



BEHAVIOURAL STUDY ON THE DIGITALISATION OF THE MARKETING AND DISTANCE SELLING OF RETAIL FINANCIAL SERVICES

Executive Summary

April 2019

Objectives

The study sought to identify the commercial practices consumers face at the advertising and pre-contractual stages when searching for and buying retail financial services online, assess the impacts of these practices and corresponding remedies, and form evidence-based conclusions and recommendations.

Methodology

The initial preparatory phase included a literature review, desk research, stakeholder interviews, focus groups in three countries (Germany, Romania and Spain), and an assessment of identified commercial practices against EU legislation.

The next phase involved behavioural experiments and a consumer survey with a total of 8,451 consumers in six countries (Finland, France, Germany, Lithuania, Romania and Spain). The experiments replicated the advertising and pre-contractual stages of the purchasing process for two products – current accounts and personal loans – and tested the effects of a range of commercial practices and corresponding remedies on consumers' ability to choose the optimal current account/loan. The experiments simulated both a desktop and mobile device environment, with respondents randomly allocated between these two settings.

Conclusions

The main conclusions of the study are:

Business models and practices:

- New providers have emerged due to digitalisation. Incumbent providers have reacted by acquiring or cooperating with these new providers and/or by developing their own digital solutions.
- Digitalisation has impacted the channels used to market and sell retail financial services (e.g. move to online and mobile solutions) and has given rise to a wide range of commercial practices. These can be categorised into (i) ways in which information is provided to consumers, (ii) features that may accelerate consumers' purchase decisions, (iii) the design of offers, (iv) consumer targeting and personalisation and (v) tools available to assist consumers during the decision-making process.

- Although the legal analysis cannot make definitive judgements on the compliance of specific practices, it suggests that some may be problematic from a legal perspective, especially some practices relating to information provision.

Information provision:

- Practices and remedies related to information provision had the most powerful effects on consumers' decisions.
- The results of the study offer lessons regarding how information should be presented to consumers: it should be provided upfront, saliently, early enough in the process, in an engaging format and in a way that aids comparison. In this respect, EU standard information documents (such as the Fee Information Document for payment accounts) are beneficial and effective. Consumers' decision-making is also improved when information is balanced and well-structured, clear side-by-side comparisons are provided and the differences between offers are visually salient. Conversely, simply providing information via a link does little to improve consumers' decisions.
- The effects of the practices and remedies tested were quite consistent across subgroups. However, certain categories of vulnerable consumers seem to require particularly structured and simplified information to make good choices. For instance, in the current accounts experiment, the provision of information by way of a comparison table¹ improved the choices of *all* respondents. However, the EU standard Fee Information Document, although useful for most respondents, was less effective for those with low digital or financial literacy and those in a difficult financial situation.
- Information remedies were especially helpful in the mobile environment – they made respondents perform as well as they did in a desktop setting. A comparison table adapted for mobile screens in the current accounts experiment led to the largest improvement in consumers' choices seen in either experiment. This shows that it is essential to adapt information to the user's device.
- Remedies at the pre-contractual stage (e.g. providing better information and slowing down the decision-making process) had the greatest effects on whether consumers chose the best offer. Remedies at the advertising stage (e.g. behaviourally-informed messages encouraging comparison) had overall less impact on the final choice. However, some remedies at the advertising stage significantly improved decisions *at that stage* (e.g. seeing the representative example in personal loan advertising² led to having more respondents compare other offers instead of clicking on the advertising).

Practices that may accelerate consumers' purchase decisions:

- Rushing consumers to make a decision is problematic, especially when taking a loan. The study therefore tested a remedy that deliberately slowed down the consumer's journey by increasing the number of clicks required to select a loan. Results show that slightly increasing the number of clicks does improve consumers' decision-making, but only up to a point. If the process is slowed down too much, the benefit disappears.
- Counterintuitively, telling respondents to "hurry" in the current accounts experiment caused them to take *more* time and ultimately make better choices. This sudden message may have increased their general alertness and concentration.

