

# Proposal to tackle subscription traps

A proposal by Citizens Advice on behalf of the Consumer Protection Partnership (CPP)  
November 2018

## Executive Summary

The Government committed to tackling the problem of subscription traps in the Spring Budget 2017 - this commitment was reiterated in the recent Consumer Green Paper. Both of these announcements followed research demonstrating that too many consumers were being trapped in subscriptions that they didn't want.

The following proposal outlines measures to tackle the issue in a way that is proportionate to the detriment, but also reflects the positive value of the growing subscription economy.

The three suggested measures are:

- To make contracts as easy to exit as to enter
- To make consumers opt in rather than opt out of subscriptions after free/cheap trials
- To limit the potential harm caused by Continuous Payment Authorities

Options for implementation range from voluntary to legislative measures - the proposal concludes that if the Government are to meaningfully address the problems of subscription traps, legislation is required.

# 1. Background

Subscription services have long been an important part of the economy. The rise of online shopping in the late 2000s saw a huge growth in the number of subscriptions - as might be expected, there was also a rise in the number of problems faced by consumers.

For a number of years, Citizens Advice and other consumer organisations have been working to raise awareness and find solutions to tackle subscription traps. In 2014, a briefing produced by Citizens Advice on problems with free trials related to slimming pills, prompted the Consumer Protection Partnership (CPP) to adopt the issue as a priority working area.

Following this, Citizens Advice commissioned a report, 'Locked in' which investigated the problem and proposed a number of solutions. Subscription traps was also the topic of National Consumer Week's 'Not what you signed up for?' campaign.

In the 2017 Spring Budget, the Government announced that they would be tackling subscription traps. Following this, BEIS have asked Citizens Advice to lead a project to scope and agree a set of solutions that tackle consumer detriment caused by subscription traps, on behalf of the CPP.

For the purposes of this project, subscription traps are defined as 'situations where the consumer is misled and/or inadvertently signs up to a subscription contract'. This is often influenced by marketing designed to attract consumers with a free or cheap sample, test or trial offer. Subscription traps also include cases where the consumer has intentionally signed up for a subscription, but later finds it difficult to cancel.

Our initial research for this project was based on the Citizens Advice 'Locked in' report and the European Commission's 'Misleading Free Trials and Subscription Traps for Consumers in the EU' report. This proposal also builds on discussions at a Ministerial roundtable hosted by BEIS in June 2018, and includes work by the Behavioural Insights Team who we commissioned to investigate the potential solutions. Finally, we also commissioned consumer polling from YouGov to provide current data on the uptake of subscription services and consumers' experience of cancelling.

## 2. Scope

We closely defined the scope of the project to enable us to aim for focussed and achievable solutions.

Although more and more subscriptions are agreed digitally, our proposals consider all distance selling methods that subscriptions can use, including doorstep selling, telephone and catalogue sales. This allows us to target issues affecting more vulnerable consumers, such as those who are digitally excluded or older people who don't use the internet but are still victims of subscription traps.

Whilst the work focuses on distance selling, it may also benefit cases where subscriptions are taken out on the trader's premises, such as gym memberships. Although this type of transaction falls under different rules, our proposed solutions could assist consumers in these circumstances.

The findings of the European Commission research shows the most problematic areas for subscription traps include both goods (eg cosmetics) and services (eg dating services). We have therefore taken both into account. It also suggests focusing on traders and intermediaries, rather than primarily on consumer education, so we have followed this approach.

We have not included auto-renewal situations in essential or regulated consumer markets like energy and insurance. Whilst auto-renewals in these markets involve similar consumer behaviour, they necessitate different policy solutions.

### 3. Context

Subscription services are used by a high proportion of consumers. The latest polling<sup>1</sup> carried out for Citizens Advice finds over 4 in 10 (44%) adults have signed up for a subscription, including 32% within the last 12 months.<sup>2</sup>

Previous Citizens Advice research found consumers experience significant problems with subscriptions - what we call 'subscription traps' - where people may be misled into signing up and/or find it difficult to cancel or exit from the service.<sup>3</sup> Our latest findings show that over 1 in 10 (11%) consumers who've ever taken out a subscription are currently paying for a subscription or repeat service they don't want.<sup>4</sup>

People are affected by subscription traps for goods and services across a wide range of markets including cosmetics and healthcare products, music and video streaming services, magazine/newspaper/eBook subscriptions, dating services and cloud backup services.<sup>5</sup>

Consumers face a variety of problems throughout their experience of falling into, and dealing with, subscription traps. These include problems due to advertising, terms and conditions, and cancelling payments.

