Title: Consumer and competition reform: Subscriptions regulations **IA No:** BEIS030(C)-21-CCP **RPC Reference No:** n/a **Lead department or agency:** Department for Business, Energy, and Industrial Strategy **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** **Stage:** Development/Options **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Joey Ward, joey.ward@beis.gov.uk

Summary: Intervention and Options

RPC Opinion: Awaiting Scrutiny

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
–£13m	–£2,913m	–£338m	Qualifying provision

What is the problem under consideration? Why is government intervention necessary?

Subscriptions are a popular payments model, allowing consumer to receive goods, services and digital content on an ongoing basis for recurring payments, subscriptions in non-regulated sectors are worth about £25 billion per year. However, consumers spend around £1.8 billion (£0.9–£3.3b) per year on subscriptions they do not think are good value for money. These are a result of failures to fully inform all consumers before purchasing subscriptions, failures to keep customers informed about their subscriptions, and cancellation processes that are difficult to navigate. The government is considering regulation to address these harms.

What are the policy objectives and the intended effects?

The policy objective is to reduce consumer detriment from unwanted subscription payments. The policies under consideration are intended to give clarity to consumers about the financial commitment of their subscription contract at the point of purchase, ensure consumers are aware of ongoing payments from their subscription contracts, and provide easier routes to exiting unwanted subscriptions.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1. Require some firms to offer consumers an up-front choice between a subscription contract that will auto-renew or auto-rollover and an equivalent contract without such a provision and require that consumers expressly consent before taking a subscription contract that will auto-renew or rollover.
2. Require firms to get customer consent to continue with a full-priced, ongoing subscription contracts after a reduced-price trial period.
3. Require some firms to automatically cancel subscription contracts that are unused after period of time.
4. Require firms to issue reminders to customers about their subscription contract, with instructions for cancelling, before the end of any commitment period.
5. Provide for easier exiting from subscriptions.

At this consultation stage of the assessment, we do not have a preferred option. We consider each option individually and three indicative scenarios: **(I)** a maximalist scenario including 1,2,3,4,5a; **(II)** an intermediate scenario with 1,2,4,5b; and **(III)** a light-touch scenario with 1,4. Scenario **(II)** is summarised above.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** Month/Year

Does implementation go beyond minimum EU requirements?		N/A		
Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:**		**Non-traded:**

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Paul Scully ______________________ Date: 12 July 2021

Summary: Analysis & Evidence

Policy Option 1

Description: Maximalist regulatory scenario **(I)**

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2023	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: –37	**High:** –18	**Best Estimate:** –27

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	18		365	**3,162**
High	37		1,817	**15,674**
Best Estimate	27		848	**7,331**

Description and scale of key monetised costs by 'main affected groups'

Firms offering subscriptions will incur transitional costs including familiarisation costs of £18m - £37m. These include training and IT costs to implement new procedures and the costs of changing terms and conditions. Firms will see reduced revenue of £365m–£1,817m as consumers end unwanted subscription contracts, however consumers are likely to spend these savings on other goods services and digital content, reducing this cost to businesses.

Other key non-monetised costs by 'main affected groups'

Firms may incur additional annual costs to maintain new processes, these have not been estimated. Firms may change the subscriptions offer to consumers such as raising the monthly cost, or offering fewer trials. These would reduce the benefit to consumers and have not been estimated.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0		365	**3,144**
High	0		1,817	**15,638**
Best Estimate	0		848	**7,303**

Description and scale of key monetised benefits by 'main affected groups'

Consumers will benefit from £365m–£1,817m reduced spending on unwanted subscriptions contracts. These consumers are likely to spend a large portion of these savings on other goods and services which provide better value-for-money.

Other key non-monetised benefits by 'main affected groups'

Providing additional tools to manage subscriptions could improve consumer confidence in the business model, increasing spending on subscriptions contracts overall. This has not been estimated. Empowering consumers to exert additional competitive pressures on traders who offer subscriptions contracts could increase productivity in the sector. This effect has not been estimated.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

Our estimate of consumer detriment, and therefore the size of the transfer from firms to consumers is uncertain and sensitive to small changes in input variables.
The size of the applicable business population is not well-known nor is the share of traders who offer subscriptions contracts that already comply with this package's requirements. These firms will not be required to make changes, which would reduce the estimate of costs.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 852	**Benefits:** 0	**Net:** 852	3,626

Summary: Analysis & Evidence

Policy Option 2

Description: Intermediate regulatory scenario **(II)**

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2023	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: –21	**High:** –10	**Best Estimate:** –16

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	10		101	**876**
High	21		1,099	**9,482**
Best Estimate	16		396	**3,421**

Description and scale of key monetised costs by 'main affected groups'

Firms offering subscriptions will incur transitional costs including familiarisation costs of £10m - £21m. These include training and IT costs to implement new procedures and the costs of changing terms and conditions. Firms will see reduced revenue of £101m - £1.1bn as more consumers end unwanted subscription contracts through being reminder and having an easier way to exit. However consumers are likely to spend these savings on other goods and services, reducing this cost to businesses.

