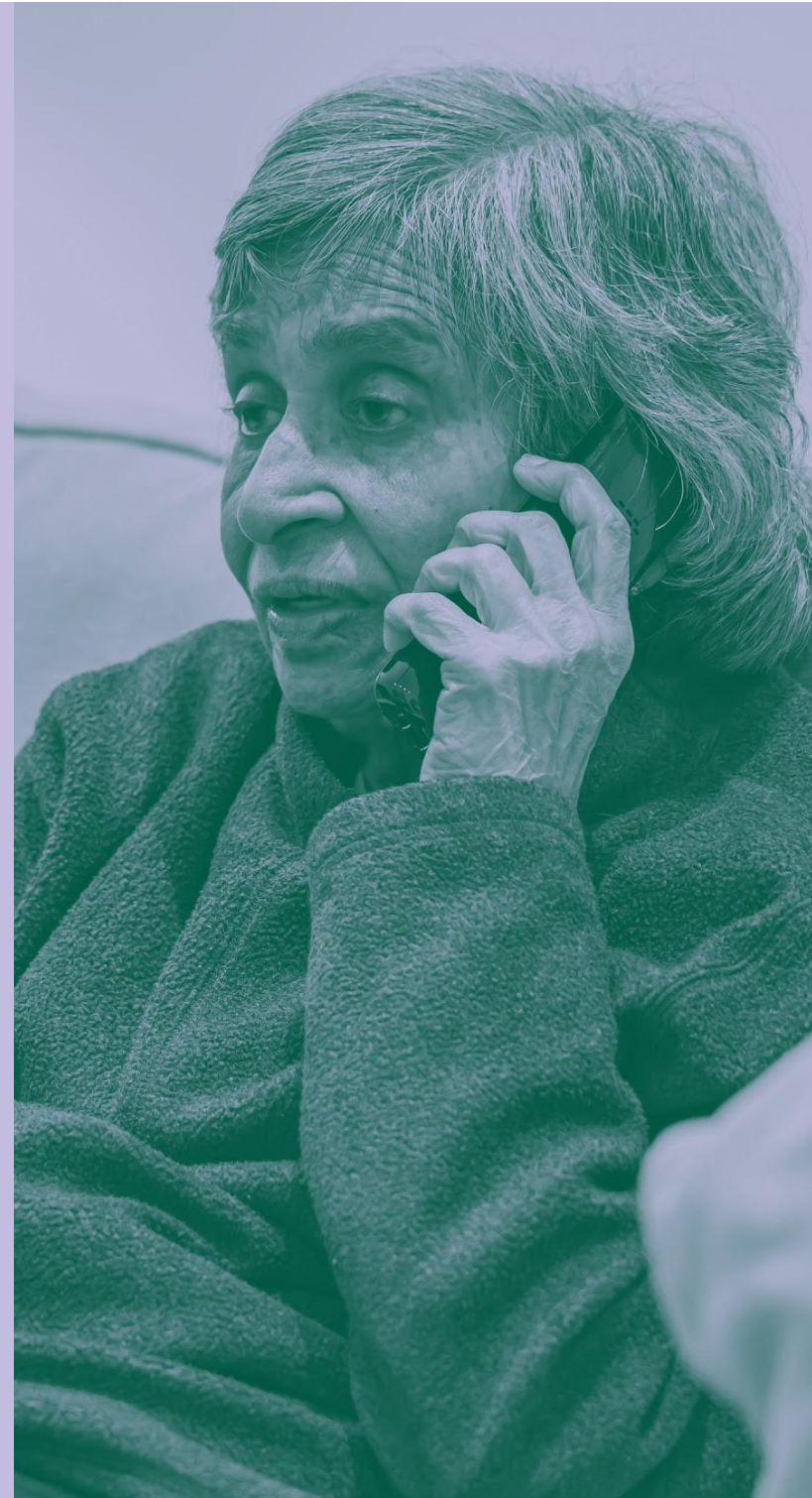


Annex 3

Subscription traps

citizens
advice

November 2022



Subscriptions: a growing market

The subscription business model is a popular and growing payment method for products and services, worth around **£25 billion per year**.¹ Our research shows that **3 in 4 people in the UK** (73%)² are currently paying for at least one subscription.³