Many feel misled by the content of advertisements, particularly in relation to the cost of the products or services. It is common practice for companies to advertise a 'free trial'. Only later do consumers realise they have had large amounts of money debited as a result of failing to cancel a subscription they were not aware of. Whilst these costs may be acknowledged in the terms and conditions of the subscription agreement itself, the adverts often don't mention an obligation to make payment beyond postage and packaging.

Consumers also often have problems with the terms and conditions of the agreement. Terms can be unclear, misleading or not even presented to the consumer at all. Where terms and conditions are given, consumers may find them lengthy, the text small and/or the language complex. As a result many

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<sup>1</sup> Polling conducted for Citizens Advice by YouGov, 2-3 October 2018. Online omnibus survey of 2,096 GB adults aged 18+.

<sup>2</sup> Consumers were asked when, if ever, they had used the long number on the front of their debit or credit card to sign up for a repeat service or subscription. Results show the number of subscriptions paid for by Continuous Payment Authority (CPA). 30% of consumers said they didn't know/couldn't recall, 6% n/a, 20% never.

<sup>3</sup> Citizens Advice, [Locked In](#), February 2016

<sup>4</sup> Refers to consumers who've used their debit/credit card number for subscription. 83% not currently paying for subscription they don't want, 6% don't know.

<sup>5</sup> European Commission, [Misleading 'free' trials and subscription traps for consumers in the EU](#), February 2016, Citizens Advice, [Locked In](#), February 2016

consumers are not made aware of important pre-contractual information, such as their cancellation rights, their obligation to make recurring payments or the total amounts of any future payments.

Consumers responding to our latest polling said:<sup>6</sup>

*'I was unaware in the small print there was a subscription until it was taken from my account.'*

*'It was a trial offer for slimming pills, pay only postage. What I hadn't realised I was signing up to receive them every month and didn't realise until they arrived. Had to get the credit card company to help me. I lost nearly £200 before it could be cancelled.'*

In the UK, a significant number of consumers who pay for subscriptions use a Continuous Payment Authority (CPA). A CPA gives a company permission to take recurring payments from consumers. To set up a CPA, consumers provide their credit or debit card details (the long number on the front, expiry date and security code). This allows companies to take payments whenever they want for as much as they want without prior notification to the consumer or their card provider (eg bank or building society). The authorisation continues until the end of the contract or until the consumer cancels the CPA (either by contacting the company or their card provider).

However, our 2015 research shows that consumers are often unaware of their cancellation rights with regard to a CPA.<sup>7</sup> This makes it particularly difficult for many consumers to take appropriate action once they are locked into an unwanted subscription. These difficulties are compounded by a lack of consistency from card providers in their response to consumer requests to cancel CPAs. Citizens Advice found that in 36% of cases of cancellation requests from consumers, their card provider took the wrong action or further payments were taken anyway.

Our latest polling indicates that these problems with cancelling subscriptions have not gone away. Over 4 in 10 consumers (44%) who have attempted to cancel subscription services found it more difficult to cancel than to sign up (including 24% who found it much more difficult). Only 6% found it easier to cancel than to sign up, and 19% said there was no difference.<sup>8</sup>

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<sup>6</sup> YouGov October 2018

<sup>7</sup> Citizens Advice, [Locked In](#), February 2016

<sup>8</sup> YouGov October 2018. Refers to last time consumers tried to cancel a subscription that they signed up for using the long number of the front of their debit/credit card. 31% said they didn't know/couldn't recall.