Other key non-monetised costs by 'main affected groups'

Firms may incur additional annual costs to maintain new processes, these have not been estimated.
Firms may change the subscriptions offer to consumers such as raising the monthly cost, or offering fewer trials. These would reduce the benefit to consumers and have not been estimated.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0		101	**866**
High	0		1,099	**9,461**
Best Estimate	0		396	**3,405**

Description and scale of key monetised benefits by 'main affected groups'

Consumers will benefit from £101m - £1.1bn reduced spending on unwanted subscriptions contracts. These consumers are likely to spend a large portion of these savings on other goods and services which provide better value-for-money.

Other key non-monetised benefits by 'main affected groups'

Providing additional tools to manage subscriptions could improve consumer confidence in the business model, increasing spending on subscriptions contracts overall. This has not been estimated.
Empowering consumers to exert additional competitive pressures on traders who offer subscriptions contracts could increase productivity in the sector. This effect has not been estimated.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

Our estimate of consumer detriment, and therefore the size of the transfer from firms to consumers is uncertain and sensitive to small changes in input variables.
The size of the applicable business population is not well-known nor is the share of traders who offer subscriptions contracts that already comply with this package's requirements. These firms will not be required to make changes, which would reduce the estimate of costs.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 397	**Benefits:** 0	**Net:** 397	1,692

Summary: Analysis & Evidence

Policy Option 3

Description: Light touch regulatory scenario **(III)**

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2023	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: –8	**High:** –4	**Best Estimate:** –6

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	4		50	**431**
High	8		179	**1,550**
Best Estimate	6		97	**840**

Description and scale of key monetised costs by 'main affected groups'

Firms offering subscriptions will incur transitional costs including familiarisation costs of £8m - £16m. These include training and IT costs to implement new procedures and the costs of changing terms and conditions. Firms will see reduced revenue of £50m - £179m as some consumers will end their subscription after having received a reminder. However consumers are likely to spend these savings on other goods and services, reducing this cost to businesses.

Other key non-monetised costs by 'main affected groups'

Firms may incur additional annual costs to maintain new processes, these have not been estimated.
Firms may change the subscriptions offer to consumers such as raising the monthly cost, or offering fewer trials. These would reduce the benefit to consumers and have not been estimated.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0		50	**427**
High	0		179	**1,541**
Best Estimate	0		97	**834**

Description and scale of key monetised benefits by 'main affected groups'

Consumers will benefit from £50m - £179m reduced spending on unwanted subscriptions contracts. These consumers are likely to spend a large portion of these savings on other goods and services which provide better value-for-money.

Other key non-monetised benefits by 'main affected groups'

Providing additional tools to manage subscriptions could improve consumer confidence in the business model, increasing spending on subscriptions contracts overall. This has not been estimated.
Empowering consumers to exert additional competitive pressures on traders who offer subscriptions contracts could increase productivity in the sector. This effect has not been estimated.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

Our estimate of consumer detriment, and therefore the size of the transfer from firms to consumers is uncertain and sensitive to small changes in input variables.
The size of the applicable business population is not well-known nor is the share of traders who offer subscription contracts which already send reminders to consumers about an ending trial period or impending renewal period. These firms will not be required to make changes, reducing the estimate of costs.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 98	**Benefits:** 0	**Net:** 98	416

Contents

Introduction

1 Problem under consideration

1. We define a subscription contract as an agreement between a consumer and a trader, over a period of time for the supply of goods, a service or digital content.

   Typically, the good, service or digital content is provided on an ongoing or regular basis over a period of time in return for a recurring payment. Subscription contracts are popular with consumers. Indeed, an estimated three quarters of UK adults have at least one subscription contract and the average subscriber spends £660 a year on subscription contracts in non-regulated markets, making the subscriptions industry worth around £25 billion per year.[1]

2. For many consumers, subscription contracts offer a convenient, flexible method for purchasing what they want or need with low up-front costs, while businesses benefit from increased customer loyalty and a more predictable revenue stream.
3. The government indicated it would consider options to address harms in the subscriptions market in the 2018 Consumer Green Paper.
4. There are two primary problems we consider in this assessment:

- Consumers are not always provided with the information they need to manage their subscriptions effectively.
- Cancelling subscription contracts is not always straightforward, acting as barrier to consumers from taking control of their payments.

5. Half of the free trials and subscriptions advertised online examined as part of a 2016 study by the European Commission contained problematic practices including unclear terms and misleading information such as not clarifying the advertised price was a monthly payment or omitting minimum subscription terms.[2] Citizens Advice report 84% of respondents to its survey about subscription traps were not aware they had agreed to a subscription at the point of purchase.[3]
6. Once subscribed, customers need to be provided with the information they need to effectively manage their subscriptions. Each year, around a quarter of consumers pay for subscriptions they did not want after being rolled over from an unsatisfactory reduced-price trial. And at least a quarter of consumers have continued to pay for a subscription without having realised the price had increased.[4] Moreover, a 2016 US study found 84% of consumers underestimated their monthly expenditure on subscriptions, undervaluing by an average of two-thirds.[5]
7. This suggest consumers are not consistently provided with the information they need about their commitments under a subscription to decide whether the subscription is value for money. This information failure should be addressed at the point of sale and throughout the subscription term.
8. Consumers often find exiting subscriptions difficult, only 40% of consumers say they never have difficulty cancelling contracts, and 84% agree subscriptions are harder to exit than they are to join.[6] Subscriptions that are difficult to exit act as barriers to effective competition to retain customers.
9. Auto-renewal clauses contribute to this barrier. Since inaction on behalf of the consumer can lead to consumers being committed to another full-term

---

[1] BEIS calculations, see section 6.2.

