (91%), while most new providers offered them only online (both on mobile phones and desktop, with 72%).

<sup>30</sup> Based on data from SimilarWeb. Available at: <https://www.similarweb.com/>

Figure 8: Sales channels used by providers in seven selected countries as shown in the mapping exercise, in per cent



Source: VVA own elaboration (mapping exercised in seven selected countries, based on a representative sample of 200 providers)

Digitalisation has impacted, to a certain extent, the business model of traditional providers analysed (Deutsche Bank, Banco Santander, Orange (Bank), Lloyds Bank, and Banca Transilvania). Not only do these providers enable consumers to purchase retail financial products online, but most have invested in their own digital or innovation hubs. Deutsche Bank established the DB Innovation Lab, Banco Sandander created the Santander InnoVentures, and Lloyds Bank and Banca Transilvania have their own Digital Banking Hub.

### *Cooperation and competition between providers*

The new operators and the technologies they rely on have been complementary to the services of traditional providers, but there could be a certain tipping point where there will be digital disruption that fundamentally changes the banking business.<sup>31</sup> These new operators could start to form a source of competition for the traditional providers. The competition is largely driven by big and strongly established new providers. In the United Kingdom, for example, incumbent banks like Lloyds Bank compete with Monzo, Starling Bank or Revolut. Ferratum Bank in Finland also competes with FinTech provider, such as Fixura or FellowFinance in the P2P market.<sup>32</sup> The degree of competition also depends on the degree of digitalisation in the country's retail financial market. In Romania, for instance, traditional providers do not compete directly with new providers as FinTechs are not widely popular in the country.<sup>33</sup>

In response to the potential challenge, traditional banks have several strategies to advance their digitalisation and 90% of the banks in the European Union see digitalisation as a priority. 77% of the banks in Europe consider that working with start-ups will have a significant impact on their ability to deliver innovative solutions to their customers and 56% of the banks recognise the considerable impact of start-ups on their speed to market innovations. Lastly, 37% of the banks see start-ups having an impact on their financial performance, and 35% of the banks see the same effect for their cost of innovation.<sup>34</sup>

<sup>31</sup> Citi GPS: Global Perspectives & Solutions, Digital Disruption: How FinTech is Forcing Banking to a Tipping Point, March 2016. Available at: <https://ir.citi.com/D%2F5GCKN6uoSvhhvCmUDS05SYsRaDvAykPjb5subGr7f1JMe8w2oX1bqpFm6RdjSRSpGzSaXhyXY%3D> (consulted 07/06/2018).

<sup>32</sup> <https://www.owler.com/company/ferratum>

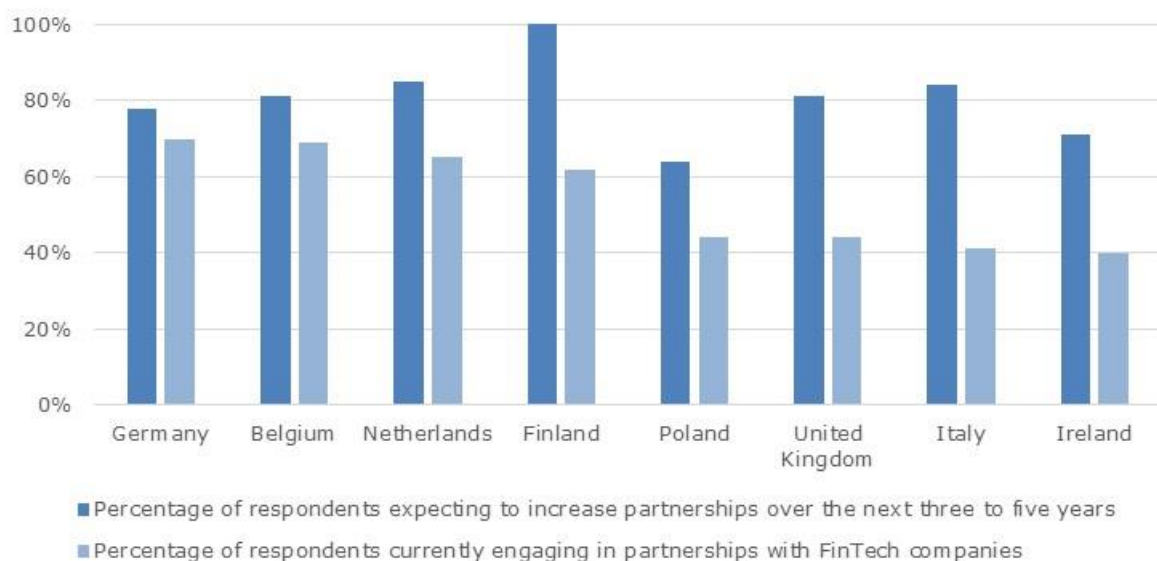
<sup>33</sup> <http://www.bankingnews.ro/banca-transilvania-dezvolta-un-hub-de-digital-banking.html>

<sup>34</sup> [https://www.ebf.eu/facts\\_and\\_figures-2016/#part2](https://www.ebf.eu/facts_and_figures-2016/#part2) (consulted 01/06/2018).

Currently, however, competition is rather focused between traditional providers or between new providers. Traditional providers tend to cooperate with FinTech or InsurTech, as shown above. The mapping of providers of retail financial services has shown that in the selected seven countries, in total 74% of the 82 traditional providers are working together with other providers. Most of them cooperate with new providers, especially FinTechs, and mostly in the payments sector. This has also been confirmed by a European Supervisory Authority which sees that the growing cooperation between traditional institutions and FinTech companies has overcome two barriers: a cultural barrier (trust issues in buying only online) and a regulatory barrier (need to comply with the European legislation).<sup>35</sup>

In a survey conducted by EY, 50.9% of the responding European banks stated that they chose to cooperate with FinTech companies to help drive innovation and to enable a network of banks to jointly develop new technology standards that they can adopt in the future. On the other hand, 25.1% of the banks develop their own products and services, mostly in the digital payments sector, 19.6% of the banks chose to invest in FinTechs and 4.4% of the banks chose for merger with or acquisition of FinTechs. The biggest threat to most banks does not come from FinTechs themselves but rather from traditional competitors better leveraging those FinTechs.<sup>36</sup> The total investment into FinTech companies in Europe from 2010 to 2017 was EUR 3.28 billion.<sup>37</sup> A worldwide survey by PwC found that 81% of respondents in selected European countries expects to increase partnerships with FinTechs over the next three to five years, while 54% of respondents is currently engaging in partnerships with FinTech companies. See the figure below for the relevant information of all selected EU-countries.

Figure 9: Current and expected partnerships between traditional operators and FinTechs in selected EU-countries, in per cent



Source: PwC, Global FinTech Report 2017, Redrawing the lines: FinTech’s growing influence on Financial Services

Providers are also starting to cooperate more and more with other providers and FinTechs to offer new add-on products. One example of this is the Amazon credit card, for which Amazon offers discounts for purchases using their credit card. It is expected that these product combinations and cooperation will become more complex and more relevant in the

<sup>35</sup> Interview with a European Supervisory Authority (18/07/2018).

<sup>36</sup> EY. (2017). Unleashing the potential of FinTech in banking. Available at: [http://www.ey.com/Publication/vwLUAssets/ey-unleashing-the-potential-of-fin-tech-in-banking/\\$File/ey-unleashing-the-potential-of-fin-tech-in-banking.pdf](http://www.ey.com/Publication/vwLUAssets/ey-unleashing-the-potential-of-fin-tech-in-banking/$File/ey-unleashing-the-potential-of-fin-tech-in-banking.pdf) (consulted 06/06/2018).

<sup>37</sup> Statista. (2018). Total value of investments into fintech companies in Europe from 1st quarter 2010 to 4th quarter 2017 (in billion U.S. dollars). Available at: <https://www.statista.com/statistics/643100/vc-backed-fintech-companies-total-investment-europe/>

future.<sup>38</sup> These non-financial operators such as Facebook and Amazon are expected to enter the market and offer financial products on their own as well.<sup>39</sup>

If we consider particular Member States, the level of cooperation and competition differs. For instance, in France, traditional insurance providers tend to cooperate with InsurTechs, in such a way that these are not present in the whole supply chain, but their services are bought for a specific defined goal.<sup>40</sup> In the Netherlands, many banks have developed their own corporate venture capital funds to invest in emerging FinTechs. The ING Bank is the leader in this development and has created ING Ventures for this purpose with a budget of EUR 300 million for the coming four years.<sup>41</sup> In Germany, an important form of cooperation on the credit market is between providers of financial services and products and price-comparison-platforms.<sup>42</sup> When considering Central and Eastern Europe (CEE), the picture is a bit different: almost half of the traditional banks from that region regard FinTechs as their biggest threats. This is especially the case with regards to the recently adopted second European Payments Services Directive (PSD2-Directive, 2015) which regulates payment services and payment service providers throughout the EU and which ensures that the client will simultaneously be able to check balances and make payments through different accounts in different banks. This Directive gives new opportunities to FinTechs and other non-traditional providers, which causes worry with the traditional providers, and might cause more cooperation or competition depending on the strategy the traditional providers will take. While CEE banks are slightly more worried by FinTechs, in Western Europe there is a general sense that FinTechs are the most attractive partners for large incumbent banks, positioning them well to respond to the PSD2-Directive and making them the group that is most likely to gain from it.<sup>43</sup>

In addition to investing in their own innovation hubs to advance their digital services, all of the 12 providers assessed in this study cooperate with start-ups, including FinTech, InsurTech and new technology providers. Deutsche Bank, for example, started to cooperate with Friendsurance, an InsurTech provider offering crowdinsurance. Among the most frequent partnerships formed with new providers are those focusing on providing new money transfer and payments solutions. Banco Santander, for instance, has become the first provider in Spain that supports mobile payments through every smartphone software type.<sup>44</sup> Banca Transilvania, is another example, having become a shareholder of Timesafe, a Fintech company that has developed an application called Pago, through which consumers can manage and pay utility bills digitally.<sup>45</sup>

Another common cooperation pattern between traditional and new providers is to offer new types of savings and money management options to customers. Lloyds Bank is increasing their collaboration with MoBILLity, a personal savings assistant.<sup>46</sup>

Finally, another growing technology solution pursued by traditional providers seems to be the use of artificial intelligence (AI) in customer service solutions or investment options. However, while the customer relationship is increasingly being conducted online, most traditional providers still rely on their physical branches. Orange Bank, for instance, has announced that it will rely on physical branches from the Orange telecommunications network for those customers that prefer face-to-face interaction.<sup>47</sup>

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<sup>38</sup> Interview with a financial behaviour expert from Germany (31/07/2018).

<sup>39</sup> Interview with a European sectoral association (07/08/2018).

<sup>40</sup> Interview with a sectoral association from France (05/07/2018).

<sup>41</sup> <https://www.banken.nl/nieuws/20771/abn-amro-vergroot-investeringskapitaal-voor-FinTech> (consulted: 09/04/2018).

<sup>42</sup> Interview with a banking organisation from Germany (22-06-2018).

<sup>43</sup> Deloitte, European PSD2 Survey: Voice of the Banks, January 2018, available at:

<https://www2.deloitte.com/content/dam/Deloitte/ce/Documents/financial-services/ce-deloitte-european-psd2-voice-of-banks-survey-2018.pdf> (consulted 06/06/2018).

<sup>44</sup> <http://www.elmundo.es/economia/2017/10/10/59dc8cf7ca47417f268b4596.html>

<sup>45</sup> The US payment processor (Visa) announced the launch in Tel Aviv of his first fintech innovation studio in Israel, with Personetics being among the four companies selected to work with local startups and banks in the project.

<sup>46</sup> <http://lloydsbankinggroupdigital.com/fintech-start-ups-prepare-for-the-pitch-of-their-life/>

<sup>47</sup> <https://www.orange.com/en/Press-Room/press-releases/press-releases-2017/Orange-is-now-also-a-bank>

Overall, the main impact of digitalisation on traditional providers has been to make them invest in their own digital solutions. This includes enabling consumers to obtain products online, although the use of digital channels for purchases depends on the type of product.

### *Retail financial products that are marketed and sold digitally*

To better illustrate the ten financial products covered by the study (credit cards, personal loans, peer-to-peer lending, payday loans, mortgages, travel insurances, current accounts, savings accounts, money transfer and payments and virtual currencies), relevant information is presented in the form of ten products fiches which can be found in Annex 6. All fiches are structured in the same way and give consecutively: a general product overview, an overview of providers offering the product and an overview of covered legislation.

The main results emerging from the product fiches show that:

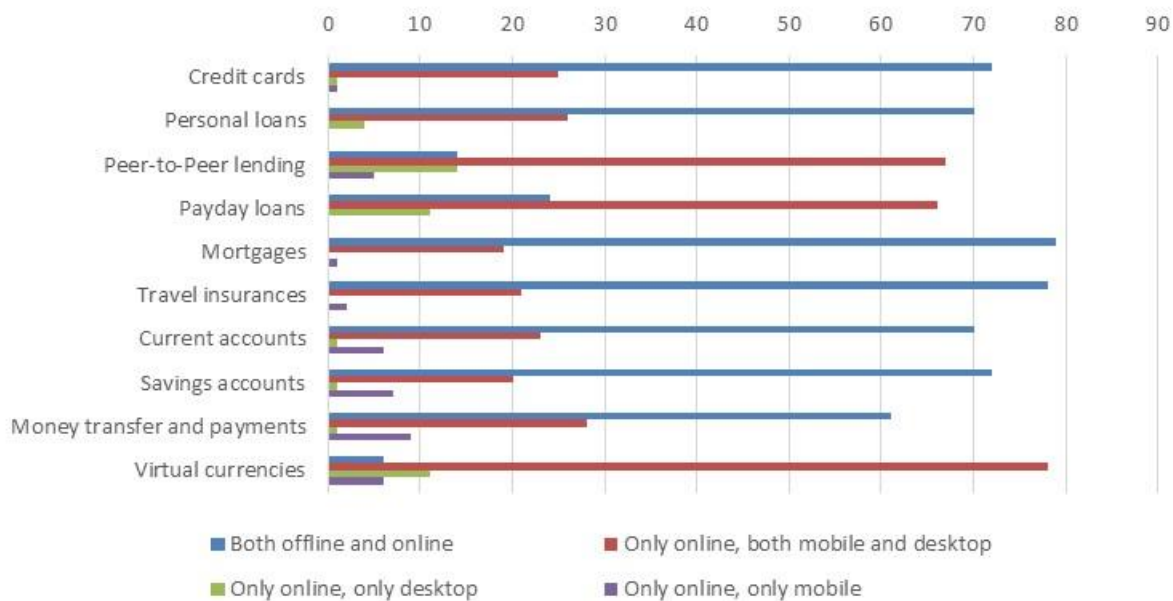
- In 2016, 43% of Europeans had a **credit card**, up 3% from 2011. In the same year, 11% of Europeans had a **personal loan**, down 2% from 2011.
- As of 2017, the total amount of **peer to peer lending** market in Europe in 2017 was EUR 3,815.7 million.
- **Payday loans** is a kind of loan typically taken out by consumers in a hard-pressed economic status. These types of loans are not evenly widespread across the EU and more popular in some countries (e.g. UK, Lithuania): in the UK in 2017, 37% of households with a total income of between EUR 17,069 and EUR 34,138 had a payday loan, for households with a total income of between EUR 34,138 and EUR 56,897 this was 22% and for households with a total income of more than EUR 56,897 this was only 14%.
- In 2016, 17% of Europeans had a **mortgage loan**, down 2% from 2011. The Member States where mortgages are the most popular are: Sweden (53% of the consumer have one), the Netherlands (51%) and Denmark (44%) and the least popular in: Romania (2%), Bulgaria (2%) and Lithuania (5%).
- Regarding **travel insurance**, the main reasons why European holidaymakers did not purchase one for their vacation in 2016 are: they do not think about it (31%), they do not travel far enough (28%), they run little risk (25%), they do not travel often enough (18%), they think it is too expensive (10%) or they have not found an adequate insurance (2%).
- In 2016, 76% of Europeans had a **current account**, down 8% from 2011. The countries where most consumers have current accounts are: the Netherlands (97%), Denmark (96%) and Belgium (93%). Saving accounts are less popular with European consumers than current accounts: in 2016, 44% of Europeans had a **saving account**. Saving accounts are the most popular in: the Netherlands (89%), Sweden (88%) and Greece (80%).
- As regards the use of **money transfer and payments**, 53% of Europeans above the age of 15 sent or received domestic remittances through a financial institution in 2017.
- The share of Europe in the worldwide **virtual currencies** market in 2016 was 27%, less than the Asia-Pacific region (38%) but more than North-America (17%), Latin America (14%) and the Middle East (4%).

Among traditional providers of financial services and products, there is an important difference between specialised banks offering only one specific product (group) and full-fledged retail banks offering all of the most important retail financial products such as bank accounts (both current and savings), consumer credits, credit payment cards and various insurances both offline and online.

Digitalisation and other technological developments have heavily influenced the nature of financial products and services, with new products and services such as virtual currencies and peer-to-peer loans being launched, but also the channels used to market and sell them.

For instance, because of their nature newer products, such as virtual currencies, payday loans and peer-to-peer lending are more likely to be sold online than offline. However, digitalisation has also impacted the channels used to sell more traditional financial products and services (i.e. Payment cards, bank accounts, payment services and insurance products). The type of digital channel used also vary depending on the product, with mobile sales channels being significantly more popular than desktop sales channels for money transfer and payments.

Figure 10: Sales channels used by providers for the ten selected products in seven selected countries as shown in the mapping exercise, in percentages



Source: VVA own elaboration (mapping exercised in seven selected countries, based on a representative sample of 200 providers)

### Cross-border selling of financial services and products

If the European-wide market for financial products and services is considered, there is still a lot to be gained: in 2016, only 7% of Europeans purchased financial products and services in another EU Member State.<sup>48</sup> The most purchased product cross-border was current bank account (3% of Europeans), followed by saving accounts, credit cards, car insurances and life insurance with 1% of Europeans each. Many of the other products and services were hardly ever purchased abroad. In ten Member States (Belgium, Ireland, Cyprus, Latvia, Luxembourg, Hungary, Malta, Poland, Romania and Slovakia) the cross-border selling of financial services and products is more developed as more than 10% of consumers in these countries purchased at least one financial product or service in another Member State. Most of the consumers who did not buy any products abroad did so because they did not see a need to purchase financial products and services in other EU countries because they can buy everything they need in their own country (33%), followed by a preference to buy this kind of products in their own country (21%) and because they perceived not to have clear information (17%).

Digitalisation, technological developments and the emergence of new providers offer great opportunities to cross-border selling of financial services and products. Digitalisation offers opportunities to leverage SEPA (Single European Payments Area) account structures throughout the European Union, as credit transfers and direct debit functionalities deliver

<sup>48</sup> Special Eurobarometer 446: Financial products and services, July 2016. Available at: <http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/search/446/surveyKy/2108> (consulted 07/06/2018).



more and more the security and performance required by consumers at a price that is highly competitive compared to traditional banking services.<sup>49</sup>

On the other hand, there are still some obstructions to the cross-border selling of financial services and products, such as legal, language, and behavioural obstacles (sometimes also currency risks).<sup>50</sup>

The mapping of providers of retail financial services has shown that in the selected seven countries, in total 61% of the 200 providers under consideration are active in another Member State. In most cases however, providers have branches abroad, subsidiaries, or have established specific country websites for other countries than the one where they are founded. This presence in more than one country concerns both traditional providers (49%) and new providers (51%).

A diverse group of providers has recently started to engage in cross-border sales. New operators and specifically FinTech companies have started to play a role in enhancing the cross-border sale of financial services and products in particular, as they focus more on online channels for the marketing and distribution of their products allowing them to reach more easily consumers across borders; their business model being less based on personal contact with their customers. Currently, this is mostly the case in the payments sector where platforms provide payment products linked to online current accounts, for instance electronic wallets that are funded by bank accounts from different countries. This includes for instance the Dutch FinTech start-up Adyen which offers digital payment services and specifically includes local cash-based methods, Boletto Bancário, a Brazilian credit payment method and iDEAL, an e-commerce payment system based on online banking which is very popular in the Netherlands. Some FinTechs, such as TransferWise, offer cross-border bank accounts, whereas others, especially peer-to-peer platforms such as CrossLend, have provided cross-border unsecured consumer loans.<sup>51</sup>

These developments are part of an ongoing process in which new operators use cutting-edge business models based on digitalisation and innovation to break into the traditionally conservative retail financial market that has been characterised so far by a lack of consumer incentive to switch. This could in turn lead to the strengthening of the European banking union, the capital markets union, and the EU single financial market.

### 3.3. Impacts of digitalisation on consumers

Digitalisation of the provision of retail financial services has not only changed the providers and their business models, consumers are widely impacted as well. While new technological developments and new financial products provide many benefits to consumers clear challenges can also be noted. At the same time, the main driver of digitalisation remains customer demand, as consumers increasingly use digital channels in all areas of life and expect to be able to get the financial services they demand quickly and at any time.<sup>52</sup>

#### *Digitalisation as a driver for financial inclusion?*

An important factor to consider in the digitalisation of the retail financial services sector is that **the share of EU-28 households with internet access was 85% in 2016** and has been steadily rising from 65% in 2007. The share of individuals accessing the internet via mobile devices in the EU-28 in 2016 was 56% for mobile phones and 59% for portable computers (Statista, 2017). This is supported by an interviewee from a European sectoral

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<sup>49</sup> European Commission (2016). Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance, pp. 54-63.

<sup>50</sup> Interview with a European Supervisory Authority (26/07/2018).

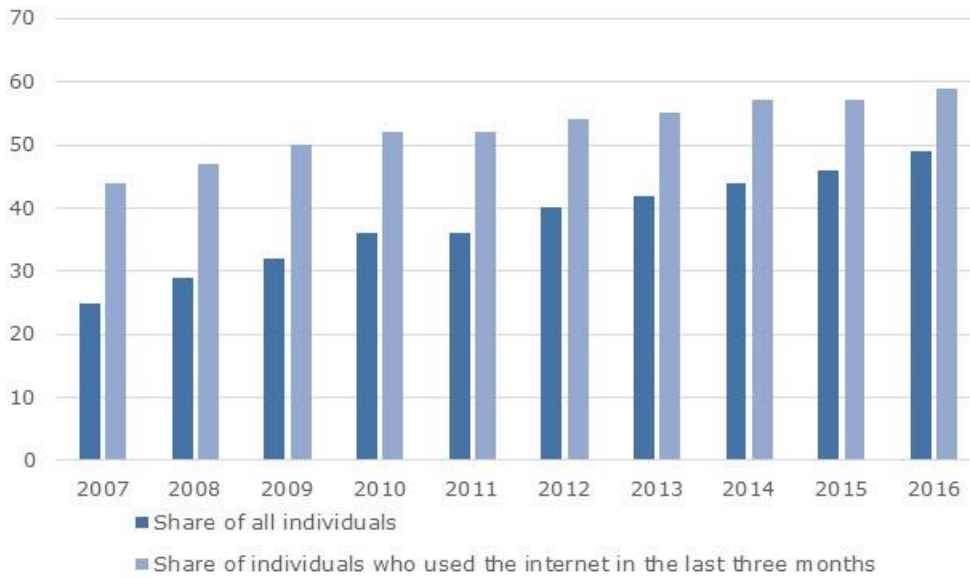
<sup>51</sup> European Commission (2016), Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance, available at: [https://ec.europa.eu/info/system/files/study-digitalisation-01072016\\_en.pdf](https://ec.europa.eu/info/system/files/study-digitalisation-01072016_en.pdf) (consulted 07/06/2018).

<sup>52</sup> Interview with a European supervisory authority (26/07/2018).

association who stated that increased digital literacy and internet access is likely to increase the level of digital services both at EU and national level.<sup>53</sup>

Another development which has been going on in parallel with the digitalisation of the provision of retail financial services, is the increasing popularity of **online banking**. The share of individuals using it has grown from 25% in 2007 to 49% in 2016. If we only consider individuals that have used the internet in the past three months, this share has even grown from 44% in 2006 to 59% in 2016 (see Figure 11).

Figure 11: Online banking penetration in the European Union 2007-2016, in per cent

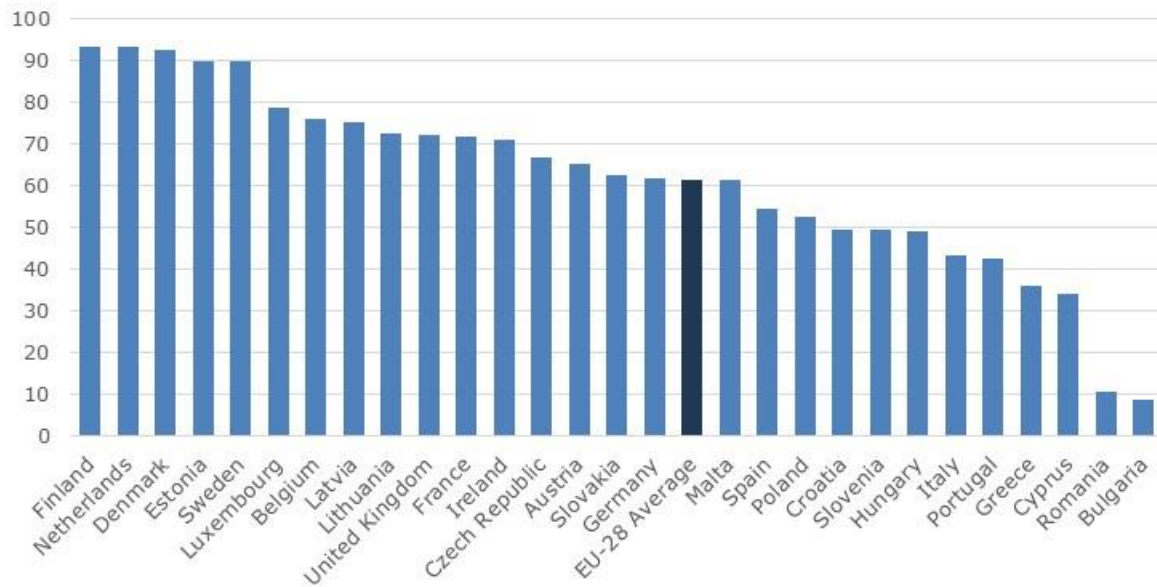


Source: Statista 2018

If we consider the share of individuals who used the Internet for online banking, as a percentage of those who used the Internet in the last three months, there are very large differences across the Member States. The leaders are Finland (93%), the Netherlands (93%) and Denmark (92%), while countries like Romania (11%) and Bulgaria (9%) are at present much further behind. Among frequent Internet users, **the share of individuals who used the Internet for online banking has grown to 61.4% in 2018**. See Figure 12 for the figures of all EU-Member States.

<sup>53</sup> Interview with a European sectoral association (07/08/2018).

Figure 12: Individuals who used the Internet for online banking, as a percentage of those who used Internet in the last three months, in per cent



Source: The Digital Economy and Society Index (DESI), 2018

**Online management of current accounts was seen as very beneficial** by focus group participants, but regarding some online features, there were differences in age, education level and financial literacy. Perceived advantages of online management included: more control, more information available, flexibility, convenience and comfortability, saving time, no personal interaction with bank employees, having accounts at online banks or banks that have no branch close by, no charges for account management.

Within the context of online management, participants in Spain seem to complain that banks are reducing offline services and saving on salaries by letting customers manage their accounts on their own.

Some older participants in Germany preferred to manage their current account through a branch or by phone rather than online. Similarly, in Romania, older participants with a lower educational level/financial literacy were more likely to manage their accounts offline. In Spain, among those participants with lower education level/financial literacy, visiting a branch was preferred to manage accounts because they did not feel capable of doing that by themselves. From another perspective, managing current accounts or personal loans online was seen as a **veritable learning process** for this group in Spain and participants reported to have gained confidence and trust in the online process and discovered the advantages of online management.

Despite these developments, there is still a large **unbanked and underbanked population in Europe**. In Western Europe alone, a total of 93 million people belongs to one of these two categories. The unbanked population is without any type of bank account, while the underbanked population does have a bank account of some sort but also uses alternative financial services, such as payday loans or check cashing. People belonging to these two categories have a high preference for cash and are not sufficiently served by (traditional) banks. Hence this group does not benefit from the rise of digital technology as the rest of the population does. Consequently, the socio-economic gap between the group at the top of the Digital Money Index (used to measure how well the population adapts to the switch to digitalisation in the financial services market) and the group at the bottom is only growing wider. Non-traditional providers such as FinTechs could play a role in closing this gap and serving people left out by traditional operators. But instead, so far, non-traditional providers have mostly only managed to reach the segments of the population that are digitally more literate and more adapted to recent digital and

technological developments.<sup>54</sup> It is important that retail banking products are also available and accessible for people having difficulties keeping up with the rapid digitalisation of services. Digital exclusion should not lead to financial (or social) exclusion. Consumers who are not able to interact digitally and may still prefer to have face-to-face contact for certain products should also be serviced by operators.<sup>55</sup>

Some focus group participants in the low education level/financial literacy group in Spain and older participants in Germany stated advantages of **opening the account offline** even if searching online. These advantages concerned a **one-to-one relationship and personal advice** as well as the provision of information of interest for individuals. It was perceived that risks of misunderstanding the conditions of the current account can be alleviated by explaining each step of the process of opening the account and by addressing doubts and questions individuals might have. Particularly when opening a current account for the first time, these benefits of offline services appeared to overweight those of online services.

*"I would use the background knowledge [from online research] for the [offline] consultation." (Man, 30, high education level/financial literacy group, Hamburg)*

Participants in Germany stated to feel well informed about product features of current accounts and personal loans and stated to be familiar with terms used. Still, they indicated that they are **more cautious when acquiring a personal loan** and perceived the risks and consequences of misunderstanding or overlooking information as higher and further-reaching than for current accounts. Therefore, personal loans were more likely to be taken out offline. Participants in Romania were not aware that it would be possible to take out a personal loan online. They assumed that banks are reluctant to this idea because they do not trust applicants declaring their accurate financial situation. In the opinion of participants in Romania, loans are riskier for banks than current accounts, and financial institutions need to verify the eligibility of each applicant. However, they believed banks should be more open to this idea, particularly in case of clients who have their salaries transferred to a current account at the bank. They considered it **simpler and less bureaucratic to take out a personal loan online**.

*"Checking account is less dramatic. When it comes to a credit, it is a higher sum. It casts a long shadow." (Man, 25, low education level/financial literacy group, Hamburg)*

### *Impact of digitalisation on the information and products provided to consumers*

Overall, the online availability of information and products increases the ease of access to this information and these products for consumers. On the one hand, this is positive for consumers as online channels, including online advertisements, stimulate comparisons between providers and thus switching.<sup>56</sup> This may benefit consumers by increasing choice and strengthening their position vis-à-vis providers.<sup>57</sup> Consequently, **consumer power**, or perceived consumer power, is found to have increased as switching costs have decreased through digitalisation and thus banks face an increased threat of customers changing their provider.<sup>58</sup> The channels consumers can use are also more diverse. In the

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<sup>54</sup> [https://www.citibank.com/icg/sa/digital\\_symposium/digital\\_money\\_index/pdf/DMI\\_report\\_2017.pdf](https://www.citibank.com/icg/sa/digital_symposium/digital_money_index/pdf/DMI_report_2017.pdf) (consulted 30/05/2018).

<sup>55</sup> Interview with a European supervisory authority (26/07/2018).

<sup>56</sup> Tamas Gyulavari. (2010). A többcsatornás értékesítési rendszerek kihívásai - az online értékesítési csatorna integrálásának lehetőségei. Available at: [http://unipub.lib.uni-corvinus.hu/408/1/MOK\\_2010.pdf](http://unipub.lib.uni-corvinus.hu/408/1/MOK_2010.pdf)

<sup>57</sup> The Open University. (2017). Consumers and competition: Delivering more effective consumer power in retail financial markets. Available at: [https://fs-cp.org.uk/sites/default/files/fs\\_cp\\_consumers\\_and\\_competition\\_thinkpiece\\_finalpp\\_jtl\\_20170306.pdf](https://fs-cp.org.uk/sites/default/files/fs_cp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf)

<sup>58</sup> Key Pousttchi and Maik Dehnert. (2017). Exploring the digitalization impact on consumer decision-making in retail banking.

UK, consumers have the option to use online channels, price comparison websites and bank branches.<sup>59</sup>

However, the design of many financial and new fintech products is inherently complex, making it challenging for consumers to unravel the risks and charges involved, let alone compare across providers. Companies can use strategies, such as price discrimination<sup>60</sup>, price obfuscation<sup>61</sup>, product bundling and complexity and promotion of brands leading to complicated markets and products that are difficult or impossible to compare. Even the most financially capable consumers face a battle to find value-for-money in such markets.<sup>62</sup>

The online world enables easier and cheaper possibilities for switching of products and providers for consumers, as they can inform themselves more easily, there is more competition and comparisons are available.<sup>63</sup> Digitalisation provides faster services to consumers as well as better value and performance. Moreover, due to the digitalisation of financial services and products, consumers wanting to make payments are no longer constrained by access to cash and payment cards, instead using their personal mobile devices to make payments at any time and from anywhere.<sup>64</sup> However, the question is to what extent consumers use the available information to make decisions.<sup>65</sup> Focus group participants indicated several advantages of the online process but pointed out that the **internet was often seen as an information source before completing the contract for a financial product offline**. Participants were more open to opening a current account online than to taking out a personal loan online but there were differences regarding age and education level/financial literacy. Perceived advantages of opening a current account online included: practicality and convenience, efficiency, saving time, no commissions, easiness and simplicity.

Despite the focus on digitalisation and providers' shift to gain market share, focus groups suggest that the fundamentals of the offers (e.g. conditions, price and service) are still strong determinants for switching. Reasons why focus group participants would switch current account providers include changes of account conditions, a more attractive offer by another bank (concerning zero commission or bonuses like travelling points or 50€ when attracting a new client), poor service or negative press about the bank. Participants in Romania further mentioned a better ATM infrastructure and affordable digital options.

A concern raised by the Financial Inclusion Centre is that digital finance, FinTech and big data will lead to more exclusion, discrimination and exploitation of consumer biases. The fact that providers will have the possibility to profile consumers to a higher degree than they have had in the past, might lead to exclusion, discrimination and exploitation.<sup>66</sup> In Germany, stakeholders have noted the development of Robo Advisors for investment products. While such automated service may make investment accessible for people who are less wealthy, it is unclear whether providing automated advice is more beneficial for consumers than through the classical buy-and-hold investment products such as index funds.<sup>67</sup> A recent publication by the European Consumer Organisation highlights the associated risks of automated decision making. Algorithms may be used by companies to increase their control on the functioning of products and services, and thus, influence

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<sup>59</sup> Interview with a sectoral association from the United Kingdom (06-06-2018); Interview with a sectoral association from the United Kingdom (14-06-2018).

<sup>60</sup> Price discrimination is a pricing strategy that charges customers different prices for the same product or service. Available at: [https://www.investopedia.com/terms/p/price\\_discrimination.asp](https://www.investopedia.com/terms/p/price_discrimination.asp)

<sup>61</sup> Price obfuscation reduces the customer's ability to fully understand the price, and therefore to compare prices. Available at: <https://www.mimiran.com/price-obfuscation-is-not-a-pricing-strategy/>

<sup>62</sup> The Open University. (2017). Consumers and competition: Delivering more effective consumer power in retail financial markets. Available at: [https://fs-cp.org.uk/sites/default/files/fscp\\_consumers\\_and\\_competition\\_thinkpiece\\_finalpp\\_jtl\\_20170306.pdf](https://fs-cp.org.uk/sites/default/files/fscp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf)

<sup>63</sup> Interview with a banking organisation from Germany (22-06-2018).

<sup>64</sup> European Commission (2016). Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance, pp. 54-63.

<sup>65</sup> Interview with a banking organisation from Germany (22-06-2018).

<sup>66</sup> Interview with a research centre in the United Kingdom (12-06-2018).

<sup>67</sup> Interview with a legal expert from Germany (12-07-2018).

consumers' inclusion and exclusion. This could lead to a situation of information and power asymmetries hindering consumers from taking informed decisions.<sup>68</sup>

Many retail financial services are inherently complex leading to low levels of consumer understanding in some cases and comparability with other products. Furthermore, various types of commercial practices are used by providers, some of which can be detrimental for consumers. Next chapters investigate in more detail the commercial practices identified in the course of this study, looking particularly into those that may be harmful for consumers.

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<sup>68</sup> BEUC (2018). Automated decision making and artificial intelligence – A consumer perspective. Available at: [https://www.beuc.eu/publications/beuc-x-2018-058\\_automated\\_decision\\_making\\_and\\_artificial\\_intelligence.pdf](https://www.beuc.eu/publications/beuc-x-2018-058_automated_decision_making_and_artificial_intelligence.pdf)

## 4. Mapping of commercial practices

This section presents a typology of the commercial practices identified during the desk research undertaken as part of Task 1 of the present study. The practices are grouped into five categories, each of which are discussed in turn in chapters 5 to 9. The categories are:

- Ways in which information is provided to consumers;
- Features which may accelerate consumers' purchase decisions;
- Design of the offers;
- Consumer targeting and personalisation; and
- Tools available for consumers to assist them during the decision-making process.

### *Overview of the practices*

The table below provides an overview of the practices encompassed in each category. The practices identified are displayed for the advertising and pre-contractual stages and stem mainly from the online desk research exercise carried out in Task 1. The practice names in the table below are used to refer to the practices in the following chapters.