Consumers responding to our polling provided details about their difficulties in cancelling subscriptions compared with signing up.<sup>9</sup>

*'Signing up is easy and there are many visual clues on the website to do so and you can email, chat, phone etc. but when you attempt to cancel there is limited information. I had to leave the site and Google it and this took me to a website explaining the only way to cancel is to send a handwritten letter.'*

*'Signing up took about five minutes on the website - entering details etc. Unable to cancel it online, had to phone a call centre and be given a spiel about how good the service was, before being put through to Cancellations. Took around 20 minutes on the phone, which was most of my lunch break wasted.'*

Consumers also told us about the problems they experienced trying to cancel subscriptions through their card provider<sup>10</sup>

*'I found I was having yearly payments going out for an antivirus security when I only wanted it for 1 year. Took 3 years to finally cancel, they just kept taking payments from my credit card. And the credit card company wouldn't stop the payments either.'*

The difficulties in cancelling subscriptions leave a significant proportion of consumers paying for unwanted subscriptions. Our polling finds at least 17% of consumers were unsuccessful in cancelling a subscription the last time they tried to do so.<sup>11</sup>

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<sup>9</sup> YouGov October 2018

<sup>10</sup> YouGov October 2018

<sup>11</sup> YouGov October 2018. 45% were successful in cancelling the subscription. 37% didn't know/couldn't remember.

## 4. Proposed solutions & implementation - overview

As detailed above, our research finds that problems for consumers dealing with a subscription trap are varied and range from misleading advertising to the inability to cancel payments.

This points to two different drivers for problems:

- Lack of control - traders are able to take money from consumers accounts without any ability for consumers to challenge (a bigger problem for the unscrupulous end of the market)
- Behavioural - traders build subscriptions in a way that take advantage of behavioural biases, meaning consumers often stay in contracts they don't want

Our solutions were designed to address these two drivers.

Initially, we considered a wide range of possible solutions. These included:

- Suggesting a total ban on consumer's card details being taken for the purposes of a free trial
- Extending section 75 of the Consumer Credit Act to cover debit cards and cumulative transactions that add up to the current £100 limit
- Additional prompts from the trader to notify the consumer that a trial or introductory period is coming to an end
- Re-authorisation on Continuous Payment Authorities (CPA) every few payments
- Requiring card providers to inform consumers when a CPA has been set up

These solutions were dismissed for a number of reasons. For example, whilst having additional prompts has some merit, its impact is likely to be minor and it is better for consumers to actively decide to opt-in. Similarly, although the idea of re-authorising CPAs every few payments was attractive, this could lead to making transactions unnecessarily difficult for consumers who are happy with their subscription. Whilst requiring card providers to inform consumers when a CPA has been set up may be helpful for consumers, we understand that it is not technically feasible as card providers will not have this information.

There are a number of other options which would be effective but would be difficult to implement. An example would be to ensure card providers give a regular statement of all CPA payments, helping make consumers aware of their CPAs. Another example would be to require card providers to inform

consumers when a CPA has been set up, helping overcome the lack of consumer awareness and facilitating consumers to take action if they need to. Both of these examples would not currently be possible as they would break EU derived regulations which had to be fully harmonised. Government may want to consider these in the future.

Ultimately, the challenge was to find bold solutions that are both effective and reasonably easy to implement, but that would not cause undue problems or burdens for genuine traders or consumers.

Following consultation with members of the CPP, including in-depth discussions with the CMA, FCA and NTS e-crime team, three specific recommendations were selected.

We believe they will have the biggest benefit to consumers, whilst still being achievable:

### **1. Easy exiting**

A contract should be as easy to exit as it is to enter. This includes the costs of exit, the methods by which you can exit, and how much time and effort it requires of the consumer.

### **2. Making subscriptions opt-in**

Consumers shouldn't default into a subscription they don't want, just because they have forgotten about it. Nor should consumers end up with subscriptions because they don't realise they have signed up for one.

Companies who run free trials should have to set the default to opt-in for subscriptions which follow these trials. This removes the current onus on consumers to remember to cancel and will make it more difficult for consumers to take out a subscription inadvertently.

Traders would be required to contact consumers prior to free trials or introductory offers coming to an end to seek their consent to continue with the subscription.

Should there be no response from the consumer, the default option is to end and unwind the subscription and business relationship.

### **3. Improving Continuous Payment Authorities (CPA) protections**

The first two proposals primarily seek to improve legitimate business practices. The third proposal also looks to protect consumers from rogue



traders. Consumers need to be better protected from payments they may not be aware are being taken from their account.