[2] European Commission, *Misleading "free" trials and subscription traps for consumers in the EU*, 2016.

[3] Citizens Advice, *Locked in: Consumer issues with subscription traps*, 2016.

[4] BEIS calculations from YGUS and FSI, see section 6.1, for a description of the data sources.

[5] West Monroe, Relationship with subscription services.

[6] BEIS calculations from FSI. Citizens Advice.

10. The problems identified above have three main inefficient outcomes:

- Consumers end up paying for subscriptions they do not want. We estimate consumer payments on unwanted subscriptions is around £1.8 billion per year.
- Customers and businesses may be missing out on advantageous sales. Information asymmetries and complicated exiting arrangements can reduce consumer confidence, meaning fewer consumers will purchase subscriptions they would value, and firms lose out on customers.
- Firms are not encouraged to compete on the quality of service. Unscrupulous firms can use opaque terms and complicated exiting procedures to retain customers at the expense of firms offering a more streamlined experience, reducing the incentives to compete on good customer experience.

2 Rationale for intervention

11. As outlined above, certain features of subscription markets lead to an allocatively inefficient outcome where consumers regularly pay for subscription services they do not want. We have identified four key market failures that indicate a role for government action in the market. These are information failures, behavioural biases, hidden detriment, and an unhealthy equilibrium.

Information failures

12. Complex terms and conditions and the rarer unscrupulous practice of obscuring information about the size of the financial commitment reduce the ability of consumers to make informed decisions. This is an obstacle to effective competition in the subscriptions market, leading to worse outcomes for consumers, and an inefficient allocation of revenues to competing firms.

13. Firms must give customers the information they need, and government action can provide certainty this information is provided in a consistent and complete form.

Behavioural biases

14. Consumer decision-making can be influenced by a range of behavioural features, known as ‘biases’. For example, consumer preferences can be biased towards the present at the expense of future implications of their choice (myopia), while consumers tend to accept default positions even if presented with more favourable alternatives (default bias and inertia). The endowment effect refers to a principle where consumers place greater value on products they already own, as the psychological pain of giving something up outweighs the perceived benefit of gaining access.

15. These biases are particularly relevant to trial-period pricing and frictions to unsubscribing. Where barriers to unsubscribing create time-costs for consumers, myopia may cause consumers to delay their decision to unsubscribe, valuing the short-term benefit of time saved over the long-term cost of recurring payments. Free or reduced-price trials can delay a consumer’s decision-making until a point where the endowment effect and default bias reduce their price-sensitivity.

16. Behavioural biases can lead to inefficient allocations of spending by consumers, but these can be mitigated by design decisions at the point of purchasing a subscription and communications during the subscription term. Government intervention can ensure consistent efforts by all firms to mitigate the distortionary effects of behavioural biases.

Hidden detriment

17. We define hidden detriment as financial harm consumers experience that is not known to them at the time. Examples include monopolistic pricing, where consumers pay a higher price because of a lack of competitors inhibits price discovery, or unfair contractual terms which.

18. The detriment from unwanted subscriptions has some characteristics of hidden detriment. Consumers may not be aware of the size of their current or future expenditure. Similarly where the process for exiting a contract was unclear in advance a customer may incur additional

charges such as a fee for exiting a subscription early, or another subscription payment for failing to unsubscribe in time.

19. Since consumers are not aware of hidden detriment as it is occurring there is reduced opportunity for individual action. There is a role for government to act on consumers' behalf to address the harm.

Unhealthy market equilibrium

20. Well-functioning, competitive markets encourage growth by creating incentives for firms to become more efficient and innovative. Markets can only be fully competitive if consumers are active, confident and willing to switch between suppliers to take up new products. The factors described above reduce competitive pressures in the subscription market.

21. Incomplete information reduces consumers' ability to compare subscriptions in advance. Frictions to unsubscribing inhibit consumers' ability to exert competitive pressure on firms by switching from products that do not meet their needs. Auto-renewal clauses reduce the propensity of consumers to switch services, as consumers can be significantly less price sensitive when firms offer to renew an existing contract than at the initial point of purchase.[7]

22. In many circumstances, firms can be expected to mitigate negative consumer experiences since offering a higher-quality service—such as, in this case, an option for easy-to-exit subscriptions—will attract customers away from competing firms. But features of the subscription market mean this mechanism may be less effective.

23. Firms that capitalise on behavioural biases by providing incomplete information to their customers, or using complex cancellation procedures could expect, all else equal, for customers to remain subscribed longer, increasing revenue per customer. Such firms may be able to outcompete traders offering a higher quality consumer experience. This discourages firms from unilaterally changing their subscription to address these harms and provides an opportunity for regulation to address these failures in all firms simultaneously.