Table 7: Practices identified at advertising and pre-contractual stages

Category of practice	Practice	Description
<b><i>Practices at the advertising stage:</i></b>		
<b>Ways in which information is provided to consumers</b>	Benefits emphasised while costs are hidden or given lower prominence in advertising	Emphasis on the positive aspects of pricing and product features Examples include advertising products by displaying minimal, selectively chosen information, and emphasising the possibility of purchasing products online without specifying if the application can be done fully online
	Key information missing or difficult to find in advertising	Key information missing or difficult to find in advertising Examples at the advertising stage include missing information about conditions attached to an offer
<b>Features which may accelerate consumer's purchase decision</b>	Advertising products as being speedy, or 'one-click' products	Advertising the fact that products can be obtained quickly in a small number of clicks, for example 'one-click' credit
	Time limited nature of the offer	Emphasising the time limited nature of the offer (i.e. how long consumers have to take up the offer, display of countdown for flash sales)
	Availability of promotional offers	Emphasis on the availability of promotional offers or consumer incentives
<b>Consumer targeting and personalisation</b>	Targeting	Content of advertisement is targeted to specific audiences (e.g. young people)
	Personalisation	Offers and advertisement are personalised to individuals based on individuals' characteristics and past behaviour
<b>Tools made available to consumers to assist them during the decision-making process</b>	Positive consumer reviews	Display of only positive consumer reviews which induce the idea of a highly appreciated product
<b><i>Practices at the pre-contractual stage:</i></b>		

Category of practice	Practice	Description
<b>Ways in which the information is provided to the consumers</b>	Key information missing or difficult to find	Key information about the product is not available or is difficult to find. Examples include missing information about territorial restrictions on offers, lack of clarity regarding the online purchasing process, difficulty in identifying the right to withdrawal or absence of information on alternative dispute resolution options
	Information complex and difficult to understand	Information is presented in a manner that is complex and difficult to understand, for example by using jargon or complex terms
	Benefits emphasised while costs are hidden or given lower prominence in pre-contractual information	Product features and pricing structures are not transparently provided, emphasising benefits while hiding costs. Examples include prominently displaying availability of switching services or selectively displaying currency conversion rates only when these rates are attractive.
	Information layered and located in places that can be overlooked	Placement of important information in sections which can be easily overlooked by consumers (e.g. under the "apply" button, in small prints, at the bottom of the page)
	Information format not adapted to the medium used	The information provided on the mobile screen is not adapted to the size of the screen, therefore consumers must make significant effort in order to observe all the information on the page
	<b>Features which may accelerate consumers' purchase decision</b>	Promotional offers and consumer incentives
Different applications based on customer-provider relationship		Different applications depending on the consumer's relationship with the provider (existing or non-existing customer). In some instances, providers emphasise the benefits that consumers have by becoming a customer (e.g. opening an account in addition to the product purchased)
Speedy, or 'one-click' products (a fast purchasing process)		Enabling consumers to obtain products fast (e.g. in under 15 minutes), for example 'one-click' credit
<b>Design of the offers</b>	Pre-ticked boxes	Recommended add-on products or services are pre-ticked when applying for a product
	Product bundling	Different products are presented in a single offer, for instance, a bank account offered with travel insurance.
<b>Consumer targeting and personalisation</b>	Price discrimination	Consumers may be charged differently depending on their characteristics. This may not be clear from the pricing structure
	Targeting a specific consumer segment	Targeting consumers that are already familiar with the product features or based on personal characteristics
<b>Tools made available to consumers to assist them during their decision-making process</b>	Product-tailored contact sections	Lack of product specific contact information sections (e.g. chatbox, direct line for current accounts)
	Presence of progress bars	Use of progress bars or similar indicators of progress through the application process



Category of practice	Practice	Description
	Availability of online calculators	Possibility to explore the product through an online calculator (e.g. loan calculator, insurance calculator)

Source: Online desk research

Each category of practices is analysed in the following chapters based on the information collected through the desk research, literature review, interviews, focus groups, survey and experiment. For each category of practices, the analysis comprises of:

- **Description:** Description of the commercial practices, including information on relevant products and illustrative examples.
- **Prevalence:** Information on the prevalence of the practices as seen from the online desk research carried out for the 10 products.
- **Legal compliance:** A legal analysis of the practices to determine whether there may be compliance issues with respect to EU legislation.
- **Consumers' perceptions:** Analysis of consumers' perceptions of the practices based on information from the focus groups, interviews and survey.
- **Remedies:** Discussion of potential remedies to the practices, drawing on the interviews, literature review and focus groups.
- **Impacts:** Analysis of the impacts of the practices and related remedies based on evidence from the experiment, focus groups and literature.

## 5. How information is provided to consumers

The way in which information is provided to consumers comprises many different practices and it is often encountered when advertising or selling retail financial products. At **advertising stage**, providers have the tendency to emphasise benefits while hiding the costs or giving them a lower prominence and/or have key information missing or difficult to find. For instance, advertisement of products is done by displaying minimal, selectively chosen information, and emphasising the possibility of purchasing products online without specifying if the application can be done fully online. Moreover, conditions attached to the offer are often missing at advertising stage.

The practices identified at advertising stage are also present at **pre-contractual stage**. Additional practices have also been identified, namely: information is complex and difficult to understand (e.g. by using legal jargon), information layered and located in places that can be overlooked by consumers (e.g. under the “apply” button) and information format not adapted to the medium used (e.g. information on mobile screen is not adapted to the environment).

### 5.1. Description of the practices within this category

As mentioned above, the way in which information is provided to consumers may comprise a set of different practices, such as:

- key information being missing or difficult to find;
- provision of information that is complex and difficult to understand;
- emphasising benefits while costs are hidden or given lower prominence in pre-contractual information;
- information layered and located in places that can be overlooked;
- information format not being adapted to medium used.

The practice of **key information being missing or difficult to find** refers to the extent to which consumers are provided with full information at the advertising and pre-contractual stage. The practice could encompass the omission of conditions in the advertising stage, the omission of certain product specificities, or presentation of unrealistic offers.

For instance, in Spain, around 26% of the complaints presented to the consumer association CNMW in 2016 were due to issues with the provision of information by the financial services provider. Autocontrol, in Spain, found that most complaints were made due to missing information that was required by the existing legislation.<sup>69</sup> According to a regulatory authority in the Netherlands, providers tend to be at “the edge of the law” by providing the exact amount of information required. This is often not enough to help consumers make the best and most informed choice. The interviewee suggested having tougher regulation or creating consumer simulations which should show what the risk entails exactly (standard deviation, efficiency, etc.). Actual research should be done to find out how consumers experience risk and how to improve their idea of what risk means during the selling process of investment products.<sup>70</sup>

Another aspect related to the completeness of information is missing or potentially misleading information about the conditions of the offer. According to a consumer association in France, new providers tend to advertise very low or no fees at all, but often do not mention that there are certain conditions attached to the offer. The conditions are present in the terms and conditions (or other information sections) but the advertisement

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<sup>69</sup> Regulacion financiera. (2017). La falta de información precontractual motiva una de cada cuatro reclamaciones a la CNMV. Available at: <http://www.rdmf.es/2017/12/una-cuatro-reclamaciones-la-cnmv-fue-falta-informacion-precontractual/>; and Estrategias de Banketing. (2012). Publicidad y Promoción bancaria... ¿Fiable? Available at: <https://estrategiasdebanketing.wordpress.com/2012/10/27/publicidad-y-promocion-bancaria/>.

<sup>70</sup> Interview with an academic expert from the Netherlands (06-06-2018).

is potentially misleading to consumers, suggesting that there are no fees at all.<sup>71</sup> Other examples of potentially misleading advertising practices include lack of references to associated insurance for credit cards<sup>72</sup> and the display of a price range at pre-contractual stage rather than the specific price.<sup>73</sup>

Some adverts misleadingly claim that a given loan will be almost or completely free of charge (e.g. with no interest rate), which are considered unrealistic offers and possibly not compliant.<sup>74</sup> In Bulgaria, consumer associations complained that the adverts shown in the mass media were continuing to show unrealistic offers, including loans at 0% interest rates.<sup>75</sup> The online adverts on interest rates for loans applied to a very limited group of customers with excellent credit profile.<sup>76</sup> Similarly, a stakeholder from the United Kingdom pointed out that insurance products sold online are also very much tailored to consumers that fit the profile of a "perfect customer".<sup>77</sup> The Consumer Rights Protection Centre of Latvia (CRPC) found as a problematic practice the provision by loan providers of incomplete information about the representative examples.<sup>78</sup>

The online desk research carried out during this study identified specific practices relating to key information missing or being difficult to find. At the advertising stage, providers tend to emphasise the possibility to purchase the product online, without specifying whether the application can be done fully online (a practice encountered also at pre-contractual stage). For specific products (e.g. personal loans, virtual currencies), the adverts do not include information about conditions attached to the offer. At the pre-contractual stage, there is a lack of clarity regarding the territorial restrictions to the offer, which are sometimes only implied at the application stage (i.e. consumers are asked to provide their ID number or address).

The provision of **information that is complex and difficult to understand** is a practice that was often encountered. Problematic issues relate to the length and complexity of the information (e.g. use of legal and technical jargon). The issue of information overload is mainly identified at pre-contractual stage, and particularly in the terms and conditions, which may be confusing to consumers.<sup>79</sup> These documents are often very lengthy (sometimes over 60 pages) and use many technical terms, which may lead to the consumers misunderstanding the product specificities, such as the coverage and risks (i.e. for insurance products).<sup>80</sup> For instance, focus group participants in Spain complained about the length of pre-contractual information provided. Furthermore, a study by a national authority found that comprehensibility is hindered by product and information complexity, confusing communication and lack of solutions for temporary delegation (i.e. enabling a family member or carer to manage your affairs for a short time), which retain privacy and safety.<sup>81</sup>

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<sup>71</sup> Interview with a consumer organisation from France (12-06-2018).

<sup>72</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2011). La publicidad del crédito (The advertisement of loan). Available at: [http://proyectos.adicae.net/proyectos/autonomicos/comunidad\\_valenciana/guiasobreendeudamiento2011/Dossier\\_estudio\\_Valencia\\_2.pdf](http://proyectos.adicae.net/proyectos/autonomicos/comunidad_valenciana/guiasobreendeudamiento2011/Dossier_estudio_Valencia_2.pdf).

<sup>73</sup> IfF. (2007). Study on distance marketing of consumer financial services (iff-Studie: Fernabsatz von Finanzdienstleistungen). Available at: [https://www.iff-hamburg.de/wp-content/uploads/2017/12/fernabsatz\\_report\\_2007\\_iff.pdf](https://www.iff-hamburg.de/wp-content/uploads/2017/12/fernabsatz_report_2007_iff.pdf).

<sup>74</sup> Consumer Rights Protection Center of Latvia. (2016). Annual Reports of the Consumer Rights Protection Center of Latvia. Available at: <http://www.ptac.gov.lv/lv/content/publiskie-parskati-un-statistika>.

<sup>75</sup> World Bank. (2009). Diagnostic Review of Consumer Protection and Financial Capability in Bulgaria. Available at: <http://documents.worldbank.org/curated/en/743491468147001765/pdf/697830v10ESW0P00Bulgaria0CP0Vol10En.pdf>.

<sup>76</sup> Trend.at. (2017). Worauf beim Online-Kredit zu achten ist. Available at: <https://www.trend.at/services/ingdiba-online-kredit>.

<sup>77</sup> Interview with a sectoral association from the United Kingdom (06-06-2018).

<sup>78</sup> Consumer Rights Protection Center of Latvia. (2016). Annual Reports of the Consumer Rights Protection Center of Latvia. Available at: <http://www.ptac.gov.lv/lv/content/publiskie-parskati-un-statistika>.

<sup>79</sup> London Economics, VVA, & Ipsos. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Available at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7fd-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>80</sup> Ibid.

<sup>81</sup> Financial Conduct Authority. (2015). Consumer Vulnerability. Available at: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8-exec-summary.pdf>

Regarding insurance products, only one third (34%) of respondents to a survey in Lithuania indicated that the insurance companies in which they are insured took the initiative to explain the terms of the insurance contract or the specific nature of the insurance.<sup>82</sup>

An additional problem is that the law mostly only sets out which information has to be provided, but not how it should be provided. This can lead to practices that are problematic and although not forbidden by law, these can still be harmful to consumers.<sup>83</sup>

A further practice within this category is **emphasising benefits while costs are hidden or given lower prominence in pre-contractual information**. In some instances, the risks or costs are often added through an asterisk after the benefits, which consumers can only access by actively opening another tab and clicking the relevant links with titles such as 'additional information'. In many cases providers recommend that potential customers inform themselves about the costs or risks of the product, but the information is not available online or via the adverts.<sup>84</sup> Therefore, consumers must go to a bank branch where the information may be given in the contracts that are designed to be signed quickly.<sup>85</sup>

The online desk research found that the list of features presented at pre-contractual stage is often not provided transparently, thus emphasising benefits of the product while hiding the costs. When looking specifically at the product's pricing structure, sometimes this is not transparently provided, emphasising benefits of the price structure but hiding costly elements. Another practice observed concerns some time-limited offers, for which the information on the fact that the offer is time-limited is provided in smaller print and/or in sections dedicated to product information. Furthermore, some products were advertised with minimal product information which is, in most cases, selectively displayed with emphasis placed on positive aspects of pricing and product features.

The use of teaser rates, which are encountered mostly in credit card sales, is another potential harmful practice for consumers, encountered mostly at the advertising stage.<sup>86</sup> One study found that providers in Bulgaria were presenting teaser rates in a more visible font, whereas the APR was shown in a smaller font than the nominal loan rate (on TV advertising).<sup>87</sup> The Spanish consumer association found a similar tendency regarding press advertisement and has pointed out that this practice aims at having a great impact on the reader by using large fonts and bright colours. The providers analysed by the association seemed to have exaggerated certain letters and focused on the benefits of the product.<sup>88</sup> The behavioural biases behind the use of teaser rates could relate to the fact that consumers are present-biased and overconfident, thus underestimating how much they will borrow when the teaser rates expire.<sup>89</sup>

Another identified practice is that **information is layered and located in places that can be overlooked**. Information about the product is often hidden in the fine print, within

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<sup>82</sup> Baltijos Tyrimai. (2017). Population Survey on Insurance Services. Available at: <http://dra.lt/wp-content/uploads/2018/02/B298-2017-11-12-draudimas.pdf>.

<sup>83</sup> Interview with a regulating authority from the Netherlands (14-06-2018).

<sup>84</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2011). La publicidad del crédito (The advertisement of loan). Available at: [http://proyectos.adicae.net/proyectos/autonomicos/comunidad\\_valenciana/guiasobreendeudamiento2011/Dossier\\_estudio\\_Valencia\\_2.pdf](http://proyectos.adicae.net/proyectos/autonomicos/comunidad_valenciana/guiasobreendeudamiento2011/Dossier_estudio_Valencia_2.pdf).

<sup>85</sup> Ibid.

<sup>86</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Available at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>87</sup> World Bank. (2009). Diagnostic Review of Consumer Protection and Financial Capability in Bulgaria. Available at: <http://documents.worldbank.org/curated/en/743491468147001765/pdf/697830v10ESWOP00Bulgaria0CP0Vol10En.pdf>.

<sup>88</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2014). Estudio sobre la publicidad, condiciones y prácticas de comercialización de los minipréstamos y créditos rápidos (Study over the marketing, conditions and practices in advertisement of mini and fast loans). Available at: [http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total\\_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%2020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27](http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%2020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27).

<sup>89</sup> FCA (2013). Applying behavioural economics at the Financial Conduct Authority. Available at: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf>

a long text, written using complicated language, financial and legal jargon.<sup>90</sup> Through desk research, it was also observed that for some products, less appealing information is either hidden or placed in sections that are not immediately accessible to consumers.

Visibility of information encompasses practices relating to “how” and “where” the information is displayed by providers. These might relate to the font size and colour used when showing certain information or the placement on the page of important information (i.e. footnote or a link to an external document). One specific practice is the so-called ‘basic-anchoring-effect’ which is used to highlight certain numbers over others (e.g. visually emphasising positive cost elements on adverts).<sup>91</sup>

A study by the Consumer Rights Protection Centre of Latvia found several irregularities regarding commercial practices used, particularly at the advertising stage. The adverts would conceal the real information or would not provide fully relevant information about a representative example. Furthermore, consumers were offered additional benefits if they applied for a loan, which might have led to irresponsible lending.<sup>92</sup>

Through desk research some instances were found where important information was placed in sections that could be easily overlooked by consumers (e.g. under the “apply” button, in small print, or at the bottom of the webpage). Also, in many instances, the information on consumer’s right of withdrawal was not easily identifiable. For products to which currency conversion charges apply, these tend to be prominently displayed when the rates are attractive (i.e. zero or very low), but otherwise the information is not easily identifiable. Another practice identified through online desk research is the lack of (or not easily identifiable) alternative dispute resolution for consumers. None of the analysed providers offered visible access for consumers to such a tool.

The **information format not being adapted to the medium used** is another practice in this category identified through the online desk research. For many of the products analysed, the information provided on the mobile screen is not adapted to the size of the screen. Therefore, consumers must make significant effort to observe all the information on one page.

### 5.1.1. Relevant products

The Spanish consumer association ADICAE (2014), found that information was missing particularly in television advertisement and online advertisement for personal loans and payday loans.<sup>93</sup> Similar issues were found for promotional videos on YouTube. Lack of information was also found in the marketing of credit cards. For example, a list of commissions or costs is hardly ever shown in advertisements.<sup>94</sup> Loans are often advertised as discounted, or without withdrawal fees to new customers, yet these loans have high interest and other costs.<sup>95</sup> In France, the Directorate General for Competition, Consumption and Fraud Control (DGCCFC) made an enquiry about compliance with the legislation related to pre-contractual information when subscribing to consumer credit products. The enquiry

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<sup>90</sup> European Commission. (2009). EU report on retail financial services: fact sheet. Available at: [http://europa.eu/rapid/press-release\\_MEMO-09-402\\_en.htm](http://europa.eu/rapid/press-release_MEMO-09-402_en.htm)

<sup>91</sup> Jennifer Jordan. (2004). Behavioral Finance und Werbung für Investmentfonds. DE: Springer Gabler Verlag.

<sup>92</sup> Consumer Rights Protection Center of Latvia. (2015). Annual Reports of the Consumer Rights Protection Center of Latvia. Available at: <http://www.ptac.gov.lv/lv/content/publiskie-parskati-un-statistika>.

<sup>93</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2014). Estudio sobre la publicidad, condiciones y prácticas de comercialización de los minipréstamos y créditos rápidos (Study over the marketing, conditions and practices in advertisement of mini and fast loans). Available at: [http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total\\_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%202020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27](http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%202020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27)

<sup>94</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2011). La publicidad del crédito (The advertisement of loan). Available at: [http://proyectos.adicae.net/proyectos/autonomicos/comunidad\\_valenciana/guiasobreendeudamiento2011/Dossier\\_estudio\\_Valencia\\_2.pdf](http://proyectos.adicae.net/proyectos/autonomicos/comunidad_valenciana/guiasobreendeudamiento2011/Dossier_estudio_Valencia_2.pdf)

<sup>95</sup> Financer.com. (2017). Pikavippien mainonta osittain harhaanjohtavaa – Monimutkaiset hinnastot ja termien vääristely voivat hämätä kuluttajaa. Available at: <https://financer.com/fi/pikavippien-mainonta-osittain-harhaanjohtavaa/>

found a lack of availability of information, and lack of visibility of certain credit offers (in particular when they go with loyalty programmes).<sup>96</sup>

In Finland, for instance, there have been several cases where there have been shortcomings in information disclosure, especially regarding both secured loans in online stores, and consumer loans where information required by EU legislation has sometimes been lacking. The consumers are impacted in the sense that they either have to look for the information as it is not displayed visibly as required by law or are provided with it too late. It is a question of both timing and the way the information is presented and it particularly concerns products like payday loans.<sup>97</sup>

Information that is complex and difficult to understand was encountered in the advertisement of various products. For example, payday loan providers operating online often present the costs of loans in a complex manner (e.g. complex pricing lists), and loan terms are often explained with very legal-sounding jargon.<sup>98</sup> Savings products are also perceived as very complex.<sup>99</sup>

Through the online desk research, it was observed that practices related to information provision are encountered more for specific product groups. At the **advertising stage**, the provision on minimal product information (displayed selectively, emphasising on positive aspects of pricing or other product features) was encountered for all ten financial products analysed. Emphasis on the possibility of purchasing the product online, without providing information on whether this can be done fully online, was encountered mostly for consumer credit products (credit card, personal loans, P2P lending, payday loans), travel insurance and banking products (current accounts and savings accounts).

At the **pre-contractual stage**, practices related to the way in which information is provided to consumers were encountered for all ten products analysed. Some practices were more specific to certain product groups or products. For example, information on territorial restrictions are more clearly provided by P2P lending platforms or mortgage providers. In some instances, information about time-limited offers was identified in smaller print for personal loans, current accounts and savings accounts. The provision of currency conversion charges is prominently displayed when the rates are attractive, and this practice is mainly encountered for credit cards, current accounts, money transfer and payments and virtual currencies. Emphasis on the availability of switching offers or features is a practice encountered only for current accounts.

Lastly, for nine out of ten products analysed, it has been observed that the information provided on the mobile screen is not always adapted to the size of the screen. P2P lending platforms seem to provide a more user-friendly mobile interface. As regards key information being missing or difficult to find, for all the ten products analysed, it has been challenging to detect the availability of alternative dispute resolution for consumers.

### 5.1.2. Illustrative examples

Through the online desk research, illustrative examples of practices related to provision of information have been identified. One example is provided below, where the advertisement identified for a Spanish provider emphasises the positive aspects of the products (e.g. without commissions, without conditions).

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<sup>96</sup> Directorate General for Competition, Consumption and Fraud Control France. (2018). Consumer credit products: loyalty towards pre-contractual information. Available at: <https://www.economie.gouv.fr/dgccrf/credit-a-consommation-loyaute-linformation-precontractuelle>

<sup>97</sup> Interview with a consumer organisation from Finland (01-06-2018).

<sup>98</sup> Forbrugerrådet Tænk. (2015). Har du læst det med småt? Bankerne skjuler urimelige vilkår. Available at: <https://taenk.dk/aktiviteter-og-kampagner/tidligere-kampagner/har-du-laest-det-med-smaat-bankerne-skjuler-urimelige>

<sup>99</sup> Autorité de contrôle prudentiel et de résolution (ACPR). (2017). Activity Report 2016 on Customer Protection. Available at: <https://acpr.banque-france.fr/sites/default/files/media/2017/07/10/acpr-2016-part4.pdf>

Figure 13: Illustrative example of advertisement emphasising on the positive aspects



Another illustrative example relates to the placement of information in sections which can be easily overlooked by consumers. In the example below, the provider positioned important information in footnotes after the “open now” button.

Figure 14: Illustrative example of placement of information in sections which can be easily overlooked

<p>Online</p> <p><b>100%</b></p> <p>deschiderea și activarea contului</p>	<p>Primele 6 luni ai</p> <p><b>0 lei</b></p> <p>comision de administrare al pachetului <sup>2)</sup></p>	<p>Ai acces la cont</p> <p><b>24/7</b></p> <p>prin Internet și Mobile Banking</p>
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[Deschide acum](#)

<sup>1)</sup> cardul de debit se eliberează în sucursală. îl poți ridica imediat după ce te notificăm prin SMS.

<sup>2)</sup> prin activarea Contului Online BCR se contractează online pachetul de produse și servicii ClasiCont, așa cum se precizează și în documentația contractuală pe care o vei primi prin e-mail. În primele 6 luni poți testa Contul Online BCR fără să plătești comisionul lunar de administrare cont și comisioanele pentru încasările interbancare în lei. Restul tarifulor și comisioanelor rămân neschimbate, conform [Tariful standard de comisioane pentru persoane fizice](#). După această perioadă, se aplică tarifele și comisioanele aferente pachetului de produse și servicii ClasiCont.

## 5.2. Prevalence of the commercial practices in this category

The online desk research results show that some practices are more prevalent for some products. The table below summarises by product the observed prevalence of the practices related to the way in which information is provided to consumers. At the advertising stage, the practice of emphasising benefits while costs are hidden (e.g. emphasising positive product elements, advertisements with minimal product information or emphasis on online purchasing) has high prevalence across all products. At the pre-contractual stage, the practice of key information being missing or being difficult to find encompasses various aspects, which vary in prevalence. For instance, the availability of alternative dispute resolution is highly prevalent across all products and the right of withdrawal is also prevalent. Unclear conditions for online purchasing was less prevalent and seen only for a smaller number of products (e.g. personal loans, current accounts).

Table 8: Prevalence of practices related to information provision across the ten products

Stage	Practice name	Prevalence of practices (low, medium, high)									
		Credit card	Personal loan	Peer-to-peer (P2P) lending	Payday loans	Mortgages	Travel insurance	Current accounts	Savings account	Money transfer and payments	Virtual currencies
<b>Advertising</b>	Key information missing or difficult to find in advertising	Not found	Low	Not found	Not found	Not found	Not found	Not found	Not found	Not found	Not found
	Benefits emphasised while costs are hidden or given lower prominence in advertising	High	High	High	High	High	High	High	High	High	High
<b>Pre-contractual</b>	Key information missing or difficult to find	High	High	High	High	High	High	High	High	High	High
	Information complex and difficult to understand	Medium	Medium	Low	Medium	Medium	Medium	Medium	Medium	Low	High
	Benefits emphasised while costs are hidden or given lower prominence in pre-contractual information	Medium	High	Low	Medium	Low	High	High	Medium	Medium	High
	Information layered and located in places that can be overlooked	Medium	Medium	Low	Medium	Low	Medium	Medium	Medium	Low	Low
	Information format not adapted to medium used	Medium	Medium	Not found	Low	Medium	High	Medium	Medium	Low	Low

Note: "Not found" = the in-country researchers have not observed the practice for the product; "High" = the practice was encountered in many instances; "Medium" = the practice was encountered only in few instances; "Low" = the practice was encountered only in 1-2 instances.



### 5.3. Legal compliance of the commercial practices in this category

Each identified commercial practice was assessed in the light of applicable EU legislation. However, determining the unfair nature of a commercial practice and its compliance with applicable legislation rests mainly on the factual context. Therefore, although the assessment presented here indicates possible issues regarding the identified practices, such an approach is not exhaustive and potentially subjective.

Unless a precise list of the information provided is available, demonstrating the degree of compliance with information requirements is largely subjective. Since it requires extensive information, such an assessment should be done on a case-by-case basis. In this situation, where the assessment of commercial practices is based on information identified through the desk research, the assessment of compliance must be limited to highlighting the various problematic aspects of a practice, in light of the applicable legislative instruments.

Commercial practices regarding the partial provision of information are among the most likely to be considered unfair. Indeed, the UCPD considers the omission by a trader of material information to be an unfair commercial practice.<sup>100</sup> Material information includes the information required by the applying EU legislation.<sup>101</sup> The table below assesses the commercial practices in this category from the perspective of EU-level legislation. In places the table also identifies (in sub-boxes) existing remedies to the practices stemming from the legislation. A full description and assessment of the relevant EU legislative instruments is presented in Annex 7.

Table 9: Assessment of legal compliance of practices related to ways in which information is provided to the consumers

Commercial practices	Assessment
<b>Advertising stage</b>	
Benefits emphasised while costs are hidden or given lower prominence in advertising	<p>Emphasising the positive aspects of pricing is a problematic practice for <b>credit products</b>, because it gives information on the price (only the positive aspects, not the full price structure). The issue arises from CCD article 4(1) and MCD article 11(1). If information is provided on price or figures relating to an interest rate, standard information must also be provided. This practice could also be considered a misleading action on presentation of price or the manner in which the price is calculated (UCPD article 6(1)(d)).</p> <p>Advertising products with minimal product information, which is selectively displayed could be considered misleading for certain products. The assessment of this practice is heavily dependent on the information displayed, however such practices are likely to be particularly problematic for <b>consumer credit products and mortgage products</b>, where the display of figures relating to price or interest rate triggers the requirement to provide standard information (CCD article 4(1) and MCD article 11(1)).</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>Existing remedies: Both the CCD and the MCD, in articles 4.2 and 11.2 respectively, require that standard information be clearly, concisely and prominently displayed. The CCD even requires examples.</i></p> </div> <p>Emphasising the possibility to purchase a <b>credit card, personal loan peer-to-peer loan, payday loan, travel insurance policy, current account or saving account</b> online, without specifying if the application can be done fully online could be considered misleading, because it implies that the purchase of the product can fully be done online, when in reality it is not. The presentation is</p>

<sup>100</sup> UCPD Article 7 (1) and Article 7(4)(a)

<sup>101</sup> UCPD Article 7(5)

Commercial practices	Assessment
	likely to deceive consumers concerning the nature of the sales process (UCPD article 6(1)(c)).
Key information missing or difficult to find in advertising	Conditions attached to the offer of a <b>personal loan</b> (i.e. add-on products) must be clearly identifiable (e-Commerce Directive article 6(c)) and promotional offers, discounts, premiums and gifts must clearly be identified as such (UCPD article 6(1)(b)). It could otherwise be considered a misleading action.
<b>Pre-contractual stage</b>	
Key information missing or difficult to find	<p>The lack of clarity regarding territorial restrictions (implied at the application stage when consumers are asked to provide their ID number or address, or mentioned in the eligibility criteria section) to the offer for <b>credit cards, personal loans, payday loans, travel insurance, current accounts, savings accounts, money transfers payments and virtual currencies</b>, does not comply with the requirement that conditions should be clearly identifiable (e-Commerce Directive article 6(c)), and could even be considered misleading information on availability of the product (UCPD article 6(1)(b)).</p> <div data-bbox="544 831 1385 992" style="border: 1px solid black; padding: 5px;"> <p><i>Existing remedies: Generally, failure to comply with information requirements as set in various provisions is sanctioned according to national law. However, European legislation (i.e. DMFSD article 11, CCD article 23 and MCD article 38) indicate the sanctions should be effective, proportionate and dissuasive.</i></p> </div> <p>Lack of clarity has been observed regarding the possibility to purchase <b>credit cards, personal loans, payday loans, mortgages, travel insurance, current account and savings account</b> fully online. In some instances, this information is not clearly specified at the beginning of the process and is only displayed towards the end of the application process. Such practices could be considered noncompliant with the requirement to provide information on the technical steps to conclude the contract (e-Commerce Directive article 10(1)(a)). If such information was unclear or not displayed the commercial practice could be considered unfair (UCPD article 7 (1)).</p> <p>Often times information on the right of withdrawal is not easily identifiable. When such right is available, consumers must be informed of how to exercise it (DMFSD article 3(1)(3)(a,d) and MCD article 14). It is not sufficient to indicate whether consumers have a right to withdraw, the modalities of the withdrawal should be explained as well. Moreover, this information must be clearly provided.</p> <p>The absence of (or not easily identifiable) alternative dispute resolution mechanisms for consumers was observed for <b>all products</b>. Alternative Dispute Resolution mechanisms are required by several instruments, and consumers must be informed of their existence (DMFSD article 3(1)(4)(a), PSD2 article 52(7)(b), MCD article 13, ESIS Annex II (12), and CCD, SECCI annex). Noncompliance with information provision requirement is considered a misleading commercial practice by omission (UCPD article 7).</p>
Information complex and difficult to understand	<p><b>Generally</b>, the information provided is not intelligible, e.g. by using legal jargon, complexity of terms was observed <b>for all products</b>, and is problematic vis-à-vis various instruments. In the case of consumer credit products, consumer must be provided with an explanation to be able to take an informed decision (CCD article 5(6)) in the case of mortgages, consumers must be provided with adequate explanation as well (MCD article 16). In general, the information must be provided in a clear and comprehensible manner (UCPD article 7(2) and DMFSD article 3(2)). The information provided must be understandable to the average consumers.</p> <p>Clear information should be provided, including on the duration of the offer, for a <b>personal loan, a current account or a savings account</b></p>

Commercial practices	Assessment
	<p>and on duration of the validity of information concerning these products. If such information was unclear, not displayed or not displayed clearly, the commercial practice could be considered a misleading omission and therefore unfair (UCPD article 7(2)). Indeed, the period of time for which the creditor is bound by the pre-contractual information must be provided for consumer credit products (CCD article 5(1)(§2s)), but also as a general requirement (DMFSD article 3(1)(2)(e) and e-Commerce Directive article 6(c)).</p>
<p>Benefits emphasised while costs are hidden or given lower prominence in pre-contractual information</p>	<p>For <b>consumer credit products, travel insurance, current accounts, saving accounts and money transfers and payments and virtual currencies</b>, product features are not listed clearly (i.e. main characteristics of a product) or benefits of the product are emphasised while hiding costs would not be compliant with various instruments (CCD article 5, MCD article 14 and DMFSD article 3(1)). Moreover, the DMFSD, when applicable, provides a clear list of such information, which may be completed by national legislation, or other more specific European legislation, such as the CCD, PSD2 or MCD.</p> <div data-bbox="549 763 1385 1014" style="border: 1px solid black; padding: 5px;"> <p><i>Existing remedies: For consumer credit products the CCD (in annex II) establishes the Standard European Consumer Credit Information (SECCI). This standard form compiles all information required by the directive in a single document with a brief explanation of the meaning of the information required for the consumer (in particular on the cost structure). A similar mechanism is established for mortgage credit in annex II of the MCD, the European Standardised Information Sheet (ESIS).</i></p> </div> <p>The provision of information on the main product features is required for all products, in various applying instruments. This is considered material information, and the non-provision of such information is considered an unfair practice (UCPD article 7(2)).</p> <p>The lack of transparent pricing structure is also observed <b>across the board</b>. The pricing structure is not transparently provided, and the benefits of the price structure are emphasised whereas costly elements are hidden. This could be deemed non-compliant with many instruments. In the case of current accounts, money transfers and payments and mortgages the MCD and the PSD2 set such a requirement (PDS2 article 52(3)(a) and MCD article 14). Moreover, in general, information on the price, the related fees, and basis on which the price is calculated is required (DMFSD article 3(1)(2)(b)). Information on the price, and means to calculate it, is paramount, and is required in all applying legislation. An unclear, or incomplete pricing structure is an unfair commercial practice, and is therefore prohibited.</p> <div data-bbox="549 1503 1385 1610" style="border: 1px solid black; padding: 5px;"> <p><i>Existing remedies: Both the SECCI (of the CDD) and the ESIS (of the MCD) provide dedicated spaces for costs and overall price structure.</i></p> </div> <p>In the case of <b>credit cards, current accounts, money transfers and payment and virtual currencies</b>, currency conversion charges are prominently displayed when these rates are attractive (i.e. zero or very low), but otherwise this information is not easily identifiable. Information on currency conversion and applying exchange rate, is only required when it is relevant to the product (PDS2 article 52(3)(b) or 45(1)(d) for money transfers, and credit cards, the PAD for current accounts). It is mostly applicable to banking <b>products, credit cards, and when relevant mortgage credits</b>.</p>
<p>Information layered and located in places that can be overlooked</p>	<p>Placement of important information in sections which can be easily overlooked by consumers is observed for <b>all products</b> (e.g. under the "apply" button, in small prints, at the bottom of the page). This practice contradicts the requirement that information be clearly unambiguously and timely provided is found in the DMFSD (article 3(2)) and the UCPD (article 7(2)). Moreover, both the MCD and the</p>

Commercial practices	Assessment
	<p>CCD require that information for the consumer be prominently displayed.</p> <p><i>Existing remedies: Requirements of the MCD and the CCD that information for the consumer be prominently displayed.</i></p>
<p>Information format not adapted to the medium used</p>	<p>Generally, information provided on the mobile screen is not adapted to the size of the screen, therefore consumers must make significant efforts to observe all the information on the page. Such a practice is problematic with respect to provisions requiring that the format of the information be adapted to the medium used (DMFSD article 3(2) requires the information provided to be appropriate to the means of telecommunication used and UCPD article 7(1) and (3) consider unfair the omission of necessary information and lack of space (inadequate medium)<sup>102</sup>).</p> <p><i>Existing remedies: Requirement that information provided must be appropriate to the means of telecommunication used, if not it could be considered an unfair practice.</i></p>

#### 5.4. Perceptions of the commercial practices and related remedies

In order to collect information on consumers' perceptions of commercial practices the survey included a question which asked respondents to rate the extent that they perceive different commercial practices as being detrimental, on a 5-point scale where 1 meant "Not detrimental" and 5 meant "Very detrimental". The practices covered in the survey map closely to those identified in the desk research and can be grouped under the categories of practices identified in the typology set out in section 4. Within the present category of practices, four practices were examined in the survey:

- **"Benefits highlighted"**, i.e. the benefits of the product/service are highlighted whereas the costs are hidden
- **"Difficult to find information"**, i.e. it is difficult to find key information on the product/service in the product description
- **"Complex language"**, i.e. the language of the website is very complex, using many technical and legal terms
- **"Not adapted to mobile"**, i.e. the way the information is presented is not adapted to the screen of your mobile phone

On average across the product categories, all practices within this category are perceived as rather detrimental, i.e. with an average rating above 3 (see Table 10), although there exist differences between the practices. Highlighting the benefits of the product while hiding the costs ('Benefits highlighted') is seen as the most detrimental practice among those in this category, followed by making it difficult to find key information on the product in the product description ('Difficult to find information') and use of complex language and many technical and legal terms ('Complex language'). The practice that is seen as least detrimental is not adapting information to the screen of a mobile phone ('Not adapted to mobile').

<sup>102</sup> Guidance on the Implementation/Application of Directive 2005/29/EC on Unfair Commercial Practices, p.67

Table 10: Average detriment-ratings pooled over product categories by practice (practice category 1)

Practice	Average Rating	Number of Observations
Benefits highlighted	4.04	N=8,180
Difficult to find information	3.96	N=8,169
Complex language	3.80	N=8,165
Not adapted to mobile	3.28	N=8,011

**Notes:** The question was Q3.2a and Q3.2b: "Imagine you are shopping around on the internet wishing to choose a [product category]. You search on a search engine for suitable offers and are directed to the websites of different suppliers. At the end of your search, you have identified alternative [products / services] that match your search criteria. Given this scenario, to what extent do you think the following commercial practices would be detrimental?"; The scale was labelled 1 = "not detrimental" and 5 = "very detrimental".

Results are averaged over Q3.2a and Q3.2b and product category.

**Source:** ConPolicy analysis of consumer survey data.

The particularly high perceived detriment of highlighting the benefits of the product while hiding the costs is in line with evidence from the focus group. Focus group participants had the perception that advertising is only focused on advantages and benefits, noting that if conditions are included in advertisements the words are written in small letters, while benefits were presented in large letters. The focus groups revealed that this type of practice could lead to a feeling that advertising is misleading. For instance, participants in Germany recalled situations in which the current account was advertised as free but later it was revealed that costs applied unless certain conditions are met (e.g. minimum income or minimum monthly payment into the account). Likewise, participants in Romania were critical that only benefits are presented and not particular conditions like a minimum monthly payment into the account.

The focus group participants similarly identified detriment for hiding costs and making information difficult to find in pre-contractual information. With respect to personal loans, they believed that information was hidden in small print or shown at a late stage of the purchasing process. Information was also difficult to collect, as multiple windows needed to be opened and a lot of text needed to be read to fully understand the information. Participants in Germany and Spain expressed concern that important details hidden in terms of condition could be overlooked. Focus groups participants further noted that pre-contractual information varied across provided, making product comparison difficult.

To identify whether perceptions of the practices in the survey differ across different types of consumers or depending on the product in question, as a next step the results are analysed with respect to different respondent-level variables, namely:

- product category (i.e. credit, insurance, banking and money transfer or payment products)
- gender and age group
- education level and financial status
- financial literacy and digital literacy
- risk preferences and time preferences, and
- country (i.e. Finland, France, Germany, Lithuania, Spain and Romania)

Here in the main body of the report we present results only where significant differences are found depending on the variables listed above (this means, for example, that we do not report on differences across product categories, as these were nil or very minor). However, charts showing the full results can be found in Annex 12.

Figure 76 in Annex 12 summarises the results by gender and age group (for three age bands, young (18-24 years), medium (35-54 years) and old (35-55+ years)). A positive correlation exists between perceived detriment and **age**, mainly driven by the lower ratings given by young survey respondents compared to the medium and old age respondents.

Figure 77 in Annex 12 displays the results by level of education<sup>103</sup> (low, medium, high) and financial situation<sup>104</sup> (very easy, fairly easy, fairly difficult, very difficult, prefer not to say). With respect to **education** a weak positive link can be observed for highlighting the costs while hiding benefits ('Benefits highlighted') and difficulty to find key information in the product description ('Difficult to find information'), i.e. higher education is associated with higher perceptions of detriment. For the practices of using a complex language ('Complex language') and not adapting information to mobile screens ('Not adapted to mobile'), no such effect can be observed.