There are a number of ways we could approach improving Continuous Payment Authority (CPA) protections:

- Requiring reauthorisation of the CPA used when there is a significant change in the amount of money to be taken
- Improving card providers' practices when consumers ask them to cancel a CPA

## Options for implementation

### **Allow for a specific statutory instrument on subscriptions**

For all of our solutions, the preferred approach is to insert a power into a piece of primary legislation that enables a statutory instrument specifically on subscriptions to be made. We are not clear as to which Act would be the most suitable as this would require professional legal analysis. Such a power should include the ability to make regulations regarding subscriptions, have the power to create a criminal offence and the power to amend primary legislation. This would enable a bespoke and detailed regulation. It would also provide the ability to make something consumer enforcers can investigate and enforce, by also making the necessary amendments to the Enterprise Act 2002 and the Consumer Rights Act 2015.

This approach allows for a strategic long term view to be taken to improving the subscriptions market and protecting consumers from subscription traps in the future. Having a specific statutory instrument (SI) would allow government to adapt to a rapidly changing market without having to amend several key pieces of consumer law.

Having a specific SI would also help to combat fraud and rogue traders who will change their mode of operation to get round any changes government makes in future. It would circumvent the need for future changes to legislation.

Our three solutions would form the initial backbone of the new statutory instrument but government could consult on what other content should be included.

We have considered methods of implementation that did not involve creating new legislation, such as amending existing legislation or introducing a

voluntary code. However these would not facilitate a long term strategic approach to tackling consumer issues or provide consumers with the same level of protection.

For example, it would be difficult to implement and enforce a non-binding agreement or approach across the many markets and sectors which cover subscriptions. The approach would likely need to be taken piecemeal and could lead to wildly different approaches across sectors which could unfairly allow sharp practice to continue in some but not all sectors.

In addition, a consumer-centered solution which could lead to a industry needing to change their business model is unlikely to be welcomed or advocated initially. However, we believe that by building in stronger protections, a legislative solution could lead to a wider, more engaged consumer base who would ultimately be more active participants in the subscription economy. We have provided additional detail on implementation in sections 5 to 7.

## 5. Solution 1 - Easy exiting

This solution is about ensuring that it is as easy for consumers to exit a contract as it is to enter it. This would mean that the method of exiting, the time and effort spent by the consumer and any costs involved should be similar to entering the contract.

### 5.1 Evidence base

Our latest research finds exiting subscriptions remains a significant problem for consumers. 44% of consumers who have attempted to cancel subscription services found it more difficult to cancel than to sign up (6% found it easier, 19% reported no difference). Given the challenges many consumers face when trying to exit a subscription contract, it's unsurprising that 11% of consumers who've ever taken out a subscription are currently paying for a subscription that they don't want.<sup>12</sup>

Several studies confirm that effort is a finite resource for people. Someone may not commit the necessary effort to exiting a subscription contract if their 'cognitive load' is high from other demands. Time and poverty are key factors which increase someone's cognitive load. Therefore, vulnerable, financially stretched and time poor consumers would be even less likely to make the effort to unsubscribe from an unwanted subscription.

Previous research by the Behavioural Insights Team found that small reductions in the amount of effort required to perform an action can have a large effect on consumer response<sup>13</sup>. In this study simply taking someone directly to the webform they had to complete had only a small effect on how much easier the process was to follow, but had a large impact on the response rate increasing it from 19% to 23%.

By making it as easy to exit a subscription contract as it is to enter, more consumers would be enabled to cancel subscriptions they don't really want or have forgotten about. This could particularly help vulnerable consumers by reducing the effort required to follow through.

This solution also helps consumers by reducing the complexity of the subscription cancellation process. Companies make it easy to enter into subscriptions as they want consumers' custom. Research shows the

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<sup>12</sup> YouGov 2018

<sup>13</sup> Behavioural Insights Team (2015) *EAST: Four simple ways to apply behavioural insights*. Available at: [https://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST\\_FA\\_WEB.pdf](https://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST_FA_WEB.pdf) (accessed 05 Sept 2018). See pp. 12-13.

complexity of a process and the information presented to consumers leads to them making suboptimal decisions<sup>14</sup>.

We also know that simple processes encourage action. Therefore, making exiting a subscription contract easier would help consumers take action to cancel unwanted subscriptions<sup>15</sup>.