3 Objectives

24. Our aim for these policies is to address the consumer detriment caused by unwanted subscriptions and improve competition in the subscriptions sector by addressing problems outlined above.

- The policies should ensure consumers are provided with complete information about the commitments of subscription services at the point of sale and on an ongoing basis.
- The policies should empower consumers to manage their subscriptions by offering real choices up front to consumers about the nature of their commitment and by reducing frictions to exiting subscriptions.
- These should be achieved without an unreasonable administrative burden to firms.

4 Options considered

Option 0: Do nothing

25. This option represents the status-quo. It would result in no additional compliance costs to businesses, and would not result in any resolved consumer detriment.

Option 1: Opt-in

26. A requirement for traders, to **seek "opt-in" from consumers before the end of any initial free or reduced-price trial period**, in order to continue into the ongoing subscription contract.

---

[7] FCA Insurance report

Option 2: Inactive subscriptions

27. A requirement for traders, where appropriate, to suspend the provision of the service to include taking payments followed with a message for the consumer to contact the trader to reactivate their account, of customers who have not used the service in over 24 months.

Option 3: Reminders

28. A requirement for traders to remind consumers before the end of any commitment period that the contract will auto renew unless cancelled.

29. A requirement for traders to issue a reminder to consumers that a free trial or introductory offer is coming to an end, to include the terms of the auto-renewal and details on how to cancel if they so wish.

Option 5: Reducing frictions to exiting a subscription

30. This option is under development. The accompanying consultation document seeks views on the proposed requirements for an easier way to exit subscription contracts:

- Automated;
- Require the consumer to input only the information essential to process their refund (assuming payment has already been taken);
- Simple and straightforward - with the minimum number of clicks; and
- Easy to find.

31. For this impact assessment, we interpret this to mean a webform or similar method and that unsubscribing via email, chat, telephone or in person cannot satisfy these requirements.

Alternatives to regulation:

32. Government could clarify that existing regulation already requires traders to offer the consumer the choice, at the pre-contract stage, to enter into a subscription contract without autorenewal or rollover, if the contract would otherwise contain such auto-renewal or rollover clauses. While we have estimates for how much of unwanted subscriptions might be related to such clauses, we could not quantify the impact of such a regulatory option. It would depend on firms' compliance with existing regulation and the level of enforcement activity by the Competition and Markets Authority, among other enforcement agencies.

33. The responses to this consultation will inform the final design of these policies, and our preferred combination policies. We also include technical consultation questions on the modelling approach and assumptions in this assessment. These are summarised in the table below.

Table of consultation questions

Analysis

5 Approach

34. At this consultation stage, the details of the policy options are not finalised. Moreover, our evidence on both the characteristics of firms offering subscription contracts and likely consumer behaviour as a result of these interventions is incomplete. For some options, we are unsure of the number of firms that will have to make changes to comply with the regulations. In these instances, we assume all firms will have to make changes, which will lead to an overestimate of the costs to firms. Similarly, we rely on consumer surveys to estimate customer responses to the proposals, and where the available evidence is incomplete, we assume all consumers will change their behaviour. These mean our assessment may overestimate both the costs to firms and the benefits to consumers of the policies.

35. Subscription contract reform involves costs and benefits for businesses and consumers, as well as improved competitive outcomes for the wider economy. By nature, the core consumer and business impacts mirror each other—any reduction in unwanted consumer expenditure will result in an equivalent loss of revenue to businesses. That means the main effect of these policies is a transfer from businesses to consumers at zero net present value (NPV) equal to the size of consumer detriment.

36. While this is presented as a cost to businesses, we expect consumers will not simply retain the savings from reduced detriment, but instead spend these savings on additional goods and services. This will reduce the aggregate transfer from firms to consumers, and it will increase consumer well-being. The size of the benefit to consumer of these new purchases will depend on their value relative to the unwanted subscriptions, which we have not estimated.

37. We present the analysis in four steps.

- First in section 6, we estimate the total size of consumer detriment, and allocate this figure across different kinds of subscriptions or consumer behaviour. Such as the share of detriment attributable to customers forgetting to cancel, or the share of unwanted subscriptions that follow immediately from free or reduced-price trials.
- In section 7, we estimate the population of firms offering subscriptions to consumers.
- Third in section 8, we estimate the impacts on consumer detriment and the cost to firms of each of the proposed options in section 3, above.
- Finally in section 9, we discuss the wider indirect outcomes of the considered policies.

38. Our analysis first assesses the size of consumer detriment by estimating the annual amount by which consumers spend on unwanted subscriptions. These are live subscriptions which the customer would prefer to cancel, but has not yet succeeded in doing so. This could be because of moving onto a full-price contract after an initial trial period or due to frictions to unsubscribing.

