

## Improving online disclosures with behavioural insights

### Towards better outcomes for consumers

Access to good information is essential if consumers are to make decisions in their best interests when shopping online. For this reason, information disclosure requirements have been a key policy tool for empowering online consumers across the OECD. However, these policies are based on the assumption that well-informed consumers will reliably make decisions that are in their best interests. This assumption has been called into question by behavioural insights. In particular, numerous studies have shown that consumers can be subject to behavioural biases or “heuristics”. Moreover, the ways in which consumers deviate from assumed behaviour may be predictable and hence, can be factored into policymaking (and potentially exploited by businesses). Behavioural insights can be used to identify, test and measure these behavioural biases to improve policy design. This policy note and the associated report (OECD, 2018) examine how to improve online disclosures with behavioural insights.

#### The quick read

The behavioural insights literature suggests consumers are subject to a number of behavioural biases that influence their ability to benefit from information disclosures when shopping online.

Consumers can be subject to information overload, meaning they might focus on the wrong information, put off a decision or make the wrong decision if confronted with long or complex information. Information overload is one reason why consumers rarely read online terms and conditions (T&Cs) in full. Hence, information disclosures need to be as simple as possible. Further, important information should not only appear in the T&Cs.

Behavioural biases such as loss aversion make consumers particularly susceptible to misleading pricing practices such as drip pricing and bait pricing. Hence, governments need to ensure that consumers are protected from such practices when shopping online. In particular, consumers should be protected against false or misleading information, including in regards to pricing.

Form and context influence consumers’ ability to understand and use information disclosures online. The visual presentation of websites, timing of disclosure, text font and size, and use of colour, images and video all affect how consumers absorb information. For this reason, information disclosures should be tested to ensure they work in the best interests of consumers. Personalisation may help to make information disclosures more relevant and salient to consumers and is an area where more research and testing is needed.

In some markets, consumers may need to access more complex information (including on usage) in a machine-readable format to make use of services offered by intermediaries. Information disclosures should allow for this in the relevant markets.



## What are online disclosures?

Online information disclosures provide information about the seller, the goods and services on offer, and the transaction itself, including information about payment methods, privacy policies and available dispute resolution and redress options (OECD, 2016). Businesses may make such disclosures through advertising and marketing (ranging from display banners to embedded “native advertising” in online blogs, social media sites and news sites), contractual terms and conditions, and legally required notices. This information can be conveyed in different ways, including through pop-ups, links, text, images, audio and video. Businesses can provide information at different times, including through pre-transaction advertising and marketing, and during the course of the transaction, including during the payment process.

### Justifications for information disclosure policies

While online disclosures may be relatively new, economists have long focused on the role of information in correcting market failures that harm consumers. In particular, information economics recognised that, if left to the market, consumers may not always have enough, or the right type, of information to make informed decisions. This is especially relevant where there are “information asymmetries” (i.e. when sellers know more about the features and quality of their products or services than consumers). Further, the information economics literature recognises that there are costs involved for businesses in providing information, and for consumers in searching for and understanding information. It therefore posits that disclosures that make product pricing and features more transparent could reduce search costs, potentially improving consumer outcomes. For these reasons, most OECD countries have legislation or guidelines that ensure that consumers have access to clear, accurate, and easily accessible information when shopping online (and off).

### What is different about online disclosures?

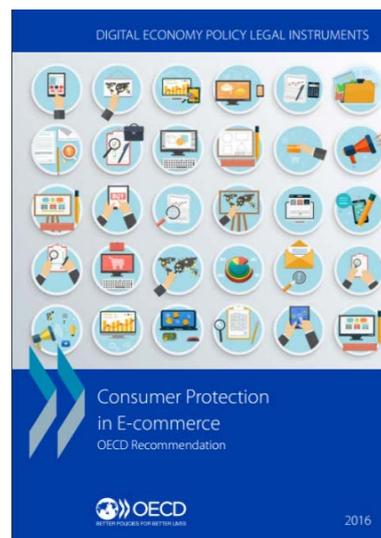
The online shopping experience may differ significantly from shopping in “bricks and mortar” stores. For example, while consumers may not be able to touch and feel products when shopping online, they usually have access to a wider variety of information and may be able to sample digital content. While there may be more information online, however, consumer attention remains a scarce resource both online and off. Further, what works for a recipient of a printed disclosure may not work when transferred to another recipient’s “screen of choice”, be it a computer monitor, tablet, mobile device or electronic assistant (Benartzi and Lehrer, 2017). Different delivery channels require businesses to revise both the format and content of information.

## What are behavioural insights?

Behavioural insights are a multi-disciplinary approach that mixes economic theory with insights from cognitive and social psychology, neuroscience, marketing and cognitive design to take into account consumer biases that influence consumer decision making. Behavioural insights are underpinned by the use of experiments and empirical analysis (OECD, 2017a).

