Chapter 1

The Changing Consumer and Market Landscape

This chapter reviews key market and consumer trends that have been observed, primarily focusing on the main problems that consumers and consumer authorities are confronting. The more demanding markets for consumers have raised related challenges for policy makers; those responsible for consumer protection must quickly respond to a rapidly changing and highly sophisticated marketplace.

Introduction

The markets for, and the marketing of, goods and services have undergone profound transformations over the past 20 years. Regulatory reform, more open global markets, new technologies, and the growth of services as an increasing component of economic activity have been agents of change and in many instances have provided significant benefits to consumers. However, relatively little attention has been paid to the challenges these recent developments have posed for consumers – often making it more difficult for them to compare and assess the value of products and services.

Consumers themselves have also changed. Children and young adults are more significant forces in markets, as are the growing number of older adults. While better educated overall, many consumers today lack the quantitative and literacy skills necessary to cope with more complex, information-intense marketplaces. These and other changes in socio-economic conditions can have implications for consumer policy. Such trends are being followed by consumer authorities both within their countries and through co-operation with their colleagues in foreign countries, with a view to addressing emerging issues in timely and effective ways.

Changes in markets

One of the most distinctive changes in markets over time has been the expansion in the choice of goods and services available to consumers. This growth has been spurred by regulatory reform, trade liberalisation, and advances in information and communication technology. At the same time, there has been a pronounced change in the structure of economies, with services accounting for more than 70% of GDP in many OECD countries in 2006. This is up by more than four percentage points in only ten years in five of the seven G7 countries (*i.e.* France, Italy, Japan, the United Kingdom, and the United States) (OECD, 2008a).

Regulatory reform

Most OECD countries have liberalised important sectors over the last two decades, thereby promoting more competition. The energy, financial services, telecommunications, and transportation industries are cases in point. The liberalisation has generally been beneficial for consumers, promoting greater diversity and more choice in products, lower prices, and more innovation in the types of goods and services offered.

At the same time, more choice has meant that consumers have had to learn more about markets in order to make good decisions. Utilities are a case in point. Prior to market liberalisation, there were few or no choices to be made, so consumers were not required to develop knowledge about the market. With deregulation, additional firms entered the market. As the electricity and gas that they were offering were identical, the firms sought to differentiate their offers by bundling related products or offering various contract terms and conditions which were difficult for consumers to compare. The challenges facing consumers included complex terminology that could be confusing, contracts that bound consumers for long periods, high exit costs, and/or difficulties in assessing the costs and benefits of choosing fluctuating *versus* fixed-price contracts for supply.

In addition, consumers have had to deal with new firms, some of whom have used deceptive practices to increase business, thereby prompting intervention by consumer protection authorities. In the telecommunications market, for example, companies found ways to switch the service providers of consumers without their authorisation (a practice known as "slamming") or falsely described the purpose and content of documents that consumers were asked to sign, and/or found ways to add charges or services that were not requested by consumers to their subscription (a practice known as "cramming") (see OECD, 2008b). In the utilities market, false claims of energy savings and reductions in energy costs and false environmental claims have been used by some companies to boost business.

As a result, consumers who once were accustomed to buying a standard good or service provided by a regulated monopoly firm now function in a market environment that requires careful analysis and assessment of what they are buying, from whom they are buying it, and the length of the contract commitment. Greater choice in a deregulated market sometimes requires consumers to deal with complex information, since they must now make decisions that will affect their welfare and finances, often in markets in which they have limited experience and expertise. Further complicating the situation is the incentive that firms may have to purposely design products that are difficult to compare. Evidence suggests that many consumers end up making sub-optimal decisions in some complex markets, completely forgoing potential savings by choosing not to switch to a firm that would be lower cost or, because of a lack of understanding, choosing to switch to a plan that is actually higher cost (Wilson and Waddams-Price, 2005).

As further discussed in Chapters 2 and 4, accurate information that consumers can easily access and assess is the key to good decision making and contributes to a fair and efficient marketplace.

Trade liberalisation

Despite the recent contraction in world trade, the long-term trend is positive. Over the last few decades freer international trade, more efficient international transportation services and new information and communications technology (notably the development of the Internet as a global trading platform) have created more open international markets for goods and services. Tariffs, for example, have fallen from an average rate of 14.5% globally in 1995 to 9.9% in 2007, helping to fuel increases in cross-border trade (World Bank, 2008). World trade in merchandise (as measured by import volumes) grew from USD 5.2 trillion to USD 14.1 trillion during the time period, while trade in services grew from USD 1.3 trillion to USD 3.1 trillion (UNCTAD, undated).

Increased trade has promoted competition, thereby boosting consumer welfare worldwide. For example, imports generally benefit consumers by providing a wider array of products in the marketplace. In most instances, these imported products are purchased through domestic retailers. Oftentimes, the domestic retailer provides a guarantee for the imported good and the return/exchange policy is that of the retailer, regardless of the origin of the product. In these circumstances, international trade does not appear to limit a consumer's ability to seek redress after making a purchase. On the other hand, consumers may face challenges or have some concerns when purchasing an imported product, even via a domestic retailer. For example, a consumer's willingness to purchase a product made in a foreign country may be affected by a concern about the quality or safety of the products and/or the conditions under which the products were made. There may, for example, be questions about weak environmental policies in a foreign country, worker exploitation and/or inadequate or lax product or labelling standards. Such concerns can be triggered by a single or limited number of events.