¹ The 'comparison table' clearly presented the accounts side-by-side. Section A8.3.2 in Annex 8 provides detailed descriptions of the treatments.

² The Consumer Credit Directive requires that, in advertising, consumers are given information by means of a representative example, if the advertising mentions the cost of credit.

Targeting and personalisation:

- Consumers have a negative perception of targeting and personalisation, suggesting there is suspicion towards these practices. However, the evidence on the impacts of these practices on consumer welfare is mixed. These practices could influence consumers to buy targeted products at higher prices, but could also benefit consumers via better product choice or reduced search costs.

The design of offers:

- Previous studies suggest that bundling may negatively impact on consumer decision-making, although there is also evidence that it can have benefits for consumers as well. The experiment results suggest that an effective way to deal with the potential negative effects of bundling is to clearly indicate what the bundle includes.

Tools to assist consumers during the decision-making process:

- Evidence on the effectiveness of tools (e.g. online calculators) available to assist consumers is somewhat mixed. The experiment shows that consumers are keen to use them. However, these tools are only effective if consumers are able to use them correctly.

Relevance of the Directive on Distance Marketing of Financial Services (DMFSD):

- Due to its horizontal nature and technology neutral approach, the DMFSD continues to be relevant. However, as discussed in the recommendations below, some updates to it regarding information requirements might be beneficial.

Recommendations

Based on the findings of the study, the European Commission might consider the following policy options:

1. Ensure that existing legislation is rigorously enforced to protect consumers and to maintain a level playing field for all market actors. As the legal analysis found that some practices may be legally problematic, Member States should step-up enforcement activities where necessary, which the Commission could support by:
 - Raising Member States' awareness of the importance of enforcement activity in this area and initiate the exchange of enforcement experiences; and
 - Initiating coordinated enforcement activities such as a sweep.³
2. Improve the quality of information provided to consumers when they buy financial products and services online, taking the lessons of the present study into account. To achieve this a number of policy options could be considered:
 - Promoting best practice in information provision (e.g. by issuing guidance).
 - Refining existing legislation. 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 – e.g. requiring 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. Such requirements could alternatively be introduced via product-specific legislation. The benefits of such requirements should be considered alongside the burden placed on regulators and firms, which this study has not considered.

³ A "sweep" is a set of checks carried out to identify breaches of EU consumer law in a particular sector.

- Clarify that (under the DMFSD) information should be adapted to the user's device, e.g. by issuing guidance on how providers could comply with this or by specifying in legislation how it should be done.
3. Take measures to protect vulnerable consumers. Improving the quality of consumer information (as per 2 above) would especially help vulnerable consumers. Moreover, the Commission could consider encouraging the sector to develop simpler financial products (e.g. with a simple design and fewer characteristics, which are therefore easier to understand and compare).⁴
 4. Ensure that the speed of the purchasing process does not lead to poor consumer decision-making. To achieve this, monitoring commercial practices and the respective outcomes for consumers would be a first step. If this monitoring shows that the speed of the purchasing process negatively impacts consumers, the Commission could seek to influence the relevant providers to slow down the consumer journey.
 5. Increase transparency around personalisation and targeting. This means ensuring that consumers are aware of the use of personalisation and targeting generally and, specifically, when offers are being personalised and targeted to them. This might be done by seeking to influence companies to voluntarily be more transparent, ensuring compliance with the relevant legislation, or possibly introducing new requirements.
 6. Ensure that any tools provided to help consumers during the purchasing process are fit for purpose and designed so that consumers will use them correctly. This might be achieved by encouraging providers to develop tools that are simple to use for consumers.
 7. Monitor technological developments and design technology-neutral legislation. The Commission and relevant authorities could continuously monitor and evaluate new technological developments for their impacts on consumers and aim to design technology-neutral legislation that is sufficiently versatile to protect consumers irrespective of new technologies that may arise.

⁴ The benefits of such an approach should be considered alongside the burden placed on regulators and firms, which this study has not considered.

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