### Consumer biases

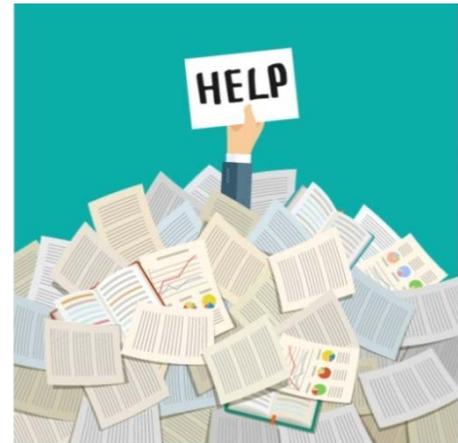
There are a number of consumer biases that have been uncovered in the behavioural insights literature that are relevant to the effectiveness of online disclosures.



## Information overload

There are limits to the amount of information that consumers can process (Miller, 1956). Information overload occurs when consumers are confronted with complex products or a large range of choices and find it difficult to engage with the decision. Ultimately, this can lead to consumer detriment if consumers defer a decision or make the wrong decision by relying on relatively simple “rules of thumb” (OECD, 2017a).

Numerous studies have found that consumers are particularly prone to information overload when shopping online (e.g. Benartzi and Lehrer, 2017; Office of Fair Trading (UK), 2007). One way in which information overload can manifest is in few consumers reading online T&Cs in full (see box below).

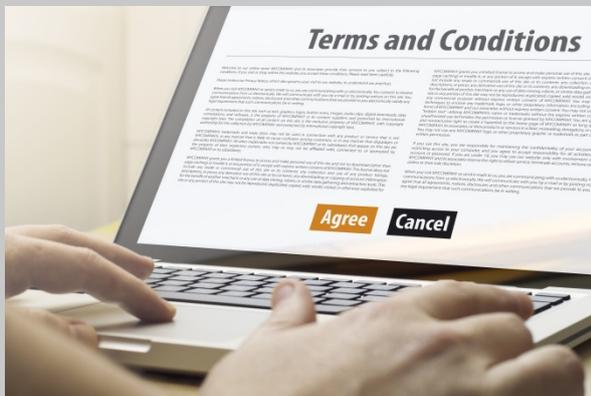


Further, businesses can potentially take advantage of information overload by making their products, services or prices more complex than required. Bar-Gill (2012) has raised concerns about this in the credit card, mortgage and mobile phone markets.

### Consumers rarely read online terms and conditions in full

There is growing evidence and acceptance that most consumers do not read online T&Cs in full when making online purchases. Estimates of readership vary depending on the presentation of T&Cs, the product or service they relate to, and the way readership is measured.

(At least partial) readership is higher when consumers can scroll through online T&Cs (up to 77.9% of consumers at least skim them), rather than having to click on a link to access them (9.4%) (European Commission, 2016). The type of product also influences readership, with higher reported readership rates for mortgages (73%) and car rentals (72%), and lower rates for transactions on peer platforms (17% read them carefully) and software (0.2% to 5%) and (Stark and Choplin, 2009; OECD, 2017b; Bakos, Marotta-Wurgler and Trossen, 2014).



Reasons for not reading include the time commitment required, given the length and complexity of T&Cs, and the lack of negotiating power, given consumers usually have to accept T&Cs in full or abandon the transaction. Overconfidence and myopia may also contribute to consumers ignoring the T&Cs (see below).

## Framing and anchoring

Framing refers to the fact that consumers are influenced not only by the content of the information provided but also by how information is presented (Tversky and Kahneman, 1981). Several studies have shown that the timing, context, layout and form of information disclosures influence consumers' ability to comprehend information disclosures (Federal Trade Commission (US), 2016).

Anchoring occurs when consumers weight one piece of information too heavily when making a decision, often at the expense of other information (Tversky and Kahneman, 1981). This can mean that consumers do not value the entire offer properly, even when additional information is provided, which can lead to sub-optimal choices and consumer detriment. One common anchor point, especially when consumers are also facing information overload, is price.

Reference pricing (which compares a sale price to a pre-sale or competitor's price) can use framing and anchoring effects to inflate the perceived value of an offer. If reference prices are misleading this has the potential to cause consumer detriment and to distort market outcomes (Office of Fair Trading (UK), 2010).

### The endowment effect and loss aversion

Consumers tend to be loss averse and prone to the endowment effect. That is, they tend to value something more highly once it becomes part of their property. Drip pricing and bait pricing prey on the endowment effect (Office of Fair Trading (UK), 2010). In both cases a consumer, having decided to make a purchase, finds it difficult to withdraw. This happens even if the price goes up (as in drip pricing), or the sale good is no longer available (as in bait pricing where consumers are lured in by a special deal for which only a small quantity is available and they end up buying a more expensive product).



### Default biases

In general, consumers tend to stick with the default option rather than actively choosing an alternative or opting-out (Kahneman et al., 1991). This seems to hold irrespective of what the default is and what the decision concerns. Consumer susceptibility to default settings makes negative option marketing and pre-checked boxes potentially detrimental practices for consumers.