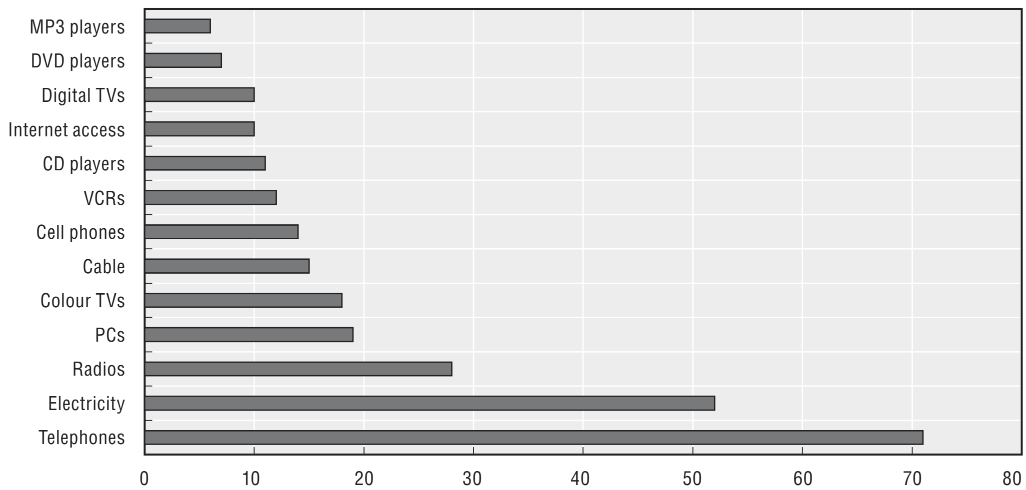
With the development of e-commerce, there are also opportunities for consumers to benefit by making purchases directly from foreign sellers. However, consumers' ability and willingness to do so often depends in great measure on the confidence that they have in entering into a transaction with a vendor about whom they may know relatively little. The situation is further complicated since it may be difficult to resolve disputes or seek redress from a foreign seller when transactions are not concluded in a satisfactory manner or when problems with the good or service surface after a sale.

As further discussed in Chapter 4, consumer authorities are aware of issues related to cross-border trade and have been working together in various forums in order to address problems encountered by consumers. Furthermore, the OECD itself has also been very active during the last decade in promoting instruments that address consumer issues related to cross-border trade.

New technologies

The development and rapid diffusion of information and communication technology (ICT) have significantly affected the array of goods and services that people buy and the manner in which they buy these products. Not only have the attributes of a typical consumer market basket in the OECD countries changed profoundly, but new technologies are being brought to market sooner and are being adopted faster by consumers. For example, whereas it took 71 years for the telephone to be adopted in over half of American households, it took a bit less than ten years for this penetration to occur with Internet access (see Figure 1.1).

Figure 1.1. **Number of years it took for major technologies to reach 50% of American homes**

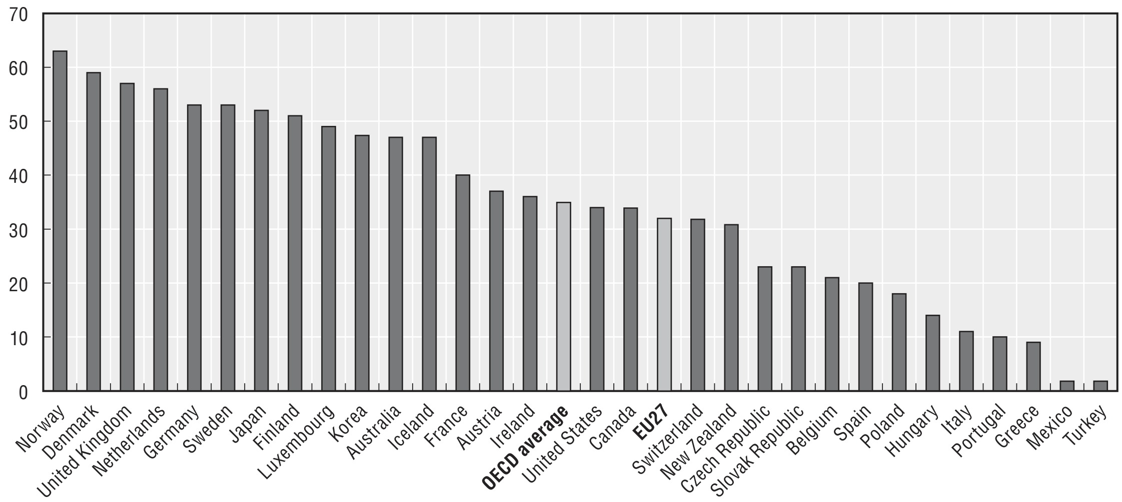


Source: Thierer, Adam and Grant Eskelsen (2008), *Media Metrics: The True State of the Modern Media Marketplace*, The Progress and Freedom Foundation, Washington, DC, Version 1.0, 15 July, *www.pff.org/mediametrics/*.