39. This estimate is then split separately in three ways:

- Subscription age: we attempt to distinguish between the amount spent on subscriptions that have been unwanted for less than two years, and those that were unwanted for over two years.
- Subscription entry type: we estimate the share of unwanted subscriptions that consumers have as a result of being moved onto a full-price subscription after a trial period.
- Different barriers to unsubscribing: we describe a behavioural model to estimate the immediate cause of the failure to cancel the subscription. We divide the causes into consumer forgetfulness, consumer inertia, and difficulties during the cancellation process.

40. We then estimate the number of businesses offering subscriptions to consumers, to be used as a basis for cost calculations. Subsequently, we estimate the extent to which each policy proposal could address the overspending, as well as any implementation or compliance costs to firms that are particular to any option. We complement this by an estimate of direct costs to firms that are similar, regardless of which policy options or combination of options are implemented. We then consider how the costs and benefits could interact with one-another, since the options are not mutually exclusive, but could reduce the same portion of subscription overspending.

6 Estimating the 'size of the problem'

6.1 Data sources

41. Our estimate of consumer detriment relies on the combined output of multiple consumer surveys primarily we refer to the Forgotten Subscriptions Index (FSI) and YouGov 'Unwanted Subscriptions' (YGUS) surveys, both conducted in 2019. We also include a nationally representative survey conducted for the Money and Mental Health Policy Institute, and studies from industry bodies.

42. The FSI asked a sample of 2,105 adults about their subscription services. The respondents were selected randomly, but participation was advertised on of TopCashback.com, a membership-based spending rewards website, so the sample is not representative of all UK consumers.

43. The FSI panel was 60% female and 60% of the respondents were under the age of 50, compared with just over half in the general population. We understand from other consumer studies these groups are more likely to use subscription services.[8] Moreover, membership with a spending rewards website could suggest that these respondents show different behaviours than a more representative sample. They may be more likely to purchase subscriptions in the first place and be more engaged with their subscription-providers than consumers overall. Nonetheless, FSI is a valuable resource due to the detailed questions it asks about consumer behaviour. These included questions about their satisfaction with their subscriptions, specific behaviours to manage subscription services and their experiences cancelling subscriptions.

44. The YGUS survey used a representative sample of 2,009 respondents, and asked a more limited set of questions about the number of times consumers had paid for unwanted subscriptions after completing a trial period, as well as the amount of overpayment. This survey is broadly representative of the wider population, though we note that sampling is only random from YouGov's panel. The panel itself is opt-in and fully online, so may not capture the experiences of people who are less comfortable with digital technologies very well.

6.2 Annual overspending on subscription services

45. Not all cancellations are a source of consumer detriment. We define an 'unwanted subscription' as a subscription a consumer wants to cancel because they do not believe they can make use of it to gain sufficient value-for-money *and* for which they make at least one payment after deciding they would prefer to cancel. This means a hypothetical consumer who did not use a subscription streaming service in one month, but believes they will make more use of it in the future does not have an unwanted subscription. Similarly, a consumer who decides to cancel a subscription and succeeds in doing so within a billing period does not have an unwanted subscription since they did not overpay.

46. To estimate the annual spending on unwanted subscriptions, we must know the average number of unwanted subscriptions consumers pay for in a year, and how much each unwanted subscription costs on average. Also since each survey we use is a point-in-time estimate of the number of subscriptions people hold, we must estimate the how many more consumers pay for

---

[8] See McKinsey Thinking Inside the Box 2018, also YouGov Unwanted subscriptions 2019

over the course of a year, so we divide throughout by the estimated share of unwanted subscriptions captured in the survey.

47. This calculation is summarised by the following formula.

$$\frac{\text{No. of adults in GB} \times \text{No. of subscriptions per adult} \times \text{\% of subscriptions that are unwanted} \times \text{Length of time customers pay for unwanted subscriptions} \times \text{Monthly cost of a subscription}}{\text{\% of annual unwanted subscriptions captured in a survey}}$$

Number of adults in GB

48. We use data from the ONS population estimates which indicate there were about **51 million adults in GB** in 2019.[9]

Average number of subscriptions per adult

49. We combine the estimates from five different surveys to reach this figure. In addition to FSI, we use consumer research from Barclaycard, a payments processor, as well as consultancies Attest and Zuora.

50. Respondents to FSI were asked what subscriptions they held. A limitation of this survey is respondents could only indicate if they had at least one subscription in a category. For example, if a respondent was paying for multiple video streaming services these would only appear as one subscription in our analysis. This design means FSI could undercount the number of unwanted subscriptions held by consumers. It is likely to have a smaller effect on the average cost since respondents were asked to report total expenditure in the sector.

51. FSI presented 18 sectors for respondents to select from and we assume a response in a sector indicates just one subscription in that sector. Given the granularity offered by 18 sector choices, there are unlikely to be many sectors where this is not true.

52. The 2,105 respondents to the FSI reported 6,028 subscriptions in total, furthermore, 74% of respondents indicated they held at least one subscription. Figures from the other surveys can supplement this information. Zuora's research suggested 82% of UK adults had at least one subscription service in 2018.[10] Attest surveyed only subscription holders and found they had 3.4 subscriptions each, on average.[11] Meanwhile Barclaycard reports around 3 subscriptions for each adult in the UK.[12] We use the estimates in each of these studies to derive an implied estimate for the number of subscriptions per person. These are presented in Table 1 below.