### Overconfidence and myopia

Consumers tend to be overconfident in relation to their abilities and prospects. They can also be myopic in that they overly discount costs or benefits that may occur in the future as compared to immediate costs or benefits. Overconfidence and myopia may lead consumers to ignore certain types of information including warnings, disclaimers and T&Cs. They may also lead consumers to choose the wrong product or service if businesses take advantage of these biases (for example, by highlighting immediate benefits such as a “free” mobile phone but obfuscating the cost of this over the lifetime of the contract).

### Social norms and other factors

In addition, consumer behaviour in relation to disclosures is likely to be influenced by social and cultural norms. For example, if a consumer's friends and family use an app, consumers may be less likely to read the T&Cs and check the privacy settings. Further, a consumer's ability to comprehend online disclosures is likely to be influenced by their age, education and familiarity with the internet, among other things. This is why it is important to test disclosures on the relevant population of interest.

## Policy implications

The behavioural insights literature suggests that there are a number of ways in which online disclosures can be tailored to improve outcomes for consumers.

### Information should be as simple as possible

Given the potential for information overload, online disclosures should be as simple as possible. Simplicity can be achieved by reducing the amount of text, using “signposts” to direct consumers to relevant information, and use of “layering” where different levels of information of increasing detail are presented to consumers as needed (for example, through active links).



## Information and pricing should be clear and accurate

Protections against false and misleading information remain important, especially given consumers' susceptibility to behavioural biases. In particular, consumers need to be protected from misleading pricing practices such as drip pricing and bait pricing. Further, to the extent that reference prices are used, these should not be false or misleading.

## Material information should not only be in the terms and conditions

As discussed above, few consumers read online T&Cs in full. For this reason, businesses should not use T&Cs to communicate important information to consumers. Material information should be made clear and salient to consumers, potentially in multiple places on a business' website and at various points during the transaction.

## Use of images, audio and video should be considered

Information should be made as clear as possible with alternatives to text considered, as appropriate. In some scenarios, images, audio and video can more effectively convey information to consumers than even the most clear and simple text. As well as considering the use of these alternative mediums, businesses should consider the overall look of their website, including colour and visual layout, for example.

## Timing of disclosures is important

Another key factor to consider is the timing of disclosures. Given the endowment effect, warnings or material information that is only provided towards the end of a purchase may have little impact since consumers have already made the decision to purchase the good or service. In other scenarios, information that would be quite useful to consumers may be rendered useless if it is received at a time when consumers cannot react. The timing of disclosures is something that should be subject to consumer testing.

## Consumer consent should be express

If businesses want consumers to confirm a transaction for goods or services, consumer consent should be expressly sought and obtained. Such consent should not rely on default settings, negative option marketing or pre-checked boxes that consumers are unlikely to notice or change.



## Personalised disclosures require further consideration

Another way to improve consumer understanding of online disclosures is to better tailor the message to the individual concerned. In particular, if a disclosure is only relevant to an identifiable target group, then it should ideally only be shown to that group. However, personalisation raises other potential consumer policy concerns. For this reason, it is an area that requires further research.



## Technology-enabled information provision could facilitate comparison shopping and switching in complex markets

In complex markets consumers might need additional information in order to compare offers in the market. In particular, consumers might need detailed information about their past or likely future usage. When such information is made available in a machine-readable form, it will be easier for consumers to make use of the services offered by public and private intermediaries.

## Consumer testing of online information disclosures

As mentioned above, consumer testing of online disclosures is important to ensure that disclosures are fit-for-purpose and empower consumers to make decisions that are in their best interests. Businesses and governments are encouraged to undertake consumer testing on an ongoing basis. For governments, this is particularly important when considering whether to impose or change mandated information disclosures. For businesses, there should be a continued and ongoing effort to produce online disclosures that work for consumers.

A summary of the key policy implications for governments and businesses are summarised in the box below.



### Key policy implications

Governments should be wary of exacerbating information overload when setting mandatory information requirements for businesses. Governments should also bear in mind the importance of form and context in developing such requirements. In particular, governments should consider not just what information consumers need but also when is the best time for consumers to receive such information, and in what form. Before introducing or changing disclosure requirements, governments should test these with consumers where possible.

Governments should ensure that consumers are protected from false and misleading information, both online and off. This includes misleading pricing practices such as drip pricing and bait pricing, and the framing of pricing and offers that consumers cannot easily process.

Businesses should not rely on terms and conditions to communicate material information to consumers. Such information should be presented to consumers at a relevant stage of the decision making process and in a clear and salient way. In the case of standard form contracts, governments should ensure that consumers are protected from unfair contract terms since few consumers read terms and conditions and in any case have no ability to negotiate these.

Personalisation of disclosures could improve consumer comprehension but could also raise new consumer issues. This is an area that would benefit from more research.

For more complex products and services (e.g. financial products and services, telecommunication services and energy services), including those with usage based pricing, consumer access to information (including on usage) in a machine readable form should assist comparison shopping and facilitate switching, potentially with the help of intermediaries.

## Further reading

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## Directorate for Science, Technology and Innovation Policy Note

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