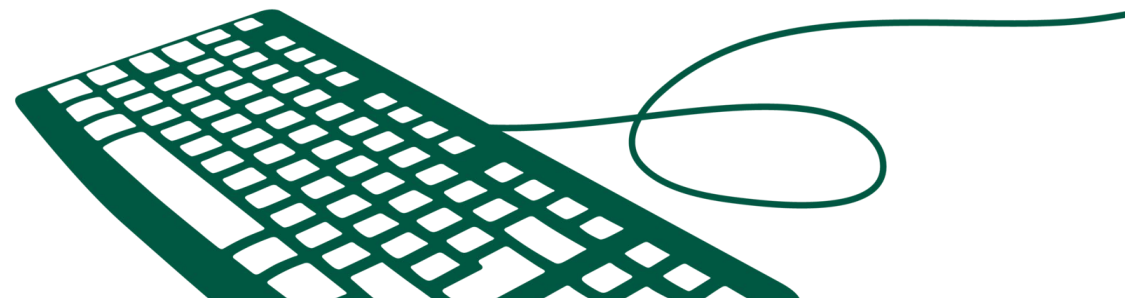
However, the business model can be abused, leading to **subscription traps**. People can be lured in by a free trial, but don't get around to cancelling, and **1 in 4 (26%) people have signed up to a subscription by accident**. Consumer inertia can be exploited by having contracts auto-renew each year. Additionally, when people do try to cancel, use of sludge tactics means it's often a much harder process than signing up.

The Government has stated its intention to tackle subscription traps, having identified **£1.8 billion in annual consumer detriment** in the market.⁴ The proposals include requiring firms to provide information and reminders to consumers and to make it easier to cancel subscriptions. While these changes bring much-needed reform to the market, they don't address the harm that's caused by certain elements of its design. In particular, the ways in which **opt-out free trials and auto-renewals** are used to capitalise on consumer inertia for profit.

At a time where budgets are squeezed, we need the Consumer Bill to fundamentally address the drivers of consumer harm. Not only would this leave consumers better off, it would ensure the subscription market is more competitive and creating value based on quality services rather than exploiting biases.

Recommendations

- 1** For BEIS to **ban opt-out auto-renewals** at the end of fixed-term subscription contracts and to ensure that rolling contracts get consumers' consent to continue with the subscription at least once a year
- 2** To ensure that entering into a subscription at the end of a free trial is **opt-in rather than opt-out**
- 3** BEIS **continues with existing commitments** around information provision and exit processes



A customer journey with subscription traps



Customers are drawn into subscriptions with free trials or introductory deals. This uses visual hierarchy and deferred payments to exploit our **present bias** - our prioritisation of our present needs over our future needs

Customers forget to cancel at the end of a free trial or introductory period, find they don't have time to cancel or that cancelling is difficult

For many consumers who try to cancel their subscriptions, they find this process to be difficult, with **sludge** introduced to slow down the process. For example, having to call the service to cancel

1 Initial appeal

2 Easy in

3 Inertia

5 Hard out

6 Stress and financial loss

Signing up to a subscription is **frictionless**, with limited upfront information about the service and future payments, or with the subscription set as a default. This is **lack of disclosure**

4 Auto-renewal

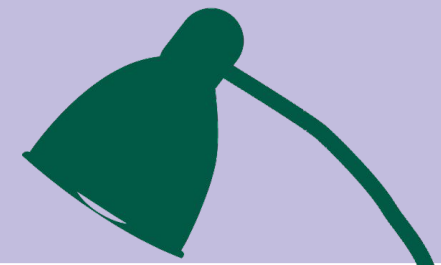
At the end of the subscription, contracts often automatically renew without needing the consumer's consent. This repeats the problems with **inertia** seen earlier

The combination of the cost of unwanted subscriptions and the stress of trying to cancel subscriptions creates adverse consequences for a large number of consumers, with marginalised groups and people on low incomes being hit hardest

Subscriptions aren't currently designed with consumer interest at heart.