The rapid development of new products has been highly beneficial to consumers. The Internet, for example, has developed into a global trading platform, transforming the way consumers learn about and purchase goods and services. Some 58% of households in the OECD area had home access to the Internet in 2007 (OECD, 2008c), while about 35% of adult individuals in the OECD ordered or purchased goods on the Internet in 2008 (see Figure 1.2).

Figure 1.2. **Individuals who ordered or purchased goods or services on the Internet**

As a percentage of adults, 2008 (except as noted)



Note: Data are for 2008, except as follows: Australia, 2007; Canada, 2007, New Zealand, 2006; Switzerland, 2005; United States, 2003. The OECD average represents the simple arithmetic average of available data.

Source: OECD (2010), *ICT Database*, OECD, Paris, accessed on 11 January 2010.

Airline and hotel bookings by consumers using the Internet have grown sharply, while a broad range of other items, including cars, food, appliances and electronic equipment, are also being sold online. Moreover, mobile phones have become ubiquitous in today's society and wireless providers are actively working to facilitate the development of new mobile commerce services. The new opportunities have given rise to new challenges, however, as Internet fraud has become a substantial problem. In the United States, 221 226 Internet-related fraud complaints were filed with the United States Federal Trade Commission in 2007; it is one of the leading complaint areas (USFTC, 2008). Other key challenges include deceptive "upselling" (selling consumers who are purchasing an item online additional products or services without adequately disclosing what the consumer is buying or how much it costs), spam (unsolicited commercial electronic messages), phishing (the process of counterfeiting a legitimate website in order obtain credit-card numbers, banking information, passwords and/or other sensitive information), spyware (software that collects information about a user without that user's knowledge or consent) and malware (*i.e.* malicious software, such as computer viruses, worms and Trojans). Ferris Research has reported that the global cost of spam alone increased from USD 50 billion in 2005 to USD 100 billion in 2007 (as reported in International Telecommunications Union, 2008).

Enhancing the benefits that the Internet can bring to consumers will require that privacy and security concerns be addressed. A 2007 study by the UK's Office of Fair Trading estimated that 3.4 million people were prepared to use the Internet, but not willing to shop online because of a lack of trust or fears about personal security, and that their missed savings could amount to between GBP 175 million and GBP 350 million each year (UKOFT, 2007a).

Beyond fraud, the new technologies introduce new technical and legal issues. In the case of mobile commerce, consumers are using devices with small screens that have limited availability to display information. Moreover, minors now comprise a significant component of mobile phone users, which raises issues when, for example, they enter into commercial agreements by misrepresenting their ages or purchase products or services that are not intended for minors. Finally, the role and obligations of service operators, mobile commerce vendors and related parties are unclear.

Finally, the rapid development of new products has been accompanied by a related acceleration in product obsolescence. The development of faster and more sophisticated computer hardware, for example, has spurred advances in new software, and *vice versa*. Older computers and operating systems may, as a result, not be able to run new programmes, rendering them obsolete. In the field of mobile devices, the first phone-enabled version of a popular handheld e-mail device, for example, required early adopters to use cumbersome headphones and wires to make and receive a phone call. Within months, a new series that had a built-in speaker and microphone was released (Manes, 2003). Knowing when or even whether to buy a product is thus an ongoing challenge for consumers, as there is no way to know at what time an innovative product will be introduced on the market or when a product may become obsolete. Toshiba's decision to abandon development and manufacture of the high-definition DVD (HD DVD) optical storage format in light of the success of Blu-Ray technology is a case in point (full product support and after sales service was, however, maintained for those who owned HD DVD devices) (Toshiba 2008).

Growth in services

Another major change in markets concerns the growing role of services and the impact that ICT has had on the way that many services are delivered. Today over half of household consumption in many OECD countries is composed of services, which differ from goods in a number of key areas (OECD, 2007). They are intangible and often difficult to evaluate before a purchase (experience goods), and in some instances even after purchase (credence goods). Many require consumers to rely on the expertise of the service providers. Medical treatment, car repair and home maintenance services (electricity and plumbing) are examples of such services. Moreover, many service contracts bundle the provision of specific service options with goods (for example, cell phone handsets and service plan contracts), thereby blurring the traditional distinction between goods and services.

Another key difference between goods and services is that services cannot be returned and when problems occur, redress is often difficult to obtain. These characteristics can make services more vulnerable to fraudulent and misleading practices, especially in markets with low entry and exit barriers, such as home renovations. As a result, consumers must trust the person or company that they are buying the service from. Such trust can be built on the basis of reputation and/or the licensing or accreditation of firms. Governments can play a role in the latter, while also potentially helping consumers when problems arise, by, for example, *i)* providing guidance on selecting a service provider; *ii)* establishing legal rights and protections for consumers; and *iii)* supporting advisory services and/or mechanisms for resolving conflicts. Consumer policy tools available to governments are discussed in Chapter 4.