Additionally, there exists a positive link between **financial** as well as **digital literacy** and the rating of highlighting the costs while hiding the benefits ('Benefits highlighted'). For the practice regarding the difficulty to find key information in the product description ('Difficult to find information') a weak positive link between detriment-ratings and financial literacy is detected as well suggesting that the higher financial skills, the higher perceived detriments. With respect to the other practices no relationships are found between the ratings and (digital or financial) literacy.

Weak links between **time preferences** and the detriment ratings are found for the 'benefits highlighted', 'difficult to find information' and 'complex language' practices. Therefore, the closer consumers feel their future-self to be from their present-self the higher perceived detriments. The results are summarized graphically in Figure 78 and Figure 79 in Annex 12.

When analysing results by country some interesting differences emerge. Consumers from **Finland** indicate for three of the four practices the highest detriment-ratings while ratings in **Romania** and **Spain** are lower. In contrast, for the practice regarding not adapting information to a mobile screen ('not adapted to mobile') no such differences between the countries can be observed. Results are displayed in Figure 80 in Annex 12.

No systematic differences in the ratings are seen across the different product categories or depending on gender, financial status or risk preferences, which shows that perceptions of these practices are independent of these characteristics. These results can be seen in Annex 12.

## 5.5. Remedies for the identified problematic practices

To address problematic practices related to ways in which information is provided to consumers, several different types of remedies can be envisaged:

- Providing information in a way that helps consumers to compare offers and make the right choice, e.g. by creating minimum standards;
- Measures to deal with information complexity;
- Independent comparison websites;
- Behaviourally informed messages to 'nudge' consumers towards better choices.

### 5.5.1. Providing information in a way that assists consumers to compare offers and make the right choice

Two commercial practices identified in the desk research that are especially likely to cause problems for consumers are emphasising the benefits of a product while costs (and other

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103 Education level was measured by asking respondents about the highest level of education they have achieved, with answer options covering a wide range of country-specific qualifications. These country-specific qualifications are mapped to the three categories – low, medium and high – to allow pooling of the data across countries as well as cross country comparisons. For example, for Germany Ausbildung über eine Berufsschule is counted as a medium level of education and Fachhochschule is counted as a high level of education.

104 Financial situation was measured by the question "would you say that making ends meet every month is...? Very easy, Fairly easy, etc.". This question was used (instead of a more direct question about actual income, which respondents often decline to answer) since it was more likely to receive a response.

negative aspects) are given lower prominence, and layering and locating pre-contractual information such that it can be overlooked (see Table 7 in section 4).

Remedies to these practices should ensure that information is given to consumers in a way that helps them to compare offers and make the right choice. Evidence from the literature, supported by the focus groups, shows that **four key principles** are beneficial for consumer decision-making, namely that information is provided:

- **Upfront** and **saliently** (so it is not missed);
- **Early enough** in the process;
- In an **engaging presentation format**; and
- In a way that **aids comparison**.

For example, a 2016 study for the Commission on consumer vulnerability examined the impact of the **salience of key product information** when consumers choose between alternative personal loan offers. Presenting the APR in large font at the top of the offer resulted in a statistically significant increase in the share of correct choices in all countries covered (Denmark, Lithuania, Portugal Romania and the UK) and follow-up questions identified that this improved decision making was due to more consumers basing their choices on the APR.<sup>105</sup>

Several experimental treatments tested in a 2015 study on consumers' choices between short term loans showed the importance of **placing information up-front and saliently**. When loans were ranked such that the cheapest loan was not at the top of the page making it less prominent (under the baseline it was show at the top), the share who chose this loan fell dramatically (by 49.5 percentage points).<sup>106</sup>

A possible way to increase the **comparability between offers** is to highlight what is or is not included with the offer, as shown by a recent study which found that highlighting the risks covered and not-covered by different home insurance contracts improved the decision making of experiment participants.<sup>107</sup>

While it is important that consumers are **informed early enough in the purchasing process**, a study found that the optimal timing of information is sensitive and dependent on the specific parameters of the choice. In this study, an experiment varied whether certain pieces of information were displayed early or later in the purchase process. For motor insurance, not showing information on covered risks earlier on had a negative impact on choices, whereas for home insurance the result was, counterintuitively, the opposite. These findings suggest that providing information at the point where it is needed needs to be balanced with avoiding information overload.<sup>108</sup>

Clearly showing and explaining the risks related to a product (e.g. by combining text with images) has a positive impact on customer decision-making.<sup>109</sup> Similarly, opinions of some focus group participants in Spain reveal that it is important that information is presented in an **engaging presentational format**. They recommended improving the presentation of pre-contractual information by using more visual elements (*"It is not visually appealing... You have to read it all!"*, woman, 33, Madrid).

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<sup>105</sup> European Commission (2016). Consumer vulnerability across key markets in the European Union. Available at: [https://ec.europa.eu/info/sites/info/files/consumers-approved-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/consumers-approved-report_en.pdf)

<sup>106</sup> FCA (2015). High-Cost Short-Term Credit Price Comparison Websites. Available at: <https://www.fca.org.uk/publication/consultation/cp-15-33-behavioural-study.pdf>

<sup>107</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Available at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>108</sup> Ibid.

<sup>109</sup> Oehler, A. (2015). Risiko-Warnhinweise in Kurzinformationen für Finanzdienstleistungen. Eine empirische Analyse (Risk warnings in short information for financial services - an empirical analysis).

**The experiment tested these four principles through various treatments, which varied whether information was shown upfront as well as its timing and format.** The results are reported in section 5.6 below.

In practical terms, ensuring that information is provided in a way that helps consumers to compare offers and make the right choice might be achieved by creating minimum standards or providing guidance for providers (e.g. by publishing best practices).

Various countries have developed standards or regulations addressing the visibility of risks and benefits. The Estonian parliament developed minimum standards regarding font types and sizes to make risks and benefits clearly legible and distinguishable from other information.<sup>110</sup> Croatia has also taken steps in this regard where law prescribes in detail that all the information (in the case of distance selling) must be clear and understandable, otherwise the contract is void. In written information, all content must be easy to read and equally noticeable and inserting relevant consumer information in footnotes is prohibited.<sup>111</sup> Similarly, the Bank of Lithuania requires advertisements not to show benefits unless they are equally visible as the potential risks.<sup>112</sup> In Portugal, providers use recurring pop-ups and banners on the user's home banking interface to inform them of possibilities and dangers.<sup>113</sup> In France, the Lagarde Law contains many provisions to guarantee that consumers are informed<sup>114</sup> and the recently adopted decree 2017-1252 on financial services imposes that all documentation must be available both online and offline.<sup>115</sup>

A tool that might assist consumers to better compare offers and make the right choice is a **standardised information document**. Such documents are already defined at EU-level for some products; consumers should be provided with the Fee Information Document (FID) for current accounts, the Standard European Consumer Credit Information document (SECCI) for personal loans, and the Insurance Product Information Document (IPID) for insurance (the interviews found that some stakeholders see the IPID as a useful remedy<sup>116</sup>). In France, it is mandatory for providers to publish a *fiche tarifaire* providing information on the main fees of their products in the form of a table with the 10-15 most common costs. According to one interviewee, one remedy would be to make these fiches more available and communicate better on them.<sup>117</sup>

There is evidence that single information documents are a positive development since, specifically in online purchases, all information should be available in one document and not spread widely across many pages, as noted by various articles and studies.<sup>118,119,120</sup> However, providers are allowed some discretion in terms of how documents such as the FID and SECCI can be provided (e.g. when in the purchase process they are provided and how prominent they are). Thus, remedies should aim to make the most of such documents by ensuring that they are provided in the way that best helps consumers' decision-making.

Another measure that could remedy shortcomings in information provision is for regulators or other stakeholders to take steps themselves to ensure useful information is available to consumers. Examples of such practices can be found in France, where the Autorité des

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<sup>110</sup> The Parliament of Estonia. (2016). Advertising Act of Estonia. Available at: <https://www.riigiteataja.ee/en/eli/515012018002/consolide>

<sup>111</sup> Dolores Radović. (2015). Legal analysis of distance buying and selling. Available at: <http://www.racunovodja.hr/33/analiza-pravnog-aspekta-kupoprodaje-na-daljini-uniqueidRCViWTptZHJ3hZAWP4cu4lixVQ0k95YI/>

<sup>112</sup> Bank of Lithuania. (2012). Guidelines on Advertising Financial Services (Lithuania). Available at: [https://www.lb.lt/uploads/documents/files/news/general\\_advertising\\_requirements.pdf](https://www.lb.lt/uploads/documents/files/news/general_advertising_requirements.pdf)

<sup>113</sup> Bank of Portugal. (2016). Comercialização de Produtos e Serviços Bancários nos Canais Digitais em Portugal. Available at: <https://cliente bancario.bportugal.pt/sites/default/files/2017-10/QuestCanaisDigitais2016.pdf>

<sup>114</sup> For example, the new rules increase clarity of the adverts, forbid providers to mention that revolving loans allow to improve someone's financial situation, forbid providers to mention that revolving loans can be granted without checking the debtor's solvability. Available at: <http://www.pretautopascher.org/la-loi-lagarde-et-le-credit-renouvelable.html>

<sup>115</sup> Interview with a national governmental authority from France (15-06-2018).

<sup>116</sup> Interview with a sectoral association from France

<sup>117</sup> Interview with a consumer organisation from France (12-06-2018).

<sup>118</sup> Iff. (2007). Study on distance marketing of consumer financial services (iff-Studie: Fernabsatz von Finanzdienstleistungen). Available at: [https://www.iff-hamburg.de/wp-content/uploads/2017/12/fernabsatz\\_report\\_2007\\_iff.pdf](https://www.iff-hamburg.de/wp-content/uploads/2017/12/fernabsatz_report_2007_iff.pdf)

<sup>119</sup> FinTech Mag. (2018). What about Belgian FinTech? Available at: <https://fintech-mag.com/fintech-belgique-2/>

<sup>120</sup> Interview with a sectoral association from France



Marchés Financiers (AMF) has taken actions to raise awareness of the risk of buying virtual currencies. For instance, the AMF used Google Ad Works campaigns to raise awareness. Consumers seeking to invest first see the website of the AMF in their Google results. Such campaigns have been run for risky binary options and cryptocurrencies.<sup>121</sup> Moreover, Fédération Française des Assurances makes available a glossary of terms on their website, which is updated periodically and can be consulted by consumers.

Furthermore, the focus group participants gave various insights regarding how information should be provided in order to aid comparison and understanding of offers:

- The participants agreed that a **uniform presentation** of features and conditions better enables them to **compare offers** (*"I would need a uniform presentation [of information/costs], enabling me to compare offers"*, man, 53, Hamburg).
- **Grouping all conditions** on one side of the provider's website was also identified as useful by participants (*"If all conditions were bundled in one web window, that would be good"*, man, 32, Hamburg).
- A **summary of key information** was welcomed by participants in all countries for both current accounts and personal loans. It would provide a better feeling of control and comprehension and should be presented in a diagram or table.
- In all focus groups a **price breakdown or summary of charges** was seen as very useful for consumers' understanding of personal loans, as it provides a better feeling of control and helps to know the total amount. Except for participants in Germany, this was also the case for current accounts.
- Participants in all countries agreed that for current accounts a **checklist** of what is included free of charge and what is not would be very useful. A checklist of costs and features for personal loans was seen as very useful by participants in Spain.
- A **comparison of the current account options** of a single bank was considered very useful by participants in Germany.

In summary, although 'good' information provision has several dimensions a few key principles can be identified (set out above) and various practical solutions are available to implement these principles. The experiment tested the effectiveness of a number of these principles and solutions, such as providing information upfront (in the pre-contractual stage) in a manner that makes the differences between offers salient. The results are reported in section 5.6 below

### 5.5.2. Measures to deal with information complexity

A practice identified in the desk research that has potential to cause consumer detriment is that information is complex and difficult to understand (e.g. use of jargon and complex terms). The focus groups, literature review and stakeholder interviews offer some insights regarding possible remedies to tackle information complexity.

Focus group participants in Spain stated that they would find it very useful to have terms explained (for current accounts). Thus, providing brief explanations within the purchase process may increase consumer understanding of the product. For example, explanations could be provided by using information boxes which appear when the consumer clicks on a button or icon next to a term. A recent study on insurance products found that consumers are more likely to engage with information if it is provided in small chunks via clickable 'i' icons instead of in an extensive document.<sup>122</sup> Another potential remedy that might enhance consumer understanding (suggested in a 2014 study for the European Parliament) is to provide examples and presenting average consumer experiences.<sup>123</sup>

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<sup>121</sup> Interview with a market authority from France

<sup>122</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Available at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>123</sup> European Parliament. (2014). Consumer potential aspects of financial services. Available at: [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/507463/IPOL-IMCO\\_ET\(2014\)507463\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/507463/IPOL-IMCO_ET(2014)507463_EN.pdf)

Many interviewed stakeholders highlighted that consumers often do not read the terms and conditions due to the length and language complexity. A practice identified by the desk research, which might solve this issue, is to oblige consumers to scroll through the terms and conditions information before being able to continue with the purchase, while another possible solution is to make a summary of the terms and conditions available. Furthermore, a way to address the complexity of information in the online environment is through more interactive channels and engaging platforms that are suitable for different devices (e.g. smartphones and tablets) and could enhance customers' understanding of products.<sup>124,125</sup>

Core insights from the behavioural economics literature suggest that remedies should find ways to make complex information easier for consumers to digest and minimise the risk of information overload (the literature shows that individuals have cognitive limitations, make judgements and choices intuitively<sup>126</sup> and are susceptible to information overload<sup>127</sup> which can cause them to simplify decision-making via heuristics<sup>128</sup>). Furthermore, the behavioural bias known as 'picture superiority effect' (i.e. people develop a better memory for pictures rather than for corresponding words)<sup>129</sup> and studies showing that intuitive choices often rely on visual analogies<sup>130</sup> suggests that incorporating visuals in product information might also be an effective remedy.

Based on these insights, **the current accounts experiment tested two remedies that could be expected to improve consumers' ability to digest complex information;** firstly, presenting concise terms upfront in the product information and making the long technical descriptions available via clickable more information 'i' icons and, secondly, making use of intuitive icons which relate to and represent product features.

### 5.5.3. Independent comparison websites

Online comparison tools have the potential to increase the availability of information, make it more understandable for consumers, and increase general awareness. However, while these websites play a crucial role, they should be independent, free of charge and allow personalisation.<sup>131</sup> To address some of these issues (especially independence) comparison websites could be offered by national institutions.

While generally, price comparison websites are designed to help consumers make product comparisons, they often focus too heavily on headline price, ignoring other essential factors, and firms can 'game' price comparison sites by 'hollowing out' products and using a variety of ancillary charges.<sup>132</sup> A study on comparison tools found that 90% of users perceived them to be the quickest way to compare prices and more than half stated that they usually purchased the cheapest product displayed on the website. Most respondents were rather negative towards price comparison websites, stating that these tools are not independent and impartial.<sup>133</sup>

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<sup>124</sup> European Commission (2017). Consumer Financial Services Action Plan: Better Products, More Choice. Available at:

[http://eur-lex.europa.eu/resource.html?uri=cellar:055353bd-0fba-11e7-8a35-01aa75ed71a1.0003.02/DOC\\_1&format=PDF](http://eur-lex.europa.eu/resource.html?uri=cellar:055353bd-0fba-11e7-8a35-01aa75ed71a1.0003.02/DOC_1&format=PDF)

<sup>125</sup> BEUC. (2016). Green paper on retail financial services. BEUC response to the Commission consultation. Available at:

[http://www.beuc.eu/publications/beuc-x-2016-027\\_fal\\_beuc\\_position\\_green\\_paper\\_financial\\_services.pdf](http://www.beuc.eu/publications/beuc-x-2016-027_fal_beuc_position_green_paper_financial_services.pdf)

<sup>126</sup> Kahneman, D. (2003). Maps of bounded rationality: Psychology for behavioral economics. *American economic review*, 93(5), 1449-1475.

<sup>127</sup> Iyengar, S. S., & Lepper, M. R. (2000). When choice is demotivating: Can one desire too much of a good thing? *Journal of personality and social psychology*, 79(6), 995.

<sup>128</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Available at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>129</sup> Stenberg, G. (2006). Conceptual and perceptual factors in the picture superiority effect. *European Journal of Cognitive Psychology*, 18(6), 813-847.

<sup>130</sup> Kahneman, D. (2003). Maps of bounded rationality: Psychology for behavioral economics. *American economic review*, 93(5), 1449-1475.

<sup>131</sup> Interview with a consumer organisation from Portugal (05-06-2018).

<sup>132</sup> The Open University. (2017). Consumers and competition: Delivering more effective consumer power in retail financial markets. at: [https://fs-cp.org.uk/sites/default/files/fsfp\\_consumers\\_and\\_competition\\_thinkpiece\\_finalpp\\_jtl\\_20170306.pdf](https://fs-cp.org.uk/sites/default/files/fsfp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf)

<sup>133</sup> European Commission (2014). Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools. Available at: [https://ec.europa.eu/info/sites/info/files/final-report-study-on-comparison-tools\\_en.pdf](https://ec.europa.eu/info/sites/info/files/final-report-study-on-comparison-tools_en.pdf)

Focus group participants in Germany and Romania said independent comparison websites for current accounts would be very useful in their decision-making and understanding of the product. However, comparison tools on providers' websites were not considered useful by participants in Romania and Spain, since they did not perceive them as trustworthy.

In general, opinions on and use of comparison websites to obtain information varied across countries. German participants would use comparison websites or independent information centres before visiting banks' websites. Participants in Spain, on the other hand, would not use comparison websites since they do not trust their independence and data security. They also would not search on online blogs or forums as they think these are manipulated in favour of third-party interests. Participants in Romania would also search via Google or on online comparison websites when searching for personal loan offers. They were not aware of any online comparison tools for current accounts.

Several countries have already started national-level initiatives to provide some version of comparison tools or documents. One example is the Belgian FSMA's Wikifin.be website, which is dedicated to financial education and contains an online comparison tool for saving accounts. This decreases the presence of paid-for advertisements from certain providers, which are usually present on comparison websites.<sup>134</sup> Another comparison tool has been provided by the French government since February 2016 through which consumers can compare the main fees charged by financial operators.<sup>135</sup> Latvia's Consumer Rights Protection Centre has also initiated to publish information on fees charged by payment service providers so that consumers can compare these.<sup>136</sup> The UK government's Midata initiative allows consumers to access their personal data electronically which they can then upload to a comparison site (e.g. Gocompare.com) in order to receive more targeted product comparison.<sup>137</sup> Finally, the Luxembourg financial authority CSSF has also set up an online comparison tool.<sup>138</sup>

#### 5.5.4. Behaviourally informed messages to consumers

A further intervention with the potential to mitigate the effects of inadequate information provision is displaying messages to consumers which use behavioural insights to influence consumers' decision-making towards better choices.

Existing messages to consumers at the advertising or pre-contractual stage often focus on providing warnings to consumers. For example, risk warnings are compulsory on material citing potential returns and benefits (a requirement that was extended by MiFID II), the Netherlands Authority for the Financial Markets requires a warning for person loans which translates as "Warning! Borrowing money costs money",<sup>139</sup> and the Belgian law on consumer credit (Wet Consumentenkrediet) requires a warning which translates as "Warning, borrowing money also costs money".<sup>140</sup>

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<sup>134</sup> FSMA. (2013). The FSMA launches its online comparison tool for saving accounts and its new financial education programme. Available at: <https://www.fsma.be/fr/news/la-fsma-lance-son-simulateur-de-comptes-depargne-et-son-nouveau-programme-deducation-financiere>

<sup>135</sup> Directorate General for Competition, Consumption and Fraud Control. (2017). Banks: new measures to facilitate consumers' daily lives. Available at: <https://www.economie.gouv.fr/dgccrf/banques-nouvelles-mesures-pour-faciliter-quotidien-des-consommateurs>. Please refer to the comparison tool: <https://www.tarifs-bancaires.gouv.fr/>

<sup>136</sup> The Parliament of the Republic of Latvia. (2011). Payment Service and Electronic Money Law. Available at: <https://likumi.lv/doc.php?id=206634>

<sup>137</sup> UK Department for Business, Energy and Industrial Strategy. (2018). Modernising Consumer Markets - Consumer Green Paper. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/699937/modernising-consumer-markets-green-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/699937/modernising-consumer-markets-green-paper.pdf)

<sup>138</sup> Government of Luxembourg. (2017). Law of 13 June 2017 relating to payment accounts. Available at: <http://legilux.public.lu/eli/etat/leg/loi/2017/06/13/a559/10>

<sup>139</sup> [www.afm.nl/nl-nl/professionals/onderwerpen/downloadbestanden-informatieverstrekking/kredietwaarschuwing-downloadbestanden](http://www.afm.nl/nl-nl/professionals/onderwerpen/downloadbestanden-informatieverstrekking/kredietwaarschuwing-downloadbestanden)

<sup>140</sup> [www.consumercredit.be/nl/wet-consumentenkrediet/](http://www.consumercredit.be/nl/wet-consumentenkrediet/)

Messages could be envisaged that use insights from behavioural economics to effectively 'nudge' consumers into better decision-making, despite the identified information-related practices. Such messages might utilise the following behavioural insights:

- Use the **social proof bias**. Social proof bias (aka social influence or social pressure) is the tendency of individuals to be heavily influenced by and to copy the actions of others, which has been demonstrated in numerous experiments<sup>141</sup> as well as seen in real-life settings<sup>142</sup>. This bias might be used to help consumers via messages telling them what others "like them" have done in order to make good decisions (such as comparing offers, rather than taking up the advertised offer).
- Exploit **channel factors**. Channel factors refer to how relatively minor changes to a process, especially changes that make it easier and more obvious, can have large impacts on behaviour.<sup>143</sup> This can be used by making it obvious, via a clear "call to action", what step the consumer should take in order to make the right decision.
- Switch consumers from **System 1 to System 2 thinking**. System 1 thinking refers to thought processes that are instantaneous and driven by instinct, whereas System 2 thinking refers to slow and deliberative decision-making.<sup>144</sup> Messages designed to switch consumers' thought processes from the former system to the latter may thus be expected to improve their choices.

There is evidence from previous studies which supports the effectiveness of such warning messages. For example, one study identified 'financial nudging' as a possible remedy that could be used by national authorities to decrease consumer irrationality in financial product selection.<sup>145</sup> Another study on investment funds found that including warning messages improved respondents' choices.<sup>146</sup>

This type of 'nudging for good' has been successfully used in practice in retail finance. For example, a project in South Africa that used behavioural nudges (e.g. embedded within call centre scripts) to help people to increase their pension savings, targeting biases such as present bias, found that these nudges increased savings values by over 155%.<sup>147</sup>

Thus, **the experiment tested messages to participants that used social proofing, channel factors and nudges towards System 2 thinking** to remedy the practice of emphasising product benefits while giving costs lower prominence.

## 5.6. Impacts of the commercial practices and related remedies

The information provision practices identified by the present study would be expected to impact on consumer behaviour because they interact with several behavioural biases, such

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<sup>141</sup> For example, the classical laboratory experiments of Asch (1951) "Effects of Group Pressure Upon the Modification and Distortion of Judgment" in *Groups, Leadership and Men*, ed. Harold Guetzkow, 222–36. Pittsburgh: Carnegie Press, and Milgram (1963) "Behavioral Study of Obedience", *Journal of Abnormal and Social Psychology*, 67(4): 371–78.

<sup>142</sup> For example, Garicano, Palacios-Huerta, and Prendergast (2005) "Favoritism under Social Pressure", *Review of Economics and Statistics*, 87(2): 208–16, and Mas and Moretti (2009) "Peers at Work", *American Economic Review*. *American Economic Review* 2009, 99:1, 112–145.

<sup>143</sup> A classic example is the experiment by Leventhal, Singer, and Jones (1965) "Effects of fear and specificity of recommendation upon attitudes and behaviour", *Journal of Personality and Social Psychology*, 2(1), 20–29. Leventhal et al conducted an experiment to persuade Yale students to get vaccinated against tetanus. Arousal of fear resulted in more favourable attitudes toward inoculation and intentions to get shots; but, it was providing of a map of the campus (on which the health centre was circled) and asking them to find a time when they would hypothetically be available to get the shot that substantially increased uptake from 3% to 25%.

<sup>144</sup> See Daniel Kahneman's book "Thinking, Fast and Slow".

<sup>145</sup> Daxhammer, R. J., & Hagenbuch, R. (2016). *Financial Nudging - Verhaltenswissenschaftliche Ansätze für bessere Finanzentscheidungen*. Available at: <https://publikationen.uni-tuebingen.de/xmlui/bitstream/handle/10900/73445/SS2016%20Working%20Paper%20Financial%20Nudging%20final.pdf?sequence=1>

<sup>146</sup> London Economics (2017) study for the FCA. *Asset Management Market Study – Experimental Consumer Research and Focus Groups*. Available at: <https://www.fca.org.uk/publication/research/asset-management-market-study-behavioural-research.pdf>

<sup>147</sup> Meehan, B., Rosenberg, S. and Duke, C. (2018), "How to Double Savings Rates: A Case Study in Nudging for Good", in *The Behavioral Economics Guide*

as framing<sup>148</sup> and salience<sup>149</sup> effects and satisficing behaviour<sup>150</sup> by consumers. Commercial practices could play into these biases by shaping information to the benefit of the provider. For instance, costs that may deter consumers from purchasing a product may be concealed in small print, playing on salience. Comments made by focus group participants in one country (Romania) alluded to the importance of salience and framing; they mentioned emotional presentation with lively colours and noticeable numbers to remember (e.g. interest rates) or messaging such as 'zero commission'.

This section analyses the impacts of various information-related commercial practices and corresponding remedies that were tested in the current accounts and personal loans experiments outlined in section 2.2. The practices tested in these experiments are:

- Emphasising benefits over costs at the advertising stage;
- Emphasising benefits over costs and locating information where it can be missed at the pre-contractual stage; and,
- Information that is complex and difficult to understand.

### 5.6.1. Emphasising benefits over costs at the advertising stage

Both experiments tested the practice of highlighting the benefits of a product while giving its costs lower prominence in advertising. The impacts of this practice and related remedies on respondents' choices and understanding are presented in the following subsections.

#### 5.6.1.1. Impacts on behaviour and choices

##### *Current accounts experiment*

In the current accounts experiment respondents were required to choose their preferred account within a simulated customer purchase process comprising of three stages: 1) an advertising stage, 2) a pre-contractual (for the advertised account and/or for all accounts) and 3) a validation stage (see Figure 1 in section 2.2).<sup>151</sup> A total of three account options were available to respondents, of which one was the correct choice.<sup>152</sup>

The current accounts experiment tested the practice of emphasising benefits over costs at the advertising stage, and three remedies to this practice in the form of messages (in advertising material) designed to encourage consumers to seek out more information about the accounts on offer. The messages draw on some of the behavioural concepts discussed in the remedies section (section 5.5) such as social proofing (variant 1) and System 2 thinking (variant 4). The table below provides an overview of the commercial practice and the messages (full explanations of the relevant treatment variants can be found in section A8.3.1 in Annex 8).

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<sup>148</sup> Framing effect refers to the fact that the way in which information is presented (e.g. positively or negatively) impacts on the way consumers interpret it.

<sup>149</sup> Salience effect refers to the fact that information that is easily noticeable will be included in consumers' decision-making, whereas information which is difficult to find is overlooked.

<sup>150</sup> Satisficing behaviour refers to the decision-making heuristic people tend to make decisions by satisficing instead of optimising, i.e. they will choose an option that is 'good enough' as opposed to the best option. Thus, if the information presented portrays a product as good enough, it would be chosen.

<sup>151</sup> The experiments and survey were conducted in Finland, France, Germany, Lithuania, Romania and Spain, with a total of 8,451 respondents.

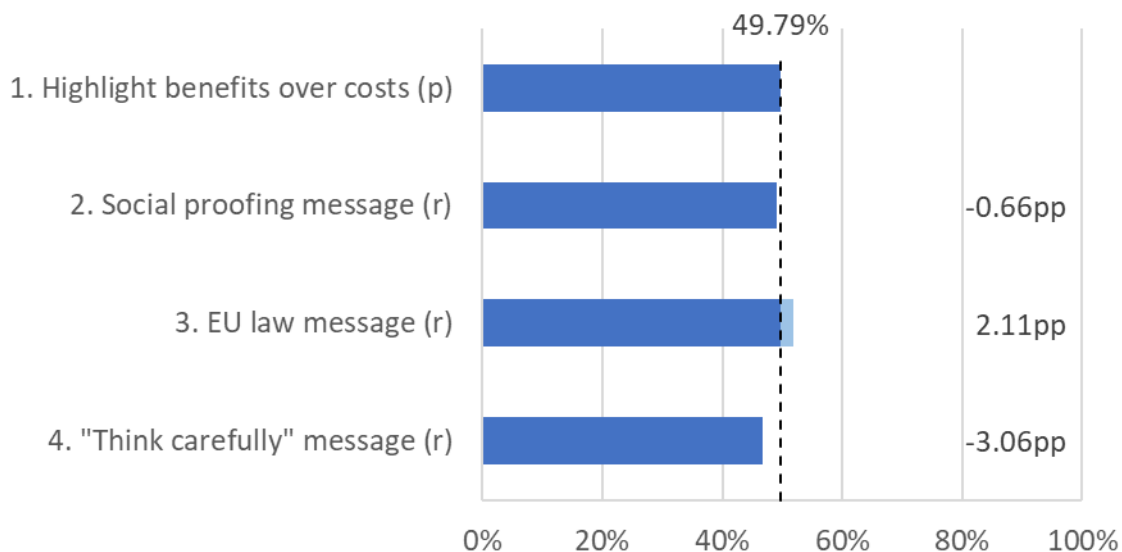
<sup>152</sup> To ensure that decisions could be classified as correct or incorrect, before the start of the experiment respondents were given a 'profile', which defined (implicitly) the characteristics of the account they should choose (see section A8.2 in Annex 8 for details).

Table 11: Treatment variants concerning emphasising benefits in advertising in the current accounts experiment

Treatment variant	Practice or Remedy:
<b>1. Highlight benefits over costs:</b> Highlight the features and costs most advantageous for the advertised account	✗ Practice
<b>2. Social proofing message:</b> Message that customers like them compare offers	✓ Remedy
<b>3. EU law message:</b> Message that EU law give them the right to compare offers	✓ Remedy
<b>4. "Think carefully" message:</b> Message that they should think carefully about whether the account is right	✓ Remedy

The figure below shows the proportion of respondents who chose the optimal current account under each of the treatment variants outlined above. The dotted line shows the proportion of respondents who made the optimal decision under the practice (the first variant in the table above) and the values beside bars 2 to 4 give the percentage point deviations from this proportion under each remedy.

Figure 15: Emphasising benefits in advertising – Proportion of respondents choosing correct account



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=2,412 (variant 1: 602; variant 2: 603; variant 3: 603; variant 4: 604)

As can be seen, nearly half of the respondents chose the correct account under the practice (when the benefits of the advertised product were highlighted). When the messages were shown (the remedies), the share who chose the optimal account was broadly similar to the share under the practice.

The figure above shows respondents' final choice of account in the experiment. However, these treatment variants were applied at the advertising stage, two steps prior to the final decision. As described in sections 2.2 and A8.1.3 in Annex 8, at this advertising stage respondents could click on an advertisement or move to an account comparison screen.

Therefore, for these treatments it may be informative to examine respondents' decisions specifically at the advertising stage. The table below shows the share of respondents who clicked on the advert, which was sub-optimal behaviour. As the table shows, the proportion

of respondents who clicked on the advert was stable across the commercial practice and remedy variants (there are no statistically significant differences), implying that these remedies had little impact in the experiment.

Table 12: Percentage of respondents clicking on the advertisement at the advertising stage in the current accounts experiment

Treatment variant	Percentage
1. Highlight benefits over costs	13.72%
2. Social proofing message	14.36%
3. EU law message	11.91%
4. "Think carefully" message	15.95%

\*Significantly different from proportion under the commercial practice (highlight benefits over costs) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
N=2,412 (variant 1: 602; variant 2: 603; variant 3: 603; variant 4: 604)

### Personal loans experiment

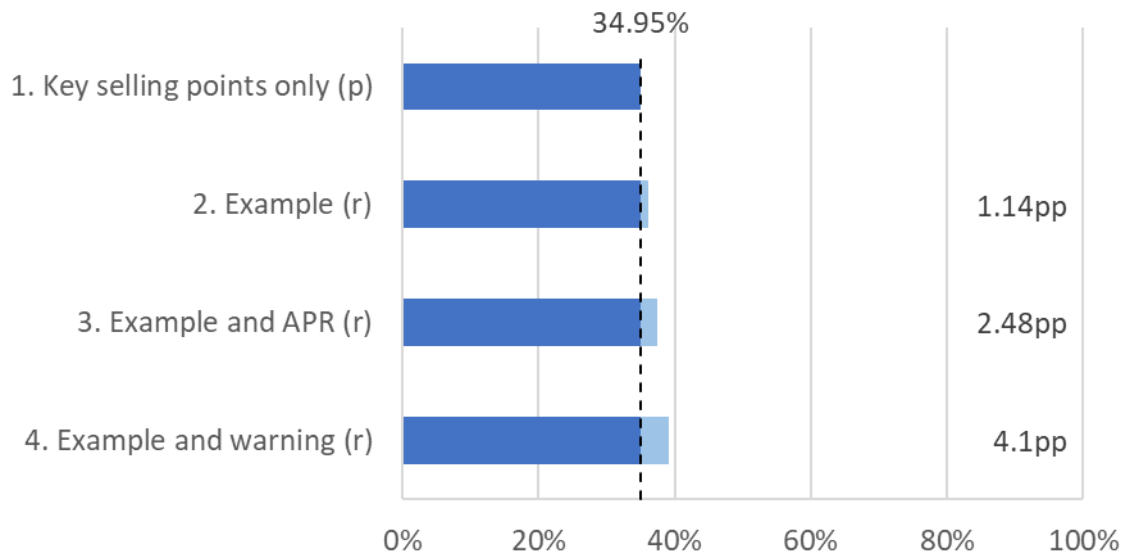
The personal loans experiment tested various information requirements to alleviate a lack of balanced information in the advertisement. The table below gives an overview of the practice and remedy treatments tested in this area in the personal loans experiment (see section A9.3.2 in Annex 9 for details). The rationale for these remedies is that key information should be provided upfront and saliently (as discussed in section 5.5.1 above).

Table 13: Treatment variants concerning emphasising benefits in advertising in the personal loans experiment

Treatment variant	Practice or Remedy:
<b>1. Key selling points only:</b> Only the key selling point of the advertised loan is shown	✗ Practice
<b>2. Example:</b> Representative example is shown	✓ Remedy
<b>3. Example and APR:</b> Representative example and APR are shown	✓ Remedy
<b>4. Example and warning:</b> Representative example and message "Warning! Borrowing money also costs money" are shown (at Point-of-Sale and alongside the offer)	✓ Remedy

The figure below shows the proportion of respondents who chose the correct loan under each of these treatment variants. Again, the impact of the various remedies on the share who ultimately made the right choice is at most small. As expected, the representative example, APR and warning messages resulted in more respondents making the correct decision (the results are directionally intuitive). However, the differences relative to the commercial practice are not sufficiently large to be statistically significant.

Figure 16: Emphasising benefits in advertising – Proportion of respondents choosing correct loan



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=3,073 (variant 1: 769; variant 2: 769; variant 3: 767; variant 4: 768)

However, like the results in Figure 15 above for the current accounts experiment, these results only examine the final choice of respondents, whereas the treatment variants were applied at the advertising stage. At this stage, respondents could click on an advertisement or chose to compare loans, with the advertised loan being sub-optimal (see sections 2.2 and A9.1.3 in Annex 9). The remedies created important behavioural change at the advertising stage, as can be seen from Table 14.

Table 14 below shows the percentage of respondents who clicked on the advertisement under the commercial practice and the various remedies. It shows that the representative example significantly reduced the likelihood that a respondent clicked on the advertisement (the suboptimal action at that stage) by 42% to 30%.<sup>153</sup> The treatments relating to the advertisement are, however, one step further removed from the final decision on which loan to take.

Table 14: Percentage of respondents clicking on advertisement at point-of-sale in the personal loans experiment

Treatment variant	Percentage
1. Key selling points only	41.74%
2. Example	29.55%***
3. Example and APR	29.30%***
4. Example and warning	30.95%***

\*Significantly different from proportion under the commercial practice (key selling points only) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 N=3,073 (variant 1: 769; variant 2: 769; variant 3: 767; variant 4: 768)

These results show that the representative example does produce the intended impact at the intended point in the consumer journey. In the experiment, ultimately respondents were equally good at identifying the optimal loan across these treatments due to the pre-contractual information provided to them. In reality, the change in behaviour prompted by

<sup>153</sup> Conversely, this implies that more respondents made the optimal choice of choosing to compare loans.



the representative example (as seen in the experiment) may lead to better decision-making by consumers.

### 5.6.1.2. Impacts on understanding

Both experiments measured respondents' understanding in two ways. Firstly, respondents were asked a number of questions with objectively correct and incorrect answers. Examples include questions regarding monthly payments in the personal loans experiment, or access to mobile and internet banking in the current accounts experiment. The answers to these questions are used to form an objective score of each respondent's understanding.

Furthermore, respondents were asked to assess whether they found information on certain product fees and features easy or difficult to find or understand.<sup>154</sup> For more detail on the objective and subjective questions, see sections A8.4 in Annex 8 and A9.4 in Annex 9. For more details on the analysis of questions, see section A10.2 in Annex 10.

The objective understanding of respondents was stable across the commercial practices and remedies in both experiments. On average, respondents provided the same number of correct answers. Likewise, the subjective assessments of whether information was easy to find and understand were similar across the treatment variants in the current accounts experiment.

In the personal loans experiment, however, the subjective assessment was impacted by the remedies. In particular, the ease with which respondents could find and understand the arrangement fee and contract details was impacted by the commercial practice and related remedies. The table below shows the average assessment scored from -10 to 10, where -10 would imply that all respondents found it very difficult to find or understand information and 10 would imply that all respondents found it very easy to do so<sup>155</sup>.

**Table 15: Average subjective assessment of ease of finding and understanding information, personal loans experiment**

	Treatment variant			
	1. Key selling points only	2. Example	3. Example and APR	4. Example and warning
<i>How easy is it the find information on...</i>				
Arrangement fee	0.33	1.94***	1.11	1.45**
Contract details	3.79	4.75**	3.87	3.75
<i>How easy is to understand information on...</i>				
Arrangement fee	0.43	2.15***	1.39*	1.48**
Contract details	3.57	4.49**	4.06	3.570

"Very difficult" = -10, "Somewhat difficult" = -3 1/3, "Somewhat easy" = 3 1/3, "Very easy" = 10.

\*Significantly different from score under the commercial practice (key selling points only) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level

N=3,073 (variant 1: 769; variant 2: 769; variant 3: 767; variant 4: 768). Note that the average score further excludes respondents answering "Don't know" to the relevant questions.

Providing a representative example, either with or without giving the APR special prominence (variants 2 and 3) or the warning (variant 4), improved the ease with which

<sup>154</sup> The answer options were "Very easy", "Somewhat easy", "Somewhat difficult", "Very difficult", "Don't know". For current accounts, the fees and features asked about were: account maintenance fee; overdraft fees; cash withdrawal fees; standing order and direct debit fees; and product features other than fees. For personal loans, the fees and features asked about were: nominal interest rate; APR; monthly payment; arrangement fee; contract details.