Table 1: Implied number of subscriptions per adult obtained through combining survey results

Estimated share of adults with subscriptions		Estimated number of subscriptions per subscriber		Implied subscriptions per adult
Source	Estimate	Source	Estimate	
FSI	74%	FSI	3.87	2.86
FSI	74%	Attest	3.38	2.50
Zuora	82%	FSI	3.87	3.17
Zuora	82%	Attest	3.38	2.78
Barclaycard (direct estimate of subscriptions per adult)				3

53. The estimates in each study are similar, and so the implied ranges for the summary statistics are fairly narrow. These imply around four in five adults in the UK have at least one subscription, and those with a subscription have between 3.5 and 4 each, on average. Since the estimate from FSI is near the median these results, and using one source of statistics avoids concerns about combining data sets for different populations or respondents to different survey questions, we use

9 ONS Population estimates: Mid-2019

10 Zuora, A Nation Subscribed, 2018.

11 Attest, The UK Direct to Consumer Economy Report, 2020.

12 Barclaycard, Subscription Society, 2020

the estimates from FSI to estimate the total number of subscriptions held in GB. That gives an average of 2.9 subscriptions per adult in GB, or around 150 million subscriptions between the 51 million GB adults.

54. We emphasise this an estimate of the number of subscriptions held at a single point in time. The total number of subscriptions consumers pay for throughout the year including detrimental and non-detrimental cancellations will be larger. We revisit this question in section 8.5, when estimating the number of non-detrimental cancellations becomes relevant.

Share of subscriptions that are unwanted

55. Respondents to the FSI and the Money and Mental Health (MMH) surveys were asked if they were spending money on subscriptions they would rather cancel. The MMH survey used the same sector-based survey design as FSI, discussed above. While FSI presented 18 sectors for respondents to select from, MMH presented only 8. This would have a distorting effect in estimating the absolute number of unwanted subscriptions, but we mitigate this by taking the share of total subscriptions reported in each survey that respondents said were unwanted.

56. Respondents to FSI could select from five options about perceived value for money of their subscriptions in each category. Assuming respondents have only one subscription in each indicated category, FSI respondents reported they had a total of 6,028 subscriptions between them, of which 264 were rated 'No [I am not getting value for money], I should cancel'.[13] This is roughly 4% of subscriptions reported in the survey.

57. Respondents to MMH were asked if they wanted to continue or cancel their subscriptions in each category, and, if they wanted to cancel, for how long they had wanted to do so. In line with our definition at the beginning of this section we assume those who had wanted to cancel for less than a month did not have an unwanted subscription. Again, assuming only one subscription per category in the survey, respondents indicated they held 1,355 subscriptions. Of these, 135, or 10%, were unwanted subscriptions .

58. In general, respondents to MMH report far fewer subscriptions per person (around 0.7, as opposed to 2.9 in FSI), this could be affected by the survey design allowing for only one response per category where MMH had fewer categories. Also, MMH was in the field in 2016, so an expanding subscription market since then may also contribute to the change. However, by taking only the share of reported subscriptions that were unwanted, we hope to mitigate this factor in our analysis.

59. We take the mean of these results for our central estimate implying **7% of current subscriptions are unwanted by the customer**.

Average length of time consumers pay for unwanted subscriptions

60. These estimates are based on the responses to the YGUS, and the Money and Mental Health (MMH) surveys. YGUS asked respondents how long they had paid for unwanted subscriptions before eventually unsubscribing over the past 12 months, while MMH asked for how long they had been wanting to cancel current unwanted subscriptions. FSI also asked about delays to cancellations, but the design of that question could elicit responses about the longest time customers had ever paid for an unwanted subscription.[14]

61. YGUS and MMH each offer bands of subscription duration for respondents to choose. We calculate the average length of an unwanted subscription by taking the midpoint of each duration band, and weighting by the number of respondents. Here we assume unwanted subscriptions with durations of at least 12 months are held for 24 months on average. This is a simplifying

---

[13] FSI, 2019. The five possible responses were: 'Yes, definitely', 'Yes, but I should use it more', 'I'm not sure', 'No, I should use it more', 'No, I should cancel'.

[14] FSI asked "How long have you continued to pay for a subscription you feel you do not get value for money from or/and do not use regularly?" The responses to this question skew larger than responses to similar questions in YGUS and MMH, suggesting respondents interpreted this as "How long have you [ever] continued…" while YGUS was clearly time-bound, asking only about subscriptions in the last 12 months, and MMH clearly asked only about currently held subscriptions.

assumption, and we explore its derivation in section 6.3. The results of these calculations are presented in Table 2 and Table 3.

Table 2: Responses to YGUS question, 'How long did you pay for the [unwanted subscription in the last 12 months] before cancelling?'

Response	Midpoint (months)	Share of responses
One month or less	0.5	48%
2–3 months	2.25	23%
4–6 months	5	6%
7–10 months	8.5	3%
11–12 months	11.5	5%
12+ months	24	1%
Weighted average duration		2.43 months

Table 3: Response to MMH question. 'Thinking of your current subscriptions, which of the following applies?'