The nature of some services is being transformed by ICT. One of the most prominent examples concerns the market for financial services. Twenty years ago most people needed to visit a bank to deposit or withdraw cash; they wrote paper cheques, received monthly bank statements in the post, and were physically involved in fairly simple, routine, and recurring transactions, such as mailing monthly bill payments. Since then, financial services deregulation and technological advances have combined to fundamentally transform the relationship between consumers and their financial institutions, and how individuals conduct their financial operations. For instance, consumers are increasingly banking, paying household bills and purchasing complex saving and investment products online, as well as conducting financial transactions using automated teller machines and debit cards, and thus rarely need to visit a bank.

The increased convenience has, however, given rise to a number of important issues for consumers. The first concerns additional costs. For example, a decision by the Canadian Competition Tribunal in 1996 opened up the market for automatic banking machines (ABMs) to non-financial institution providers. Many of these ABMs, commonly referred to as "white label" machines, operate in lower-traffic areas. In order to be profitable, they may impose a "convenience fee" on consumers, in addition to regular account fees. Most traditional financial institutions have also implemented a "network access fee" to non-customers using their networks. While consumers now have more available options to withdraw money, they must be careful as to where they withdraw their money as it can cost more than CAD 6.00 to use an ABM that is not owned by their financial institution (Financial Consumer Agency of Canada, undated).

Actions have also been taken in the United Kingdom on bank charges. In 2006, the Office of Fair Trading raised questions about the level of charges assessed on credit card holders who failed to pay a minimum payment on the due date, exceeded a credit limit or failed to honour a payment made. Following the intervention, credit card issuers agreed to reduce their default charges, with the majority reducing the charges by almost one half (UKOFT, 2006a). In further work an in-depth study of retail bank pricing investigated the fairness of similar charges on cheque accounts (UKOFT, 2007b and UKOFT, 2007c). In Hungary, the Competition Authority (*www.gvh.hu*) conducted several investigations in 2006 and 2007 that examined commercial practices used in marketing credit cards. Fines were imposed when it was determined that investigated companies failed to include basic material information and conditions that had to be met in order for consumers to qualify for credit that advertised as interest-free (GVH, 2009).

In Chile, efforts are being made to curb practices whereby department stores impose fees on credit transactions which are in excess of contractual and legally permissible rates (SERNAC, 2009). In Belgium, the Federal Ministry of Economic Affairs recently presented a legislative proposal to fight consumer credit abuses. The proposal includes the following measures: *i)* prohibition of advertisements for credit bundling; *ii)* limitation on cash advances, or "cash credit"; *iii)* increased fines for infringements of consumer credit rules; *iv)* use of a standard information form for credit offers; and *v)* mandatory disclosure in consumer credit advertisements that reminds consumers that credit costs money (FPS Economy, 2009).

The transparency and complexity of markets for financial services are also raising challenges. The European Commission carried out a study in 2009 on retail services that found widespread problems with the way banks inform and advise their customers. Specific problems included information which in many cases is difficult to understand, opaque bank fees and problems with advice. (Van Dijk Management Consultants and Centre for European Policy Studies, 2009). In the United Kingdom, a recent study revealed *i*) a low level of transparency on fees related to bank charges (*e.g.* insufficient fund charges); *ii*) complexities in the manner in which these fees are imposed, resulting in difficulties for consumers in predicting when they will be incurred; and *iii*) a significant proportion of consumers incurring charges who appear to have underestimated both their level and frequency (UKOFT 2008a, UKOFT, 2008b). In response, governments in some jurisdictions have determined it is in the public interest to eliminate or reduce certain banking fees and have taken actions to do so. In Finland a series of reforms have been made to better protect consumer interests. Short message service (SMS) lenders, for example, will no longer be able to charge loan fees in lieu of interest; the way fees were being imposed was deemed an unfair contract term (Consumer Agency and Consumer Ombudsman, 2009). Moreover, penalty interest ceilings have been introduced on loan payments that are more than six months overdue.

A similar set of problems arises from the convenience of systems used by mobile phones, utilities and other industries that automatically deduct payments from consumers' checking accounts or automatically bill their credit cards. While increasing billing and payment efficiency, the absence of a step under which consumers confirm billing could cause many to be less vigilant. As a result, additional charges that could be easily avoided could go unnoticed, as could billing mistakes.