<sup>155</sup> More precisely, the assessment of each respondent is scored such that "Very easy" equals 10, "Somewhat easy" equals 3 1/3, "Somewhat difficult" equals -3 1/3 and "Very difficult" equals -10. "Don't know" responses are ignored. The table provides the average over these individual scores. See Annex 11 for more details.

respondents could find and interpret information about arrangement fees. Furthermore, the representative example on its own improved the ease with which respondents could find and interpret information on contract details.

The representative example made respondents feel better able to find and interpret crucial information better than under the commercial practice. In line with the finding in the previous section, the representative example has an impact on consumers. A small crowding-out effect can be detected; the representative example on its own showed larger improvements in perceived ease of understanding than the example coupled either with the APR or with a warning.

### 5.6.1.3. Factors and drivers linked to susceptibility to the commercial practices

Demographic, attitudinal and contextual factors and drivers may influence and moderate consumers' susceptibility to commercial practices and the impact of related remedies. The factors and drivers that are considered and analysed with respect to respondents' choices in the experiment are:

- **Country of residence:** Finland, France, Germany, Lithuania, Romania, Spain;
- **Experimental environment:** desktop, mobile<sup>156</sup>;
- **Digital literacy:** basic skills or lower, above basic skills;
- **Financial literacy:** 0-1, 2-3 correct questions on a financial literacy test;
- **Risk preferences:** risk averse, risk neutral or risk seeking;
- **Time preferences:** future feels distant from the present, intermediate, future feels close to the present; and,
- **Financial situation:** easy to make ends meet, difficult to make ends meet.

For a more detailed explanation of these factors see the details of the experiment analysis methodology in Annex 10. Note that (in the interests of brevity) in the reporting below we highlight **only statistically significant differences** in the treatment effects depending on the factors and drivers listed above. Full results are available on request.

The impact of these factors and drivers has been analysed by looking at the effects of the remedies separately for each group (e.g. for Spanish respondents or respondents in the mobile environment only). Regression analysis has also been used to test the robustness of the results and the multivariate regression analysis confirms the individual subgroup results (see section A10.3 in Annex 10 for more details). Full results for this regression analysis are also available on request.

#### *Current accounts experiment*

The effects of the remedies examined in this section on the final decision in the experiment are similar across the various factors and drivers, with the exception of the impact of one remedy depending on respondents' financial literacy. Specifically, the effect of the message stating the right to compare offers under EU law ("EU law message") differs between those with lower (0 or 1 correct answers) and higher (2 or 3 correct answers) financial literacy.

For respondents with higher financial literacy, the message improved decision-making; the proportion of respondents who chose the correct account increased by 9.67 percentage points compared to the practice. However, among respondents with lower financial literacy the proportion who identified the correct account decreased by 14.63 percentage points compared to the commercial practice.<sup>157</sup> This result is somewhat surprising. Examining the underlying behaviour in the experiment, those with low financial literacy were more likely to click on the (suboptimal) advertised account at the advertising stage under this remedy relative to the practice (the opposite of the effect for the high financial literacy group). This

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<sup>156</sup> Both the current accounts and personal loans experiments were conducted in one of two environments. Half of the respondents completed the experiments in a computer desktop environment, and the other half completed the experiments in a simulate mobile phone environment.

<sup>157</sup> Both results are statistically significant at the 5% level.

might be explained by the message giving them confidence that it was fine to follow the advert (since the EU would protect them in any case).

It should be noted that, overall, respondents with higher financial literacy performed better in the experiment than those with lower financial literacy, as expected. This is in line with the literature which has noted financial literacy as an important driver. For example, those with lower financial literacy were found to less actively search for more information about products.<sup>158</sup> Thus, a lack of financial literacy is likely to lead to riskier financial decisions.<sup>159</sup> Those with lower education have also been found to be less likely to select the best deal and more likely to compare banks solely based on advertisements.<sup>160</sup>

### *Personal loans experiment*

As in the current accounts experiment, the effects of the remedies on the choice of loan are consistent across the various groups examined. However, some factors and drivers seem to interact with the effect of the remedies at the advertising stage.

As noted above, the representative example decreased the proportion of respondents who clicked on the advert in the experiment. Although generally this is true across the various groups, important nuances exist. Specifically, there are some differences across countries. The table below shows the proportion of respondents who clicked on the advertisement in the experiment, by country.

Table 16: Percentage of respondents clicking on advertisement at point-of-sale in the personal loans experiment, per country

	Finland	France	Germany	Lithuania	Romania	Spain
1. Key selling points only	34.8%	43.0%	43.0%	29.0%	38.2%	42.2%
2. Example	13.9%***	29.8%**	28.0%**	28.5%	35.4%	32.4%
3. Example and APR	20.4%**	27.3***	34.5%	26.6%	37.1%	22.1%***
4. Example and warning	22.3%**	25.5%***	33.1%	27.8%	36.7%	33.9%

\*Significantly different from proportion under the commercial practice (key selling points only) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
N=3,073 (variant 1: 769; variant 2: 769; variant 3: 767; variant 4: 768)

The first point to note from Table 16 is that **in all countries** the proportion of respondents who clicked on the advertisement is lower under every remedy (variants 2 to 4) than it is under practice (variants 1). That said, the sizes and statistical significance of the effects vary across countries. In particular, the representative example, with or without special prominence to the APR (variants 2 and 3) or warnings (variant 4), was highly effective in Finland and France but the effects were smaller in other countries. Partly, this might be explained by the fact that respondents in some countries were already less likely to click on advertising under the practice (e.g. in Lithuania).

The effect of the representative example also differed for some other factors. Respondents in the desktop environment did not benefit from the representative example, as they were already less likely to click on advertising. Moreover, only risk averse respondents benefited from the representative example, although they were more likely to click on the advertising

<sup>158</sup> EIOPA. (2015). EIOPA Opinion on sales via the Internet of insurance and pension products. Available at: [https://eiopa.europa.eu/Publications/Opinions/Opinion\\_on\\_sale\\_via\\_the\\_internet\(published\).pdf](https://eiopa.europa.eu/Publications/Opinions/Opinion_on_sale_via_the_internet(published).pdf)

<sup>159</sup> Maria Silgoner, Bettina Greimel-Fuhrmann, Rosa Weber. (2015). Financial literacy gaps of the Austrian population. Available at: [https://www.oenb.at/dam/jcr:cff882a2-aa47-4d90-.../mop\\_2015\\_q2\\_analyses02.pdf](https://www.oenb.at/dam/jcr:cff882a2-aa47-4d90-.../mop_2015_q2_analyses02.pdf)

<sup>160</sup> European Commission. (2016). Consumer vulnerability across key markets in the European Union. Available at: [https://ec.europa.eu/info/sites/info/files/consumers-approved-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/consumers-approved-report_en.pdf).

in the first place. Thus, the representative example caused the behaviour of risk averse individuals to converge with that of risk neutral or seeking individuals.

### 5.6.2. Emphasising benefits over costs and locating information where it can be overlooked

Both experiments tested two closely-related commercial practices at the pre-contractual stage, namely emphasising benefits over costs and locating information where it can be easily overlooked. These practices were examined jointly in each experiment. The impact of these practices and related remedies are presented in the following subsections.

#### 5.6.2.1. Impacts on behaviour and choices

##### *Current accounts experiment*

The current accounts experiment examined five remedies to these practices. Two remedies presented information in the Fee Information Document (FID)<sup>161</sup>, two remedies provided comparison tables in the style of the FID, and one remedy provided a calculator to help respondents identify the optimal account. These remedies attempt to provide information saliently and in a more engaging format in way that aids comparison (as discussed in section 5.5.1). The table below provides an overview of the practices and remedies tested (see section A8.3.2 in Annex 8 for more information).

Table 17: Treatment variants concerning emphasising benefits in pre-contractual information and locating information where it can be overlooked in the current accounts experiment

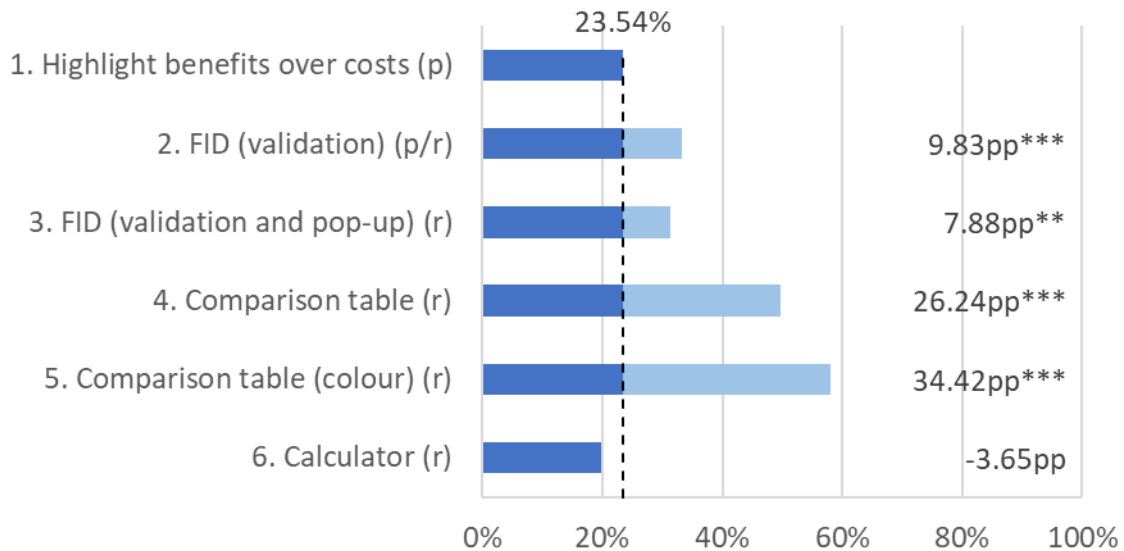
Treatment variant description	Practice or Remedy:	
	Benefits emphasised while costs are hidden or given lower prominence	Information layered and located in places that can be overlooked
<b>1. Highlight benefits over costs:</b> Only the best aspects of the advertised account were presented upfront, important information was placed behind a button at the validation stage	✗ Practice	✗ Practice
<b>2. FID (validation):</b> As per 1, except the FID was provided upfront at the validation stage	✗ Practice	✓ Remedy
<b>3. FID (validation and pop-up):</b> FID was provided upfront at the validation stage & via a pop-up at the pre-contractual stage	✓ Remedy	✓ Remedy
<b>4. Comparison table:</b> Upfront comparison table in style of FID was provided at the validation and pre-contractual stages	✓ Remedy	✓ Remedy
<b>5. Comparison table (colour):</b> Upfront colour-coded comparison table in style of FID was provided at the validation and pre-contractual stages	✓ Remedy	✓ Remedy
<b>6. Calculator:</b> Calculator provided to help identify the best account	✓ Remedy	✓ Remedy

The figure below shows the proportion of respondents who chose the correct account under each treatment variant. All remedies, except the calculator, resulted in respondents being significantly more likely to choose the optimal account compared to the practice. Providing

<sup>161</sup> The Fee Information Document was introduced by the Payment Accounts Directive and Commission Implementing Regulation (EU) 2018/34 sets out the format of this document.

balanced information in a well-structured format had a powerful beneficial effect on the ability of respondents to choose correctly.

Figure 17: Emphasising benefits in pre-contractual information – Proportion of respondents choosing the correct account



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (p/r) variant simulates both the commercial practice and a remedy;  
 (r) variant simulates a remedy  
 N=3,622 (variant 1: 603; variant 2: 605; variant 3: 604; variant 4: 602; variant 5: 604; variant 6: 604)

The two remedies that used the FID (variants 2 and 3 in the table and figure above) differed in terms of the timing when the document was available. In variant 3, the FID was available to respondents sooner than in variant 2 through a pop-up. The figure above suggests that the availability of the pop-up did not make a difference to behaviour, but this conceals an important finding. Respondents who *actively* opened the FID through the pop-up in variant 3 were twice as likely to choose the correct account than those who did not (47.18% versus 23.40%), a difference that is highly significant.

These results suggest that the FID is a useful tool to improve decision-making. Earlier access to the document is useful, as long as it is used actively. Merely providing the document as a passive weblink did not improve decision making, as shown in the figure above, but respondents who actively used the link to the FID were better off.<sup>162</sup>

The two variants which showed information in comparison tables (variants 4 and 5 in the table and figure above) differed in their use of colour-coding. The colour coding illustrated whether, for the account in question, a particular feature was the best (green) or suboptimal (red) among the accounts offered. Respondents were significantly more likely to choose the correct account when the comparison table was colour-coded.

The result for the calculator tool can be explained by its usage. Most respondents used the calculator (79.76%). However, of the respondents that used the calculator, most (78.63%) provided some incorrect input that may have led to the calculator providing the wrong recommendation. The number of days per year in overdraft in particular proved to be a stumbling block.<sup>163</sup> Therefore, although calculator tools may be able to help consumers to

<sup>162</sup> It must be noted that we cannot rule out that respondents who are more likely to identify the correct account are more likely to open the pop-up with the FID. Furthermore, active use of the FID through a pop-up is related to higher digital and financial literacy.

<sup>163</sup> This effect cannot be explained by the level of digital or financial literacy of respondents using the calculator. Although respondents with higher levels of literacy were more likely to use the calculator, they were equally likely to provide correct inputs.

make better choices, it is important that they are designed such that consumers are able to use them properly, and consumers' skill at using them needs to be taken into account.

### *Personal loans experiment*

The personal loans experiment examined two potential remedies to the commercial practices. Both remedies provided information about the loans on offer in a structure and style inspired by the Standard European Consumer Credit Information (SECCI)<sup>164</sup> document, designed to provide information saliently and aid comparison (see section 5.5.1). The table below provides an overview of these practices and remedies (see section A9.3.2 in Annex 9 for more information).

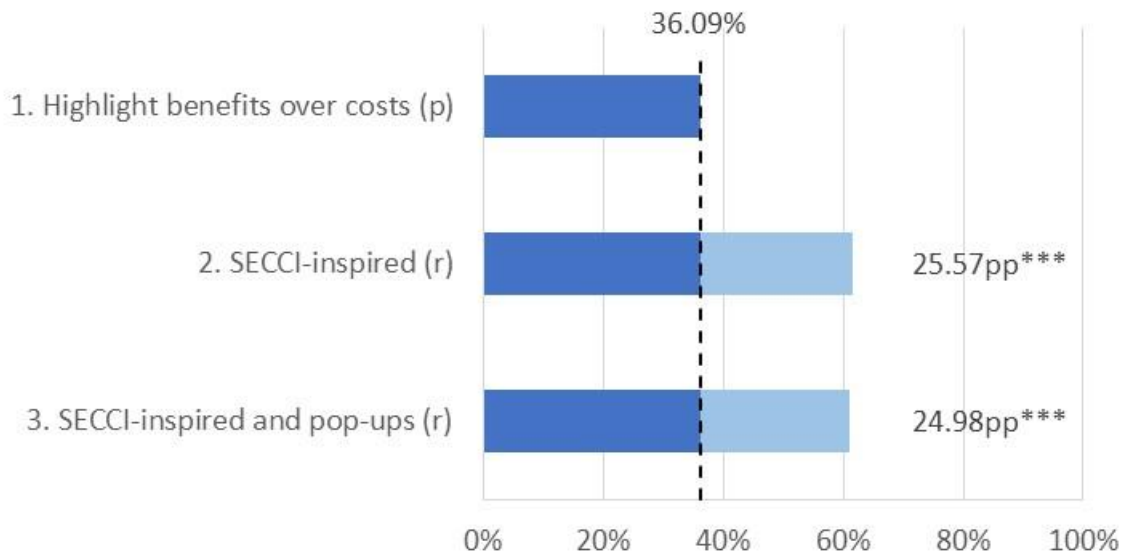
Table 18: Treatment variants concerning emphasising benefits in pre-contractual information and locating information where it can be overlooked in the personal loans experiment

Treatment variant	Practice or Remedy:	
	Benefits emphasised while costs are hidden or given lower prominence	Information layered and located in places that can be overlooked
<b>1. Highlight benefits over costs:</b> Only the best features of the advertised loan are shown upfront, with the order of the features favouring the advertised loan	✗ Practice	✗ Practice
<b>2. SECCI-inspired:</b> All loan information is shown upfront, laid-out and ordered as per the SECCI	✓ Remedy	✓ Remedy
<b>3. SECCI-inspired and pop-ups:</b> All loan information is shown upfront, laid-out and ordered as per the SECCI, and additional explanations are available via pop-up boxes	✓ Remedy	✓ Remedy

The figure below shows the proportion of respondents who chose the correct loan under each of these treatment variants. As in the current accounts experiment, providing balanced and well-structured information had a substantial positive effect on respondents' choices. The additional explanations via the pop-ups did not have an additional effect, likely because only 9% of respondents engaged with the additional information in the pop-ups.

<sup>164</sup> The Standard European Consumer Credit Information Document is set out in Annex II of the Consumer Credit Directive (2008/48/EC). Note that the purpose of this study was not to test the actual SECCI.

Figure 18: Emphasising benefits in pre-contractual information – Proportion of respondents choosing the correct loan



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=2,305 (variant 1: 769; variant 2: 768; variant 3: 768)

The experiment shows that providing information in a structured and standardised format greatly helped respondents. This is in line with the focus group evidence which revealed similar sentiments. Participants in the focus groups reported that hiding information and locating it where it is difficult to find inhibited their understanding of contractual details and caused uncertainty as to whether the terms of the contract were understood correctly. Similarly, complexity, ambiguity, length and technical language (see section 5.6.3) have impeded participants' engagement with pre-contractual information and thus their understanding of the product.

In some cases, the resulting uncertainty, resentment and/or mistrust caused participants to abort the online purchasing process and, in some instances, to conclude the contract offline rather than online. In other cases, they signed contracts without completely reading and understanding the pre-contractual information. Participants in Romania stated that regular consumers do not even read the contract or read it 'on the diagonal', claiming that they don't have the expertise to really understand what is written. Participants in Spain partly signed contracts without full comprehension and hoped to comply with everything the contract involved. They believed consumers only look at it in detail after concluding the contract and only in case they have a problem. They stated they would need more relevant information to make the best decision possible and their understanding would be enhanced if more images or other visuals were provided.

*"You don't aspire to understand this information one hundred percent."* (Woman, 55, high education level/financial literacy group, Madrid)

These sentiments are in line with research by a website, which found that consumers rarely read terms and conditions when they enter into a contract. Websites' click-through data finds that fewer than 1% of shoppers open the terms associated with a retail purchase. Uninformed consent exposes consumers to the risk of being caught out and one in ten consumers has experienced regret for not reading terms and conditions.<sup>165</sup>

<sup>165</sup> UK Department for Business, Energy and Industrial Strategy. (2018). Modernising Consumer Markets - Consumer Green Paper. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/699937/modernising-consumer-markets-green-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/699937/modernising-consumer-markets-green-paper.pdf)

The results suggest that FID and SECCI-inspired documentation helps to alleviate these problems by providing information in a more easily understood and well-structured format. However, there are limitations. Excessively long documents might be problematic due to consumers' bounded rationality, and consumers may not read large amounts of information that is available in pre-contractual information or may not understand the information fully.<sup>166</sup>

#### 5.6.2.2. Impacts on understanding

Respondents' understanding was measured through questions with objectively verifiable answers and subjective assessment of the ease of finding and understanding information (see section A10.2 in Annex 10 for a more detailed explanation). The next two subsections show the impact on understanding of the treatment variants of the two experiments separately.

##### *Current accounts experiment*

Objective understanding of the chosen account was similar for respondents subject to the commercial practice, the FID remedies and the comparison table remedies. The calculator, however, seems to have impeded their objective understanding. On average, respondents who could use the calculator answered fewer questions correctly compared to those under the commercial practice, highlighting a dilemma with the calculator. It could be a useful tool if used correctly, but it may also serve as a substitute for understanding, in that people do not need to understand the products but instead can just enter their details into the calculator.

In terms of respondents' subjective assessments, the effects of the treatment variants with respect to three particular fees stand out. The table below shows the average assessment, scored from -10 to 10 for the ease of finding and understanding information on overdraft fees, cash withdrawal fees, and standing order and direct debit fees.

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<sup>166</sup> CEPS. (2017). The Future of Retail Financial Services. Available at: <https://www.ceps.eu/system/files/TFRFutureFinancialServices.pdf>



Table 19: Average subjective assessment of ease of finding and understanding information, current accounts experiment

	Treatment variant					
	1. Highlight benefits over costs	2. FID (validation)	3. FID (validation and pop-up)	4. Comparison table	5. Comparison table (colour)	6. Calculator
<i>How easy is it to find information on...</i>						
Overdraft fees	-0.23	2.22***	2.45***	3.95***	4.04***	-0.419
Cash withdrawal fees	2.08	0.90**	1.25	4.32***	3.80***	1.68
Standing order and direct debit fees	0.42	0.01	0.84	2.72***	2.20***	-0.24
<i>How easy is it to understand information on...</i>						
Overdraft fees	0.73	2.73***	2.45***	3.71***	3.77***	0.44
Cash withdrawal fees	2.62	1.96	2.07	4.30***	3.51*	2.181
Standing order and direct debit fees	1.26	1.35	1.51	2.60***	2.48**	0.44

"Very difficult" = -10, "Somewhat difficult" = -3 1/3, "Somewhat easy" = 3 1/3, "Very easy" = 10.

\*Significantly different from score under the commercial practice (highlight benefits) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level

N=3,622 (variant 1: 603; variant 2: 605; variant 3: 604; variant 4: 602; variant 5: 604; variant 6: 604). Note that the average score further excludes respondents answering "Don't know" to the relevant questions.

The comparison tables made respondents feel that they could more easily find and understand the all three types of fees in Table 19 (overdraft fees, cash withdrawal fees and standing order and direct debit fees).

Providing information in the form of the FID made respondents feel they could more easily find and understand overdraft fees, compared to the commercial practice. Interestingly, the FID made respondent feel it was more difficult to find information on cash withdrawal fees. For most accounts on offer in the experiment, no withdrawal fees were charged. Therefore, the FIDs for these accounts bundled “cash withdrawal” with other product features without mentioning fees, which may explain why cash withdrawal fees were more difficult to find under the FID remedies.

### *Personal loans experiment*

The objective understanding of the chosen loan was also similar across treatment variants in the personal loans experiment. However, the remedies did impact on respondents’ subjective assessments of the ease of finding and understanding information.

The table below shows the assessment for ease of finding and understanding information on the nominal interest rate, the APR and the arrangement fee. In all cases, the SECCI-inspired information format made respondents perceive that information was easier to find and understand. For information on the nominal interest rate and APR, additional explanations seem necessary since SECCI-inspired information format with these explanations provided via pop-up (variant 3) makes finding and understanding the easiest according to respondents.

Table 20: Average subjective assessment of ease of finding and understanding information, personal loans experiment

	Treatment variant		
	1. Highlight benefits over costs	2. SECCI-inspired	3. SECCI-inspired and pop-ups
<i>How easy is it to find information on...</i>			
Nominal interest rates	3.83	3.81	4.51*
APR	3.50	4.17*	4.89***
Arrangement fees	1.94	3.93***	4.18***
<i>How easy is it to understand information on...</i>			
Nominal interest rates	2.76	2.87	3.67**
APR	2.82	3.11	3.88***
Arrangement fees	2.15	3.60***	4.19***

“Very difficult” = -10, “Somewhat difficult” = -3 1/3, “Somewhat easy” = 3 1/3, “Very easy” = 10.

\*Significantly different from score under the commercial practice (highlight benefits) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level

N=2,305 (variant 1: 769; variant 2: 768; variant 3: 768). Note that the average score further excludes respondents answering “Don’t know” to the relevant questions.

### 5.6.2.3. Factors and drivers linked to susceptibility to the commercial practices

The effects of the practices and remedies covered in this section (outlined in 5.6.2.1) may be impacted by various factors and drivers (i.e. demographics, attitudes, context, etc.). The next subsections assess whether such impacts seem to exist based on the experiment results. See section A10.3 in Annex 10 for a more detail explanation on the analysis of factors and drivers.

### *Current accounts experiment*

Table 21 overleaf shows the treatment effects for the examined factors and drivers for the current accounts experiment. Each cell shows the percentage point difference of the proportion of respondents who chose the optimal account under the remedies relative to the practice (i.e. highlighting benefits and hiding costs). This is equivalent to the values presented alongside the bars in Figure 17. However, in this case, the effects are exclusively for respondents in the relevant category.

Across all factors and drivers, it seems that the comparison tables worked best in terms of promoting correct behaviour. The table shows that in all countries the comparison tables, especially the colour-coded table, were most effective. The calculator, on the other hand, was generally ineffective and may actually have been detrimental for some groups.

The extent that the FID produced better decision-making varied depending on the group. The FID had a positive impact on decision-making for the vast majority of subgroups and this effect measured at 5 percentage points or more for over two thirds of subgroups, although often these effects are statistically significant (possibly due to the smaller sample sizes at country level). However, there were differences across countries. In particular, the observed effectiveness of the FID was greatest in Germany and Finland, followed by France and Lithuania.

The results in Table 21 also suggest that information remedies may be able to bridge the gap in decision-making quality between desktop and mobile phone users. Respondents in the desktop environment were generally better able to identify the optimal account (39.08% versus 34.94%) but, as the table shows, the remedies were more effective in the mobile environment. In fact, the colour-coded comparison table was so effective in the mobile environment that it reversed the relationship between the two environments; 60% of respondents in the mobile phone environment *and* with the colour-coded comparison table were able to identify the optimal account, versus 56% in the desktop environment.

Table 21: Treatment effects for different categories of factors and drivers, current accounts

Category	FID (validation)	FID (validation and pop-up)	Comparison table	Comparison table (colour)	Calculator
<i>All respondents</i>					
All respondents	9.83pp***	7.88pp**	26.24pp***	34.42pp***	-3.65pp
<i>Country</i>					
Finland	13.88pp**	10.78pp*	30.62pp***	38.16pp***	-3.50pp
France	8.50pp	2.84pp	21.85pp***	24.80pp***	-4.05pp
Germany	18.55pp***	16.49pp***	27.03pp***	38.78pp***	3.46pp
Lithuania	6.16pp	3.47pp	18.18pp***	27.16pp***	-3.35pp
Romania	-1.67pp	2.29pp	14.14pp**	27.03pp***	-5.91pp
Spain	-2.10pp	-0.03pp	31.56pp***	40.53pp***	-14.77pp***
<i>Environment</i>					
Mobile	13.70pp***	10.87pp***	30.74pp***	42.69pp***	0.99pp
Desktop	8.6pp**	8.39pp*	24.74pp***	28.97pp***	-5.32pp
<i>Digital literacy</i>					
Basic skills or lower	4.87pp	2.71pp	11.94pp*	26.46pp***	-1.30pp
Above basic skills	11.83pp***	9.67pp***	31.89pp***	36.96pp***	-4.70pp
<i>Financial literacy</i>					
0/1 questions correct	0.48pp	1.48pp	22.23pp***	20.92pp***	-9.57pp*
2/3 questions correct	13.80pp***	10.53pp***	27.97pp***	40.30pp***	-1.19pp
<i>Risk preferences</i>					
Risk averse	5.56pp	7.98pp*	21.63pp***	26.71pp***	-6.81pp*
Risk neutral	16.08pp*	6.37pp	34.00pp***	35.92pp***	-2.20pp
Risk seeking	14.25pp**	9.08pp	29.59pp***	48.05pp***	2.30pp
<i>Time preferences</i>					
Distant from present	7.05pp	6.75pp	22.22pp***	21.88pp***	-6.32pp
Intermediate	10.29pp	15.26pp*	32.71pp***	42.79p***	-7.58pp
Close to present	10.08pp*	3.25pp	25.04pp***	38.15pp***	0.14pp
<i>Financial situation</i>					
Easy to make ends meet	14.77pp***	10.87pp**	24.21pp***	37.07pp***	1.52pp
Difficult to make ends meet	3.06pp	3.63pp	26.65pp***	31.48pp***	-8.86pp*

\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
N=3,622 (variant 1: 603; variant 2: 605; variant 3: 604; variant 4: 602; variant 5: 604; variant 6: 604)

The literacy indicators suggest that consumers generally need a certain level of skills before some information remedies are effective. The treatments were generally less effective for

respondents with lower digital or financial literacy, who could be considered as potentially vulnerable. The results imply the comparison tables were more accessible than the FID; they were effective for respondents with lower levels of literacy. This may be due to the fact that a comparison table provides a simplified version of the FID that is easier to engage with for those with lower skills.

For instance, the comparison tables showed information side-by-side when comparing accounts with information being presented in a highly consistent format (see Figure 19). The FIDs showed information for one account at a time and simplified information on services for which no separate fee was charged (see Figure 20, which shows the same information as in Figure 19 for the first two accounts). Both the side-by-side presentation and the highly consistent format of the comparison tables made them easier to use when comparing accounts.


Figure 19: Comparison tables for current account comparison in the current accounts experiment.

	Direct Account	A   B   C Account	Classic Account
	<a href="#">Apply now</a>	<a href="#">Apply now</a>	<a href="#">Apply now</a>
<b>General accounts services</b>			
Account fee	£0 per month	£2 per month	£3 per month
Includes a package of services consisting of:			
Internet banking	X	✓	✓
Mobile banking	X	✓	✓
SMS alert for low balance	X	X	✓
<b>Payments</b>			
Sending money	£3 per transfer	Free of charge	Free of charge
Standing order	£2 per transfer	Free of charge	Free of charge
Direct debit	£2 per transfer	Free of charge	Free of charge
<b>Cards and cash</b>			
Debit card included	✓	✓	✓ (contactless)
Credit card included	X	X	X
Cash withdrawals	From Mutual: £0 From other bank's ATMs: £2 per withdrawal	Free of charge	Free of charge


Figure 20: Fee Information Documents in the current accounts experiment

(a) Fee Information Document for the "Direct Account" in the experiment

(b) Fee Information Document for the "A|B|C Account" in the experiment




**Fee Information Document**




Name of the account provider: Mutual Bank  
 Account name: Direct Current Account  
 Date: 04/08/2018

- This document informs you about the fees for using the main services linked to the payment account. It will help you to compare these fees with those of other accounts.
- Fees may also apply for using services linked to the account which are not listed here. Full information is available in the 'Complete account services and charges' document.
- A glossary of the terms used in this document is available free of charge.

Service	Fee
<b>General account services</b>	
Maintaining the account	Monthly 0.00 € Total annual fee 0.00 €
Includes a package of services consisting of: Providing a debit card	
<b>Payments (excluding cards)</b>	
Sending money	Per transfer 3.00 €
Standing order	Per transfer 2.00 €
Direct debit	Per transfer 2.00 €
<b>Cards and cash</b>	
Providing a credit card	Service not available
Cash withdrawal	From Mutual Bank (ATM or branch) 0.00 € Other bank's ATMs per withdrawal 2.00 €



**Fee Information Document**



Name of the account provider: Mutual Bank  
 Account name: A|B|C Current Account  
 Date: 04/08/2018

- This document informs you about the fees for using the main services linked to the payment account. It will help you to compare these fees with those of other accounts.
- Fees may also apply for using services linked to the account which are not listed here. Full information is available in the 'Complete account services and charges' document.
- A glossary of the terms used in this document is available free of charge.

Service	Fee
<b>General account services</b>	
Maintaining the account	Monthly 2.00 € Total annual fee 24.00 €
Includes a package of services consisting of: Sending money Standing order Direct debit Providing a debit card Cash withdrawal Internet banking Mobile banking	
<b>Cards and cash</b>	
Providing a credit card	Service not available

Respondents who find it difficult to make ends meet could also be considered as potentially vulnerable. For these respondents too, the FID seems to be much less effective, although the comparison tables are still very effective. Therefore, although it is an effective tool overall, the FID needs to be carefully assessed for the effect it has on potentially vulnerable consumers.

The concept of *scarcity mindset*<sup>167</sup> may provide an explanation as to why the comparison tables are more effective than the FID for vulnerable consumers. This trait affects consumers who are potentially vulnerable (e.g. low income, disability) and therefore have to worry about many things. Consequently, this leaves them with less 'mental bandwidth' to appreciate the information required to make decisions on financial products. It seems that for potentially vulnerable consumers, information has to be provided extremely clearly and concisely and the bank's FID alone might not be sufficient, which may explain why the comparison tables are effective for them but the FID is not.

### Personal loans experiment

The effectiveness of the SECCI-inspired information treatments also varied depending on various factors and drivers in the personal loans experiment. Generally, both SECCI-inspired remedies were effective in improving decision-making with little to separate them. A few drivers are worth highlighting. The table below shows the treatment effects by country, experiment environment and financial situation.

<sup>167</sup> See: <https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/scarcity-psychology-of/>.

Table 22: Treatment effects for different categories of factors and drivers, personal loans

Category	SECCI-inspired	SECCI-inspired and pop-ups
<i>All respondents</i>		
All respondents	25.57pp***	24.98pp***
<i>Country</i>		
Finland	26.88pp***	25.72pp***
France	25.47pp***	23.27pp***
Germany	27.64pp***	31.56pp***
Lithuania	26.63pp***	22.66pp***
Romania	9.90pp	23.61pp***
Spain	25.99pp***	16.49pp***
<i>Environment</i>		
Mobile	30.07pp***	28.83pp***
Desktop	21.63pp***	24.35pp***
<i>Financial situation</i>		
Easy to make ends meet	26.67pp***	28.58pp***
Difficult to make ends meet	24.12pp***	22.42pp***

\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
N=2,305 (variant 1: 769; variant 2: 768; variant 3: 768)

The treatment variant providing information in SECCI-inspired format *with* additional explanations in pop-ups has a statistically significant effect in all countries, while the effect of the SECCI-inspired document *without* explanations was statically significant in all countries but one, Romania. Although the SECCI-inspired remedy without the explanations still had a plus 10 percentage point effect this was not statically significant, and it seems that Romanian especially benefitted from the additional explanations.

Like the information remedies tested in the current accounts experiment, SECCI-inspired information may bridge the divide in decision-making quality between mobile and desktop users. Respondents in the desktop environment were more likely to identify the correct loan overall (48.56% versus 35.59%), but (like in the current accounts experiment) the remedies seem more effective in the mobile environment.

Finally, SECCI-inspired information is helpful irrespective of whether respondents find it easy or difficult to make ends meet. However, there is some indication that the remedies may be less effective for those who find making ends meet difficult. For these respondents, the effect of the remedies was less than for those who find it easy to make ends meet. This may, again, be related to the idea that potentially vulnerable consumers need more (or better) information to overcome their scarcity mindset. The link was less pronounced than in current accounts experiment, possibly because the personal loans experiment was less complex than the current accounts experiment.

### 5.6.3. Information that is complex and difficult to understand

The final commercial practice on information provision that was tested in the experiments related to complexity of information. This practice was exclusively tested in the current accounts experiment.

Complexity of information has been noted as problematic in previous studies. One study focusing on retail banking in the UK showed that consumers' ability to access information

and identify the best-value personal current account for their needs is likely to be impaired by the complexity involved in comparing different account pricing structures.<sup>168</sup>

### 5.6.3.1. Impacts on behaviour and choices

The experiment examined this commercial practice by using long and technical terminology to explain product features. The remedies, on the other hand, used concise terms, with the possibility to access additional information (see section A8.3.2 in Annex 8 for more details). As discussed in section 5.5.2, these remedies may help consumers to overcome information overload and play into people’s heightened ability to memorise pictures rather than words. The table below gives an overview of the practice and associated remedies.

Table 23: Treatment variants concerning complex and difficult information in the current accounts experiment

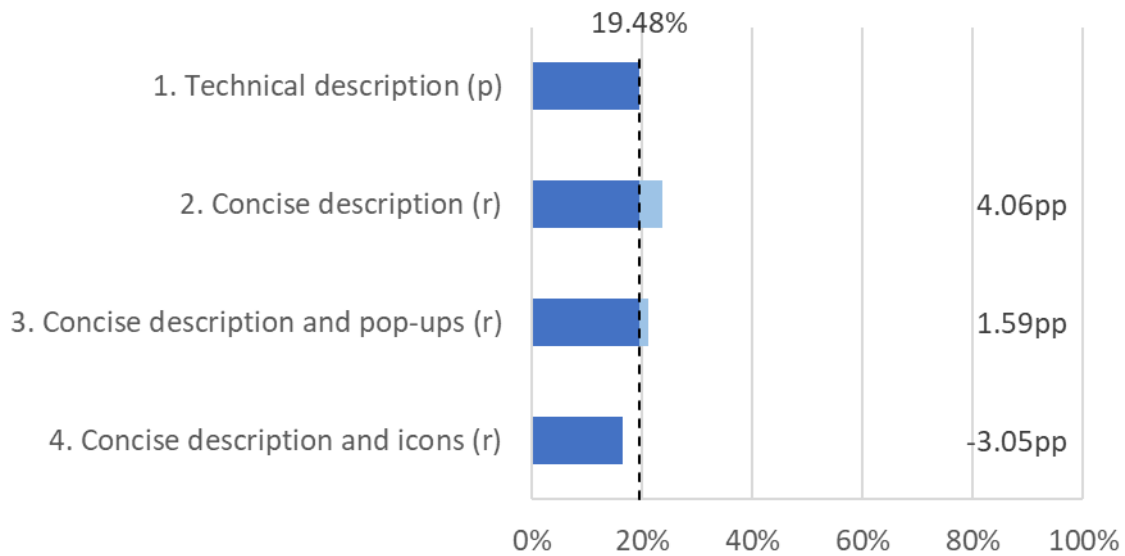
Treatment variant	Practice or Remedy:
<b>1. Technical description:</b> Information is provided in lengthy, technical descriptions	✗ Practice
<b>2. Concise description:</b> Information is provided in concise terms	✓ Remedy
<b>3. Concise description and pop-ups:</b> Information is provided in concise terms, with lengthy, technical descriptions accessible if information (“i”) icons are clicked	✓ Remedy
<b>4. Concise description and icons:</b> As 3, but with intuitive icons representing the account features	✓ Remedy

The figure below shows the proportion of respondents who chose the correct account under each of these treatment variants. Providing concise descriptions had a slight positive, albeit insignificant, effect on the ability of respondents to choose the correct account. Providing additional information and intuitive icons may have had a small crowding out effect, although differences between the various remedies are not significant. Overall, behaviour was similar under the commercial practice and the remedies.

<sup>168</sup> Competition and market authority: Retail banking market investigation. Available at: <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>



Figure 21: Complex and difficult information – Proportion of respondents choosing correct account



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=2,415 (variant 1: 605; variant 2: 603; variant 3: 603; variant 4: 604)

As noted above, intuitive icons seem to crowd out the effect of concise descriptions and, in fact, this remedy seems to work counterproductively. Similar results have been found in previous studies. For instance, a recent market study supporting the EU consumer law Fitness Check<sup>169</sup> tested the impact of icons on readership of terms and conditions. This study found that icons did not increase the number of consumers that read terms and conditions beyond the effect of other simplifications. Furthermore, icons did not help respondents to understand information better or identify unfair terms and conditions.

