

Consumers don't understand smartphone contracts

Written by The Conversation

Consumers are confident they understand the contract they sign when buying a smartphone, but our [research](#) shows they don't comprehend these documents very much at all. In fact the more information they are provided with the worse their understanding.

We also found the more confident a participant was in their abilities (measured through perceived [self-efficacy](#)), the worse they did. However, if a person believes the information provided by the phone company is useful, they tend to understand their contract more thoroughly.

Those with vocational qualifications did worse than any other educational levels (this group was also the most confident that they had understood the agreement). And people whose first language wasn't English did worse than all others.

Informed consent sits behind most legal agreements, but in reality, the notion of informed consent is mostly measured by directly asking consumers whether they understand their obligations and rights under a contract.

A person might claim to understand the implications of their signing a contract, but fail to realise the consequences until a challenge arises from or related to the terms of the contract.

At the moment, regulators and the industry tend to rely on anecdotal and self-assessed questionnaires when judging the effectiveness of regulations and codes on these agreements. What our research shows is this actually needs to be based on evidence from more sophisticated research, beyond simple questionnaires.

How we measured how much people understand

As part of our research, from Deakin University's [Centre for Organisational Health and Consumer Wellbeing](#), we selected 362 participants randomly from an online database of 350,000 Australians and gave different groups different types of information that would be provided when they purchased a smartphone. We then asked them a series of questions or posed a series of problems that might arise in the

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operation of their smartphone agreement.

Examples of the questions were:

- “How much would a two minute call cost on this plan?”
- “How much data is included in this per month?” and
- “Are calls to 1800 numbers, such as Centrelink, included in this plan?”

All the responses had multiple-choice possibilities, so the test was arguably easier than it would be in real life. One third of those participating received what was an overview of the plan – the kind you might receive from a salesperson.

Another third received this sales pitch and a standard Critical Information Summary (CIS), the two page document you are required by law to receive before you sign the agreement. The final third received the sales pitch, the CIS, and a detailed 32-page terms and conditions document.

We attempted to make the process as easy as possible for participants. For example, all the participants could go back and read these documents throughout the experiment, so there was no deception or trickery. We measured their understanding of the agreement through these questions in the knowledge test 24 hours after they first received the documentation, and then two to three weeks after they had first received it (while providing them with the opportunity to go back and read the documentation at any time).

We also measured a few other self-assessed items such as financial literacy, the believability of the documentation, their satisfaction, understanding, and the relevance of the information that was provided.

What this means for regulations about contracts

In 2017, the telecommunications industry and the Australian Communications and Media Authority will be re-assessing the customer information obligations framework for telecommunications companies – what is referred to as the [Telecommunications Consumer Protection Code](#) (the TCP code).

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The Australian telecommunications industry wants more flexibility with fewer restrictions in the information provided on a mandatory basis to consumers, and has been arguing for this for a long time. They [contend](#) that current mandatory consumer information requirements, particularly in terms of the amount of information that must be provided at point-of-sale, are not necessarily useful to consumers and results in substantial cost to the industry.

[Consumer advocates are concerned](#) that important consumer protections could be lost in this process, to the detriment of both industry and its customers.

As part of our research we also looked at the responses of these key stakeholders. What we found is that these groups both underestimated and overestimated the capacity of consumers to solve these everyday problems. Regulators had the most realistic expectations of consumers' comprehension of their agreements. Consumer advocates underestimated consumers' comprehension and telecommunications representatives overestimated consumers' ability to understand the detail of their agreements.

The key finding from this research is that none of us are good predictors of what consumers understand or comprehend. Not even consumers themselves.

We're biased, and we shouldn't rely on our own warped understanding of what we think we are capable of to make judgements about what we think others are capable of. This inevitably leads to a strong argument that regulators and telcos should be undertaking rigorous and neutral research to test the effectiveness of contracts, codes, and regulations prior to their release. In other words, these key bodies should be undertaking a form of due diligence in relation to consumer wellbeing, in addition to the legal and financial implications.

And at a policy level, it's unrealistic to expect consumers to have anything more than a moderate understanding of even the easiest contractual elements of a legal agreement, and highly unrealistic to expect that people can respond to difficult or complex issues that might arise from the operation of that agreement.

Paul Harrison receives funding from the Australian Communications and Consumer Action Network, Monash Health, Consumer Action Law Centre, and the Australian Securities and Investment Commission. He is a director of the Telecommunications Industry Ombudsman and

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