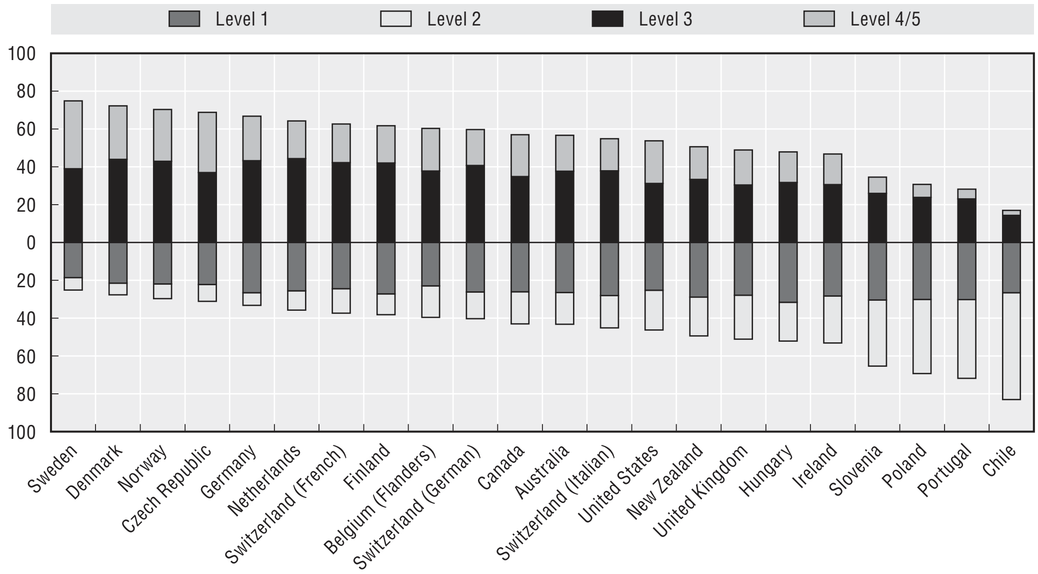
Another important issue concerns the security of transactions carried out electronically. Most traditional banks now offer online banking services and strongly encourage customers to do online banking, assuring their customers that security is high. There are, however challenges in this regard. A 2007 survey in Canada found that many security requirements are too difficult for regular users to follow, and that some marketing-related messages about safety and security are misleading (Mannan and van Oorschot, 2007). It is important that the obligations and responsibilities of consumers, financial institutions, and vendors be clearly established to avoid confusion and misunderstandings when incidents occur. This is of growing importance in light of the increasing collection, trafficking, and illicit use of financial information in many OECD countries. It is an area where governments have been active, through legislative, education, and awareness-raising activities.

ICT advances have also contributed importantly to the development of new financial products that can be tailored to meet individual consumer needs and changing circumstances. The products are, however, often complex instruments that require consumers to make difficult decisions that weigh short-term benefits and costs against long-term considerations. This new reality clearly raises the issue of whether consumers – even those who are financially savvy – have adequate information, tools, and skills to assess these new products. The mortgage-related financial crisis that rattled world financial markets in 2007-2009 indicates that many may not, suggesting that governments and other stakeholders need to be more active on this front.

Higher education and literacy requirements

With the proportion of the population obtaining a university education generally rising in the OECD area (OECD, 2004, OECD, 2008d), one would expect consumers to be well-equipped to deal with today's more challenging, information-driven economy. Unfortunately, literacy levels are relatively low. Surveys carried out during the 1990s in many countries revealed that only a small proportion of respondents had skills needed to deal with many standard consumer contracts, such as car rental agreements and insurance contracts (see Figure 1.3, levels 4/5.) A larger number (level 3) were judged as having skills suitable for coping with the demands of ordinary life and work. But in all countries, there was a sizeable population of persons who were ill-equipped to cope with modern-day challenges (levels 1 and 2).

Figure 1.3. **Percentage of population aged 16-65 at each quantitative literacy level, 1994-1998**



Source: OECD and Statistics Canada (2000), *Literacy in the Information Age: Final Report of the Adult Literacy Survey*, OECD, Paris. See also OECD and Statistics Canada (2005), *Learning a Living: First Results of the Adult Literacy and Life Skills Survey*, OECD and Statistics Canada, Paris and Ottawa.

One sector of particular concern with respect to literacy is the market for financial services; in this sector, the principle of disclosure is often the basis of consumer protection. Therefore, the ability of consumers to make good choices depends on their capacity to read and understand detailed information. However, an assessment on the readability of common financial documents in Canada found that nearly all of them were "difficult" or "very difficult" to read. Furthermore, the authors found that the primary purpose of disclosure documents appeared to be to meet regulatory requirements, rather than providing plain-language information to consumers (Colbert, Carty and Beam, 1999). Other authors are more critical; some suggest that modern financial service contracts are dangerous to consumers in part because disclosure is designed in a manner to confuse rather than inform (Warren, 2008). With respect to credit cards, one observer notes that a typical contract in the 1980s was a single page long; as of the early 2000s these contracts had grown to more than 30 pages, with much of the additional language adding terms – all of which favour the credit-card companies – that are difficult to understand (Pacelle, 2004).

The increasing need for consumer literacy skills, combined with the low level of financial literacy of some consumers, clearly poses challenges for policy makers wishing to address information shortcomings in markets. As discussed in Chapters 2 and 4, mandated information disclosure, the provision of technical tools such as online calculators, and the promotion of plain-language contracts can be helpful for consumers, but their value will be limited if financial literacy is low. Moreover, while education can improve the situation, its limitations need to be recognised. Work carried out by Meza, Irlenbusch and Reynier (2008) suggests that attempts to improve financial capability (*i.e.* knowledge and skills) may not result in improved outcomes as what people choose to know and what they do with their knowledge may primarily depend on their intrinsic psychological attributes and may, therefore, vary considerably despite educational efforts by governments.