### 5.6.3.2. Impacts on understanding

As explained in section 5.6.1.2, the experiment measured respondents' understanding of the offer both objectively and subjectively. The respondents' subjective assessments were similar across the various treatment variants. Concise descriptions with additional explanations in pop-ups seemed to somewhat make respondents think they could more easily find information on overdraft fees, but the assessments were largely similar.

The treatment variants did impact on the objective measures of understanding. Under all remedy variants, which used concise descriptions of product features, the average number of questions answered correctly was higher than under the practice variant (see Table 24 below). Concise descriptions on their own significantly increased the number of correctly answered questions. Additional information in the form of pop-ups and icons also improved upon the objective understanding, although by less. Thus, although the respondents felt equally capable of finding and understanding information under the various treatment variants, the concise descriptions seem to have been better remembered.

<sup>169</sup> European Commission (2017). Consumer Market Study to support the Fitness Check of EU consumer and marketing law. Prepared by GfK. Retrieved from: [https://ec.europa.eu/newsroom/just/item-detail.cfm?item\\_id=59332](https://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=59332)

Table 24: Average number of correctly answered objective questions per treatment variant

Treatment variant	Average number of correct answers
1. Technical description	7.97
2. Concise description	8.67***
3. Concise description and pop-ups	8.27
4. Concise description and icons	8.29

Note: possible maximum is 13

\*Significantly different from average under the commercial practice (technical descriptions) at the 10% level,

\*\*Significant at the 5% level, \*\*\*Significant at the 1% level

N=2,415 (variant 1: 605; variant 2: 603; variant 3: 603; variant 4: 604)

### 5.6.3.3. Factors and drivers linked to susceptibility to the commercial practices

The impacts of the treatment variants on the choice of account were largely consistent across the various factors and drivers analysed (see section A10.3 in Annex 10 for more detail on the analysis of factors and drivers). However, two nuances (which are confirmed by regression analysis) stand out.

Firstly, there seems to be a small country effect. Generally, the treatment effects in every country are in line with the overall findings in section 5.6.3.1 (i.e. small and insignificant). The exception is the effect of concise descriptions (on their own) in Lithuania. Such descriptions seemed to help Lithuanian respondents, although additional explanations and icons crowded out the effect.

Secondly, there is a modest indication that concise descriptions may help potentially vulnerable consumers. Respondents who find it difficult to make ends meet were marginally more likely to choose the correct account if information was given concisely, while no such effect is found for those who find it easy to make ends meet.

## 6. Features that may accelerate consumers' purchase decisions

This practice entails that providers often add features to the products to accelerate consumers' purchase decision. **At advertising stage**, products are presented as being speedy or 'one-click' (e.g. one-click credit), with an offer which is limited in time or present the availability of promotional offer.

This practice is also used at **pre-contractual stage**, although in slightly different manner. For instance, consumers are offered promotional offers or other consumer incentives. Also, depending on the product, consumers may have to go through different applications based on the consumer-provider relationship. Presenting products as being speedy or 'one-click' away is a practice also used at pre-contractual stage.

### 6.1. Description of the practices within this category

The online environment puts a strong focus on providing products to customers as fast as possible, with as few barriers as possible. This might endanger consumers if they do not take enough time to reflect on purchasing complex financial products.<sup>170</sup>

Some fast and distance loan providers encourage people, via advertising campaigns, into a certain type of behaviour, with slogans such as "In case of need, it is always possible to loan some money".<sup>171</sup> The advertising of SMS loans, for example in Denmark, was perceived as particularly problematic. According to one report, one provider, SMSLåne, aimed at creating a debtor culture by using slogans like "You can use the money for whatever you want—forget everything about reporting and follow-up by your banking consultant! Recapture your freedom and control your own finances—it is only reasonable!".<sup>172</sup>

A range of practices that could be expected to accelerate consumers' purchase decisions were identified through the online desk research. These are more prominent at the **advertising stage**, where providers use certain methods to attract consumers.

**Making the product quick and easy to purchase (e.g. speedy or 'one-click' credit) and advertising that fact** is a practice utilised by providers of a range of different types of products. For example, consumers might be able to make a loan application in a matter of minutes (e.g. just 15 minutes in the case of one provider). This practice is more prevalent at the advertising stage but was also encountered at the pre-contractual stage.

**Emphasising the time limited nature of the offer** is another practice that providers use when advertising their products. Consumers are told that the offer is available for only a limited amount of time, creating an urgency to take up the offer.

**Emphasising promotional offers and other consumer incentives** is a further practice used by providers to advertise offers, gifts and discounts. This practice is encountered at both the advertising and pre-contractual stages and a study shows that promotions have a direct impact on consumers' buying behaviour as it reaches targeted consumers and persuade them to buy.<sup>173</sup>

At the application stage, some providers offer consumers the possibility to go for **different application processes depending on their relationship with the provider** (existing or non-existing customer). In some instances, providers emphasise the benefits that

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<sup>170</sup> Interview with a sectoral association from the Netherlands (19-06-2018).

<sup>171</sup> Evija Ansonska, Ivars Austers, Gundars Bērziņš, & Jānis Priede. (2017). Distances jeb ātro kredītu izmantošana Latvijā (The use of distance or fast loans in Latvia). at: [http://www.parads.lv/Uploads/2018/02/12/distances\\_jeb\\_atro\\_kreditu\\_izmantosana\\_latvija.pdf](http://www.parads.lv/Uploads/2018/02/12/distances_jeb_atro_kreditu_izmantosana_latvija.pdf).

<sup>172</sup> Tanja Jørgensen. (2014). The way to over-indebtedness - intensive marketing, easy access to loans and insufficient legislation (Denmark). Available at: [http://www.juridicainternational.eu/public/pdf/ji\\_2014\\_2\\_71.pdf](http://www.juridicainternational.eu/public/pdf/ji_2014_2_71.pdf).

<sup>173</sup> Familmaleki, M., Aghighi, A., & Hamidi, K. (2015). Analyzing the influence of sales promotion on customer purchasing behavior. International Journal of Economics & Management Science, 4(4). Available at: <https://www.omicsonline.org/open-access/analyzing-the-influence-of-sales-promotion-on-customer-purchasing-behavior-2162-6359-1000243.pdf>

consumers have by becoming a customer (e.g. opening an account in addition to the product purchased).

Few of these practices are designed specifically for the online environment. For example, making the product easy and quick to purchase is a practice encountered mainly online, where consumers are advised that the application can be made 'in 15 minutes' or 'one-click away'. However, the other practices used by providers to accelerate consumers' purchase decision can be also encountered in the offline environment (e.g. emphasising the limited nature of the offer through advertisements, promotional offers and incentives or availability of different applications).

### 6.1.1. Relevant products

**Making the product quick and easy to purchase** was often encountered for personal loans, payday loans, travel insurance, current accounts and virtual currencies. Personal loan advertisements often focus on the easiness, practicality and speed of requesting such a loan.<sup>174</sup> Advertisements for mini loans are similar, with the focus on the benefit of having a short loan application, often emphasised by images of chronometers.<sup>175</sup> For instance, in Spain, Cashper visually showed the time in which the consumer will receive the loan (e.g. if you access the webpage at 11:45 they state that you could receive the money before 12:07).<sup>176</sup>

**Time limited offers** were seen for personal loans, payday loans and savings accounts. For example, in Spain Openbank had a campaign in which the first 200 consumers opening a current account would receive a check (the offer was available from October 30 to November 30, 2016).<sup>177</sup>

**Emphasis on promotional offers and other consumer incentives** was identified, through online desk research, for credit cards, payday loans and savings accounts.

A study carried out in Lithuania on payday loans found that providers offer the following incentives: i) free movie tickets, coffee or ice cream for repaying the loan on time; ii) a loyalty programme where customers could collect electronic 'money' for taking out loans or repaying them on time, as well as using this 'money' for interest payments; iii) a cash bonus for recommending the service to people; iv) receiving five extra days to repay the loan if it is rolled over; and v) receiving 50% discount on the interest if the loan is taken out on your birthday.<sup>178</sup> Credit cards are also often advertised with cashbacks or other discounts and offers. In Hungary, Erste Bank had launched a credit card refunding up to 4% of consumer purchases, including free travel insurance and an integrated tele-loan package. K&H Bank offers 2% refund, while OTP offers 1%.<sup>179</sup> The use of promotions (e.g. a welcome bonus) and advertising targeted at a specific group (e.g. students) was further

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<sup>174</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2014). Estudio sobre la publicidad, condiciones y prácticas de comercialización de los minipréstamos y créditos rápidos (Study over the marketing, conditions and practices in advertisement of mini and fast loans). Available at:

[http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total\\_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%2020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27](http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%2020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27)

<sup>175</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2014). Estudio sobre la publicidad, condiciones y prácticas de comercialización de los minipréstamos y créditos rápidos (Study over the marketing, conditions and practices in advertisement of mini and fast loans). Available at:

[http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total\\_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/](http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/)

<sup>176</sup> ADICAE (Asociación de Usuarios de Bancos, Cajas y Seguros de España). (2014). Estudio sobre la publicidad, condiciones y prácticas de comercialización de los minipréstamos y créditos rápidos (Study over the marketing, conditions and practices in advertisement of mini and fast loans). Available at:

[http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total\\_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%2020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27](http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total_images=1&id=797&pdf=http://publicaciones.adicae.net/publicaciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%2020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27)

<sup>177</sup> Ditrendia. (2016). Informe ditrendia: Cómo mejorar la conversión móvil Entidades Financieras Y Aseguradoras. Available at: <https://ditrendia.es/wp-content/uploads/2016/02/Informe-conversi%C3%B3n-m%C3%B3vil-Entidades-Financieras-y-Aseguradoras-ditrendia.pdf>

<sup>178</sup> Monika Attaité. (2015). Pay-day lenders: why can we consider them as being bad players on the credit market? Available at: [https://www.financite.be/sites/default/files/referencess/files/payday\\_lenders\\_-\\_vf.pdf](https://www.financite.be/sites/default/files/referencess/files/payday_lenders_-_vf.pdf)

<sup>179</sup> origo.hu. (2017). Ezek a hitelkártyák jobbak a készpénznél. Available at: <http://www.origo.hu/gazdasag/20170529-hitelkartya-korkep-a-kartyaval-keresni-is-lehet.html>

observed in the focus groups, while participants in Germany talked in addition about the emphasis on the provision of a free credit card and so-called 'value-added packages'.

Having different applications for existing and non-existing customers, where benefits for becoming a customer are emphasised, were only encountered for personal loans and savings accounts during the online desk research.

### 6.1.2. Illustrative examples

Through the online desk research, illustrative examples of practices used by providers to accelerate consumers' purchase were identified. For example, the advert illustrated below informs consumers that the online credit application "lasts 15 minutes".

Figure 22: Illustrative example of practices used to accelerate consumers' purchase decision

Advertising:



**Credit Online**

- ✓ Primul credit pentru care nu trebuie sa vii deloc la banca
- ✓ Poti lua intre 2.000 si 50.000 LEI, pe o perioada cuprinsa intre 6 si 60 de luni
- ✓ Banii in cont in cateva minute
- ✓ DAE: 12,67%

**Deschide cont si aplica** [Esti deja client?](#)

🕒 dureaza 15 minute

**PREMIERA ONLINE**  
**ADEVĂRATUL CREDIT ONLINE!**

Pre-contractual:

Esti eligibil pentru Credit Online daca:



- Ai un **venit salarial** mediu net de minimum **1.500 lei**;
- Ai un contract de munca in vigoare pe durata creditului;
- **Nu inregistrezi restante active** la alte institutii financiare sau la Libra Internet Bank.
- Ai cetatenia romana si rezidenta in Romania;
- Ai varsta cuprinsa intre **18** si **65** de ani (neimpliniti la scadenta finala a creditului);
- Ai o vechime minima la actualul angajator intre 6 si 18 luni si o vechime minima totala intre 6 si 18 luni

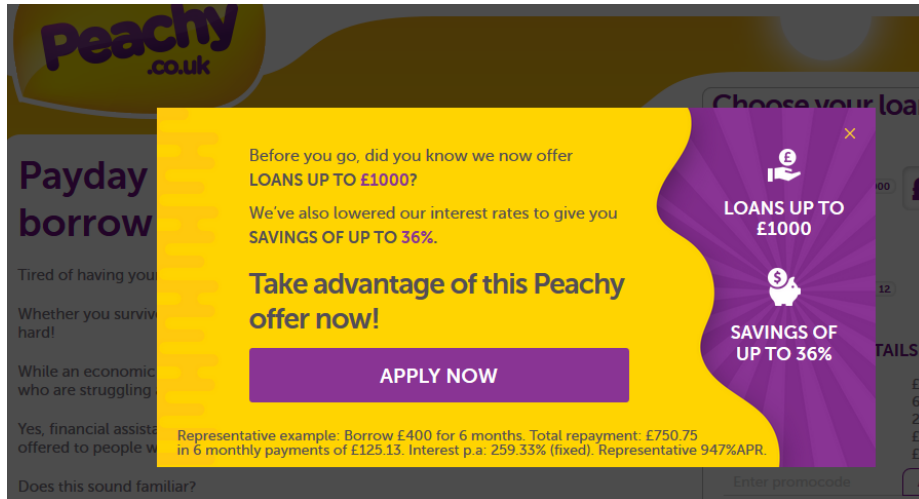
**Deschide cont si aplica online**

[sau intra in cont](#)

🕒 dureaza 15 minute

The example below illustrates the availability of promotional offers for consumers, which seems to suggest that the provider has lowered their interest rate which would induce benefits for consumers if they "take advantage... now".

Figure 23: Illustrative example of availability of promotional offers or consumer incentives



## 6.2. Prevalence of the commercial practices in this category

The online desk research results show that some practices are more prevalent for some products. The table below summarises the observed prevalence of practices used to accelerate consumers' purchases identified in the seven countries, by product.

Table 25: Prevalence of practices related to features which may accelerate consumer's purchase decision (across the ten products)

Stage	Practice name	Prevalence of practices (low, medium, high)									
		Credit card	Personal loan	Peer-to-peer (P2P) lending	Payday loans	Mortgages	Travel insurance	Current accounts	Savings account	Money transfer and payments	Virtual currencies
<b>Advertising</b>	Advertising products as being speedy, or 'one-click' products	Not found	Medium	Not found	High	Not found	Low	Medium	Not found	Not found	Medium
	Limited nature of the offer	Not found	Low	Not found	Low	Not found	Not found	Not found	Low	Not found	Not found
	Availability of promotional offers	Medium	Not found	Not found	Low	Not found	Not found	Not found	Medium	Not found	Not found
	Promotional offers and consumer incentives	Not found	Low	Not found	Low	Low	Not found	Low	Not found	Not found	Medium
<b>Pre-contractual</b>	Different applications based on customer-provider relationship	Not found	Low	Not found	Not found	Not found	Not found	Not found	Medium	Not found	Not found
	Speedy, or 'one-click' products (a fast purchasing process)	Not found	Low	Not found	Not found	Not found	Not found	Not found	Not found	Not found	Not found

Note: "Not found" = the in-country researchers have not observed the practice for the product; "High" = the practice was encountered in many instances; "Medium" = the practice was encountered only in few instances; "Low" = the practice was encountered only in 1-2 instances.

### 6.3. Legal compliance of the commercial practices in this category

The commercial practices in this category are assessed from the perspective of EU-level legislation in the table below. In places the table also identifies (in sub-boxes) existing remedies to the practices arising from the EU legislation. A full description and assessment of the relevant EU legislative instruments is presented in Annex 7.

Table 26: Assessment of legal compliance of features which may accelerate consumers' purchase decisions

Commercial practices	Assessment
<b>Advertising</b>	
Advertising products as being speedy, or 'one-click' products	The practice of speedy or 'one-click' products where the customer can obtain the product fast (e.g. in 15 minutes) is used for <b>credit cards, personal loans, payday loans, travel insurance and virtual currencies</b> . However, there are no particular legal provisions that prevent this practice, so long as providers respect their obligations under the CCD.
Limited nature of the offer	Practices emphasising the time limited nature of the offer (i.e. how long consumers have to take up the offer, display of countdown for flash sales) are observed for <b>personal loan, payday loan and saving account</b> . This may create a certain sense of urgency. The limited period during which the product is available is considered a main characteristic of the product (UCPD article 6(1)(b)). This implies such information should not mislead consumer on the real duration of the offer.
Availability of promotional offers	Practices emphasising the availability of promotional offers or consumer incentives are encountered with <b>credit card, payday loan, savings account</b> . Such offers and incentives should be advertised as such, and the conditions to benefit from them should be clear (e-Commerce Directive article 6(c)).  <i>Existing remedies: Hiding conditions to benefitting from an offer or displaying the offers and benefits in a misleading way could be considered an unfair practice (Article 7(2) and Article 6(1)(b) of the UCPD) and would therefore be prohibited.</i>
<b>Pre-contractual</b>	
Promotional offers and consumer incentives	Emphasis on the availability of promotional offers or consumer incentives was encountered for <b>personal loans, payday loans, mortgages, current accounts and virtual currencies</b> . Promotional offers and incentives must clearly be displayed as such, and the conditions to benefit from them should be clearly identified, the practice could otherwise be considered unfair (UCPD article 6(1)(b)).  <i>Existing remedies: Promotional offers and incentives must clearly be displayed as such, and the conditions to benefit from them should be clearly identified.</i>
Different applications based on customer-provider relationship	Different applications to purchase <b>personal loans and saving accounts</b> are available depending on the consumer's relationship with the provider (e.g. whether they are an existing or not yet a customer). In some instances, the consumer must become a customer of the provider in order to receive certain benefits (e.g. they may have to open an account, in addition to purchasing the product in question). While this practice is clearly an advertisement to become a customer of the provider, it would imply there are additional conditions to meet in order to profit from additional benefit (i.e. being a customer for other product) and such practices could be considered misleading (UCPD article 6(1)(b)). This could also be considered



Commercial practices	Assessment
	product bundling, and material information on the additional product proposed must then be provided.
Speedy, or 'one-click' credit (a fast purchasing process)	The practice of speedy or 'one-click' products where the customer can obtain the product fast (e.g. in 15 minutes) is used for <b>credit cards, personal loans, payday loans, travel insurance and virtual currencies</b> . Whilst there are no legal provisions preventing a speedy purchasing process, it must be compliant with all information requirements under the applicable legislation. Further, such practices could be considered problematic under certain circumstances, i.e. when targeted at vulnerable consumers or consumers facing time constraints. Moreover, it is uncertain whether all necessary material information can be adequately delivered in such a short time period.

#### 6.4. Perceptions of the commercial practices and related remedies

Within the present category of practices, two practices were examined in the survey:

- **"Limited promotion"**, i.e. the website advertises a limited special promotion that needs, however, to be purchased immediately
- **"Can get product quickly"**, i.e. the website allows you to obtain a complex product/service very quickly, in only a few steps

As shown in Table 27 the average perceptions of practices regarding features that accelerate consumers' purchase decisions are relatively good compared to the practices related to information (discussed above), i.e. the extent that they perceive these practices to be detrimental is relatively low. While advertising special promotions that need to be purchased immediately ('limited promotion') received an average rating above 3 indicating that this practice is perceived as rather detrimental, allowing the customer to obtain a complex product quickly ('can get product quickly') was rated as rather non-detrimental, i.e. average below 3.

These results are somewhat supported by the focus groups where one scenario that was discussed was taking a personal loan in a quick and easy way, i.e. a pre-approved loan. While focus group participants in Spain viewed the option to **take out a pre-approved loan** as positive and have made use of it, participants in Germany perceived this practice, and one-click options, in general, as **risky**. In Spain, the option to take out a pre-approved loan was considered as **beneficial because it was perceived as straightforward, competitive, secure, fast and easy**. Even if they have looked at offers of other banks, in the end, they stayed with the bank they were already using, and which had the advantage of being able to allow them to take the loan via one-click. Participants saw it positively that their banks offer them pre-approved personal loans through their online platform or app without pressure to react to it.

If participants were to take out a loan at another bank they have not used before, they would complete the contract offline and not via one-click. Particularly if a large amount of money is concerned, participants would prefer to visit a branch rather than complete the process online. A small minority of older participants in the lower education level/financial literacy group would go to a branch because of the personal relationship and consultation. Other participants in the same group, who were not offered pre-approved personal loans by their bank, have visited a branch because they could not do it online.

Table 27: Average detriment-ratings pooled over product categories by practice (practice category 2)

Practice	Average Rating	Number of Observations
Limited promotion	3.54	N=8,129
Can get product quickly	2.56	N=8,122

**Notes:** The question was Q3.2a and Q3.2b: "Imagine you are shopping around on the internet wishing to choose a [product category]. You search on a search engine for suitable offers and are directed to the websites of different suppliers. At the end of your search, you have identified alternative [products / services] that match your search criteria. Given this scenario, to what extent do you think the following commercial practices would be detrimental?"; The scale was labelled 1 = "not detrimental" and 5 = "very detrimental".

Results are averaged over Q3.2a and Q3.2b and product category.

**Source:** ConPolicy analysis of consumer survey data.

As for the previous category of practices (see section 5.4), the results are also analysed with respect to various respondent-level variables, specifically:

- product category (i.e. credit, insurance, banking and money transfer or payment products)
- gender and age group
- education level and financial status
- financial literacy and digital literacy
- risk preferences and time preferences, and
- country (i.e. Finland, France, Germany, Lithuania, Spain and Romania)

In line with results for the previous practice category (see section 5.4) we present results only where significant differences are found depending on the variables listed above. However, charts showing the full results can be found in Annex 12.

Firstly, we find an **age** effect (see Figure 82 in Annex 12). For limited promotions that need to be purchased immediately ('limited promotion'), a weak, positive age link can be observed where older age groups perceive this practice as more detrimental than the younger age groups. In contrast, for the practices, which relates to being able to obtain a product quickly ('can get product quickly'), this trend is reversed and even of medium size, i.e. older age groups perceive this practice as less detrimental than their younger counterparts.

Additionally, a relationship between detriment-ratings and **financial** as well as **digital literacy** can be detected for one of the practices, i.e. obtaining the product quickly / in a few steps. The higher financial and digital skills the lower the detriment-rating (see Figure 84 in Annex 12). Furthermore, a weak positive relationship of **time preferences** and detriment ratings can be observed. Therefore, the closer consumers feel to be to their future-self at the moment, the worse they perceive the commercial practice (see graphical summary in Figure 85 in Annex 12).

When analysing country-differences some interesting patterns emerge. For the practice regarding limited promotions to be purchased immediately ('limited promotion') the worst rating is given by the **Finnish** survey participants while consumers from **Lithuania** and **Romania** indicate a less negative rating. For the practice of allowing the consumer to obtain the product quickly/in a few steps ('can get product quickly') **Finland** appears to be an outlier as well. On average, Finish participants rate this practice as rather detrimental, i.e. average above 3. In contrast, ratings in all other countries are lower, indicating that consumers perceive the practice as rather not detrimental.

With respect to product type, gender, educational status, financial situation and risk preferences no systematic differences in the ratings are observed. Hence, perceptions of the two practices related to accelerating the purchase process are independent of these characteristics. These results can be seen in Figures 81, 82, 83 and 85 in Annex 12.

## 6.5. Remedies for the identified problematic practices

To tackle problematic practices that may accelerate consumers' purchase decisions, such as emphasising the time limited nature of the offer in advertising or offering speedy or 'one-click' products, the following types of remedies could be envisaged:

- Redesigning the consumer journey to slow down the decision process;
- Behaviourally informed messages to make consumers take time to think; and
- Prohibiting advertising and selling of fast credit.

### 6.5.1. Redesigning the consumer journey to slow down the decision process

Including some form of 'friction point' in the application and purchasing process, so that consumers are forced to make choices more slowly and have more time to reflect, could help to improve consumers' decision-making.<sup>180</sup> This idea has been suggested by world-renowned behavioural economists, who stress that friction and the need to stop and think when spending money (the 'pain of paying') can actually be beneficial for consumers.<sup>181</sup>

Support for this type of remedy can be found in the literature. For example, a study for the Commission showed that including a review screen in the purchasing process for non-life insurance helped consumers to improve their choices.<sup>182</sup> Another study on consumer behaviour when choosing between retail investment funds found that including a review screen after the respondent had selected a fund was highly effective at increasing the saliency of charges and improving choices that would otherwise be taken too quickly and without careful thought.<sup>183</sup>

In addition, a real-life case study in South Africa demonstrated (albeit in an offline context) how redesigning the consumer journey to slow down the decision process can lead to improved outcomes for consumers.<sup>184</sup> In this project the problem of increasing pensions savings was successfully tackled by including additional decision points in the process of withdrawing savings, subtly encouraging customers to reconsider their decisions.

An actual practice identified by the desk research is to require consumers to scroll through the information on terms and conditions before being able to continue with the purchase, which is essentially an adjustment of the process that slows down the decision.

In the context of digital retail finance, speed and friction could be introduced into the purchase process by means of clicks that consumers must make or steps or screens they must pass through to execute a purchase decision. While the 'fast credit' practice would involve relatively few clicks and steps, remedies might seek to deliberately increase the number of clicks and steps involved. The personal loans experiment tested such remedies (see section A9.3 in Annex 9).

### 6.5.2. Behaviourally informed messages to make consumers take time to think

Messages to consumers that are designed using behavioural insights may be effective for tackling practices that accelerate purchase decisions, by nudging consumers to slow down, for example by switching consumers from System 1 to System 2 thinking (see section 5.5.4 for a description of these two mental processes). Messages that could potentially

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<sup>180</sup> Interview with a research centre in the United Kingdom (12-06-2018).

<sup>181</sup> Wired (2016). Here's proof you'll be spending more money in 2016. Available at: <https://www.wired.co.uk/article/2016-will-be-more-expensive>; Dan Ariely (2013) "The pain of Paying". Available at: <http://danariely.com/2013/02/05/the-pain-of-paying/>

<sup>182</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Available at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>183</sup> London Economics (2017) study for the FCA. Asset Management Market Study – Experimental Consumer Research and Focus Groups. Available at: <https://www.fca.org.uk/publication/research/asset-management-market-study-behavioural-research.pdf>

<sup>184</sup> Meehan, B., Rosenberg, S. and Duke, C. (2018), "How to Double Savings Rates: A Case Study in Nudging for Good", in The Behavioral Economics Guide

achieve this might issue warnings, call on consumers to take care to review and compare offers, or ask consumer whether they are sure about their choices. Such messages were tested in the experiments (see section A8.3 in Annex 8 and section A9.3 in Annex 9).

There is some support for this type of remedy from the literature. In particular, a study found that presenting a warning message improved decision-making when experiment participants chose between investment funds, which may be explained by the message acting to make them stop and think and take more time over their choices.<sup>185</sup> Asking consumers whether they are sure about their choices could be expected to trigger internal dialog and debate, which according to 'query theory' slows down peoples' thought processes.<sup>186</sup>

### 6.5.3. Prohibiting advertising and selling of fast credit

One solution seen in several countries is to disallow the advertising and/or selling of certain products at all, although most stakeholders and national authorities only considered this to be appropriate in extreme cases and as a last resort. Most of the prohibited practices are focused on mini loans, payday loans, and other fast consumer credit products that are easily accessible online and often have very high interest rates (i.e. APRs).

For example, in 2017 the Dutch Authority for the Financial Markets prohibited financial institutions from promoting financial products with high-risk such as payday loans (as well as more obscure products such as binary options, warrants and contingent convertibles).<sup>187</sup> In Estonia, advertising of consumer credit is prohibited on television or radio programmes and credit advertisements should include an invitation to examine the terms and conditions of the financial services, as well as a note to consult a debt expert if needed.<sup>188</sup> According to the Estonian Advertisement Act, an advertisement may not suggest that taking consumer credit is a risk-free and simple opportunity to solve financial problems or induce consumers to ill-advised borrowing.<sup>189</sup> To tackle consumer over-indebtedness, the Latvian authorities prohibited online consumer credit providers from selling their services between 23:00pm and 7:00am.<sup>190</sup>

## 6.6. Impacts of the commercial practices and related remedies

The experiments tested two specific commercial practices that may accelerate consumers' purchase decisions:

- Speedy, or 'one-click' products, i.e. products that are quick and easy to get; and,
- Emphasising the time limited nature of offers.

Speedy products and emphasising the time limited nature of an offer may be expected to impact consumer behaviour due to present bias. This behavioural bias causes consumers to place a very high value on the present and immediate future, causing them to prioritise short-term benefits while ignoring long-term costs or risks. Present bias may be particularly relevant for high-cost credit, such as payday loans, or types of credit offered instantly,

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<sup>185</sup> London Economics (2017) study for the FCA. Asset Management Market Study – Experimental Consumer Research and Focus Groups. Available at: <https://www.fca.org.uk/publication/research/asset-management-market-study-behavioural-research.pdf>

<sup>186</sup> Weber, E. and Johnson, E. (2011), "Query Theory: Knowing What We Want by Arguing with Ourselves", Behavior and Brain Sciences, Vol. 34, No. 2.

<sup>187</sup> [https://www.internetconsultatie.nl/reclame\\_risicovolle\\_financiele\\_producten/document/2732](https://www.internetconsultatie.nl/reclame_risicovolle_financiele_producten/document/2732)

<sup>188</sup> The Parliament of Estonia. (2016). Advertising Act of Estonia. Available at:

<https://www.riigiteataja.ee/en/eli/515012018002/consolide>

<sup>189</sup> Estonian Consumer Protection Board (2015). Yearbook of the Estonian Consumer Protection Board 2014. Available at: [https://issuu.com/tarbijakaitseamet/docs/tarbijakaitseameti\\_aastaraamat\\_2014\\_ea0974e35bb9e8](https://issuu.com/tarbijakaitseamet/docs/tarbijakaitseameti_aastaraamat_2014_ea0974e35bb9e8)

<sup>190</sup> Njord Lawfirm. (2016). New amendments of the regulation on consumer protection and alternative dispute resolution in Latvia. Available at: <https://www.njordlaw.com/new-amendments-regulation-consumer-protection-alternative-dispute-resolution-latvia/>

such as point-of-sale credit. The marketing of these products tends to emphasise the benefits that consumers can get by receiving a loan instantly.<sup>191</sup>

The remainder of this section analyses the impacts of the commercial practices and related remedies in the current accounts and personal loans experiments outlined in section 2.2. The following sections evaluate:

- Advertising of speedy products;
- The quick purchasing process associated with speedy products; and,
- Emphasising time limited nature of offers.

### 6.6.1. Advertising products as being speedy, or 'one-click' products

The impact of advertising products as being speedy or 'one-click' was tested in the personal loans experiment. The following subsections present the findings. Section 6.6.2 then analyses the related commercial practice of a speedy consumer journey at the pre-contractual information stage.

#### 6.6.1.1. Impacts on behaviour and choices

The personal loans experiment tested four remedies to this practice including warnings, a call to action and an outright ban of the practice (see section A9.3.1 in Annex 9 for more details). The warnings and call to action tested various behaviourally informed messages designed to slow respondents down (see section 6.5.2). The table below provides an overview of the practice and the related remedies as tested in the experiment.

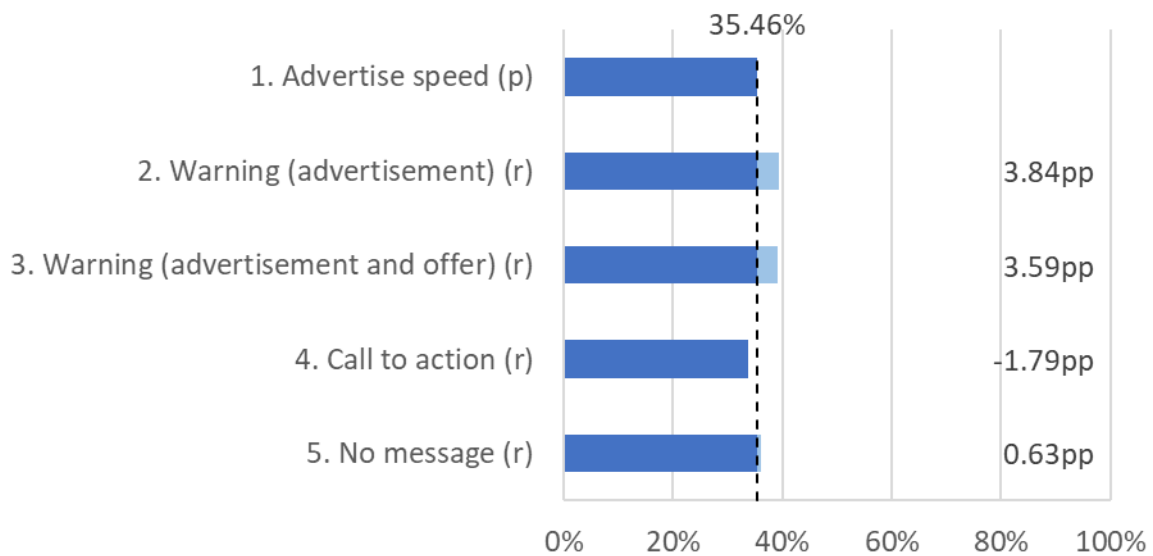
Table 28: Treatment variants concerning advertising products as speedy in the personal loans experiment

Treatment variant	Practice or Remedy:
<b>1. Advertise speed:</b> Message in advertisement of the loan that emphasises speed: "You can get this loan in just 2 clicks!"	✗ Practice
<b>2. Warning (advertisement):</b> Message in advertisement with a warning: "Warning! Borrowing money also costs money"	✓ Remedy
<b>3. Warning (advertisement and offer):</b> As variant 2, but the warning message is display again alongside the loan offer.	✓ Remedy
<b>4. Call to action:</b> Message in advertisement with a call to action: "You should review the detail of any loan before taking it"	✓ Remedy
<b>5. No message:</b> No additional message displayed in the advertisement	✓ Remedy

The figure below shows the proportion of respondents who chose the correct loan under the various treatment variants. Behaviour was similar under the commercial practice and each tested remedy. In all cases around one third of respondents chose the correct loan. Interestingly, repeating the warning message alongside the offer did not seem to reinforce the message (behaviour under variants 2 and 3 was effectively the same).

<sup>191</sup> The Open University. (2017). Consumers and competition: Delivering more effective consumer power in retail financial markets. Available at: [https://fs-cp.org.uk/sites/default/files/fscp\\_consumers\\_and\\_competition\\_thinkpiece\\_finalpp\\_jtl\\_20170306.pdf](https://fs-cp.org.uk/sites/default/files/fscp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf)

Figure 24: Advertising speedy products – Proportion of respondents choosing correct loan



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=3,840 (variant 1: 767; variant 2: 768; variant 3: 768; variant 4: 768; variant 5: 769)

The results above examine the final choice of respondents, which was affected by both the advertising and pre-contractual stages. It is therefore insightful to examine respondents' behaviour at the advertising stage specifically. In the personal loans experiment at the advertising stage respondents could click on an advertisement or choose to compare loans (see sections 2.2 and A9.1.3 in Annex 9 for more details). The advertised loan was not optimal for respondents, and therefore clicking on the advertisement can be interpreted as suboptimal behaviour. The table below shows the proportion of respondents who clicked on the advertisement under the commercial practice and various remedies.

Table 29: Percentage of respondents clicking on advertisement at point-of-sale in the personal loans experiment

Treatment variant	Percentage
1. Advertise speed	35.21%
2. Warning (advertisement)	35.33%
3. Warning (advertisement and offer)	30.95%
4. Call to action	41.17%*
5. No message	29.55%*

\*Significantly different from proportion under the commercial practice (advertise speed) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 N=3,840 (variant 1: 767; variant 2: 768; variant 3: 768; variant 4: 768; variant 5: 769)

The first point to note from Table 29 is that advertising the speed with which a product can be bought seems to be detrimental. The absence of such a message ("No message"), which is similar to a ban of such a practice, resulted in a lower proportion of consumer clicking on the advert, a difference that is marginally statistically significant (i.e. at the 10% level).

Conversely, the call to review details of loans ("Call to action") appears to have had a small counterproductive effect at the advertising stage; more respondents clicked on the advertisement when they received this message. This may stem from the precise wording used in the call to action message, which read "You should review the detail of any loan before taking it". The word "review" may be viewed by some as something that happens after a loan is selected.

#### 6.6.1.2. Impacts on understanding

The effects of the treatment variants on respondents' understanding were measured both objectively and subjectively. Objective measures gauged how well respondents understood their chosen account via questions with verifiably correct and incorrect answers. Subjective assessments asked respondents how easy they thought it was to find and understand particular information (see section A10.2 in Annex 10 for a more detailed explanation).

Both the objective and subjective measures of understanding were similar across the treatment variants. Only the repeated warning ("Warning (advertisement and offer)") seemed to marginally impede understanding of nominal interest rates and APR.

#### 6.6.1.3. Factors and drivers linked to susceptibility to the commercial practices

As explained above, the choice of loan was similar across the various treatment variants. Some factors, however, seem to have impacted on the effect that remedies had on choices (see section A10.3 in Annex 10 for a more detailed explanation of the analysis of factors and drivers).

Warnings proved helpful for those who view their future self as neither distant nor close to their current self. In contrast with the overall results, both the warning in the advert ("Warning (advertisement)") and the warning in the advert and at the loan offer stage ("Warning (advertisement and offer)") improved decision-making.

There is also some indication that warnings may help the most vulnerable. The main indicators for digital and financial literacy split the population into two broad groups (high and low). For these two groups, the effects of the remedies are largely similar to the results observed above. However, these broad indicators do not reveal the impacts for the most vulnerable consumers (i.e. those with no/very low skills). It is possible to look specifically at the most vulnerable consumers, but these results need to be interpreted with caution as this group is very small in the sample. The two broad groups are preferred for general insights.

With this caveat in mind, it seems that warnings may be very helpful for specific types of vulnerable people in terms of the digital and financial literacy. The table below shows that respondents with no digital problem-solving skills (a component of digital literacy) were helped by warnings ("Warnings (advertisement)"). Similarly, respondents without any financial literacy at all seem helped by repeated warnings ("Warnings (advertisement and offer)"). These effects, however, are highly specific and may not generalise to all vulnerable people.

Table 30: Treatment effects for various levels of digital and financial literacy, personal loans experiment

Category	2. Warning (advertisement)	3. Warning (advertisement and offer)	4. Call to action	5. No messages
<i>All respondents</i>				
All respondents (8,451)	3.84pp	3.59pp	-1.79pp	0.63pp
<i>Digital literacy (preferred measure)</i>				
Basic skills or lower (1,882)	2.07pp	-6.07pp	-2.46pp	-2.92pp
Above basic skills (6,949)	4.37pp	7.29pp*	-1.81pp	2.19pp
<i>Digital literacy – Problem-solving skills (vulnerable consumers only)</i>				
No skills (279)	24.62pp**	15.55pp	6.14pp	21.34pp*
<i>Financial literacy (preferred measure)</i>				
0/1 questions correct (2,375)	4.84pp	1.82pp	-2.16pp	-4.45pp
2/3 questions correct (6,076)	2.83pp	5.06pp	-2.11pp	2.23pp
<i>Financial literacy (vulnerable consumers only)</i>				
0 questions correct (779)	12.34pp	16.94pp**	9.79pp	2.68pp

Note: numbers in parentheses show the number of respondents included in each category. The number of observations related to combination of category and remedy (i.e. each cell in the table) is smaller.