This solution is very strongly supported by consumers. Our latest opinion polling finds that 93% of adults who've taken out subscriptions agree (and 81% strongly agree) that 'It should be as easy to cancel a subscription contract as it is to sign up'.<sup>16</sup>

## 5.2 Implementation approach

**Preferred option - Statutory instrument** As detailed in section 4, the preferred approach to tackling consumer issues with subscription traps is to create a specific statutory instrument which would regulate the market.

**Option 2 - Amending existing legislation** An alternative to creating a new Statutory Instrument is to amend relevant pieces of consumer law through secondary legislation.

Options include :

- I. making the ability to easily exit a contract a contractual right in the Consumer Rights Act and/or
- II. making it an unfair commercial practice for a contract to be much harder to exit than to enter in the Consumer Protection from Unfair Trading Regulations 2008

This would require a thorough analysis of existing consumer law to determine where amendments should be made. Lawyers at the CMA have offered to help with this process.

This approach has the advantage of not requiring primary legislation, but has the disadvantage of not facilitating a long term strategic approach to tackling consumer issues with subscription traps. The approach may ultimately require

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<sup>14</sup> Behavioural Insights Team (2018) *The impact of improved transparency of foreign money transfers on for consumers and SMEs*. Available at: <https://www.behaviouralinsights.co.uk/publications/the-impact-of-improved-transparency-of-foreign-money-t-ransfers-for-consumers-and-smes/>

<sup>15</sup> Bettinger, E. P., Long, B. T., Oreopoulos, P., & Sanbonmatsu, L. (2012) The role of application assistance and information in college decisions: Results from the H&R Block FAFSA experiment. *Quarterly Journal of Economics*, 127(3), pp. 1205-1242.

<sup>16</sup> YouGov omnibus poll for Citizens Advice, October 2018. Question asked of GB adults who've used the long number on the front of their debit/credit card to sign up for a subscription or repeat service (1,540 adults). 3% disagreed.

further amendments at later date to keep pace with changes in the business models of both legitimate businesses and also rogue traders.

**Option 3 - Voluntary scheme** Finally, this solution could be achieved by aiming to create a voluntary agreement of major providers of subscriptions in the UK. This would have the advantage of not requiring any legislative change. However, it would not cover the whole market by default, would not do anything to protect consumers from scams and rogue traders, and would not be enforceable by any authority. It also has no guarantee of success as companies may well be reluctant to participate. However, If we are able to secure legislative change a voluntary scheme could be used while legislation is being implemented to bring these benefits to consumers as quickly as possible.

## 6. Solution 2 - Making subscriptions opt-in

Currently the majority of free trials which lead to consumers entering into a subscription contract are 'opt-out'. This means the consumer has to remember to cancel the free trial before it expires. It also makes it more likely that consumers will end up with a subscription without having realised that they have signed up for one. Our solution is to turn this on its head and make subscriptions 'opt-in'.

Rather than having to detail exactly when and how companies should contact consumers to remind them of their right to exit, an opt-in model means that companies would be incentivised to do so. They would also be incentivised to make that communication as viable as possible.

The notification would require affirmative action from the consumer to continue into the subscription contract (eg pressing an embedded button which says 'yes continue with subscription' in an email notification). If the trader does not hear back from the consumer, or the consumer tells them they don't want the subscription to continue, then the consumer should not be enrolled into the subscription and any CPA should be cancelled.

The notification should include, in a brief and easy to read manner, all the important information which is usually required for a distance sale contract by the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013. However, this should not detract from the part of the notification which seeks consent from the consumer.

This solution would be reasonably disruptive to an otherwise profitable business model and may therefore get pushback from business. However, as detailed in the evidence base discussion below, the opt-out model takes advantage of consumer behaviours and a change to opt-in would better protect consumers.

### 6.1 Evidence Base

The Behavioural Insights Team agrees that making subscriptions opt-in following a free trial would help protect consumers from unwanted subscriptions. They believe that the impact of changing the default to opt-in at the end of a free trial is likely to be substantial and of benefit to most consumers. Changing this default to opt-in would work because:

- Free trials take advantage of 'present bias', overweighting present benefits against future costs

- Consumers are often overconfident in their ability to cancel a free trial when signing up
- They take advantage of procrastination, consumer inertia and status quo bias (where a consumer naturally prefers to keep with the default option) when the free trial ends

We know from studies that consumers tend to stick with the default option when being asked to make a decision. So by changing the default to one which protects the best interests of consumers we will help address their issues with subscription traps. A natural study following a US Federal Trade Commission intervention ending one company's bogus subscriptions, found that when consumers were asked to opt in to the subscription rather than have to cancel it cancellation rates rose from 63% to over 99%<sup>17</sup>.