Changes in consumers

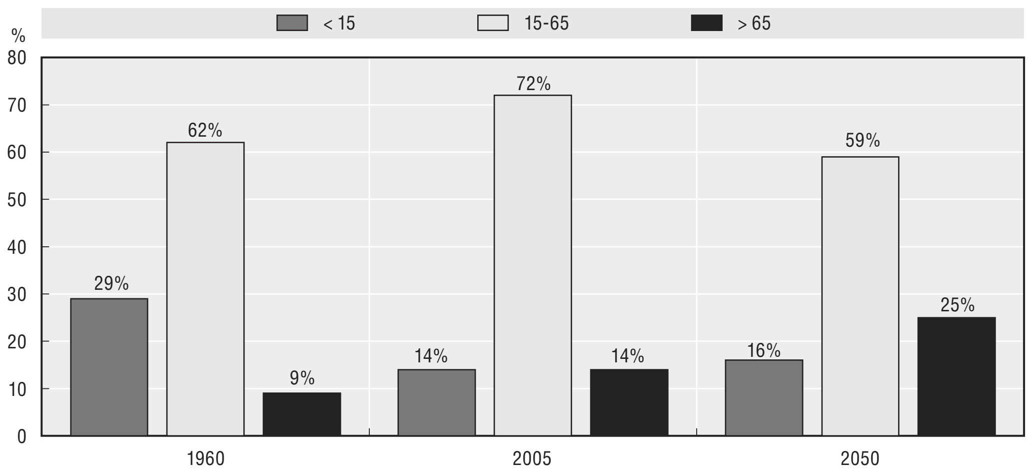
Just as the market for consumer goods and services has changed over the last 20 years, so have the characteristics that define consumers. Sharper distinctions can be drawn between different groups of consumers, and there is greater diversity among these characteristics. The key changes relate to demographics, the management of individual household finances, and time constraints.

Consumer demographics

The age structure in OECD countries has been changing, and is expected to further evolve over the coming years. As shown in Figure 1.4, the percentage of consumers aged 65 and older has increased significantly during the past 40 years, while the share of younger persons has declined. This trend is expected to continue through 2050, with the share of senior citizens accelerating to over 25% by 2050. In absolute terms, the number of seniors will climb from about 74 million (in 1960), to 336 million in 2050. This is capturing the attention of consumer authorities. Korea's Framework Act on Consumer protection, for example, contains specific provisions calling for preferential measures to protect the elderly and other certain other groups deemed vulnerable (Korean Government, 2007). Research on ways to assist the elderly in making good choices, obtaining redress and ensuring safety are being carried out by the government (Korea Consumer Agency, 2009).

One issue concerns the increased vulnerability of senior adults to certain sales techniques, such as door-to-door marketing. In Japan, problems that senior adults, in particular, were experiencing with respect to excessive purchases of goods and services

Figure 1.4. **Age distribution (in years) of OECD population in 1960, 2005 and 2050**



Source: United Nations (undated), *World Population Prospects: The 2006 Revision, Population Database*, medium variant, United Nations, at *http://esa.un.org/unpp/index.asp*, accessed on 8 December 2008.

resulted in the introduction of new regulations in 2008 (METI, 2009). The regulations enable consumers to withdraw from contracts arising from door-to-door sales within a year of the sale.

The ability of senior adults to adopt and/or adapt to new technology is also a concern. Although many can and do adapt, a sizeable number do not. While some firms and industries have launched initiatives to help out in this regard (UK Ofcom, undated), this is an area that will require ongoing attention as the inability or reluctance to identify and use goods and services that could be beneficial may have significant negative consequences on older persons. In addition, the ability to use new technology could help senior adults to overcome the challenges many will face as their mobility decreases (Statistics Canada, 2002).

The issue surrounding the ability to adopt and use technology is not, however, confined only to elderly persons. In Canada, for example, a provincial assessment carried out in 1999 on students in grades 5, 8 and 11 revealed that while students had a good broad and global understanding of technology, knowledge and skills when using specific technologies, such as the Internet or a "tech" product, generally fell far below the levels that educators had expected (Saskatchewan Education, 2001). The challenge for policy makers in this regard will be to recognise the extent to which different societal groups do, or do not, keep up with technological advances, and to explore ways to ensure that those who do not benefit from the new technologies are not left behind. In Germany, the German Railway (Deutsche Bahn AG) had planned to encourage travellers to use self-service ticketing machines, by imposing an extra charge for tickets bought at the personalised service desk in train stations. The measure was abandoned, however, when it become apparent the self-service machines were very difficult to access for physically-challenged persons (Federal Ministry of Food, Agriculture and Consumer Protection, 2009).

With rising family incomes, young people, whose spending is almost wholly discretionary, have become increasingly important consumers, despite their declining share of the population in many OECD countries. While they may have relatively significant discretionary spending capacities, young people may not have the skills and knowledge required to make well-informed and well-reasoned choices. Overconfidence, for example, often makes young consumers more susceptible to poor decision making or fraud. A US report on the use of credit cards by college students, for example, concludes that many students are responsible for making important financial decisions for the first time in their lives yet are naïve about managing a budget. As a result they may be at greater risk of incurring substantial debt (including credit-card debt) compared to more experienced consumers (United States General Accounting Office, 2001). Furthermore, adolescents may be vulnerable as they are susceptible to fashions, trends and styles, and may be influenced to purchase "hip" or popular items. These factors may partially explain the heavy adoption of cell phones by youth, with empirical evidence from all regions in the world showing that adolescents have been the most eager to embrace this technology (Geser, 2006).