\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level

Furthermore, the effects of the remedies are not entirely consistent across Member States. In most countries, the remedies had the same overall effects as described in section 6.6.1.1 above. The exception is Lithuania, where remedies seem to have had a counterproductive impact on the choices. All remedies except for the warning in the advertisement only had a strong negative effect on whether respondents in Lithuania identify the optimal loan.

Various factors may also affect the impacts of the practices and remedies on the decision to click on the advertisement at the advertising stage. As explained above, two elements stood out in this respect in the overall results; advertising the speed with which a product can be bought was detrimental for decision-making, and the call to review any loan (“Call to action”) seemed to be counterproductive. The group level analysis suggests two nuances to these observations.

Firstly, the detrimental impact of the practice was larger in a desktop environment than in a mobile environment. In both environments, more respondents clicked on advertising if it contained a message advertising how quickly the respondents could get a loan (“Advertise speed”) relative to the absence of any messages (“No messages”). However, this increase was much more pronounced in the desktop environment.

Secondly, the counterproductive effect of the call to review loans before taking them (“Call to action”) seems to be driven by respondents with higher digital literacy and those who feel that their future self is close to their present self, who were more easily enticed to click on the advertising if it advises to review loans.



## 6.6.2. Speedy, or 'one-click' products (a fast purchasing process)

While the previous section looked at advertising the fact that products are speedy or 'one-click' products, this section examines the impact of the purchase process itself being fast. That is, it investigates whether quicker or slower processes change consumer behaviour. This commercial practice was tested in the personal loans experiment.

### 6.6.2.1. Impacts on behaviour and choices

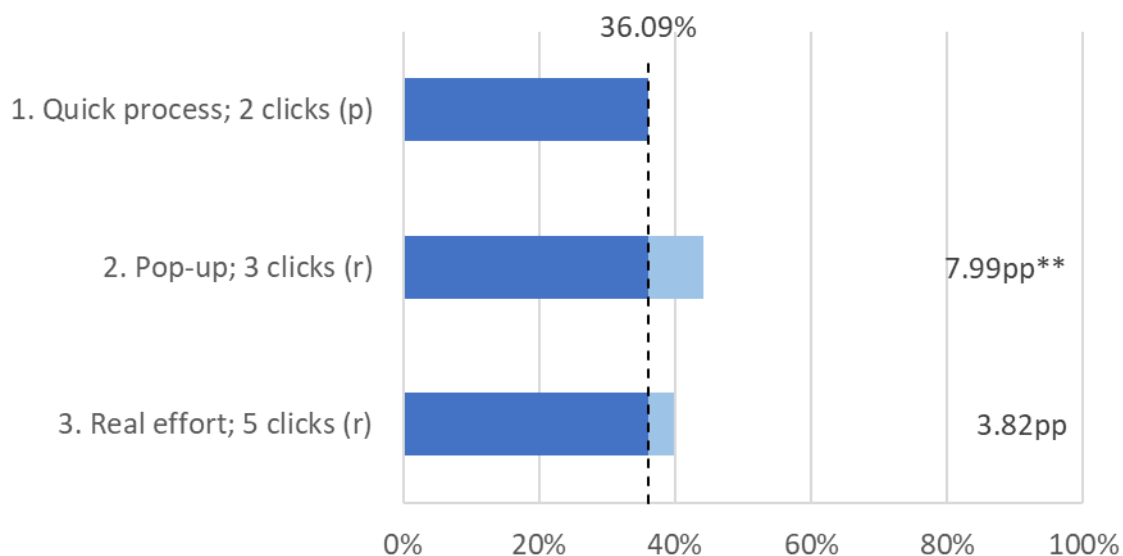
The personal loans experiment tested remedies which involved slowing down respondents in two separate ways in the experiment (see section 6.5.1 for a discussion on such remedies). An overview of the treatment variants is provided in the table below (section A9.3.1 in Annex 9 provides more details).

Table 31: Treatment variants concerning fast purchasing processes in the personal loans experiment

Treatment variant	Practice or Remedy:
<b>1. Quick process; 2 clicks:</b> Process to apply for the loan is quick, requires 2 clicks	✗ Practice
<b>2. Pop-up; 3 clicks:</b> Added pop-up in loan offer stage to slow down respondent, requires 3 clicks	✓ Remedy
<b>3. Real effort; 5 clicks:</b> As 2., but pop-up includes a real effort task, requires 5 clicks	✓ Remedy

The figure below shows the proportion of respondents who chose the correct loan under each treatment variant. The results imply that there is a benefit to slowing consumers down. An additional click to finish the decision process significantly increased the proportion of respondents who chose the correct loan. An additional real effort task seemed to negate some of the benefits, which might be explained by possible mental depletion caused by the real effort task leading to worse overall choices. It must be noted, however, that differences in the proportions across the remedies (i.e. between variants 2 and 3) are not statistically significant.

Figure 25: Fast purchasing processes – Proportion of respondents choosing correct loan



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=2,308 (variant 1: 769; variant 2: 769; variant 3: 770)

### 6.6.2.2. Impacts on understanding

Respondents' understanding of their chosen loan and the ease of finding and understanding information was not impacted by the treatment variants (see section A10.2 in Annex 10 for a discussion how the impact on understanding is analysed). Respondents subject to the separate treatment variants answered, on average, the same number of questions correctly and found it roughly equally easy to find and understand information on fees and product features.

### 6.6.2.3. Factors and drivers linked to susceptibility to the commercial practices

Section 6.6.2.1 showed that slowing down respondents by showing them a simple pop-up before committing to their choice ("Pop-up; 3 clicks") was beneficial in improving their decision-making. With a few exceptions, this positive effect was consistent across various factors and drivers analysed (see section A10.3 in Annex 10 for a discussion on the analysis of factors and drivers). The pop-ups were more effective in Germany, Lithuania and Spain, for respondents in the mobile environment, and for respondents who find it easy to make ends meet.

Risk and time preferences of respondents seem to be important moderators of the effect of slowing down respondents. Risk-neutral individuals were greatly helped by being slowed down by a simple pop-up ("Pop-up; 3 clicks"), while risk-averse and risk-seeking individuals were not. Risk-averse individuals may already be more aware of the risks involved in taking a loan quickly so that slowing down the process did not help them much. Risk-seeking individuals may not pay attention to the risks involved, so that slowing them down did not help them much either. Those with moderate risk preferences were helped by being slowed down.

In contrast, respondents with moderate time preferences were not helped, while those with more extreme time preferences (i.e. those who believe that their future self is distant from or close to their present self) performed better when slowed down. Those with moderate time preferences were already more likely to identify the optimal loan under the practice, and thus there was less scope for the remedies to help.

### 6.6.3. Emphasising the time limited nature of the offer in advertising

The focus groups suggest that special offers and promotions can have a large impact on consumers' choices. The discussions suggest, for instance, that promotions have a greater impact on decision-making than a strong media advertising presence. In Spain, benefits connected to opening a current account (e.g. receiving €50 if a friend opens a current account at the same bank, travel points or other bonuses) were reported to have had an influence on decision-making. Several participants in Germany mentioned so-called 'value-added packages' that included other services and benefits linked to the current account as being influential in the decision-making process. Some participants in Romania opened their current accounts when they were enrolled at university because of the many attractive offers for students.

The commercial practice investigated in this section looks specifically at the time limited nature of such offers, i.e. offers being valid only for a short time. The current accounts experiment was used to test this practice.

#### 6.6.3.1. Impacts on behaviour and choices

The time limited nature of offers was simulated via a pop-up advertisement that appeared on the respondent's screen after a short time at the advertising stage of the experiment. This pop-up contained an advert for a current account and a message stating that they should "hurry" since the offer "ends soon". The remedies either altered the message in this pop-up or removed the pop-up altogether. The table below provides an overview of the tested practice and remedies. For more details, see section A8.3.1 in Annex 8.

Table 32: Treatment variants concerning emphasising the time limited nature of offers in the current accounts experiment

Treatment variant	Practice or Remedy:
<b>1. Time limitation:</b> A pop-up appeared on the screen after 7 seconds with the message "Hurry! Offer ends soon"	✘ Practice
<b>2. No time limitation:</b> No pop-up appears	✔ Remedy
<b>3. "Be sure" message:</b> As per 1, except that the pop-up also carried a message saying that they should "be sure to compare accounts"	✔ Remedy

The table below shows the proportion of respondents who clicked on the advertisement under each of the treatment variants. Respondents who were shown a pop-up (variants 1 and 3) were more likely to click on the advert compared to respondents for whom no pop-up appeared. This is not surprising. The pop-up presented respondents with an additional opportunity to click on the advert. More opportunities to click translated into higher likelihood to click. The impact of the treatment variants on the account choice is less straightforward.

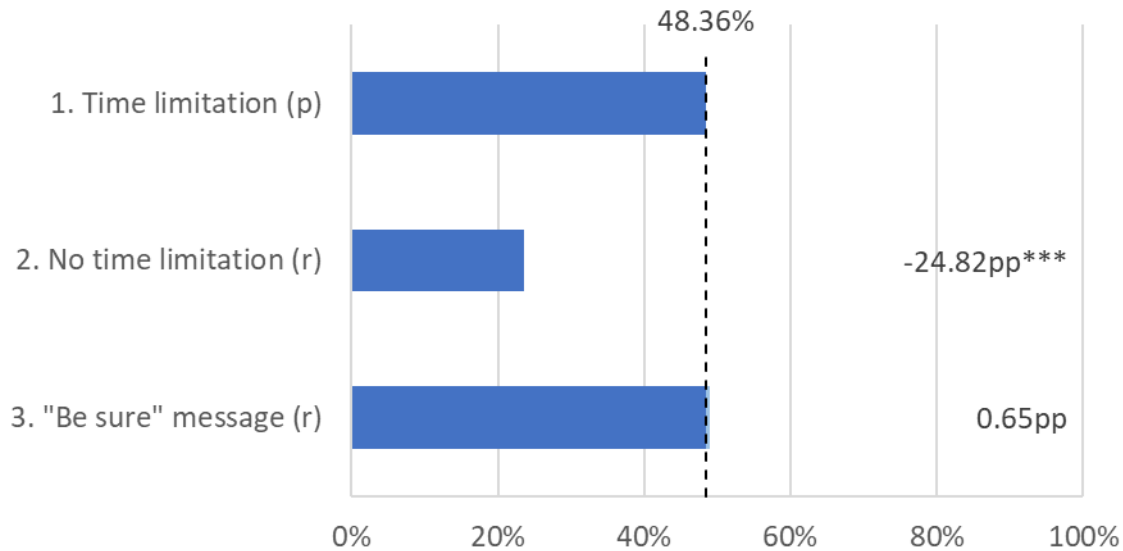
Table 33: Percentage of respondents clicking on the advertisement at the advertising stage in the current accounts experiment

Treatment variant	Percentage
1. Time limitation	23.82%
2. No time limitation	17.69%**
3. "Be sure" message	26.68%

\*Significantly different from proportion under the commercial practice (time limitation) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
N=1,810 (variant 1: 603; variant 2: 603; variant 3: 604)

The figure below shows the proportion of respondents who choose the best current account under each of these treatment variants. Interestingly, respondents actually made *better* choices when told to "hurry" than when no such message was shown.

Figure 26: Time limited offers – Proportion of respondents choosing correct current account



\*Significant at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level  
 (p) variant simulates the commercial practice; (r) variant simulates a remedy  
 N=1,810 (variant 1: 603; variant 2: 603; variant 3: 604)

This result seems to stem from paradoxical behaviour; respondents who were told hurry ("Time limitation") tended to take *longer* to complete the experiment than those who were not given this message.<sup>192</sup> This suggests that the pop-up telling respondents to hurry may have in fact prompted them to act more carefully and slowly.

The time taken to complete the current accounts experiment is linked to the quality of the decision-making. Of the respondents who took 10 minutes or longer to finish the experiment, 42.4% identified the optimal account, whereas only 31.8% of those who took less than 10 minutes chose the best account.

A possible explanation for the observed effect is that the unexpected and striking nature of the "hurry" pop-up increased the general alertness and concentration of respondents. This may have prompted them to seek out the necessary information more carefully. This would slow respondents down and allow them to take in information better, leading to better decision-making.

### 6.6.3.2. Impacts on understanding

Objective measures of understanding of the chosen account and subjective assessments of the ease of finding and understanding information may be helpful to further understand the result observed above. Section A10.2 in Annex 10 discusses how the impact of treatment variants on understanding was analysed.

The practice and remedy variants did not affect the objective measures of respondents' understanding of their chosen accounts; under all treatment variants roughly the same number of questions was answered correctly. However, the pop-up telling respondents to "hurry" ("Time limitation") did impact on their subjective assessments of the ease of finding and understanding information. The table below shows the average subjective assessment for selected information scored from -10 to 10, where -10 (10) implies that all respondents found information very difficult (easy) to find or understand.

<sup>192</sup> For respondents under the time limitation treatment, the mean time taken was 15:42 and the median was 10:06. For respondents under the no time limitation variant, the mean was 14:51 and the median was 09:38. This difference cannot be accounted for by the time spent answering comprehension questions.

Table 34: Average subjective assessment of ease of finding and understanding information, current accounts experiment

	Treatment variant		
	1. Time limitation	2. No time limitation	3. "Be sure" message
<i>How easy is it to find information on...</i>			
Overdraft fees	3.71	-0.23***	2.99
Cash withdrawal fees	4.06	2.08***	3.43
Standing order and direct debit fees	2.63	0.42***	1.684*
<i>How easy is it to understand information on...</i>			
Overdraft fees	3.48	0.73***	2.96
Cash withdrawal fees	4.13	2.62***	3.64
Standing order and direct debit fees	2.96	1.26***	1.99**

"Very difficult" = -10, "Somewhat difficult" = -3 1/3, "Somewhat easy" = 3 1/3, "Very easy" = 10.

\*Significantly different from score under the commercial practice (time limitation) at the 10% level, \*\*Significant at the 5% level, \*\*\*Significant at the 1% level

N=1,810 (variant 1: 603; variant 2: 603; variant 3: 604). Note that the average score further excludes respondents answering "Don't know" to the relevant questions.

For the fees mentioned in the table, respondents who were told to hurry ("Time limitation") reported that they found information *easier* to find and understand than other respondents. The difference is particularly stark when compared to respondents who were not subject to any messaging regarding time limitations ("No time limitation"). This result also indicates increased alertness and concentration of respondents as the underlying reason why those under the commercial practice were better able to identify the optimal account.

### 6.6.3.3. Factors and drivers linked to susceptibility to the commercial practices

The finding that respondents subject to the "hurry" message ("Time limitation") performed better than those not subject to any messaging ("No time limitation") is consistent across various subgroups (see section A10.3 in Annex 10 for a more detailed discussion on the analysis of factors and drivers). The same behaviour is seen for respondents in different countries, experimental environments, financial literacy levels, risk preferences, time preferences and financial situations.

The only factor for which a different pattern emerges is the level of digital literacy. Those with digital literacy skills classified as "Above basic skills" showed the same behaviour as the overall sample (described above). However, for those with basic or lower digital literacy skills the "hurry" message did not improve decision-making. Possibly, the pop-up does not create the same alertness and concentration for these people.

## 7. Consumer targeting and personalisation

This practice relates to consumer targeting and personalisation. At **advertising stage**, targeting is used to reach out to specific audiences (e.g. young people). Another method used at this stage is offers and advertisement which are personalised to individuals based on their characteristics (e.g. age) and past behaviour.

At **pre-contractual stage**, providers use different practices, such as price discrimination through which consumers are charged differently depending on their characteristics. Also, offers for some products tend to target a specific consumer segment (e.g. consumers that are already familiar with the product).

### 7.1. Description of the practices within this category

**Targeting** is a practice through which the content of advertisement is targeted to specific audiences (e.g. young people). Targeted advertising can take a number of forms:<sup>193</sup>

- **Behavioural advertising:** where advertising is tailored based on observing individuals' behaviour over time;
- **Contextual advertising:** where advertising is "selected based on content currently being viewed by the data subject"; and
- **Segmented advertising:** where advertising is targeted based on individuals' characteristics e.g. age, gender, location etc.

The practice is predominantly used at advertising stage and more rarely at pre-contractual stage (e.g. targeting consumers that are familiar with the product). At advertising stage, the results of the online desk research show that for all ten products analysed there is a certain degree of targeting and personalisation (e.g. through the use of language for younger people, by displaying pictures of business people, old people or young people).

**Personalisation** is a practice through which offers and advertisements are personalised to individuals based on their characteristics and past behaviour. For example, the ranking of offers on a price comparison website may be tailored to individuals based on their characteristics, device, browser, or past online searching/purchase behaviour. This practice was not easily identifiable through the online desk research (see section 2.3 on the limitations of the methodology), but adverts were displayed sporadically, based on previous online searches (e.g. adverts for current accounts or FinTech providers when searching for related words).

**Price discrimination** is a practice used by providers to provide different pricing structures to consumers, based on certain characteristics (for example age, credit history, health, employment status). Although encountered, this practice was not easily identifiable through online desk research (see section 2.3).

A study has identified various types of consumers and lists recommendations for providers on how to reach out to these consumers:<sup>194</sup>

- **The careful self-seeker:** consumers who compare product information on independent comparison portals. One aim of providers is to offer products in a standard and transparent way and to have access to the customers' data.
- **The digitally active:** consumers looking for expert information online with less focus on the best offer or brand of provider. For the sales practices it means that

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<sup>193</sup> European Commission (2010). Article 29 Data Protection Working Party 00909/10/EN WP 171, "Opinion 2/2010 on online behavioural advertising". Available at: [http://ec.europa.eu/justice/article-29/documentation/opinion-recommendation/files/2010/wp171\\_en.pdf](http://ec.europa.eu/justice/article-29/documentation/opinion-recommendation/files/2010/wp171_en.pdf)

<sup>194</sup> 2bAHEAD. (2015). How financial service providers can make the dialogue with their customers ready for the future.

Available at: [https://www.5-sterne-redner.de/fileadmin/media/download/pdf/Trendanalysen\\_SGJ/Janszky\\_Trendstudie\\_Wie\\_Finanzdienstleister\\_ihren\\_Dialog\\_mit\\_Firmenkunden\\_zukunftssicher\\_machen.pdf](https://www.5-sterne-redner.de/fileadmin/media/download/pdf/Trendanalysen_SGJ/Janszky_Trendstudie_Wie_Finanzdienstleister_ihren_Dialog_mit_Firmenkunden_zukunftssicher_machen.pdf)

providers are active in social media marketing, predictive analytics and smart prognostics.

- **The aware risk-manager:** consumers use all the information they can get, online and offline. The practices may vary in this segment. While new providers can approach them using tracking and targeting methods, universal banks can try to offer them a modular finance solution, which would save the customer costs by reducing risk premiums.
- **The strategic risk minimiser:** as the name says they try to minimise the risks as far as possible. Providers would try to approach them through advisors.
- **The responsibility-delegators:** these consumers are very dependent on financial advisors.
- **The brand-affine identity seeker:** the image of the provider plays an important role to these consumers, based on subjective opinions. This segment is not seen as very lucrative by providers and is said to be successful if daughter brands are created that focus on certain aspects such as environmental protection.
- **The entrepreneurial identity seeker:** the strategy here is to offer the products as white label and individualised for the customer.
- **The community-affine identity seeker:** they believe that financial services are still a deal between people. To gain access to those people it is advisable to create a key account manager that is charismatic, as personal contact to financial advisors remains an important aspect to these customers.

Products are also often targeted to specific age groups. There are, for example, student accounts or first accounts for young people aged 10+.<sup>195</sup> In Germany and Romania, special offers for students triggered some focus group participants to open an account when they went to university. Other factors for customer segmentation remain the economic, geographical and life phase of potential customers.<sup>196</sup> In Spain, Santander or Unicaja targeted younger customers through the advertising in Formula 1 events, offering scholarship programmes or providing information on the job search on online platforms.<sup>197</sup> In the Czech Republic, banks have identified that the youth is interested in traveling, the use of technology, feeling of stability and independence.<sup>198</sup>

A recent study on online market segmentation through personalised pricing/offers in the European Union found that online targeted advertising is the most widely-observed online personalisation practice. For example, across EU-28, more than seven out of ten (71%) of consumer survey respondents reported that in their experience nearly every e-commerce website used targeted advertising.<sup>199</sup>

There has been relatively little systematic evidence of the prevalence of online personalised offers, which might be explained by consumers' relatively low ability to detect the practice.<sup>200</sup> However, the recent European Commission study on online segmentation conducted a mystery shopping exercise which found evidence of widespread online personalised ranking of offers: over three fifths of the 160 visited e-commerce websites (for holiday bookings, car rentals, TVs and shoes) were found to practise personalised ranking of offers.<sup>201</sup>

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<sup>195</sup> University of Tomas Bata. (2011). Marketing communication of commercial banks.

<sup>196</sup> Detlef Hellenkamp and Kai Fürderer (Eds.). (2016). Handbuch Bankvertrieb: Theorie und Praxis im Zukunftsdialog (Handbook of Banking Marketing - Theory and Praxis in Future Dialogue). Publisher: Springer Gabler.

<sup>197</sup> Eduardo Núñez Polaina. (2015). Marketing financiero: evolución de las entidades bancarias. Accessible at: <http://tauja.ujaen.es/bitstream/10953.1/4443/1/TFG-Nu%C3%B1ez-Polaina%2CEduardo.pdf>.

<sup>198</sup> ISIC. (2017). Financial services do not need to be boring. Accessible at: <http://www.isic.cz/financni-sluzby-rozhodne-nemusi-byt-nuda/>

<sup>199</sup> European Commission (2018). Consumer market study on online market segmentation through personalised pricing/offers in the European Union. Available at: [https://ec.europa.eu/info/sites/info/files/aid\\_development\\_cooperation\\_fundamental\\_rights/aid\\_and\\_development\\_by\\_topic/documents/synthesis\\_report\\_online\\_personalisation\\_study\\_final\\_0.pdf](https://ec.europa.eu/info/sites/info/files/aid_development_cooperation_fundamental_rights/aid_and_development_by_topic/documents/synthesis_report_online_personalisation_study_final_0.pdf)

<sup>200</sup> Aniko Hannak, "Personalization in online services: Measurement, Analysis and Implications". Dissertation presented to the College of Computer and Information Science. Northern University. 2016.

<sup>201</sup> European Commission (2018). Consumer market study on online market segmentation through personalised pricing/offers in the European Union. Available at:

However, while the study found evidence of personalised ranking of offers, it did not find consistent evidence of price discrimination: the mystery shopping exercise found price differences based on shoppers' characteristics for identical products in only 6% of situations, and any observed price differences were small (less than 2%). This is consistent with previous research, which also does not find consistent or systematic evidence of widespread price discrimination.<sup>202</sup>

Whereas targeting and price discrimination are practices encountered also offline, personalisation of offers is a practice specific to the online environment. Online data allows providers to target their audience based on their searches, profile (e.g. gender, age, education level) and other characteristics.

### 7.1.1. Relevant products

A certain level of personalisation and targeting was identified for all the products analysed. The targeting can be done by either using appealing language for a certain consumer group (e.g. young people), or by displaying pictures which would relate to a certain consumer group (e.g. pictures with families for mortgage products, pictures with young people for digital banking). Some virtual currency platforms tend to target consumers that are already familiar with the functioning of the product. Therefore, the terminology used at pre-contractual stage does not seem to be accessible to any type of consumer. Although this practice has not easily been identifiable through desk research because of the limits to the methodology used, some products apply some forms of price discrimination.

There are also cases of targeting designed to help improve consumer decision-making. For example, in Norway, SpareBank1, a collaboration of several savings banks, launched an innovative mobile application called Spink. This application for savings is a mobile bank that specifically aims at children in the age group 8-14. The application was created as a reaction to the development whereby cash money becomes less commonly used while bank cards and mobile payments, on the other hand, are getting more important. It gives children an overview of their own money and facilitates learning about spending and saving in a safe environment hoping to prevent financial problems such as debts. This is a problem in Norway as 3,000 Norwegians between the ages of 18 and 32 struggle with payment problems and between 12% and 22% of young adults have challenges with overspending. These problems usually start at the end of the teenage years, and usually coincide with the age when Norwegians have to set up their own finances. SpareBank1 has collaborated with more than 1,000 parents and children in the development of the application. In order to be able to save money in the app, the child must have a savings account for children. The app can be used on both iPhone and Android phones.<sup>203</sup>

Studies show that SMS loans, payday loans or online credit products are often targeted to those in need of fast credit, namely, those with temporary financial difficulties and/or few savings, which is why advertisements for these products often focus on the time aspect.<sup>204</sup> Fast online loans usually appeal to those with financial problems (e.g. over-spending) and are not creditworthy.<sup>205</sup> They often target vulnerable consumers, such as people and families with low income levels and other people that urgently need loans such as the unemployed, young people, women and immigrants.<sup>206</sup> One stakeholder pointed out that

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[https://ec.europa.eu/info/sites/info/files/aid\\_development\\_cooperation\\_fundamental\\_rights/aid\\_and\\_development\\_by\\_topic/documents/synthesis\\_report\\_online\\_personalisation\\_study\\_final\\_0.pdf](https://ec.europa.eu/info/sites/info/files/aid_development_cooperation_fundamental_rights/aid_and_development_by_topic/documents/synthesis_report_online_personalisation_study_final_0.pdf)

<sup>202</sup> OECD, Directorate for Financial and Enterprise Affairs, Competition Committee, "Price discrimination". Background note by the Secretariat. 29-30 November 2016. Available at: [https://one.oecd.org/document/DAF/COMP\(2016\)15/en/pdf](https://one.oecd.org/document/DAF/COMP(2016)15/en/pdf)

<sup>203</sup> SpareBank1, Lanserer mobilbank for barn, 2018: <https://www.mynewsdesk.com/no/sparebank-1/pressreleases/lanserer-mobilbank-for-barn-2461859>.

<sup>204</sup> Tanja Jørgensen. (2014). The way to over-indebtedness - intensive marketing, easy access to loans and insufficient legislation (Denmark). Available at: [http://www.juridicainternational.eu/public/pdf/ji\\_2014\\_2\\_71.pdf](http://www.juridicainternational.eu/public/pdf/ji_2014_2_71.pdf).

<sup>205</sup> Stedopis. (2017). We should be careful with fast online loans. Available at: <https://www.stedopis.hr/oprežno-s-brzim-online-kreditima/>.

<sup>206</sup> ADICAE. (2014). Estudio sobre la publicidad, condiciones y prácticas de comercialización de los minipréstamos y créditos rápidos (Study over the marketing, conditions and practices in advertisement of mini and fast loans). Available at: [http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total\\_images=1&id=797&pdf=http://publicaciones.adicae.net/publi](http://publicaciones.adicae.net/turnjs4/slider.php?file=183&total_images=1&id=797&pdf=http://publicaciones.adicae.net/publi)



online advertisements in themselves are targeted as they can only reach that part of the population that uses the internet, which are usually more affluent, higher educated, younger and more urbanised.<sup>207</sup>

### 7.1.2. Illustrative examples

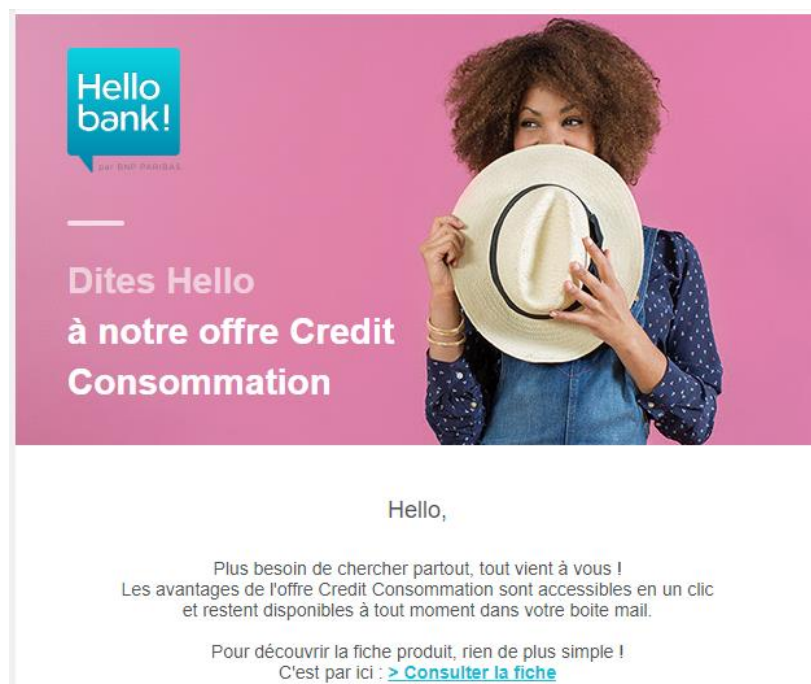
Through the online desk research, illustrative examples of consumer targeting, and practices used by providers were identified. The adverts for mortgage and personal loans presented below seems to indicate that the providers aim to reach out to certain consumers (i.e. families, young people). The first advert is for mortgages and illustrates a young family and seems to target families with a stable income. Adverts of FinTech providers (see example b) illustrate mostly pictures with young people, suggesting that this is their main target group.

Figure 27: Illustrative examples of consumer targeting

(a)



(b)



## 7.2. Prevalence of the commercial practices in this category

The online desk research results show that some practices are more prevalent for some products. The table below summarises the prevalence (by product) of consumer targeting

[caciones/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%202020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27](https://www.caciones.com/descarga.php?art=797&title=Libros%20y%20estudios%20t%C3%A9cnicos%202020&url=http://laeconomiadelosconsumidores.adicae.net:80/catalogo.php?mode=hlist&pub=220&cat=27).

<sup>207</sup> Interview with a sectoral association from Romania (07-06-2018).

and personalisation practices identified in the seven countries covered by the desk research.

Table 35: Prevalence of practices related consumer targeting across the 10 products

Stage	Practice name	Prevalence of practices (low, medium, high)									
		Credit card	Personal loan	Peer-to-peer (P2P) lending	Payday loans	Mortgages	Travel insurance	Current accounts	Savings account	Money transfer and payments	Virtual currencies
<b>Advertising</b>	Targeting	Low	Medium	Low	High	Low	Low	Medium	Medium	Medium	Medium
	Personalisation	Low	Low	Low	Medium	Low	Low	Medium	Low	Low	Medium
<b>Pre-contractual</b>	Price discrimination	Not found	Low	Low	Low	Low	Medium	Low	Not found	Not found	Not found
	Targeting a specific consumer segment	Not found	Not found	Not found	Not found	Not found	Not found	Not found	Not found	Not found	Medium

Note: "Not found" = the in-country researchers have not observed the practice for the product; "High" = the practice was encountered in many instances; "Medium" = the practice was encountered only in few instances; "Low" = the practice was encountered only in 1-2 instances.

### 7.3. Legal compliance of the commercial practices in this category

The table below assesses the commercial practices in this category from the perspective of EU-level legislation. In places the table also identifies (in sub-boxes) existing remedies to the practices that stem from the EU legislation. A full description and assessment of the relevant EU legislative instruments is presented in Annex 7.

Table 36: Assessment of legal compliance of practices related to consumer personalisation and targeting

Commercial practices	Assessment
<b>Advertising</b>	
Targeting	<p>Consumer targeting is observed to various degree <b>across the board</b>. If any advertisement is targeted to a certain extent, the means used to target it are important in order to assess such practices.</p> <p>If the targeting is based on personal data the GDPR will be relevant, in which case, consumers must be informed of the processing of their personal data, otherwise the practices may be considered unfair, due to a misleading omission of information (UCPD article 7(2), GDPR article 13).</p>
Personalisation	<p>Personalisation of offers to fit consumers is observed for <b>all products</b>, to various degrees. The means used for personalisation must be analysed to assess such a practice.</p> <p>Depending on how the personalisation is made, and based on which elements, especially if the personalisation is made on the basis of personal data, the GDPR will be relevant, in which case, consumers must be informed of the processing of their personal data, otherwise the practices may be considered unfair, due to a misleading omission of information (UCPD article 7(2), GDPR article 13).</p>
<b>Pre-contractual</b>	
Price discrimination	<p>Consumers may be charged differently depending on their characteristics. This price discrimination is observed mostly for <b>consumer credit, mortgages, travel insurance and current account</b>. Price discrimination is not an unfair practice in itself; it becomes problematic when it is not clearly identifiable in the pricing structure. Prices are determined freely by the provider; however, consumers must be informed of the criteria used to calculate the price. Lack of information on the pricing structure can be considered a misleading omission (UCPD article 7 (4)(c)) and as such should be prohibited.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Existing remedies: Obligation on providers to give information on the pricing structure.</i></p> </div>
Targeting a specific consumer segment	<p>Targeting consumers that are already familiar with the product features was observed for <b>virtual currencies</b>. This is potentially problematic data protection wise, depending on how the targeting is performed, and if consumers are informed their personal data is processed for marketing purposes.</p>

### 7.4. Perceptions of the commercial practices and related remedies

Being targeted based on past shopping or online behaviour, gender or life stages, was perceived negatively by focus group participants. This extends to requests for personal information at the pre-contractual stage (which might be used to personalise offers), which participants said they are reluctant to give as it is not communicated how the information will be used. The focus group discussions indicated that consumers' aversion to targeting

and personalisation by financial service providers is stronger if they have not used the provider in the past.

Another form of personalisation is where the bank auto-completes the customers' details (which the bank may hold because the customer is already known to the bank) during the application or purchasing process. Some focus group participants stated that this type of personalisation makes them feel more comfortable about completing the purchase process and providing information and documents online if it is a bank they already use for another financial product, whereas being asked for personal information by a bank they do not use has a negative impact on their decision to finalise a purchase, especially if this information is requested at an early stage.

A recent study for the Commission on personalisation and targeting involved a consumer survey with respondents from 28 Member States which explored consumers' attitudes towards these practices.<sup>208</sup> In general, surveyed consumers had concerns about all forms of online personalisation practices covered by the study.<sup>209</sup> Fewer than 10% of respondents reported having no concerns whatsoever about personalised ranking of offers, personalised pricing or targeted advertising. The most reported concerns among respondents were that:

- Their personal data might be used for purposes other than the one for which it was gathered and/or not knowing with whom it might be shared;
- Their data might be used to build a personal profile; and
- Paying more for products as a result of online personalisation.

Approximately 20% of surveyed consumers reported that they were concerned that they could not refuse online personalisation, and approximately three fifths (62%) reported that they would feel better about online personalisation if they could easily opt out.

On the other hand, a key perceived benefit of personalised ranking of offers and targeted advertising was that consumers see better product matches due to these practices (42% of respondents reported this as a benefit of personalised ranking and 32% reported it as a benefit of targeted advertising).

## 7.5. Remedies for the identified problematic practices

Personalisation and targeting practices depend on automated decision-making (ADM) and artificial intelligence (AI). ADM and AI were the focus of a recent report by the Europe-wide consumer organisation BEUC.<sup>210</sup> This report makes a number of suggestions that may be seen as potential remedies to these commercial practices. These range from making it a general principle that companies introduce effective mechanisms for auditing AI's use of data, to giving the public a right to access information about ADM processes, to (as a measure of last resort) prohibiting certain automated decision-making processes. Another solution suggested by the same consumer organisation would be for online providers to be obliged to indicate to all consumers a catalogue price, reference or range price.<sup>211</sup>

The negative perceptions among consumers of personalisation and targeting (discussed in section 7.4) suggest that there is suspicion and distrust towards these practices and providers that use them. Therefore, a remedy that might be considered is to ensure that

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<sup>208</sup> European Commission (2018). Consumer market study on online market segmentation through personalised pricing/offers in the European Union. Available at:

[https://ec.europa.eu/info/sites/info/files/aid\\_development\\_cooperation\\_fundamental\\_rights/aid\\_and\\_development\\_by\\_topic/documents/synthesis\\_report\\_online\\_personalisation\\_study\\_final\\_0.pdf](https://ec.europa.eu/info/sites/info/files/aid_development_cooperation_fundamental_rights/aid_and_development_by_topic/documents/synthesis_report_online_personalisation_study_final_0.pdf)

<sup>209</sup> This study explored three types of personalisation and targeting: 1) *personalised ranking of offers*, where the ranking of products is tailored to consumers depending on their previous online behaviour, 2) *personalised pricing*, where different consumers are shown different prices for the same products, depending on their previous online behaviour and 3) *targeted advertising*, where consumers are shown tailored online advertising depending on their online profiles.

<sup>210</sup> BEUC (2018). Automated decision making and artificial intelligence - A consumer perspective. Available at:

[https://www.beuc.eu/publications/beuc-x-2018-058\\_automated\\_decision\\_making\\_and\\_artificial\\_intelligence.pdf](https://www.beuc.eu/publications/beuc-x-2018-058_automated_decision_making_and_artificial_intelligence.pdf)

<sup>211</sup> BEUC (2010). Online Advertising – Impact on consumers. Available at: <https://www.beuc.eu/publications/2010-00516-01-e.pdf>

when adverts and offers are being personalised and targeted this is made transparent to the consumer. This is consistent with the views of consumer organisations who advocate greater transparency in this area.<sup>212</sup> This remedy was tested in a behavioural experiment conducted as part of a recent study for the Commission, the results of which are discussed in section 7.6.

BEUC's study on ADM and AI<sup>213</sup> made a number of recommendations, including:

- Data should not be concentrated in the hands of a small number of providers so firms can compete to provide ADM- and AI-based products and services;
- AI-based products and services must be user-friendly and legally compliant;
- Discrimination and lack of transparency or privacy should be avoided;
- Member States should have a general duty of to ensure adequate sanctions, reparation and compensation for those harmed by discriminatory or illegal ADM practices;
- Consumers should have the right to object to ADM and contest the decision of ADM;
- Users should have a right to transparency on the parameters on which offers are based; and
- Companies should introduce effective mechanisms for auditing AI's use of data and ADM auditing should be done by independent third parties or specific public bodies.

## 7.6. Impacts of the commercial practices and related remedies

The behavioural literature provides some insights as to why the practices of personalisation and targeting might influence consumer behaviour. In particular, personalisation might be expected to influence behaviour due to the behavioural trait known as *familiarity bias*, which is closely linked to the *availability heuristic* identified by Tversky and Kahneman.<sup>214</sup> Familiarity bias refers to the fact that individuals tend to have preferences for what they find familiar over what they find unfamiliar. For example, some consumers focus on familiar aspects or products, including refraining from cross-border purchases due to an unfamiliar environment.<sup>215</sup>

Indeed, during the focus groups familiarity with a bank was identified as important when participants purchase a financial product. They would first look at offers from banks they know, and they would be more reluctant to open a current account or take out a personal loan at a bank or other financial service provider they are not familiar with.

*"I look what [banks] I know. If a bank appears that is unknown to me, I would not choose it." (High education level/financial literacy group, Hamburg)*

Thus, if a provider can use personalisation to create a sense of familiarity, evidence from the focus groups and the literature suggests that this would encourage consumers to favour that provider's products and services.