Previous behavioural studies have found that changing a default is the most powerful way to change consumers' behaviour and outcomes. Consumers may stick to a default (eg opt-out) even if there are obvious benefits to not doing so<sup>18</sup>. Consumers are subject to psychological mechanisms which make them particularly susceptible to defaults including inertia, endorsement and loss aversion<sup>19</sup>. Therefore, a change to the default to one which benefits and protects consumers will likely lead to better outcomes for them.

Opt-in defaults can align consumers more closely with their preferences leading to better engaged consumers. This was seen by the Behavioural Insights Team when managing their own mailing list due to GDPR. They were required to make receiving the email an opt in process. They found that 50% of their mailing list opted in. The rate of opening BIT emails then went up from 50% to 100% indicating those who opted in were highly engaged.

An opt-in default is also supported by consumers. Our latest polling finds that 72% of GB adults agree that 'When a free trial or introductory rate ends for a repeat service and/or subscription, customers should have to sign up again to confirm they want the full cost service before receiving it.' In contrast only 5% of adults agree that customers should automatically be signed up.<sup>20</sup>

Changing the default position in a consumer-business relationship to one of automatic benefit to the consumer has already been successful in markets such as pensions and retirement planning, consumer credit and also

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<sup>17</sup> Letzler, R., Sandler, R., Jaroszewicz, A., Knowles, I., & Olson, L. M. (2016) Knowing When to Quit: Default Choices, Demographics and Fraud. *The Economic Journal*, 127(607), pp. 2617-2640.

<sup>18</sup> Samuelson, W. & Zeckhauser, R.J. (1988) Status quo bias in decision making. *Journal of Risk and Uncertainty*, 1(1), pp.7-59; Park, C. W., Jun, S. Y., MacInnis, D. J. (2000) Choosing What I Want Versus Rejecting What I Do Not Want: An Application of Decision Framing to Product Option Choice Decisions. *Journal of Marketing Research*, 37(2), pp. 187-202.

<sup>19</sup> Sunstein, C. R. (2013) Deciding by default. *University of Pennsylvania Law Review*, 162, pp. 1-57.

<sup>20</sup> YouGov omnibus poll for Citizens Advice, October 2018. 23% of adults said they didn't know.

consumer savings. There is no reason why making subscriptions opt-in couldn't also benefit consumers with subscription trap issues.

## 6.2 Implementation approach

**Preferred option - Statutory instrument** As detailed in section 4, the preferred approach to tackling consumer issues with subscription traps is to create a specific statutory instrument which would regulate the market.

**Option 2 - Amend existing legislation** An alternative to creating a specific statutory instrument to regulate subscriptions is to amend relevant pieces of consumer law through secondary legislation. Options would include making opt-out free trials an unfair commercial practice in Consumer Protection from Unfair Trading Regulations 2008. We recommend amendments to the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 to require any free trials to be an opt-in process detailing the points we raise above. This second set of Regulations is currently due for its 5 year review giving an opportunity for amendments.

This would have the same advantages and disadvantages to those detailed above in section 5.2.

Again, taking this approach would require a detailed analysis of the legislation with the aid of the CMA.

**Option 3 - Voluntary scheme** As above, if legislative changes cannot be secured then the final option is to set up a voluntary scheme in which major providers of subscriptions would agree to make their free trials opt-in. This would have the same advantages and disadvantages to those detailed above in section 5.3. Again, introducing a voluntary scheme while any legislative change is happening would bring this benefit to consumers as quickly as possible.



## 7. Solution 3 - Improving Continuous Payment Authority (CPA) protections

A Continuous Payment Authority (CPA) gives a company permission to take recurring payments from consumers. This payment mechanism is frequently used by companies as a method of collecting money for subscriptions. It allows companies to take payments whenever they want for as much as they want without prior notification to the consumer or their card issuer. The authorisation continues until the end of the contract, or until the consumer cancels the CPA.