Moreover, young adults, defined as those who are under 30 years old, face a number of decisions with major financial consequences that they may be making for the first time and that could have long-term consequences on their well-being. These include renting or purchasing a home, buying a car, having children, pursuing costly higher education or starting to save for retirement. The fact that these young adults are increasingly encountering problems related to significant consumer debt further complicates the situation, potentially raising challenges for policy makers (Box 1.1).

Box 1.1. **Loans and savings by youth in Chile, Denmark and Finland**

Chile

The National Consumer Service (SERNAC) and the National Institute of Youth (INJUV) carried out a study in 2007 on the indebtedness of Chilean youth (SERNAC, 2009). The study indicates that some 1 237 191 young borrowers (33.2%) between 15 and 29 years of age were in debt. The highest youth indebtedness levels were found in department store credit cards (28.5% had at least one card and 69% of them had debts) and in bank credit cards (7.8% had at least one card and 57.7% of them had debts). Most Chilean indebted youth were between 25-29 years old (51.4%); some 51% had only finished secondary education, while 29.8% had attended college. Most of the debt of young borrowers was concentrated in housing, education and payment of credits. On average, some 45% of young borrowers' debt (*i.e.* USD 371) was in default. It should be noted that credit is not viewed in a negative way in Chile; it is often viewed as a positive indicator of economic growth. That said, overall level of indebtedness, caused in large measure by lack of knowledge of the credit system, is still worrying to consumer authorities.

Denmark

In 2008, the Danish Money and Pension Panel conducted a study of 18-25 year olds' loans and savings (Money and Pension Panel, 2009). Among other things the study shows that some 49% of young Danish persons took out a loan in the two years covered by the study. At the same time, some 76% accumulated savings. Young borrowers reported an average debt of DKK 58 000. Typically, men had more debt than women. About one in three young borrowers (corresponding to 16 per cent of all 18-25 year old Danes) have taken out a less favourable loan, with some 86% of young borrowers not making inquiries about other loan offers before obtaining their loan. Further, some 73% of young Danish people did not know or had little knowledge of the annual percentage rate of their loans (APR) and 64% bought goods on credit, thinking that these types of loans have low interest rates.

Finland

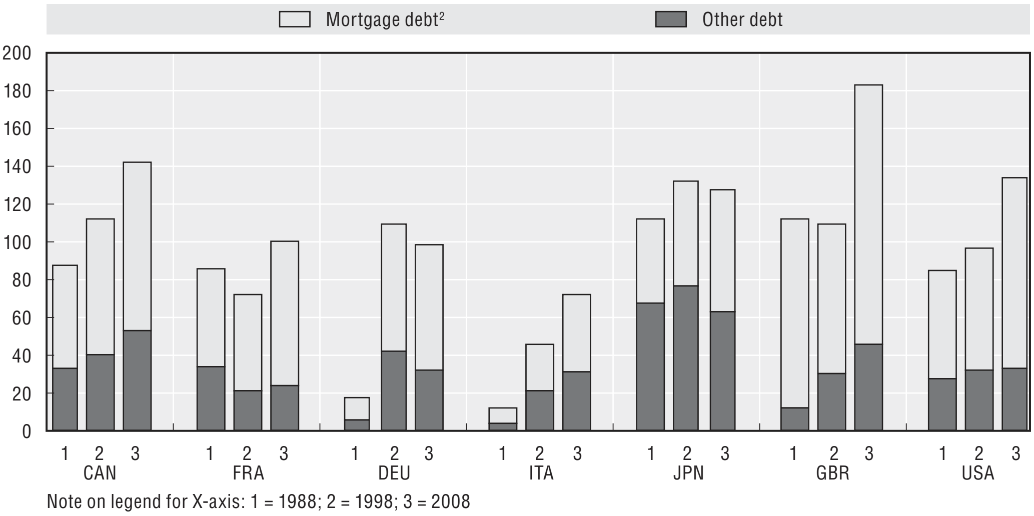
In 2008, the Finnish National Research Institute of Legal Policy published research on payment difficulties associated with SMS loans (Valkama and Muttilainen, 2008). The research revealed that 20-24 year olds are the biggest single group (43%) among SMS loan debtors. Research data from District Courts also showed that the average age of individuals facing payment difficulties because of SMS loans are 26 years old. Another study on indebtedness by Statistics Finland, segmented by age group, showed that the rate of indebtedness was highest (189% of income) among households in which the reference persons were between the ages of 25 and 34.