Response	Midpoint (months)	Share of responses
I have decided to cancel this in the next month	0.5	56%
Have wanted to cancel for between 1 and 3 months	2.25	30%
Have wanted to cancel for 4–6 months	5	7%
Have wanted to cancel for 7–12 months	9.5	3%
Have wanted to cancel for more than 12 months	24	4%
Weighted average duration		2.36 months

62. We use the mean of these values as our central estimate, so we estimate **consumers pay for unwanted subscriptions for an average of 2.4 months**.

Average monthly cost of a subscription

63. We consider four sources for the monthly cost of a subscription. First, Barclaycard report the average subscriber pays £46 per month across all their subscriptions. Barclaycard report the number of subscriptions per person (3), not the number of subscriptions per subscriber, so we use the figure from FSI, 3.9, indicating these subscriptions cost £11.89 on average.[15]

64. Second, we calculate results from the FSI and YouGov surveys. Each survey asks for the respondent's monthly expenditure on subscriptions. FSI asks consumers to report the total spending on subscriptions in one of the 18 given categories, while YouGov asks about spending on the most recent unwanted subscription the consumer had.

65. The results from FSI are in Table 4 below. We show each of the price bands presented in the survey as well as the midpoint estimate for each band we used during the calculations. We estimate the average monthly cost of a subscription is £14.19. As shown in the table below we assume the mean monthly price for the over £200 band is £250. Because only 20 of 6,028 subscriptions fall into this band, the overall weighted average price is fairly insensitive to this estimate. Lowering the estimated cost of that band to £200 lowers the weighted average to £14.03, a fall of 1.1%, while increasing it to £300 raises the weighted average to £14.39, an increase of 1.4%.

Table 4: Cost bands and computed average cost per subscription per month from FSI

Price band	Assumed mean price	Number of subscriptions
Less than £5	£2.50	1763

[15] See section Average number of subscriptions per adult, for more detail on calculating these figures.

£6–£10	£7.50	2329
£11–£20	£15.00	964
£21–£30	£25.00	394
£30–£50	£40.00	302
£51–£100	£75.00	202
£101–£150	£125.00	40
£151–£200	£175.00	12
More than £200	£250.00	20
Weighted average monthly price		**£14.19**

66. Table 5 reports the results from a similar exercise on the results of the YouGov survey. The YouGov survey asked a weighted nationally representative sample of 938 respondents to report the monthly price of the last unwanted subscription they had cancelled—contrasted to FSI which asked for expenditure on all subscriptions whether wanted or not. These responses suggest the average monthly cost of an unwanted subscription is £18.88, higher than FSI, perhaps because more costly subscriptions are more likely to be viewed as poor value for money.

67. There are more reported subscriptions costing over £200 per month in this survey, and the final price falls by a relatively larger 8% if they are excluded.

Table 5: Cost bands and compute average cost per subscription per month from YouGov

Price band	Assumed mean price	Weighted number of responses
Less than £4.99	£2.50	98
£5.00 to £9.99	£7.50	367
£10.00 to £14.99	£12.50	144
£15.00 to £19.99	£17.50	47
£20.00 to £29.99	£25.00	46
£30.00 to £39.99	£35.00	26
£40.00 to £49.99	£45.00	25
£50.00 to £99.99	£75.00	45
£100.00 to £199.99	£150.00	13
£200.00 or more	£250.00	5
Weighted average monthly price		**£18.88**

68. The fourth data set we consider are the responses to the Attest market survey. Performing a similar exercise as above across the eight price bands in that survey suggests the average total spending on subscriptions is £9.88, which could equate to less than £4 per subscription. This survey asks consumers to estimate their expenditure on all subscriptions at once, which is likely to lead to undercounting, as mentioned above.[16] For these reasons we discount these results and proceed with three estimates of the monthly cost of a subscription:

- £11.89 is the lower bound,
- £14.19 is the central estimate, and
- £18.88 is the upper bound.

Share of annual unwanted subscriptions captured in the surveys

69. So far, we have estimated at a given time, GB consumers have about 150 million subscriptions, and of these, around 7% are unwanted. To calculate annual detriment, we need to convert this to an annual figure.

70. We estimate unwanted subscriptions are held for an average of 2.4 months. Assuming there is no seasonality to the number of unwanted subscriptions held throughout the year, there is a

[16] West Monroe, see section Rationale for intervention

(2.4 ÷ 12) **20% chance a given unwanted subscription during a 12-month period would be reported in a survey**, so we estimate the total annual detriment is five times greater than the amount suggested by the unwanted subscriptions held at the time of the survey.