The present study did not test the impacts of personalisation and targeting, partly because these practices were the subject of another recent Commission study. This 2018 study for the Commission, which also involved a behavioural experiment, found that personalisation and targeting can impact on consumers' choices, by increasing the probability that they buy targeted products.<sup>216</sup> The experiment found that participants were significantly more

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<sup>212</sup> BEUC (2018). Automated decision making and artificial intelligence - A consumer perspective. Available at: [https://www.beuc.eu/publications/beuc-x-2018-058\\_automated\\_decision\\_making\\_and\\_artificial\\_intelligence.pdf](https://www.beuc.eu/publications/beuc-x-2018-058_automated_decision_making_and_artificial_intelligence.pdf)

<sup>213</sup> Ibid.

<sup>214</sup> Tversky, A. and Kahneman, D. (1973). Availability: A Heuristic for Judging Frequency and Probability. *Cognitive Psychology* 5, 207-232.

<sup>215</sup> Alpha Research (2010). Financial Literacy Survey: Report on the Key Findings of the Survey. A report prepared for the World Bank

<sup>216</sup> European Commission (2018). Consumer market study on online market segmentation through personalised pricing/offers in the European Union. Available at: [https://ec.europa.eu/info/sites/info/files/aid\\_development\\_cooperation\\_fundamental\\_rights/aid\\_and\\_development\\_by\\_topic/documents/synthesis\\_report\\_online\\_personalisation\\_study\\_final\\_0.pdf](https://ec.europa.eu/info/sites/info/files/aid_development_cooperation_fundamental_rights/aid_and_development_by_topic/documents/synthesis_report_online_personalisation_study_final_0.pdf)

likely to purchase personalised products if they were shown targeted advertising combined with personalised ranking of offers.<sup>217</sup> Specifically, 62% of those who were shown targeted advertising combined with a personalised ranking of offers purchased one of the offers that had been tailored to them, compared with 50% of participants who did not receive any personalisation. This is consistent with other research which found that behaviourally targeted adverts result in increased purchase intentions for the advertised product.<sup>218</sup>

The 2018 Commission study also tested a potential remedy to the practices of targeting and personalisation, namely providing consumers with transparent communication about the personalisation that was occurring.<sup>219</sup> The experiment found that, when this transparent communication was provided, the combined impact of targeted advertising and personalised ranking of offers was erased.

The literature review conducted for the 2018 Commission study found that, in general, the literature suggests that personalisation can benefit consumers via better product matches, lower prices or reduced search costs (and 23% of consumers surveyed for that 2018 study reported that personalised ranking saved them time spent searching online). However, on the other hand, it can harm consumers by steering them towards products with the highest prices they are willing to pay (as opposed to the best match).

Furthermore, personalisation can benefit some consumers at the expense of others. For example, personalisation can benefit tech-savvy consumers who are willing to shop around, at the cost of those who are less able or willing to search or who have a higher willingness to pay.<sup>220</sup> Similarly, personalisation may harm specific consumer groups if sellers use consumer data to identify and discriminate between sophisticated and naïve consumers or between consumers who actively use measures to protect their online privacy and those who are unaware or unwilling to use such measures.<sup>221,222</sup>

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<sup>217</sup> This experiment tested three types of personalisation and targeting: 1) *personalised ranking of offers*, where the ranking of products is tailored to consumers depending on their previous online behaviour, 2) *personalised pricing*, where different consumers are shown different prices for the same products, depending on their previous online behaviour and 3) *targeted advertising*, where consumers are shown tailored online advertising depending on their online profiles.

<sup>218</sup> Summers, C.A. Smith, R.W. and Walker Reczek, R. (2016). An Audience of One: Behaviorally Targeted Ads as Implied Social Labels. *Journal of Consumer Research*, Volume 43, Issue 1.

<sup>219</sup> Under the 'low transparency' condition participants were not explicitly told that personalisation was occurring, while under the 'high transparency' condition participants were shown salient text clearly telling them that products were personalised based on their previous online behaviour (e.g. search history or purchases).

<sup>220</sup> Office of Fair Trading (2013). *The economics of online personalised pricing*

<sup>221</sup> OECD (2016). *Price Discrimination: Background Note by the Secretariat*.

<sup>222</sup> Oxera (2017). *When algorithms set prices: winners and losers*. Discussion paper.

## 8. Design of the offer

This is a practice which was only identified at **pre-contractual** stage and which refers to the way in which the offer is proposed to consumers. Two methods used under this practice and identified by the study team are pre-ticked boxes and product bundling.

### 8.1. Description of the practices within this category

To recommend add-on products or services, providers **pre-tick these options** for consumers when applying for a product. This is a less frequently encountered practice and mostly seen at pre-contractual stage.

**Product bundling** is a practice through which different products are presented in a single offer (e.g. bank account offered with travel insurance). The practice is most commonly present at the pre-contractual stage.<sup>223</sup> Consumers mentioned that while purchasing retail financial products other products such as car insurance, or medical care services were offered to them as well.<sup>224</sup>

Product bundling is considered as a widely used strategy within the area of personal loans, payday loans, micro loans and other online loan products.<sup>225</sup> Insurance add-ons work in a similar way, one example is Gap Insurance. Gap insurance is an additional insurance added to the purchase of a car in order to cover the value difference (hence gap) between a newly purchased car and the value of the car after some time. This insurance would be paid out if the car is, for instance, written off or stolen.<sup>226</sup> Another example is the legal expense cover that is added to house or car insurance.<sup>227</sup> Cause-related-marketing relates to product bundling as well. In this case, instead of bundling another product to the first product of interest, the bundling is done between the product of interest and a good cause (e.g. donations).<sup>228</sup> Problematic is the practice of having add-on products automatically included through pre-ticked boxes of the extra options.<sup>229</sup>

According to ADICAR, a Spanish consumer association, the practice of product bundling, especially making it seem obligatory for consumers to purchase other insurances together with their loan, might disadvantage consumers from lower income groups.<sup>230</sup> Retailers might emphasise the risks of not being properly insured, pushing the consumer to purchase the add-on coverage without the time to reflect about the offer.<sup>231</sup>

These two practices are not necessarily specific to the online environment, as providers use them also in the offline environment (e.g. pre-ticking options in the contract, product bundling).

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<sup>223</sup> The Open University. (2017). Consumers and competition: Delivering more effective consumer power in retail financial markets. Accessible at: [https://fs-cp.org.uk/sites/default/files/fscp\\_consumers\\_and\\_competition\\_thinkpiece\\_finalpp\\_jtl\\_20170306.pdf](https://fs-cp.org.uk/sites/default/files/fscp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf)

<sup>224</sup> European Banking Association. (2017). EBA Consumer Trends Report 2017. Accessible at: <http://www.eba.europa.eu/documents/10180/1720738/Consumer+Trends+Report+2017.pdf>

<sup>225</sup> See for example: MDR Sachsen. (2018). Kampf gegen Wucher. Accessible at: <https://www.verbraucherzentrale-sachsen.de/pressemitteilungen/geld-versicherungen/buendnis-gegen-wucher>

<sup>226</sup> <https://www.moneysavingexpert.com/car-insurance/gap-insurance/>

<sup>227</sup> The Open University. (2017). Consumers and competition: Delivering more effective consumer power in retail financial markets. Accessible at: [https://fs-cp.org.uk/sites/default/files/fscp\\_consumers\\_and\\_competition\\_thinkpiece\\_finalpp\\_jtl\\_20170306.pdf](https://fs-cp.org.uk/sites/default/files/fscp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf)

<sup>228</sup> Sabrina Lucke and Jörg Heinze. (2015). Kaufanreize durch Nachhaltigkeit schaffen - Potentialanalyse von Cause-Related-Marketing für Versicherungs-Apps. Publisher: Springer Gabler.

<sup>229</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Accessible at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>

<sup>230</sup> AICAR – ADICAE. (2017). Los consumidores frente a los seguros de vida-ahorro: Estudio sobre derechos y condiciones de contratación. Accessible at: <http://aicar.adicae.net/archivos/Estudio-SEGUROS-vida-ahorro-2017.pdf>

<sup>231</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Accessible at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>



### 8.1.1. Relevant products

The display of pre-ticked boxes to recommend add-on products or services have not been encountered widely across the products analysed. Scarce examples have been encountered for personal loans, where pre-ticked boxes were displayed on the personal loan calculator.

In France, the Directorate General for Competition, Consumption and Fraud Control (DGCCFC) found that for certain credit products, the option 'subscribe to an add-on insurance' was already ticked in the contract, even though the subscription to an add-on insurance is not mandatory.<sup>232</sup> The online desk research has not identified many examples of product bundling. When identified, these were mainly observed for personal loans, credit cards, payday loans and mortgages.

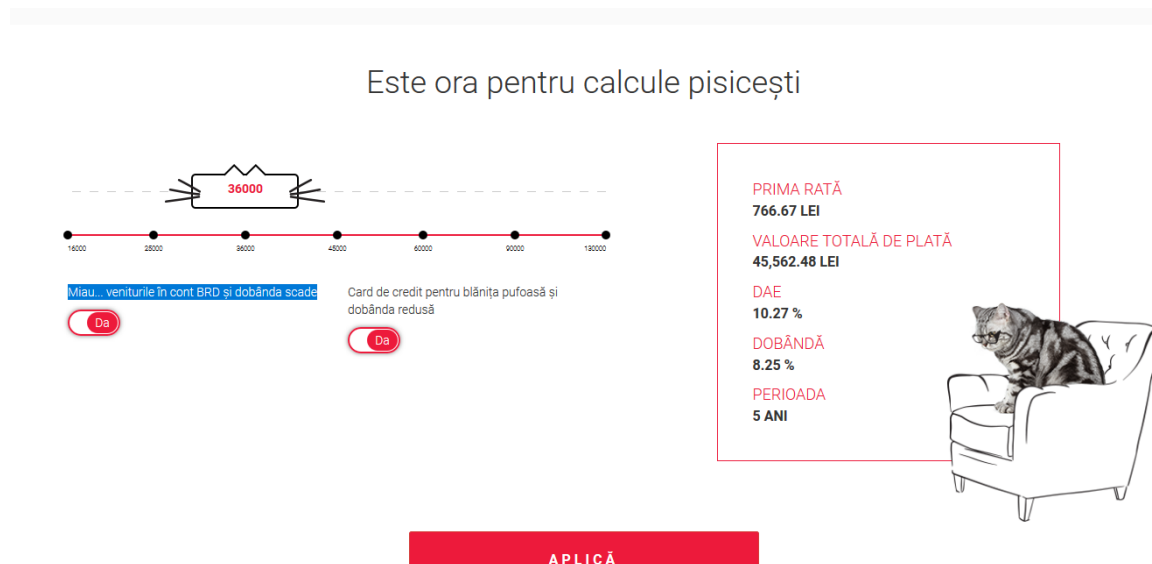
Product bundling is a practice used across many products. In Germany, for instance, product bundling was mostly encountered for travel insurances that are added to other financial products such as credit cards. In this case, many consumers thought that they were covered by the travel insurance and were made clear after they have used it, that they were not meeting certain conditions.<sup>233</sup> This practice was not easily identifiable through online desk research. Where encountered, product bundling was observed for personal loans, credit card and payday loans.

### 8.1.2. Illustrative examples

The image below illustrates an example of pre-ticked boxes for personal loans. In this example, consumers have pre-ticked on the personal loan calculator two options: to attach a debit account and a credit card. The second image provides an example of bundled products – for the credit card product, the provider bundled also travel insurance.

Figure 28: Illustrative example of pre-ticked recommended add-on products and product bundling

a)









<sup>232</sup> Directorate General for Competition, Consumption and Fraud Control France. (2018). Consumer credit products: loyalty towards pre-contractual information. Accessible at: <https://www.economie.gouv.fr/dgccrf/credit-a-consommation-loyaute-information-precontractuelle>


<sup>233</sup> Interview with a legal expert from Germany (12-07-2018)

b)

## Pas besoin de vous assurer pour vos voyages : c'est déjà fait !

Annulation voyages, perte de bagages, assurance médicale... Votre carte Gold Mastercard® vous protège pendant vos déplacements en France et à l'étranger :

 Au ski et à la montagne	
 Pendant vos voyages et vacances	
 Pour vos locations de voiture	

 **Le complément utile**

**l'Assurance Moyens de Paiement Plus ING**

Protégez-vous aussi des aléas du quotidien (perte de clés, vols de vos papiers...) pour seulement **30€/an** pour un compte simple (ou **40€/an** pour un compte joint), dont 3,98€ de protection juridique : soit 2.5€/mois.

[Découvrez les garanties](#)

### 8.2. Prevalence of the commercial practices in this category

The online desk research results show that some practices are more prevalent for some products. The table below summarises the practices related to the design of the offer, identified in the seven countries and their observed prevalence per product.

Table 37: Prevalence of practices related to design of the offer, across the 10 products

Stage	Practice name	Prevalence of practices (low, medium, high)									
		Credit card	Personal loan	Peer-to-peer (P2P) lending	Payday loans	Mortgages	Travel insurance	Current accounts	Savings account	Money transfer and payments	Virtual currencies
Pre-contractual	Pre-ticked boxes	Not found	Low	Not found	Not found	Not found	Not found	Not found	Not found	Not found	Not found
	Product bundling	Low	Medium	Not found	Low	Low	Not found	Not found	Not found	Not found	Not found

Note: "Not found" = the in-country researchers have not observed the practice for the product; "High" = the practice was encountered in many instances; "Medium" = the practice was encountered only in few instances; "Low" = the practice was encountered only in 1-2 instances

### 8.3. Legal compliance of the commercial practices in this category

The commercial practices in this category are assessed from the perspective of EU-level legislation in the table below. A full description and assessment of the relevant EU legislative instruments is presented in Annex 7.

Table 38: Assessment of legal compliance of practices regarding the design of the offer

Commercial practices	Assessment
<b>Pre-contractual</b>	
Pre-ticked options	Pre-ticked boxes for recommended add-on products to a <b>payday loan, or any other product</b> , will influence the price displayed by the price calculator, as it will not reflect the real price of the product without the add-ons. Such a practice can be considered misleading (UCPD article 6(1)(b) concerning the main characteristic of the product). Moreover, it can be argued with such a practice that the consumer does not really consent to the add-on, in particular when the possibility to apply for a product is given in the price calculator, it may even be considered aggressive marketing (UCPD article 8).  Although it is not applicable to financial services the Consumer Rights Directive <sup>234</sup> and its guidance document <sup>235</sup> could be a source of inspiration for the DMFSD. Under the CRD and its guidance, in particular its article 22 on additional payments, a pre-ticked box does not meet the requirement for informed consent. Similar rules could (in future) apply under the DMFSD.
Product bundling	Product bundling was observed for <b>credit cards, personal loan, payday loan and mortgages</b> . It is not an unfair practice in itself, but it should not prevent consumer to purchase each product separately, and to be properly informed about them.

### 8.4. Perceptions of the commercial practices and related remedies

One practice within the present category was examined in the survey:

- **“Bundling”**, i.e. multiple products are bundled into one offer, without clearly showing the cost breakdown and possibility (or not) to buy the products separately

As displayed in Table 39 the average rating of this practice is relatively high (compared to other practices covered) and above 3, meaning that it is perceived rather detrimental.

Table 39: Average detriment-ratings pooled over product categories (practice category 3)

Practice	Average Rating	Number of Observations
Bundling	3.87	N=8,149

**Notes:** The question was Q3.2a and Q3.2b: “Imagine you are shopping around on the internet wishing to choose a [product category]. You search on a search engine for suitable offers and are directed to the websites of different suppliers. At the end of your search, you have identified alternative [products / services] that match your search criteria. Given this scenario, to what extent do you think the following commercial practices would be detrimental?”; The scale was labelled 1=“not detrimental” and 5=“very detrimental”.

Results are averaged over Q3.2a and Q3.2b and product category.

**Source:** ConPolicy analysis of consumer survey data.

<sup>234</sup> Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council Text with EEA relevance (<http://data.europa.eu/eli/dir/2011/83/oj>)

<sup>235</sup> Guidance document on the Consumer Rights Directive: [https://ec.europa.eu/info/sites/info/files/crd\\_guidance\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/crd_guidance_en_0.pdf)

As in the previous sections reporting on survey results related to consumers' perceptions of practices, results are analysed with respect to the following respondent-level variables:

- product category (i.e. credit, insurance, banking and money transfer or payment products)
- gender and age group
- education level and financial status
- financial literacy and digital literacy
- risk preferences and time preferences, and
- country (i.e. Finland, France, Germany, Lithuania, Spain and Romania)

In the main body of the text only significant differences depending on the variables listed above are reported. The complete results, including those where no systematic differences appear, are presented in Annex 12.

Firstly, **age** appears to be relevant for the perception of consumers, i.e. younger respondents gave lower ratings implying that they see this practice as less detrimental compared to older respondents (see Figure 88 in Annex 12). Similarly, **education level** appears to be related with detriment-ratings (see Figure 89 in Annex 12). Therefore, the higher the attained educational level, the higher perceived detriments of the bundling-practice.

With respect to **financial literacy** (see Figure 90 in Annex 12) a small positive relationship can be detected indicating that consumers with stronger financial skills perceive the practice as more detrimental. The same holds true for **time preferences** (see Figure 91 in Annex 12). Therefore, the higher proximity of consumers' current-self to their future-self, the worse they perceive the practice.

Finally, there exist differences by country which are graphically summarised in Figure 92 in Annex 12. Participants from **Finland** on average reveal higher detriment-ratings than consumers from other countries. The lowest average is revealed by participants in **Romania**.

With respect to the other variables that were elicited in the survey, i.e. product type, gender, financial situation, digital literacy and risk preferences, no systematic differences in the ratings are observed. Hence, perceptions of the practice considering 'bundling' are independent of these characteristics. These results can be seen in Annex 12.

Evidence from the focus groups showed rather mixed views. On the one hand, participants stated that product bundling can be perceived as positive by consumers if it is transparent and possible to personalise (i.e. where only the services or products of interest to the customer are included in the bundle). In particular bundling with non-financial products or services (e.g. travel, cash back or entertainment rewards) can be appealing.

On the other hand, however, participants in Germany who have searched for a personal loan online stated that they only saw that an insurance was attached to the loan when they read through the terms and conditions of the contract. This way of non-transparent product bundling made participants feel insecure and question whether they may have overlooked more important information (and as a result they aborted the online process and instead went in person to a bank to conclude the contract). More generally, focus groups participants agreed that discovering a bundled product only in pre-contractual advertisement can cause consumers to feel resentment or insecure, possibly leading them to abort online purchasing processes.

## 8.5. Remedies for the identified problematic practices

The key issue regarding **bundling of products** from the consumer's perspective is that, since different bundles may include different sets of components (which may carry different fees), bundles are relatively difficult to compare. Therefore, the informational remedies

that can help consumers to compare offers (see the discussion in section 5.5) are likely to remedy problems caused by product bundling.

Some specific ways of improving information provision that are especially relevant for bundling of products, which were viewed positively by focus group participants, include:

- Providing a price breakdown/summary of charges. Participants perceived this as being very useful, and in one country (Romania) it was specifically mentioned that it would be useful since it would provide the proportion of costs of bundled products.
- Providing a checklist of what is included free of charge and what incurs a charge. This was also perceived as being very useful by participants, since it would facilitate easier comparison of offers.

Regarding **pre-ticking of boxes**, although the Consumers Rights Directive prohibits this practice, financial services are not covered by this Directive. Thus, to be sure of avoiding the potential detriment that might be caused by this practice, similar rules prohibiting it could be applied to financial services (although it should be noted that specific national-level legislation banning the practice may already be in place in specific countries).

## 8.6. Impacts of the commercial practices and related remedies

Evidence from the literature suggests that **product bundling** might be expected to have important effects on consumers' decision-making. Bundling could be expected to impact on consumers' ability to compare products and make the right choice due to the fact that it increases complexity, since the information on the add-on product(s) is often hard to find and can deflect the focus from the core product.<sup>236</sup>

A previous study found (based on focus group evidence) that when financial products are bundled with non-financial products, such as add-on insurance for some primary good or insurance cover for a rental car, consumers merely focus on comparing the main products or services with which the insurance is bundled.<sup>237</sup>

Another study found that the bundled products' costs and conditions were often only shown in the fine print and that the interest rates could reach up to 20%.<sup>238</sup> Thus, consumers pay a fee for the bundle and are often unaware of the cost of the individual components of the package. In addition to obscuring price, consumers who take out bundled product are often unaware of the quality of the individual products or whether they are a good match for their needs.

Previous experimental research for a national financial regulator<sup>239</sup> found that combining the option to purchase insurance with the primary product did not impact on the search behaviour of respondents or the tendency to take-up insurance. However, when experiment respondents were asked to shop around for both the primary product and the insurance this increased the computational difficulty of the task, and errors increased when respondents had to compare offers with two parts (primary and insurance) as opposed to searching for standalone insurance only.

However, the experiment for the present study did not test the impact of bundling versus separating products per se, since it seems unlikely that bundling itself will be prohibited

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<sup>236</sup> Financer.com. (2017). Pikavippien mainonta osittain harhaanjohtavaa – Monimutkaiset hinnastot ja termien vääristely voivat hämätä kuluttajaa. Accessible at: <https://financer.com/fi/pikavippien-mainonta-osittain-harhaanjohtavaa/>.

<sup>237</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Accessible at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>.

<sup>238</sup> MDR Sachsen. (2018). Kampf gegen Wucher. Accessible at: <https://www.verbraucherzentrale-sachsen.de/presse-meldungen/geld-versicherungen/buendnis-gegen-wucher>.

<sup>239</sup> London Economics. (2014). Study into the sales of Add-on General Insurance Products: Experimental consumer research. A report for the Financial Conduct Authority. Accessible at: <https://www.fca.org.uk/publication/market-studies/gi-add-ons-experimental-consumer-research-report.pdf>.

and, in fact, bundling could have benefits for consumers, for example where a package is cheaper than the individual elements (e.g. the Swedish consumer information portal Ekonomi-Portalen provides an example that consumers can save up to 20% if they take out both household insurance and car insurance with the same company<sup>240</sup>).

Instead, as noted in section 8.5, the potential negative effects of bundling could be tackled via information remedies, the likes of which were tested in the experiment. For example, current accounts are often provided with various services that are charged for separately, which is akin to bundling in terms of the challenge for consumers (i.e. how to choose between diverse bundles with different components and price structures). Hence, the Payment Accounts Directive and related EU regulations introduce information remedies to help consumers choose between accounts when these come with various services that carry different fees.

The current accounts experiment reflected the practice of bundling and pre-contractual information remedies to it, because the accounts offered in the experiment exhibited characteristics of bundling; i.e., the accounts had various features that were included or excluded and/or priced differently across the accounts (e.g. an arranged overdraft facility, which was essential to the identity of the optimal account).<sup>241</sup>

Hence, the results from the current accounts experiment reported in section 5.6.2 are also highly relevant here. These results suggest that providing better information, such as in a clear, standardised format, would have considerable positive effects on consumer decision-making. For example, the two remedies that used the EU Fee Information Document increased the share of respondents who chose the optimal account by 8-10 percentage points relative to the baseline commercial practice treatment, impacts that are highly statistically significant (for an in-depth discussion of these results see section 5.6.2).

Although the present study does not provide first hand primary evidence, **pre-ticking of boxes** could be expected to have a significant impact on individuals' behaviour because this practice changes the default option. Default options are pre-defined courses of action that occur unless the decision-maker specifies an alternative course.<sup>242</sup> In choice architecture setting defaults is a powerful strategy if inertia or uncertainty affect the decision. A classic, often-cited example from the literature is a study of organ donation which showed that whether individuals are required to opt-in or opt-out of donating has a significant impact on donation rates.<sup>243</sup>

Consequently, if pre-ticked of boxes are used by financial services providers such that this results in the default choice being a poor option for the consumer, this is likely to cause detriment. However, whether pre-ticking is indeed be detrimental in specific cases will depend on the product and the consumer in question.

The experiment did not test alternative remedies to the pre-ticking of boxes since the potential remedy (should authorities wish to use it) is clear, namely (as noted above) to draw inspiration from the ban of this practice under the Consumer Rights Directive and apply it to financial services (although again it should be noted that relevant national-level legislation may already be in place in some countries).

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<sup>240</sup> Ekonomi-Portalen (2016). Billigare försäkring. Available at: <http://www.ekonomi-portalen.com/forsakringar/info-forsakringar/allmant-om-forsakringar/billigare-forsakring>.

<sup>241</sup> In fact, most of the services that are linked to payment accounts in most Member States (as per Commission Delegated Regulation (EU) 2018/32) and potentially subject to a fee were included with the experiment accounts and were charged for separately for at least one account in the experiment.

<sup>242</sup> Thaler, R. H., & Sunstein, C. (2008). "Nudge: Improving decisions about health, wealth, and happiness".

<sup>243</sup> Johnson, E. J., & Goldstein, D. G. (2003) "Do defaults save lives?" Science, 302, 1338-1339.

## 9. Tools made available to help consumers during the decision-making process

Through this practice, providers make available tools for consumers to help them throughout the decision-making process. This practice was encountered at both advertising and pre-contractual stages. At **advertising stage**, this practice comes under the form of positive consumer reviews, which are displayed to induce the idea of a highly appreciated product. More tools are made available at **pre-contractual stage**, such as product-tailored contact section, progress bars for applications and online calculators.

### 9.1. Description of the practices within this category

This section presents information on tools that are made available to consumers while attempting to purchase financial products which could assist with their decision-making.

Displaying **consumer reviews** is a practice that could help consumers during the decision-making process on whether reviews are unbiased and impartial. However, a practice sometimes encountered for new providers (e.g. payday loans, P2P lending platforms) is the display of **only positive reviews** when advertising their products to emphasise their popularity (i.e. through five-star rating system, quoting consumer reviews). This practice was encountered at both the advertising and pre-contractual stages. By displaying positive consumer reviews, providers seem to induce the idea of a highly appreciated product, making consumers want to click the product.

One practice identified is the provision (or more often not) of **product-specific contact sections** (e.g. chatbox, product-specific direct lines). Only one of the analysed providers offered live assistance from a bank representative during online application (through WhatsApp). Other providers included chatboxes or direct phone lines.

Most providers display an **application progress bar** which can help consumers track their progress. However, in some instances, providers were not displaying such tools, making it difficult for consumers to anticipate the end of the application.

Lastly, some providers make available tools which offer consumers the **assistance to understand and explore the product** prior to the application (e.g. loan calculators, insurance calculators). Through the online desk research, it has been observed that loan providers in particular, use loan calculators also as product bundling tools. For instance, the loan calculator may include products which, when ticked, would influence the final repayment amount. Another practice observed is that, when using the loan calculator on a mobile screen, the content is often not adapted to the screen, and therefore consumers must make significant efforts to see all the information.

The use of tools to facilitate the consumer journey are practices specific to the online environment. In the absence of a physical representative of the provider, tools to substitute such presence are provided to consumers to guide them through or facilitate their purchase online.

#### 9.1.1. Relevant products

Displaying **positive consumer reviews** was encountered in advertising for a range of products, including personal loans, P2P lending, payday loans, travel insurance, current accounts, savings accounts and virtual currencies.

The lack of **product specific contact sections** is mostly encountered for providers which offer multiple products (e.g. banks). Providers focused only on a specific product (e.g. P2P lending, payday loans, money transfer and payments, virtual currencies), which would evidently not fall under this category as these providers offer product-specific contact sections. **Progress bars** are used by at least some providers of all types of products, except mortgages.



The provision of tools to help consumers understand and explore the product, such as **online calculators**, was mainly encountered for credit products (personal loans, P2P lending, payday loans) and travel insurance.

### 9.1.2. Illustrative examples

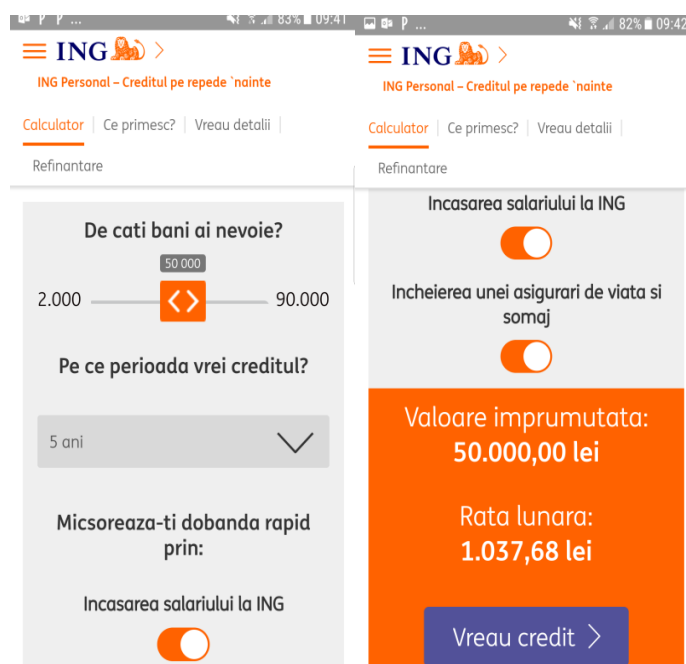
The online desk research provides illustrative examples of tools that are made available to consumers. The example below is deemed to be a good practice, where consumers are provided two means for opening an online current account: by using the chatbox assistance or video assistance through WhatsApp with a bank representative.

Figure 29: Illustrative example of product-specific contact section



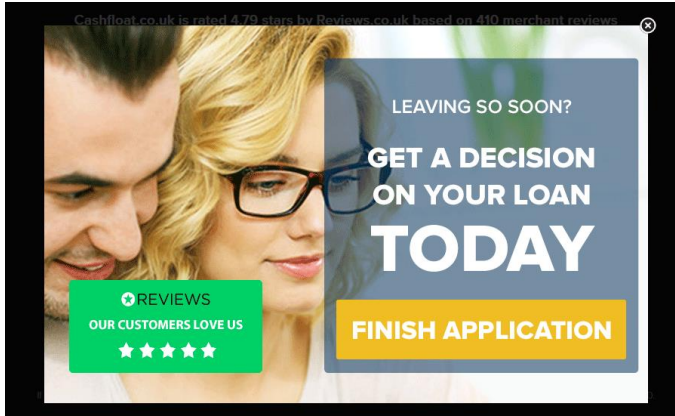
The example below displays a loan calculator on a mobile screen, showing that this is not adapted to the screen, thus consumers would have to make efforts in order to see all the information.

Figure 30: Illustrative example of loan calculator on mobile screen



The advert shown in the figure below is an illustrative example where positive consumer reviews are displayed. The consumer reviews seem to suggest that customers have had a positive experience with the provider.

Figure 31: Illustrative example of display of positive consumer reviews in advertising



## 9.2. Prevalence of the commercial practices in this category

The online desk research results show that some practices are more prevalent for some products. The table below summarises the practices related to availability of tools for consumers, identified in the seven countries and their observed prevalence per product.

Table 40: Prevalence of availability of tools for consumers, across the 10 products

Stage	Practice name	Prevalence of practices (low, medium, high)									
		Credit card	Personal loan	Peer-to-peer (P2P) lending	Payday loans	Mortgages	Travel insurance	Current accounts	Savings account	Money transfer and payments	Virtual currencies
<b>Advertising</b>	Positive consumer reviews	Not found	Low	Medium	High	Not found	Low	Medium	Low	Not found	Low
<b>Pre-contractual</b>	Product-tailored contact sections	Medium	Medium	Not found	Not found	Medium	Medium	Medium	Medium	Not found	Not found
	Presence of progress bars	Low	High	Medium	Medium	Not found	Medium	Low	Low	Low	Low
	Availability of online calculators	Medium	High	High	High	Not found	High	Not found	Not found	Low	Not found

Note: "Not found" = the in-country researchers have not observed the practice for the product; "High" = the practice was encountered in many instances; "Medium" = the practice was encountered only in few instances; "Low" = the practice was encountered only in 1-2 instances.

### 9.3. Legal compliance of the commercial practices in this category

The table below assesses the commercial practices in this category from the perspective of EU-level legislation. A full description and assessment of the relevant EU legislative instruments is presented in Annex 7.

Table 41: Assessment of legal compliance of practices related to the availability of tools for consumers to assist them during the decision process

Commercial practices	Assessment
<b>Advertising</b>	
Positive consumer reviews	Display of only positive consumer reviews which induce the idea of a highly appreciated product has been observed for <b>personal loans, peer-to-peer lending, payday loans, travel insurance, current account, saving account and virtual currencies</b> . But only displaying positive consumer review could be a misleading action or omission <sup>244</sup> (UCPD article 7(2) and Annex I point 22 (" <i>Falsely claiming or creating the impression that the trader is not acting for purposes relating to his trade, business, craft or profession, or falsely representing oneself as a consumer</i> ").
<b>Pre-contractual</b>	
Product-tailored contact sections	A lack of product specific contact information sections (e.g. chat box, direct line for current accounts) has been observed for <b>credit card, personal loan, mortgages, travel insurance, current account and savings account</b> . Contact information of the provider must be displayed clearly; however, such information does not have to be product specific. Furthermore, consumers must be able to obtain explanations about the product if they find it necessary (CCD article 5(6), MCD article 16), which can be provided through specific contact points, or additional documentation.
Presence of progress bars	Encountered for <b>all products but mortgages</b> , the use of progress bars or similar indicators of progress through the application process can provide information on the step to follow to complete a contract (e-Commerce Directive article 10(1)(a)). However, this is not the only method to achieve this requirement. Moreover, the progress bar should not be used to make the process appear simpler than it is in reality, it could then be a misleading action of the provider.
Availability of online calculators	Possibility to explore the product through an online calculator (e.g. loan calculator, insurance calculator) is provided for <b>consumer credit products, travel insurance and money transfers and payments</b> . This can be considered a good practice as long as the calculator reflects the reality of the product.

### 9.4. Perceptions of the commercial practices and related remedies

Within the present category of practices one practice was examined in the survey:

- **"Lack of contact channel"**, i.e. there is no contact channel available to obtain more information about the specific product / service

Again, the average rating pooled over all products is well above 3, indicating this practice to be perceived as rather detrimental. This result is displayed in Table 42 below.

This is supported by results from the focus groups where participants indicated that an online chat would be helpful to quickly address any doubts or questions and this would be perceived as *very* helpful if the person providing assistance is able to answer all product-

<sup>244</sup> Guidelines on UCPD, p.35

specific and individual questions. However, this was not a universal perception since older participants in one country (Germany) stated that they would prefer a phone contact. The possibility to call someone instead of an online chat was also preferred for more “serious” financial products.

Table 42: Average detriment-ratings pooled over product categories (practice category 4)

Practice	Average Rating	Number of Observations
Lack of contact channel	3.86	N=8,142

**Notes:** The question was Q3.2a and Q3.2b: “Imagine you are shopping around on the internet wishing to choose a [product category]. You search on a search engine for suitable offers and are directed to the websites of different suppliers. At the end of your search, you have identified alternative [products / services] that match your search criteria. Given this scenario, to what extent do you think the following commercial practices would be detrimental?”; The scale was labelled 1=“not detrimental” and 5=“very detrimental”.

Results are averaged over Q3.2a and Q3.2b and product category.

**Source:** ConPolicy analysis of consumer survey data.

As in the previous sections reporting on survey results regarding perceptions of practices, results are analysed in more detail with respect to the listed respondent-level variables:

- product category (i.e. credit, insurance, banking and money transfer or payment products)
- gender and age group
- education level and financial status
- financial literacy and digital literacy
- risk preferences and time preferences, and
- country (i.e. Finland, France, Germany, Lithuania, Spain and Romania)

In the following, only significant differences depending on the variables above are reported. Figures summarizing the full results can be found in Annex 12.

Firstly, an **age** effect can be observed, i.e. older respondents perceive this practice as more detrimental compared to younger respondents (medium-sized effect, see Figure 94 in Annex 12).

The results by level of **educational** and **financial situation** as well as **financial** and **digital literacy** are displayed in Figure 95 and Figure 96 in Annex 12. There exists neither a link between education and practice perception, nor between financial status and practice perception, nor between digital literacy and practice perception.

As displayed in Figure 96 in Annex 12 a weak positive link between financial literacy and perceptions of this practice can be found indicating that participants with stronger financial skills rate the commercial practice as more detrimental. Additionally, with respect to **time preferences** a weak positive link can be observed. The closer participants are to their future-self, the higher are perceived detriments with respect to the practice (‘lack of contact channel’).

Finally, there appear to be difference between the countries in which the survey took place. Participants from **Finland** reveal the highest average detriment-rating while the perception of consumers in the other five countries is lower, but still perceived as detrimental.

Across product categories, gender, education, financial situation, digital literacy as well as risk preferences no systematic differences are detected, indicating perceptions to be independent of these characteristics. These results can be seen in Annex 12.

The focus groups also discussed other tools designed to help consumers. **Progress bars** and **guides** to each step of the contracting process were perceived as helpful by focus group participants. This provides structure and would allow consumers to see what documentation is needed. **Online calculators** were only *fairly positively* received, due to

their perceived unreliability and lack of personalisation. Participants thought that calculators for personal loans could be useful if it allowed consumer to get a personalised estimate. Ways of comparing financial products, for instance through **consumers reviews**, were received sceptically and perceived as biased.

## 9.5. Remedies for the identified problematic practices

Practices in the present category (i.e. tools to assist consumers) can themselves be seen as potential remedies to other practices (hence why a calculator tool was tested as a potential remedy to information-related practices in the current accounts experiment). In particular, tools such as product specific contact sections and calculator tools that help consumers to understand and explore the product (described in section 9.1 above) might remedy shortcomings in how information is provided to consumers. However, the evidence regarding the effectiveness of such tools is somewhat mixed and suggests that their effectiveness depends on various factors (e.g. the extent that personalisation is possible and consumers' propensity and ability to use the tools), as discussed in section 9.6 below.

Some institutions have created tools to mitigate certain bad practices. Regarding excessive loan interest rates, consumer associations in Hamburg and Saxony, as well as the institute for financial services in Germany, have created a software with which consumers can check whether their loan is affected by this malpractice.<sup>245</sup> Furthermore, modern automated advice could be a possible solution to consumers' inability to make informed decisions and could prove efficient in reducing asymmetric information, provided that its properly regulated.<sup>246</sup>

Efforts have been made at EU level, but also in some Member States, to improve the reliability of user reviews by placing more responsibility on the platforms or providers to ensure that they are trustworthy. For instance, the UCPD Guidance requires operators to provide trustworthy information and not mislead consumers (e.g. by stating the consumers are real when they cannot ensure it). Appropriate measures to ensure the trustworthiness of consumer reviews must be taken by providers, involving: having technical means to verify the reliability of the person posting, verifying the IP address used to submit the review, and requiring information by which the person acknowledges having used the subject of the review.<sup>247</sup> In France, the consumer code requires providers to specify whether the reviews are subject to control and, if any, indicate the control measures implemented. Furthermore, providers are asked to display the date of the review and if the provider decides not to publish a review users must be informed why this is the case.<sup>248</sup>

## 9.6. Impacts of the commercial practices and related remedies

Evidence from the focus groups suggests that **online assistance** has a positive impact on decision-making, if the person who provides assistance is competent and is able to help the consumer with product-specific and individual questions.

However, the effectiveness of available tools is limited by the extent that they allow for personalisation. Generally, focus group participants criticised that tools (online chat and calculators) often do not allow them to compare the offer against their personal needs and situation. In the participants' opinions, tools should allow for personalisation in order to be helpful in the decision-making process.