On top of the welcome changes to information provision and exit processes proposed by BEIS, it's also clear that auto-renewal reminders aren't stopping the cycle of being trapped in a subscription. In the context of a cost of living crisis particularly, more needs to be done to ensure that companies aren't profiting off of inertia.

Consumer detriment and slippery design in numbers



1 in 4 have signed up to a subscription **by accident**



Of those who got into a subscription accidentally:

- 3 in 5 (58%)** did so because they forgot to cancel a free trial
- 1 in 5 (21%)** didn't know that a free trial would lead to a subscription
- 1 in 5 (19%)** had the subscription set as a default at checkout

1 in 5 have found a subscription **auto-renewed without their knowledge**



Of those with an unused subscription, over 4 in 5 (82%) saw this auto-renew

1 in 15 are in a subscription **that they don't use**



Of those who've received an auto-renewal reminder, over 1 in 4 (26%) weren't able to cancel⁵

1 in 5 of those who've tried to **cancel** a subscription have found the process **difficult**



Of those who tried to cancel a subscription:

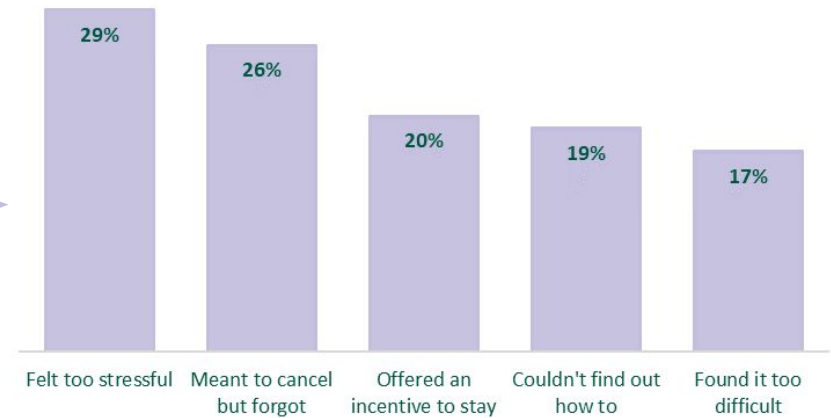
- 41%** signed up accidentally, or weren't using the subscription
- 1 in 3 (35%)** only wanted a free trial
- Over 1 in 10 (12%)** signed up by accident
- 1 in 10** never used the subscription

Consumer detriment and slippery design in numbers



Reasons for being unable to cancel

When digging into the reasons why consumers are unable to cancel subscriptions, we found that much of this came down to **inertia, unclear product design**, or being offered **incentives** to stay.



Advertising as an easy in

Over 1 in 4 (28%) heard about subscriptions through advertising, rather than through being in **active search** for a subscription:



1 in 6 (18%) heard about a subscription through an advert



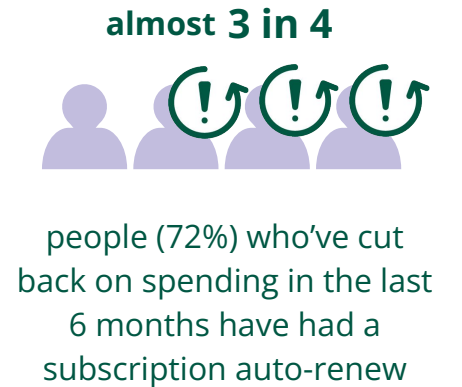
Almost 1 in 10 (9%) learned about a subscription from communication they received after purchasing a one-off product