Sources: Money and Pension Panel (Denmark) (2009), *Money and Pension Panel Study of 18-25 Year-old's Consumer Loans and Savings*, October; SERNAC (National Consumer Service) (Chile) (2009), Communication with OECD Secretariat, unpublished; Valkama, Elisa and Vesa Muttilainen (2008), *Payment Difficulties Associated with SMS Loans*, National Research Institute of Legal Policy, *www.optula.om.fi/uploads/o0xn4w_1.pdf*.

Household finances

By and large, the last several decades have been prosperous and characterised by unprecedented economic expansion. Incomes in many OECD countries rose, and household wealth grew substantially, reflecting appreciating housing assets and rising home ownership, in addition to other assets. At the same time, consumer debt relative to disposable income increased in some countries. As shown in Figure 1.5, the increases were often driven by mortgage and related long-term debt, but other forms of indebtedness also rose in most countries.

Figure 1.5. **Household indebtedness in 1988, 1998 and 2008**[1]



Note: Data for 1988 are not comparable to subsequent years for France, Italy and Japan, due to changes in definitions or accounting systems. Data for 2008 were not available for Italy and Japan; data for 2007 have been used instead.

1. Liabilities outstanding at the end of the period, as a percentage of nominal disposable income.
2. Data for France are for long-term loans; data for Italy are for medium- and long-term loans.

Source: OECD (Organisation for Economic Co-operation and Development) (2001), *OECD Economic Outlook*, Volume 2001/1, No. 69, OECD, Paris, June and OECD (2009), *OECD Economic Outlook*, Volume 2009/1, No. 85, OECD, Paris, June.

As discussed in Chapter 2, consumers can be short-sighted when it comes to financial matters, and overconfident in their ability to manage debt. Increases in debt levels are therefore a concern as the risk of experiencing financial difficulties is higher, as are the consequences. The problems that have arisen during the recent financial crisis illustrate this point. Given the importance of the issue, most governments have adopted measures to help protect consumers; these include measures ranging from disclosure requirements to education and restrictions on certain lending practices.

Finally, while not a consumer protection issue as such, the inability of many consumers to save for long-term retirement needs, which in many cases may need to cover 30 or more years of retirement, poses another challenge for policy makers. Initiatives to raise awareness in this regard, through education, are being pursued.

Time constraints

Another issue consumers routinely confront is finding adequate time to properly analyse the expanding number of propositions and choices that are available. In the United Kingdom, for example, the proportion of married or cohabiting couples with dependent children where both adults were working rose from 50% in the 1980s to 62% in the 1990s (UK Office for National Statistics, 2000). By 2008, some 81% of married or cohabiting adults (72% of women and 91% of men) with dependent children were working (UK Office for National Statistics, 2009). In response, time-pressed consumers are likely to make key decisions by *i)* limiting searches; *ii)* deferring to an intermediary for advice; *iii)* employing a "rule of thumb" technique to decide (*i.e.* a heuristic technique); or *iv)* forgoing making a purchasing decision because of the effort that would be required to properly research and evaluate a proposition. Chapters 2 and 3 describe how these responses can lead to consumers making decisions that can be costly and they may later regret. To address these time constraints some consumers rely on intermediaries (such as travel consultants, financial advisors and mortgage brokers). The services provided by intermediaries can be highly beneficial both in terms of time savings and in terms of helping consumers make more informed and better decisions, provided of course that the intermediaries are "honest" brokers who are not inclined to oversell or recommend overly expensive products to generate higher fees and commissions.

Time considerations are also an important factor when consumers experience a problem with a good or service. If considerable time would be required, they may be reluctant to complain or seek redress. Moreover, the expense, time commitment, and the complexity of legal proceedings can make complaint processes impractical for claims involving relatively modest transactions.

Summary

As indicated above, dynamic changes in the marketplace driven by technology advances and more open markets and regulatory structures have been highly beneficial to consumers, providing them with a broader range of innovative products from a wider selection of firms. The more dynamic markets have, however, created new challenges for consumers, and changed the nature of the issues that consumer authorities need to address. In the consumer protection area, increased trade and the development of the Internet have provided new opportunities for consumers, but also have increased the need for international co-operation to help detect and address consumer problems, particularly those with a cross-border dimension, more effectively.

In most OECD countries, greater emphasis is being placed on policies and programmes that can help consumers make better decisions, by promoting market transparency and by providing information and guidance on ways to *i)* make better decisions; *ii)* avoid problems; and *iii)* obtain satisfaction when goods or services do not meet expectations. Efforts to "empower" consumers in these ways are also based on the increasing recognition by governments that confident, informed consumers who make well-reasoned decisions represent powerful drivers of innovation, productivity and competition.

In light of the rapid changes in markets and the profound impact they may have on consumers, it is particularly important for policy makers to be able to both identify and measure sources and instances of consumer detriment (see Chapter 3). While policymakers have a wide array of tools available to correct market failures when they occur (see Chapter 4), it is critical that any policy decision taken be based on sound and objective evidence and careful assessment of the corrective options available (see Chapter 5). Understanding how markets operate and how consumers make decisions is critical in this regard. Chapter 2 provides insights in this area, exploring how the findings from work in the field of information economics helps to identify when problems are likely to exist and cause the greatest detriment and how behavioural economics can be useful in better understanding consumer behaviour.

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