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<sup>245</sup> MDR Sachsen. (2018). Kampf gegen Wucher. Available at: <https://www.mdr.de/sachsen/leipzig/bundesweites-buendnis-gegen-wucher-100.html>

<sup>246</sup> Finansinspektionen. (2017). Consumer protection on the financial market.

<sup>247</sup> European Commission (2016). Guidance on the implementation/application of directive 2005/29/EC on unfair commercial practices. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016SC0163&from=EN>

<sup>248</sup> Code de la consommation. Article L111-7-2. LOI n°2016-1321 du 7 octobre 2016 - art. 52. Available at: <https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006069565&idArticle=LEGIARTI000033207108&dateTexte=29990101&categorieLien=cid>

The literature gives some support for **calculators and similar tools** that help consumers to understand the product and explore the available offers. A 2015 study examined the impact of whether consumers had the ability to filter loans by different characteristics and found that not including a filtering functionality made respondents choose mainly deals at the top of the page, which did not reflect their preferences.<sup>249</sup>

That said, the effectiveness of such tools is limited by their usage by consumers, including the extent that they are used and how well they are used, as shown by the current accounts experiment for the present study and an experiment conducted for a previous study. In the current accounts experiment the calculator tool did not produce a statistically significant treatment effect (see Table 17 in section 5.6.2.1). As explained in section 5.6.2, this result can be explained by its usage, specifically that most consumers who used the tool provided some incorrect input (in particular entering the number of days per year in overdraft was a stumbling block). In an experiment for a previous study related to the insurance market, when participants used a tool which allowed them to adjust their chosen excess and covered risks and see the impact this had on the premium, this improved their choices of insurance policy; however, the main constraint of this tool's effectiveness was that only a small share of consumers made use of it.<sup>250</sup>

Various sources from the literature suggest that **positive consumer reviews** could have an impact on consumer behaviour. This is, for instance, supported by a study on the functioning and use of comparison tools<sup>251</sup>. This study looked, among other things, at the selection of links for comparison tools when searching for them in an online search engine. Links were more likely to be selected when they showed an average consumer review (e.g. 5 stars), especially when the review was more positive and based on a higher number of individual reviews.

Relevant drivers of the impact of consumer reviews may be persuasion, social influences and trust. Being likeable might serve as a substitute for professionalism, and trust may have similar effects.<sup>252</sup> When choosing a financial institution, informal channels and the experiences of others (friends and relatives) were considered to matter more than the targeted personal effort.<sup>253</sup> One study showed that the more borrowers a person has among their friends or relatives, the more likely they are to become a borrower themselves.<sup>254</sup> Furthermore, representativeness plays a crucial role as well; consumers tend to overrate the 'rating' while underestimating the risk-benefit-profile, which may be one reason why ratings are often displayed in advertisements.<sup>255</sup> Through this practice, providers seem to induce the idea of an attractive product to the consumer.

Application **progress bars** might be expected to encourage consumers to complete an application process due to the goal gradient effect.<sup>256</sup>

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<sup>249</sup> FCA (2015). High-Cost Short-Term Credit Price Comparison Websites. Available at: <https://www.fca.org.uk/publication/consultation/cp-15-33-behavioural-study.pdf>

<sup>250</sup> European Commission. (2017a). Study on consumers' decision making in insurance services: a behavioural economics perspective. Accessible at: <https://publications.europa.eu/en/publication-detail/-/publication/b86d7f2d-9e77-11e7-b92d-01aa75ed71a1/language-en/format-PDF/source-search>.

<sup>251</sup> European Commission (2016). Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools. Available at: [https://ec.europa.eu/info/files/comparison-tool-study\\_en](https://ec.europa.eu/info/files/comparison-tool-study_en)

<sup>252</sup> European Commission, 2017a

<sup>253</sup> Alpha Research (2010). Financial Literacy Survey: Report on the Key Findings of the Survey. A report prepared for the World Bank

<sup>254</sup> Evija Ansonka, Ivars Austers, Gundars Bērziņš, & Jānis Priede. (2017).

<sup>255</sup> Jennifer Jordan. (2004). Behavioral Finance und Werbung für Investmentfonds. DE: Springer Gabler Verlag.

<sup>256</sup> Originally identified by the American psychologist Clark Leonard Hull, the goal gradient effect refers to the behavioural phenomenon that as individuals close in on reaching a goal, their motivation to achieve that goal increases.

## 10. Conclusions and recommendations

A number of conclusions can be drawn based on the combined evidence of the study. These are set out in section 10.1 below. Policy recommendations which follow from the results and conclusions of the study are then presented in section 10.2

### 10.1. Conclusions

This section sets out the conclusions of the study based on the combined evidence.

#### *1. The digitalisation of retail financial services has given rise to a wide range of commercial practices:*

Digitalisation has fundamentally changed how financial products and services are marketed and sold to consumers. In particular, the study has identified a wide range of commercial practices used by firms to promote and sell their products in the digital environment.

These practices can be categorised in a variety of ways; this study sets out one possible typology in which the identified practices are grouped into i) ways in which information is given to consumers, ii) features that may accelerate consumers' purchase decisions, iii) the design of offers, iv) consumer targeting and personalisation and v) tools available for consumers to assist them during the decision-making process (see Table 7). Some of the practices are new dimensions to longstanding issues (e.g. information provision), whereas others have been entirely enabled by digitalisation (e.g. personalisation and online tools).

The identified practices have varying degrees of prevalence across products (see sections 5.2, 6.2, 7.2, 8.2 and 9.2). Some practices (e.g. key information being missing or difficult to find) are judged, based on the desk research, to be highly prevalent across all products examined in the study, whereas others (e.g. personalisation) are only observed for some products and/or have low prevalence for the products for which they are seen.

#### *2. Digitalisation has impacted on providers of retail financial services and their business models:*

New providers of retail financial services, who sell their products almost exclusively online, have emerged as a result of digitalisation. With few exceptions (e.g. virtual currencies) the products offered, have not changed at their core, but rather the channels through which these products are offered have evolved. Digitalisation has allowed providers (particularly the new ones) to reduce their operational costs. Despite the emergence of new players, incumbent providers still hold most of the market share, although digitalisation has impacted on their business models to a certain extent, including of course the channels they use to market and sell their products. Different kinds of reactions from incumbent providers have been identified including cooperation with new providers, competition with new providers, merging or acquiring new providers, or establishing their own innovative departments to develop digital solutions.

#### *3. Some of the identified practices may be legally problematic:*

Although the legal analysis of the commercial practices relies on the information available from the desk research and not in-depth evidence on individual cases (and so cannot make definitive judgements on which specific practices are compliant), it nevertheless suggests that some of the identified practices may be problematic from a legal perspective. This is particularly the case for practices in the area of information provision. For example, compliance with the requirement (under the Consumer Credit Directive) to provide standard information by means of a representative example in advertising (if an interest rate or any figures relating to the cost of the credit is shown) is found to be questionable in some cases based on the information from the desk research.



#### *4. Better information provision has powerful beneficial impacts:*

Two commercial practices identified in the study that are especially likely to cause problems for consumers are emphasising the benefits of a product while costs (and other negative aspects) are hidden or given lower prominence, and layering and locating pre-contractual information such that it can be overlooked (see Table 7 in section 4). These practices were identified for all ten products covered by the desk research (with prevalence assessed as ranging from 'low' to 'high' depending on the product; see Table 8). Furthermore, the legal analysis found that there may be many compliance issues if product features (i.e. the main characteristics of a product) are not presented clearly or the benefits of the product are emphasised while costs are hidden (see Table 9).

The survey results also support the conclusion that these practices are especially important to address, since highlighting the benefits of the product while hiding the costs and making it difficult to find key product information are the two practices that are perceived as most detrimental by consumers (see section 5.4).

The two experiments tested various practices in this area via treatments which varied how and when information was provided. In both experiments the information remedies at the pre-contractual stage greatly improved respondents' ability to select the optimal account or loan (see section 5.6.2 for details):<sup>257</sup>

- In the current accounts experiment, providing the EU Fee Information Document (FID) when consumers confirmed their product choice (at the validation stage<sup>258</sup>) greatly improved their ability to select the correct option (by 9.8 percentage points) relative to the commercial practice treatment where only the best aspects of the advertised account were presented upfront and important information was placed behind a button. Providing a comparison table<sup>259</sup> upfront and earlier in the process (at the pre-contractual stage as well as at the validation stage) substantially further improved consumers' choices (a treatment effect of 26.2 percentage points relative to the commercial practice treatment). Colour-coding the comparison table in order to make the format engaging and aid comparison improved consumers' choices further still (a treatment effect of 34.4 percentage points), resulting in the highest share of consumers choosing the correct current account of any treatment group.
- Similarly, in the personal loans experiment, showing all loan information upfront in a format that is inspired by the Standard European Consumer Credit Information (SECCI) document (i.e. with the same layout and order) substantially improved respondents' choices (by 25.6 percentage points) relative to the marketing practice treatment where only the best features of the advertised loan were shown upfront with the order of the features favouring the advertised loan.

Therefore, better information provision, at the right stage and at the right format, has very powerful effects and is essential to helping consumer make good choices.

#### *5. EU information documents are effective, but will not alone optimise decision-making:*

As noted above, the EU information documents tested in the experiments, such as the FID, were found to significantly improve consumers' choices relative to the commercial practices. However, it should also be noted that these documents alone will not optimise decision-making. Since other remedies (e.g. the comparison table) were found to be even more effective (see conclusion 4 above), further lessons can be drawn from the results regarding how information should be presented including on how EU documents could be

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<sup>257</sup> Note that in this section whenever a 'treatment effect' is mentioned this refers to the difference in the proportion of respondents who selected the optimal offer under the remedy treatment in question compared to the relevant commercial practice treatment. The remedy and commercial practice treatments are described in detail in Annex 8 and Annex 9.

<sup>258</sup> The validation stage was the final step in the decision process of the current accounts experiment (coming after the advertising stage and pre-contractual stage) at which respondents had to confirm their choice of account.

<sup>259</sup> The comparison table presented the alternative accounts side-by-side in a clear way, taking the style of the EU FID as inspiration. Section A8.3.2 in Annex 8 provides detailed descriptions of the treatments.

provided (see conclusion 6 below). Important nuances were also found for subgroups of consumers (see conclusion 7 below).

These findings should be taken into consideration in the ongoing evaluations of the Consumer Credit Directive and of the Distance Marketing of Financial Services Directive and the review of the Payment Accounts Directive (which the Commission is required to undertake under Article 28 of the Directive).

#### *6. The results of the study offer lessons regarding how information should be presented:*

A number of lessons can be drawn from the evidence concerning how information provision could be optimised. In particular, evidence from the literature, supported by the focus groups, shows that several key principles are beneficial for consumer decision-making, namely that information should be provided (see section 5.5.1):

- Upfront and saliently (so it is not missed);
- Early enough in the process;
- In an engaging presentation format; and
- In a way that aids comparison.

The experiment results confirm these insights and also offer further lessons regarding best practice for information provision (see section 5.6.2 and conclusion 4 above for details):

- In general, providing balanced and well-structured information has a considerable positive impact on consumers' decision-making.
- It is important to provide information upfront and early in the process, as shown by the substantial positive effect on choices of providing the comparison table<sup>260</sup> at the pre-contractual stage in the current accounts experiment (see conclusion 4).
- Providing a clear side-by-side comparison of offers facilitates good decision-making, as also demonstrated by the positive impact of the comparison table.
- Active engagement with the standardised information documents improves choices (respondents who actively opened the FID through the pop-up were twice as likely to choose the correct account than those who did not<sup>261</sup>). However, the fact that providing a link to the FID, in addition to showing it at the validation stage, did not change the impact of the remedy in any statistically significant way suggests that simply providing key information via a link does not much improve consumers' decisions.<sup>262</sup>
- Making differences between offers visually salient is very effective, as demonstrated by the impact of colour-coding the comparison table (see conclusion 4).
- It is important to adapt information to the consumer's device (see conclusion 8).

#### *7. The effects of the practices and remedies are largely consistent across subgroups, but some important differences should be noted, especially for potentially vulnerable groups:*

The effects of the tested practices and remedies were quite consistent across subgroups. However, some differences are observed depending on various factors and drivers. It should be noted in particular that the factors that appear to interact with the effects of the practices and remedies include potential indicators of vulnerability, namely financial or digital literacy and financial situation. For all the practices examined in the experiments the treatment effects varied to some extent depending on one or more of these factors.

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<sup>260</sup> As noted above, the comparison table presented the alternative accounts side-by-side in a clear way, taking the style of the EU FID as inspiration. Section A8.3.2 in Annex 8 provides detailed descriptions of the treatments.

<sup>261</sup> See section 5.6.2.1 (text directly below Figure 17).

<sup>262</sup> The difference between the treatment where the FID was only provided at the validation stage and the treatment where the FID was provided at the validation stage and via a pop-up at the pre-contractual stage was around 2 percentage points, which is not statistically significant (i.e. it is effectively zero).

Concerning the impacts of information provision in particular, it is important to note that in the current accounts experiment the comparison table was effective at improving choices relative to the commercial practice for all respondents including potentially vulnerable consumers<sup>263</sup> while the FID was less effective for those with low digital or financial literacy and those in a difficult financial situation<sup>264</sup>. Thus, while the standardised EU information documents are effective and useful tools for consumers as a whole (these documents had strong positive effects overall), the results suggest that more than just these documents may be needed to ensure that potentially vulnerable consumers are protected and can also make good choices.

As noted above (see conclusion 5), lessons can be drawn from the results regarding how to optimise information provision, such as providing a transparent side-by-side comparison of offers (as per the comparison table) and making differences between offers visually salient. It appears that these lessons are particularly relevant for vulnerable consumers.

In addition, as discussed in the next conclusion, the impacts of the tested remedies also differed significantly depending on whether the respondent was allocated to the desktop environment or the mobile environment. In particular, the information remedies improved the choices of those in the mobile environment to a greater extent.

#### *8. The results highlight the importance of adapting information to the user's device:*

The results imply that the information remedies tested in the experiments especially helped those in the mobile environment, bringing the quality of these respondents' choices up to that of those in the desktop environment (see section 5.6.2.3).<sup>265</sup>

In both experiments, respondents were generally better able to identify the optimal offer in the desktop environment (by 39% to 35% in the current accounts experiment, and 49% to 36% in the personal loans experiment). However, the tested information remedies, such as the comparison table in the current accounts experiment and the SECCI-inspired remedies<sup>266</sup> in the personal loans experiment, significantly closed this gap.

As can be seen from Figure 32 below, in the mobile environment of the current accounts experiment the comparison table adapted the information on the accounts to the user's screen far better than the marketing practice (i.e. in the comparison table the alternative offers were shown neatly side-by-side). This resulted in the largest treatment effect in either environment across all of the tested remedies; in fact, when the comparison table was colour-coded the choices of those in the mobile environment were better than the choices of those in the desktop environment (60% correct versus 56% correct). A key conclusion that can be drawn from this is that it is important to adapt information on financial products to the user's device.

Not adapting information to the screen of a mobile phone was seen as the least detrimental practice among the information-related practices covered in the survey (and second least detrimental among all nine practices asked about); however, this practice nonetheless received an average detriment rating of 3.28 (out of 5) implying that consumers do see the practice as fairly detrimental.

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<sup>263</sup> For example, the treatment effects of the comparison table for those with low and high financial literacy were 22.2pp and 28.0pp respectively, both of which are highly statistically significant.

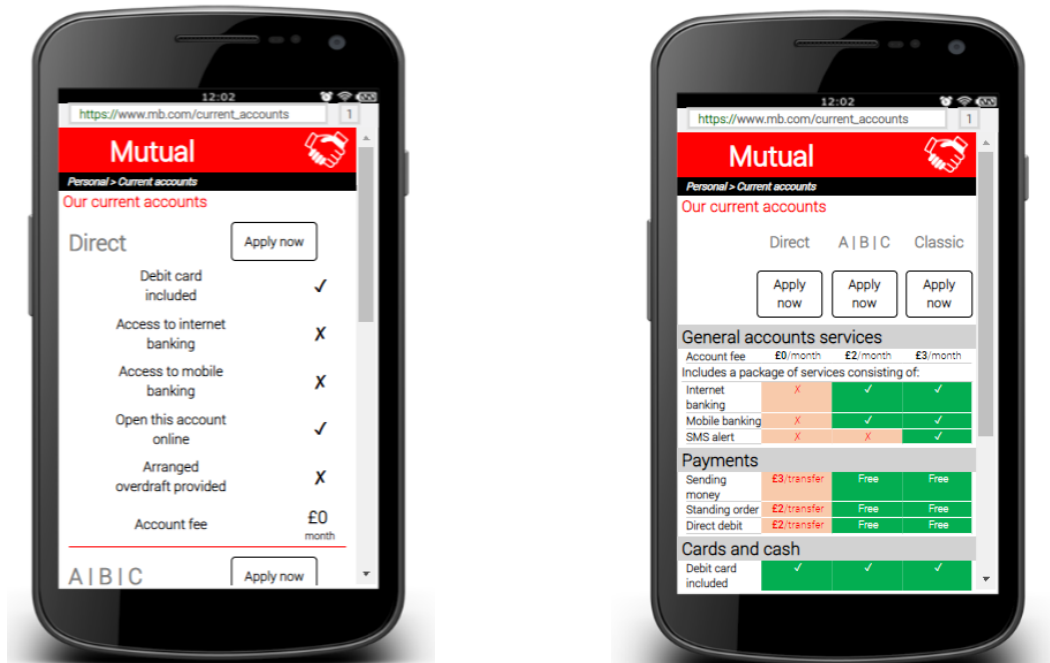
<sup>264</sup> The treatment effects of the FID relative to the commercial practice for those with low digital literacy, financial literacy and a difficult financial situation were 4.9pp, 0.5pp and 3.1ppm respectively, none of which are statistically significant.

<sup>265</sup> As explained in section 2.2, both experiments simulated two environments. Respondents either journeyed through a simulated desktop website or a simulated mobile phone website. These environments were mutually exclusive, and respondents experienced either the desktop or the mobile version (but not both). Screen shots of the two environments can be seen in Annex 8 and Annex 9.

<sup>266</sup> Under these remedies, respondents were shown all loan information upfront in a format that was in line with the SECCI document (i.e. with the same layout and order).

Furthermore, it should be noted that not adapting information to the user's device can already be seen as legally problematic under the under the DMFSD (article 3(2)) (see the legal analysis in section 5.3 and section A7.1.3 in Annex 7).

Figure 32: Presentation of current accounts in the mobile environment of the experiment  
 (a) Baseline (the commercial practice)      (b) Colour-coded comparison table



**9. Remedies introduced at the pre-contractual stage are most impactful on the final choice (although some remedies at the advertising stage have impacts at that stage):**

The desk research identified several equivalent practices at both the advertising and pre-contractual stages. For example, the practice of emphasising the benefits of a product while costs are given lower prominence was found at both stages of the purchasing process (see Table 7) for all ten products covered in the desk research.

The legal analysis found that emphasising the positive aspects of pricing at the advertising stage is a problematic practice for credit products<sup>267</sup> and that at the pre-contractual stage there may be problems of compliance if product features are not clearly presented or benefits are emphasised while costs are hidden (see section 5.3).

Hence, the experiments tested a number of equivalent practices and remedies at both the advertising and pre-contractual stages, meaning that the impacts of the treatments can be compared across these stages.

In general, in the two experiments, remedies at the pre-contractual stage had the greatest effect on whether the optimal offer was chosen. In particular, providing better information and slowing down the decision-making process at the pre-contractual stage significantly improved respondents' ability to identify the correct loan or current account. The treatment effects for the information provision remedies ranged from 7.9 to 34.4 percentage points in the current accounts experiment and were around 25 percentage points in the personal loans experiment relative to the corresponding commercial practices (see section 5.6.2.1 for details), while in the personal loans experiment slowing down the purchase process had a treatment effect of 8.0 percentage points compared to the commercial practice (which involved a slightly quicker purchase process).

<sup>267</sup> Due to Article 4 of the Consumer Credit Directive and Article 4 of the Mortgage Credit Directive.

Conversely, remedies at the advertising stage had much less impact on the final choice of loan/account. Overall, respondents' choices (i.e. the share who choose the correct option) were very similar under both the commercial practices and the remedies at the advertising stage (the differences that are seen are too small to be statistically significant).

However, examining the effects of the treatments at the advertising stage more closely reveals a more nuanced picture. As highlighted in conclusion 10, some of these treatments did have a significant impact on behaviour at the advertising stage.

#### *10. Remedies introduced at the advertising stage impact on consumers' behaviour at the advertising stage:*

As noted above, some remedies that were applied at the advertising stage had significant impacts on behaviour *at that stage* in the experiments.

For example, in the personal loans experiment respondents were more likely (by around 6 percentage points) to click on the advertised loan, which was the suboptimal action at the advertising stage, when a message was shown highlighting the speed of the purchasing process<sup>268</sup> (a difference that is marginally statistically significant, i.e. at the 10% level). The absence of such a message is akin to a ban of such a practice.

More significantly, the representative example required by the CCD<sup>269</sup> greatly reduced the share of respondents who took the suboptimal action of clicking on the advertised loan<sup>270</sup> (by around 12 percentage points, which is highly statistically significant). Instead, a larger share of those who saw the representative example went from the advertising stage to the loan comparison website, which was the best action at that stage (see section 5.6.1).

This indicates that interventions at the advertising stage, like the representative example for personal loans, do have an impact on consumer behaviour and therefore are important remedies, despite the fact that the extent to which this affects consumers' final purchase choices will depend on the pre-contractual information subsequently provided to them.

The ongoing evaluation of the CCD should take these results into account, as they illustrate the importance of the CCD requirement for firms to present the representative example.

#### *11. Deliberately slowing down the decision-making process can have a significant positive effect, but this can be taken too far:*

Several commercial practices identified in the desk research relate to features that might accelerate consumers' purchase decisions, including emphasising the time limited nature of the offer in advertising, offering speedy or 'one-click' products (i.e. making the purchase process fast and/or advertising this fact), and promotional offers. Previous studies have identified such practices as problematic, especially regarding fast consumer credit (see the discussion in section 6.1, which highlights issues raised in Latvia and Denmark).

To address problematic practices in this area, one potential remedy based on the evidence from Task 1 (the literature and other sources) is to redesign the consumer journey in order to slow down the decision process (see section 6.5). In digital retail finance, the speed of the purchasing process could be measured in terms of the number of clicks required to make a purchase, and hence the personal loans experiment tested variations in the number of clicks needed to select a loan.

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<sup>268</sup> The message told respondents "You can get this loan in just 2 clicks!".

<sup>269</sup> The CCD requires that, in advertising, consumers are provided with standard information by means of a representative example, if the advertising makes any mention of the cost of credit. This requirement was included as a remedy in the personal loans experiment.

<sup>270</sup> Relative to the commercial practice, which did not provide the representative example required by the CCD.

The experiment results show that slowing consumers down does indeed seem to improve their decision-making. Adding a pop-up and just one extra click in the purchasing process had a strong positive impact (8.0 percentage points) on the share of respondents who selected the optimal loan. However, the results also show the sensitivity of consumers' choices to the purchasing process, since increasing the length of the process still further (two further clicks, plus a real effort task) eliminated much of the benefit (in that case the effect was just 3.8 percentage points relative to the commercial practice<sup>271</sup>). This implies that the remedy of slowing down the decision process can be taken too far.

#### *12. Some marketing practices may have counter intuitive effects:*

The experiment found one counter intuitive effect for a commercial practice, namely that showing respondents a message telling them to "hurry" in the current accounts experiment in fact caused them to take more time over their choice and ultimately make better choices. The proportion of respondents who made the correct choice was 24.8 percentage points higher when this message was shown relative to when it was not shown (see section 6.6.3 above).

In order to explain this result, it is necessary to make a logical link between this message and an inclination to take more time over the decision. A possible explanation is that the unexpected and striking nature of this message, and the pop-up it appeared in, increased respondents' general alertness and concentration, which may have caused them to seek out the necessary information more carefully. This would slow respondents down, allow them to better absorb information, and lead to better choices.

#### *13. Targeting and personalisation tend to be perceived negatively and there is uncertainty on their actual impact on consumer choice and welfare:*

Evidence from the focus groups and a previous survey of consumers in 28 Member States suggests that in general consumers have a negative view of targeting and personalisation (see section 7.4) and this intensifies if the consumer does not know the provider. The negative perception of personalisation and targeting among consumers suggests that there is suspicion and distrust towards these practices and providers using them.

That said, the evidence on the impact of these practices is mixed. A previous experiment conducted for the Commission found that when consumers are not made explicitly aware of personalisation, combining personalisation and targeting can impact on consumers' choices, increasing the probability that they buy targeted products. A previous literature review found that personalisation can benefit consumers via better product matches, lower prices or reduced search costs; however, it can harm consumers by steering them towards products with the highest prices they are willing to pay (see section 7.6).

#### *14. Bundling has the potential to negatively impact on consumer decision-making, although there is some evidence that it can also have benefits for consumers:*

Previous studies suggest that bundling has the potential to negatively impact on consumer decision-making (for example since it can increase complexity and computational difficulty increasing the potential for errors in decision making), although there is also evidence that it can also have benefits for consumers (see section 8.6). The results of current accounts experiment of the present study (in which the accounts offered had the characteristics of bundled products, i.e. various features that were included or excluded and/or priced differently across the accounts), suggest that an effective way to deal with the potential negative effects of bundling is through good information provision, making it clear and simple what is included (see conclusions 4 and 6 above).

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<sup>271</sup> Under the commercial practice a loan could be chosen in just 2 clicks.

*15. The evidence on the effectiveness of tools available to assist consumers is somewhat mixed and suggests that their effectiveness depends on various factors:*

The evidence on the effectiveness of tools made available to help consumers during the decision-making process is somewhat mixed (see section 9.6). In particular, such tools only appear to be effective under certain conditions, namely that the consumer actually uses the tool and is able to use it effectively/correctly (in the case of calculators and similar tools), the extent that the tools allow personalisation, and the competence of providers' staff (in the case of online assistance).

*16. The Directive on Distance Marketing of Financial Services continues to be relevant:*

The roadmap<sup>272</sup> of the ongoing evaluation of the DMFSD notes that since this Directive was introduced the legal framework has evolved (e.g. with the development of product-specific legislation relating to consumer credit, mortgages, insurance, investment products and payment services). Therefore, it is useful to consider what the legal analysis conducted for the present study implies with respect to the (continued) relevance of the DMFSD.

The DMFSD is one of the first instruments to cover financial services in general, while other pieces of legislation (such as the CCD and the Mortgage Credit Directive) are more product specific, meaning they address specific aspects and issues of those products at the time of their adoption. While the DMFSD remains nonetheless applicable, its article 4(1) indicates that "product specific" legislation takes precedence over the DMFSD regarding information requirements, and there are also provisions of the product specific legislation (e.g. MCD article 14 (7) and CCD article 5(1)) which indicate that compliance with standard information forms fulfils some of the requirements set in the DMFSD.

However, the horizontal nature of the DMFSD (i.e. its role as safety net) and its technology neutral approach ensures it is relevant. Some aspects also remain regulated solely by the DMFSD, such as the requirement to tailor information for it to be clear and comprehensible but also appropriate to the means of distance communication used (article 3(2)). However, as discussed in the recommendations below, some updates to it with respect to information requirements might be beneficial.

Furthermore, it should be noted that pre-ticking is banned under the Consumer Rights Directive (which does not apply to financial services), which is the 'sister' directive of the DMFSD. Thus, if pre-ticked boxes are considered a problem, this incoherence between the CRD and DMFSD could be corrected (by introducing such a ban also within the DMFSD).<sup>273</sup>

## 10.2. Recommendations

This section presents policy recommendations that follow from the results and conclusions of the study. We first set out the general objective of each recommendation, while at the same time providing some context with reference to the relevant findings and conclusions, then set out policy options for how the objective could be achieved that the European Commission and other relevant authorities might consider pursuing.

*Recommendation 1: Ensure that existing legislation is rigorously enforced to maintain a level playing field for all market actors and to protect consumers*

Differences between legal requirements and actual business conduct can be counter-productive for two main reasons. Firstly, a level playing-field is necessary for markets to work properly, otherwise there is a risk that companies that do not fully comply with the legal requirements have a competitive advantage to those that fully comply with them (so-

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<sup>272</sup> Available at: [https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6079786\\_en](https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6079786_en).

<sup>273</sup> Pre-ticked boxes could, according to the behavioural literature, be expected to have a significant impact on individuals' behaviour, although it is ambiguous whether this will cause detriment to consumers in individual cases (this depends on whether the practice defaults the consumer into a product which is not appropriate for them) and the present study does not provide new evidence on the impact of this practice.

called regulatory arbitrage). Secondly, it needs to be ensured that consumers can trust that markets work in their best interest.

Yet, the legal analysis found that some of the information practices identified by the desk research of the present study may be problematic from a legal perspective. Examples are non-compliance with the Consumer Credit Directive requirement to provide standard information by means of a representative example in advertising, emphasising the benefits of a product while the costs are hidden or given lower prominence, and layering and locating information so that it can be overlooked (see conclusions 3 and 4 above).

Hence, the objective must be to ensure that the existing legislation is rigorously enforced. To meet this objective, where necessary Member States should step-up their enforcement activities to ensure that businesses comply with existing legislation. The Commission could support such a step-up of enforcement in different ways:

- First, the Commission could raise Member States' awareness of the importance of enforcement activity in the field of online marketing and selling of retail financial services and stimulate the exchange of enforcement experiences and results.
- Second, the Commission and Member States' authorities could initiate coordinated enforcement activities such as a sweep.<sup>274</sup> Through a sweep the Member States would demonstrate a concerted willingness and effort to review and thoroughly enforce the compliance of firms' business practices with applicable EU legislation.

*Recommendation 2: Improve the quality of information provided to consumers when they buy financial products and services online, taking into account the lessons of the present study. This might involve a) promoting best practice or refining existing legislation, b) clarifying that information should be adapted to the user's device and specifying how this could/should be done, c) specifying how and when standard documents should be provided and d) new information requirements*

Upfront, salient, well-structured and comparable information is key for consumers to make informed decisions. As behavioural science shows, it is often the quality of information provision, not the quantity, that results in informed decisions.

The experiment results indicate that the EU Fee Information Document (FID) and the remedy inspired by the Standard European Consumer Credit Information (SECCI) improve consumer decision-making (see conclusion 4 above), and the representative example for personal loans is a beneficial information requirement that should be retained (see conclusion 10).

However, the findings also suggest that the current information provision requirements have their limitations. For example, the standard EU information documents (such as the FID) will not alone optimise decision-making (see conclusion 5 above) and were less effective for vulnerable consumers (see conclusion 7).

Therefore, the objective should be to ensure that information is provided in the best way possible to maximise its effectiveness in helping consumers to make the right choices. To this end, the study reveals a number of insights that should be considered:

First, the experiments showed that decisions could be improved by a) ensuring that the information is presented as early as possible (at the pre-contractual stage), b) using side-by-side comparisons (when consumers compare different financial services from the same provider or on price-comparison portals) and c) by using colour coding to make differences between offers visually salient (see conclusions 4 and 6).

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<sup>274</sup> A "sweep" is a set of checks carried out on websites to identify breaches of EU consumer law in a particular sector [https://ec.europa.eu/info/live-work-travel-eu/consumers/enforcement-consumer-protection/sweeps\\_en](https://ec.europa.eu/info/live-work-travel-eu/consumers/enforcement-consumer-protection/sweeps_en).



Second, the study shows that it is particularly important that the information provided to consumers is adapted to the user's device. This is particularly the case for mobile devices with small screens and hence more limited space to present information than on desktop computers (see conclusion 8).

Third, comparison tables were effective for vulnerable consumers, while the standardised information documents were not (see conclusion 7). Thus, improving information provision along the lines of the comparison tables would especially help vulnerable consumers.

Fourth, previous studies suggest that bundling has the potential to negatively impact on consumer decision-making, while the results of the present study suggest that an effective way to deal with these potential negative effects is via good information provision to help consumers understand the content of bundles (see conclusions 4, 6 and 14 above).

In light of these findings and the objective of making information provision as effective as possible, a number of policy options could be considered:

- Promote best practice in information provision drawing on the lessons of the study (set out here above and in conclusion 6 in section 10.1). This might be done, for example, by issuing best practice guidance.
- Update the Directive on Distance Marketing of Financial Services. The DMFSD is a horizontal directive applicable to a wide-range of financial services and sets out general information requirements for the distance marketing of financial services requiring, *inter alia*, that information is clear and comprehensible and adapted to the user's device. Based on the findings of the study, the Commission might consider clarifying the interplay of the DMFSD's provisions with those of product-specific legislation (such as the Consumer Credit Directive, which take precedence regarding information requirements) and making them more concrete. For example, it might be required that, for each product, a specific set of information is provided prominently, in a clear format and at the start of the pre-contractual stage, to sit beside the (longer) product documents. If several alternative products are offered to the consumer (e.g. because the provider offers multiple alternatives, or on a comparison site), these would ideally be clearly presented side-by-side highlighting the differences between them. The benefit of requiring such information provision should, though, be considered alongside the burden placed on regulators and firms, which this study has not considered.
- Update product-specific legislation. The requirements described in the point above could alternatively be introduced via changes to product-specific legislation. The results cited above should be taken into account in the ongoing evaluation of the CCD<sup>275</sup> (in particular the results can inform the evaluation on "whether the tools of the CCD correspond to current needs"<sup>276</sup>) and in the review of the Payment Accounts Directive (particularly focusing on the effectiveness of the FID) that the Commission is required to undertake under Article 28 of the Directive. The results provide support for some current provisions of the CCD and PAD, such as the FID and the requirement to provide a representative example in advertising for personal loans, but also suggest that information requirements could be strengthened (as per the suggestions in the preceding point regarding the DMFSD), and one option for doing so could be via product specific legislation. This would, however, require further behavioural research as not all product-specific information requirements<sup>277</sup> have been tested in this study.
- It should be clarified that, under the DMFSD (article 3(2)), information should be adapted to the user's device. This might be done by issuing guidance to providers

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<sup>275</sup> The roadmap of the evaluation is available at: [https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-3472049\\_en](https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-3472049_en).

<sup>276</sup> The results show that, although the representative example to be shown in advertising and the SECCI-inspired document do benefit consumer decision-making (implying these requirements should be retained), the current information provision requirements have their limitations.

<sup>277</sup> For instance, only a simplified version of the SECCI under the CCD has been tested, but not the actual document as provided by creditors.

on how they could comply with this or by specifying in legislation how this should be done.

*Recommendation 3: Take measures to protect vulnerable consumers*

Potentially vulnerable consumers with low digital or financial literacy were significantly less likely to select the correct option in both experiments. In the current accounts experiment, those with lower digital and financial literacy were less likely to select the correct option by 7 and 4 percentage points respectively, while in the personal loans experiment the correlation was in the same direction, but the differences were even larger, at 12 and 15 percentage points respectively. Thus, the objective of this policy recommendation is to take measures to protect vulnerable consumers.

Firstly, it should be noted that improving the quality of information provided to consumers taking into account the lessons of the study – as discussed in detail in recommendation 2 above – would be expected to especially help vulnerable consumers. This is because some existing remedies tested in the experiment were less effective for vulnerable consumers: In the current accounts experiment, while the FID was less effective for those with low digital or financial literacy or in a difficult financial situation, the comparison tables were universally effective (see conclusion 7 in section 10.1).

Secondly, the Commission could consider the recommendation of a consumer organisation (BEUC) to develop simpler financial products (e.g. with a simple design and fewer characteristics), since this could help vulnerable consumers to more easily understand such products and compare them.<sup>278</sup> Again, however, the benefits of making such a requirement should be considered together with the burden it creates for firms, which has not been considered by this study.

*Recommendation 4: Ensure that the speed of the purchasing process does not lead to poor consumer decision-making*

The results of the study show that a purchasing process that is too quick can be detrimental for consumer decision-making (see conclusion 11). Hence, the objective should be to ensure that the purchasing process is not so quick that it can be completed with little effort or thought and thus lead to poor consumer choices, especially for certain products (in particular consumer credit).

To achieve this objective, as a first step, practices and outcomes for consumers should be monitored by industry, consumer associations and national authorities. Then, if it is evident that for certain products and/or providers there are issues with the speed of the purchasing process, the Commission could seek to influence firms to voluntarily rectify these practices. If this fails, the Commission might introduce legislation to remedy these practices.

*Recommendation 5: Increase transparency around personalisation and targeting*

A key impact of digitalisation on commercial practices in financial services is that providers can target and personalise their offers more than ever before. With the rise of technology that is based on Artificial Intelligence (AI) it may be expected that this trend towards targeting and personalisation will only increase.

The findings of this study and other studies suggest that consumers are quite suspicious and distrusting of personalisation and targeting practices and providers that use them (see conclusion 13). Such distrust might be addressed by increasing transparency around these practices and ensuring that they comply with the relevant legislation. This is in line with the views of consumer organisations who are in favour of more transparency<sup>279</sup> and

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<sup>278</sup> See BEUC's statement and publications available at: <https://www.beuc.eu/general/simple-and-standardised-financial-products>.

<sup>279</sup> BEUC argue that a lack of transparency should be avoided, and users should have a right to transparency on the parameters on which offers are based.

supported by the results of a previous experiment for the Commission (see sections 7.5 and 7.6).

Transparency in this context refers to ensuring that consumers are made aware of the use of personalisation and targeting generally and, specifically, when offers are being (algorithmically) personalised and targeted to them that they are made aware of this fact and the parameters that offers are based on.

This objective might be achieved by seeking to influence companies to voluntarily be more transparent, ensuring they comply with the relevant legislation, or possibly by introducing new requirements via EU legislation.<sup>280</sup>

*Recommendation 6: If tools are provided to help consumers during the purchasing process, ensure that these are fit for purpose and designed such that consumers can use them*

The present study and previous studies have found that consumers often do not use tools, which are made available during the purchasing process to help them, correctly and this seriously limits the use of these tools (see conclusion 14 in section 10.1).

Consequently, if such tools are made available to consumers, it is important to ensure that these tools are fit for purpose and designed so that consumers can use them properly (or consumers are given the help they need to use them). To achieve this objective the commission might consider publicising this finding to providers and encouraging them to carefully consider consumers' ability to properly use any tools that they provide.

*Recommendation 7: Monitor technological developments and design technology-neutral legislation*

The desk research illustrates the speed with which digitalisation transforms the financial services sector. However, policymakers face the challenge of ensuring that consumer rights are protected regardless of these changes and the specific technologies used. Hence, the objective should be to future-proof consumer protection to technological developments

A two-fold approach might be followed in order to achieve this. Firstly, the Commission and relevant national authorities could continuously monitor and evaluate new technological developments (such as the increased use of artificial intelligence or robo-advice) for their impacts on consumers' rights. Secondly, if possible, the Commission should aim to design technology-neutral legislation that is overarching and sufficiently versatile to protect consumers irrespective of new technologies that may arise in the market, so that it does not need to change this legislation in the long run to take account of new technologies.

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<sup>280</sup> In their report on AI from a consumer perspective BEUC argued that "necessary legislative changes for adapting the consumer protection framework to the new market reality should be established ASAP as a key priority of the new European Commission".

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