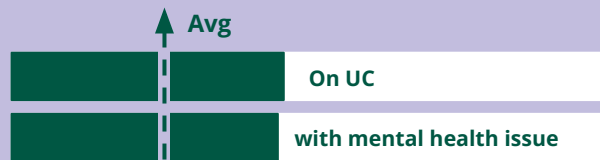
1 in 13 (8%) heard about a subscription from a social media influencer

Poor design is costing customers - with marginalised groups and those on low incomes being hit hardest

People spend a great deal on subscriptions. In the last year alone, people in the UK spent **half a billion pounds** on subscriptions that auto-renewed without them realising, and over **£306 million** on unused subscriptions. This is impacting marginalised groups and those on low incomes considerably more than others; we're concerned that those least able to absorb the cost of being in a subscription trap are more likely to be in one, and that the impact for these people will be more acute.

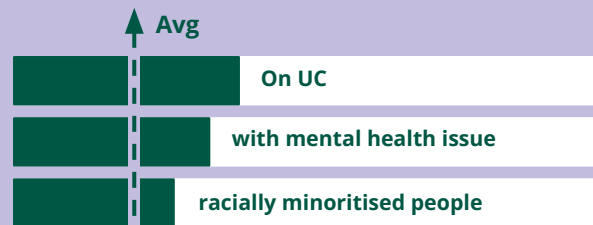


26% of people in the UK have signed up to a subscription accidentally.



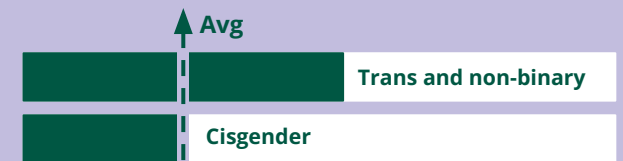
This rises to 46% of people with a **mental disability or mental health problem**, and 45% of people **on Universal Credit**.

20% of people in the UK have had a subscription auto-renew without realising.



This is much higher (38%) for people on Universal Credit, those with a mental health problem (33%), and **racially minoritised people** (27%).

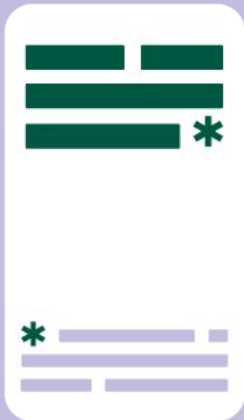
27% of people on subscriptions have had a subscription auto-renew without realising.



This doubles to over half (54%) for **trans and non-binary people** on subscriptions, and compares to 26% for cisgender people.⁶

Design tricks used in subscription traps

There are many ways in which subscriptions are designed to tap into consumer biases and trap people into further spending. The most prevalent of these are a lack of disclosure, visual hierarchy and defaults, auto-renewal and sludge.



Lack of disclosure: lack of clarity about the fact that the consumer is entering a subscription or the details of the subscription, like future costs, minimum contract terms and exit fees. Often, the only place that consumers can find this information is in terms and conditions, when these should be clearly stated upfront at checkout⁷



Auto-renewal: many fixed-term subscriptions auto-renew at the end of their terms without obtaining consent from the consumer. While we welcome the Government's recognition that auto-renewal causes detriment for consumers, reminders aren't enough. Even after receiving reminders, consumers are unable to cancel their unwanted subscriptions - because, for example, it feels too difficult or stressful, they can't find out how to, or they forgot. Reminders don't resolve the problems caused by inertia and product design.



Visual hierarchy and defaults (easy in): it's easy to sign up to a subscription, often accidentally. At checkout, consumers can expect to find opt-out free trials being offered, subscriptions being selected as defaults, or options being presented on the page in a way that encourages consumers to select the subscription. For example, the words "Order now with a free premium subscription" might be in a large, branded, colourful button - with only a much smaller line underneath reading "Order without this premium subscription".