Whilst there are clearly benefits to using CPAs, for both the company and the consumer (such as immediate set up and payment times), consumer protection is limited compared with other payment methods, such as direct debits. Additionally, the flexibility in payment dates and amounts allows unscrupulous companies to abuse them. Consumer protections for CPAs should be improved, and there are a range of approaches that could be adopted. However, most of these approaches are quite technically complex and would need further consultation with other agencies such as the FCA and the Payment Services Regulator.

### 7.1 Evidence base

Citizens Advice research shows consumers are frequently unaware that they have signed up to a CPA<sup>21</sup>. European Commission findings confirm that consumers may only become aware of their ongoing commitment when they notice large sums debited from their accounts.<sup>22</sup>

Our research also finds consumers have a very limited understanding of what CPAs are, how they work, and most notably their cancellation rights. This makes it particularly difficult for many consumers to take appropriate action once they are locked into an unwanted subscription. These difficulties are compounded by a lack of consistency from card providers in their response to consumer requests to cancel CPAs. We found that in 36% of cases of cancellation requests from consumers, their card provider took the wrong action or further payments were taken anyway.

### 7.2 Implementation approach

These proposals are designed to improve CPA protections by enhancing the information provided to consumers, requiring a more stringent process for

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<sup>21</sup> Citizens Advice, [Locked In - consumer issues with subscription traps](#), February 2016

<sup>22</sup> European Commission, [Misleading 'free' trials and subscription traps for consumers in the EU](#), February 2016

significant changes in the amount of money taken and improving card providers' practices. The strongest approach resulting in the greatest consumer protection would be to adopt all listed options.

### **Preferred option - Requiring reauthorisation of the CPA where there is a significant change in the amount of money to be taken**

Requiring traders to seek reauthorisation from consumers when there is a significant change in the payment amount, could provide consumers with the strongest protection of all the options. We propose a 100% increase in the charge could trigger a requirement for reauthorisation.

This approach could be very effective in protecting consumers in cases where a low or trial rate was initially applied, or where initially a limited sum was taken for post and packaging and then the CPA is being used to take out much larger amounts the consumer probably wouldn't expect or consent to.

There may also be risks to this approach if certain types of services are included. For example opting consumers out of their contract at the onset of a price hike may not be appropriate for essential utilities such as energy or broadband contracts.

A further approach, that would not require legislation, would be for traders to limit any initial authorisation voluntarily, so that subsequent payments exceeding the agreed amount would necessarily become unauthorised. This would need a very clear explanation for all parties on how payments could become 'unauthorised'.

The Payment Services Regulations 2017 may cover this approach, but the details would require further consultation with the FCA.

### **Option 2 - Improving card providers' practices when being asked to cancel a CPA**

Improving card providers' practices when consumers ask to cancel a CPA would make cancellation easier for many consumers. The law and FCA guidance provide clear instructions to card providers and businesses, that consumers should be able to quickly and easily cancel a CPA with their card issuer on demand. Advice to consumers is also available from the FCA<sup>23</sup> and consumer websites<sup>24</sup>.

Despite this clarity, our research finds consumers experience significant problems when trying to cancel CPAs<sup>25</sup>. In 2016, we found over 2 million adult

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<sup>23</sup> [www.fca.org.uk/news/news-stories/continuous-payment-authorities-it-your-right-cancel](http://www.fca.org.uk/news/news-stories/continuous-payment-authorities-it-your-right-cancel)

<sup>24</sup> [www.moneysavingexpert.com/banking/recurring-payments](http://www.moneysavingexpert.com/banking/recurring-payments)

<sup>25</sup> Citizens Advice, [Locked In - consumer issues with subscription traps](#), February 2016

consumers in Great Britain have had a request to cancel a CPA for a subscription declined by either the company or their card provider. For example, the card providers told consumers to contact the trader instead or they had their card unnecessarily cancelled instead.

Our latest polling indicates that this situation has not changed - 11% of subscribers who tried to cancel their CPA with their card provider were not successful in doing so.<sup>26</sup>

As our Locked In research found that the root cause for these problems was the initial response of frontline staff, we recommend improved training on cancelling CPAs for call handlers and bank staff. This may need to be reinforced by FCA and UK Finance, for example through mystery shopping and requires a long term commitment to change the reactions of call handlers and bank staff.

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<sup>26</sup> YouGov October 2018