Sludge (hard out): upon attempting to cancel a subscription, consumers are often met with friction, or 'sludge'. While it may only take one click to sign up to a subscription, there may be no option to close an account online. Or upon trying to cancel, consumers may be offered an incentive to stay, or asked to pay an exit fee. This leaves many stuck in unwanted subscriptions that they're unable to cancel, for months or even years.

Auto-renewal reminders can only go so far

Earlier this year, the Government committed to addressing subscription traps.⁸

We welcome the Government's commitments to make it clearer when consumers are entering into subscriptions and ensuring that subscriptions are as easy to exit as they are to enter. These measures are all essential.

With regards to the harm caused by auto-renewal, companies will be mandated to provide a reminder to consumers before renewing their subscription. While this goes some way towards resolving the problem by making consumers aware of a subscription they may not have known would auto-renew, **it simply doesn't go far enough.**

An alternative solution would be to **make auto-renewals opt-in, rather than opt-out** - a solution which has the support of **4 in 5** people in the UK. There are 3 key reasons in favour of this approach. First, awareness is not the driver for people being trapped in subscriptions; inertia is. **Over 1 in 4 (26%)** of those who've received an auto-renewal reminder didn't like the service but weren't able to cancel.⁹

Even when people get reminders of auto-renewal, they often won't have the time or means to cancel their unwanted subscriptions. They might mean to negotiate a new deal, but won't be able to get around to it.

Second, it would resolve the detriment caused past the point of auto-renewal reminder. Many consumers contact their service provider as per the instructions on their reminder email, but still aren't able to cancel their subscription. For them, ending auto-renewal would mean they're no longer trapped in unwanted subscriptions.

Banning auto-renewal would not only benefit consumers; it would also lead to a much better subscriptions market and economy. In an impact assessment conducted by the Department of Business, Energy and Industrial Strategy, banning auto-renewal was recognised as a solution which resolves the highest amount of consumer detriment, and which **costs companies the same amount** (£6.2 million) as putting reminders in place only.¹⁰

The money that consumers would save from not being trapped in subscriptions would simply go back into the economy - making this solution both one that works better for consumers and for the industry; a small but revolutionary change to the market.

In some cases, there may well be exemptions, which BEIS have identified. For example, repeat prescriptions or insurance - where an opt-out auto-renewal service may be more appropriate. Aside from these exemptions however, it's clear that **banning auto-renewal is the most effective, and proportionate, response** to the level of detriment we're seeing in the subscriptions market, and that this should be included in the Competition and Consumer Bill.

Subscriptions in a cost of living crisis

All of this is even more concerning against the backdrop of a cost of living crisis. Those who are struggling financially are already seeing significantly worse outcomes, with **over 3 in 5 (71%)** of those who have cut back on spending in the last 6 months currently paying for a subscription they don't use.

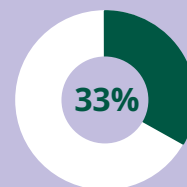
The crisis is having a significant impact on both household finances and people's mental health. In such times, having to deal with an unwanted subscription adds an unnecessary extra burden on already squeezed budgets. **1 in 3** of those who are feeling anxious as a result of their financial situation have got into a subscription accidentally - where for the general population this figure is 26%.

Subscriptions are often not the biggest in someone's monthly expenditure. But with unused subscriptions costing people **£306 million** per year, being able to put this back into consumers' pockets would make a considerable difference.

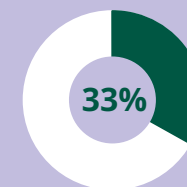
The only way to ensure this is to **legislate safer subscriptions by design** - reducing the chance of people who are financially struggling from entering into, or extending unwanted services.



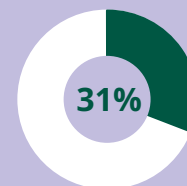
Many people are struggling as a result of their financial situation during the cost of living crisis, and have **fallen into subscriptions accidentally**. This is the case for:



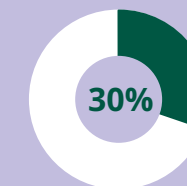
of those who felt anxious



of those who felt stressed

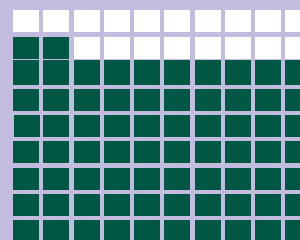


of those who cut back on spending

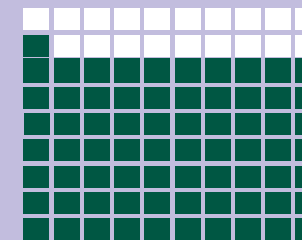


of those who have struggled to sleep

Of those who have cut back on spending:



72% had a subscription auto-renew without realising



71% are currently paying for a subscription they don't use

Safer subscriptions by design

Subscriptions can be convenient for many consumers, but there's certainly more that can be done to ensure that subscriptions are safer by design. Based on the evidence presented in this annex, we recommend that the Government:

- ① **Ban opt-out auto-renewals:** for fixed-term contracts, auto-renewals should be opt-in, except in cases where this would be impractical - for example, with insurance or repeat prescriptions. Firms with rolling contracts should get consumers' consent at least once a year before renewing the contract. This would ensure that unwanted subscriptions wouldn't roll over indefinitely due to inertia and that consumers have autonomy over their spending.
- ② **Make subscriptions opt-in after free trials:** free trials leading to long-term subscriptions is a key driver of accidental use of subscriptions. By making the default *not* entering into a subscription after a free trial, consumers are much less likely to fall into a subscription trap
- ③ **Put in place existing commitments around information provision and exit processes as soon as possible:** we welcome the existing commitments outlined in the Competition and Consumer Bill, and urge the Government to put these in place as soon as possible to ensure that consumers are informed when using subscriptions

With these recommendations in the Digital Markets, Competition and Consumer Bill, UK consumers could save millions of pounds in unwanted subscriptions - money which would feed back into the economy and promote a healthier, more robust, subscriptions market.



References and bibliography

1. The Department of Business, Energy and Industrial Strategy (BEIS), "[Consumer and Competition Reform: Subscriptions Regulations Impact Assessment](#)"
2. All data referenced in this annex, unless otherwise stated, is from nationally representative polling of 3,002 UK adults commissioned by Citizens Advice and conducted by ICM Unlimited between 11 - 21 October 2022
3. Subscriptions are widely used across all demographics, although this notably increases to **84%** for 18-34 year olds, **80%** for those on Universal Credit, **79%** for those with a mental disability and **80%** for those with mental health problems
4. BEIS, "[Consumer and Competition Reform: Subscriptions Regulations Impact Assessment](#)"
5. **1 in 7 (16%)** intended to negotiate a new deal but didn't get around to it, **1 in 9 (12%)** contacted the service provider but couldn't cancel
6. The statistics used for trans and non-binary consumers are from a version of the ICM Unlimited survey which is representative of subscription users in the UK
7. One particularly pernicious example of this is subscriptions where there are minimum contract terms. Here, consumers could be committed to a subscription for a year without being able to cancel mid-term. If consumers would like to cancel.
8. BEIS, "[Reforming Competition and Consumer Policy: Driving growth and delivering competitive markets that work for consumers](#)", (October 2021)
9. More research is needed to definitively understand why people struggle to cancel auto-renewing subscriptions. However, our data suggests that some key reasons are that the process was too challenging, that people couldn't find out how to and that many were offered an incentive to stay
10. BEIS, "[Consumer and Competition Reform: Subscriptions Regulations Impact Assessment](#)"



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