Total annual spending on unwanted subscriptions

71. Referring to the formula presented at the start of this section to calculate the total annual detriment,

$$\frac{\text{No. of adults in GB} \times \text{No. of subscriptions per adult} \times \text{\% of subscriptions that are unwanted} \times \text{Length of time customers pay for unwanted subscriptions} \times \text{Monthly cost of a subscription}}{\text{\% of annual unwanted subscriptions captured in a survey}}$$

We substitute for our estimated values, and estimate the **total annual detriment to UK consumers is £1.8 billion**.

$$\frac{51 \text{ million} \times 2.9 \times 7\% \times 2.4 \times £14.19}{20\%} = £1{,}800 \text{ million}$$

72. We note this calculation is independent of the average duration of unwanted subscriptions since the length of a subscription is in both the numerator and the denominator, see Annex A. This suggests the annual detriment resulting from unwanted subscriptions of a particular duration is proportional to the share of total unwanted subscriptions with that duration. This is the approach we use in section 6.3.

73. Throughout these calculations, we identify two key sources of uncertainty. The first is the share of subscriptions that are unwanted, where estimates ranged from 4% to 10%, and the price of a subscription where reasonable estimates ranged form around £12 to £19. Other inputs, while uncertain, have comparatively narrow ranges, so we take these as fixed and explore only the effects of changes to the share of unwanted subscription and the average monthly price. We summarise the results of this section in Table 6. To calculate the upper and lower bounds on the size of the detriment, we use the upper and lower bounds for each of the share of unwanted subscriptions and the monthly cost of a subscription.

Table 6: Estimated total spending on subscriptions and total annual detriment

	Lower bound	Central estimate	Upper bound
Number of subscriptions	–	147 million	–
Mean monthly cost	£11.89	£14.19	£18.88
Total annual subscription spending	£21,000 million	£25,000 million	£33,000 million
Share of unwanted subscription	4%	7%	10%
Number of unwanted subscriptions	6.4 million	10.5 million	14.6 million
Annual detriment from unwanted subscriptions	£920 million	£1,800 million	£3,300 million

74. These suggest a range of detriment from £900 million to over £3 billion. For the remainder of this assessment, **we use the central estimate of £1.8 billion**, and revisit the range of outcomes in the sensitivity tests in section 9.

Methodological concerns with this approach

75. The kinds of subscription contracts in scope is an item under consultation. In this assessment we have only considered subscription contracts in non-regulated sectors. These exclude payments for utilities such as energy or water, financial services, telecommunications, and public transport. If, after consultation, some of these sectors are included, this would likely increase the estimated size of detriment.

76. This approach makes no accounting for growth in the subscription market in the coming years. Consumer spending on subscription contracts has grown by around 50% since 2018, and is likely

to continue to grow. As consumers purchase more subscriptions, the total consumer detriment from subscription contracts will also increase.

6.3 Allocating detriment by length of subscription

77. Option 3: Inactive subscriptions will apply to subscriptions where a business can confirm that a consumer has not made use of the service long enough to consider the account inactive. We are consulting on the length of inactivity necessary for a subscription to count as inactive. In this analysis we consider indicators of the annual detriment from inactive subscriptions.

78. Data on the incidence of inactive subscriptions are poor. Many surveys do not ask the respondent to consider inactive or unused subscriptions, but subscriptions the customer is unhappy with, regardless of usage. We assume a subscription that was unwanted for over a year was also inactive over the course of the year, but this may not be true and could lead to a bias towards overreporting the rate of inactive subscriptions.

79. Conversely, those with inactive subscriptions are more likely to have forgotten about the subscription and would not report them in a survey. Our data also do not capture subscriptions charged to deceased people. These factors would suggest our data undercount the true figure.

80. Of respondents to FSI, 15% report having ever continued to pay for an unwanted subscription for more than one year[17]. Meanwhile, YGUS reports1% of consumers had, within the last year, cancelled an unwanted subscription for which they had been paying for at least 12 months. This is supported by a survey by Money and Mental Health (MMH), where 1% of respondents reported they had been meaning to cancel a subscription for over 12 months, but had not yet done so.

81. These surveys report slightly different results. YGUS asked a clearly time-bound question; asking respondents 'How many times, if at all, [have you continued to pay for an unwanted subscription] in the past year?' which suggests the total annual detriment from subscriptions that have been inactive for one year is 1% of annual detriment. MMH suggests instead around 1% of current subscriptions have been unwanted for over a year. This would imply less than 1% of subscriptions enter inactivity in a given year and would count towards annual detriment.

82. Therefore we estimate a maximum of 1% of annual detriment is a result of subscriptions that have been inactive for at least 12 months, however since our surveys did not specify whether a subscription was never used or simply unwanted, and the MMH survey suggest fewer than 1% of subscriptions enter inactivity in a year, we believe this is an overestimate.

83. The share of inactive subscriptions is likely to vary by sector. Consumer surveys for gym memberships suggest between 6% and 10% of gym memberships are unused within a year. Meanwhile, Netflix changed its policy to cancel subscriptions that were inactive after a period of two years, and public statements at the time suggested these were less than 0.5% of its users at the time.[18] While this estimate is highly imprecise, it represents the stock of all users who had not used the service accumulated over many years. The number of users who become inactive in any given year is likely to be far lower.

84. To estimate the size of the detriment caused by inactive subscriptions, we must estimate the share of consumers who are paying for a subscription they have not used in the last two years or more specifically: how many consumers *enter inactivity* (the 24th month of not using a subscription) in a given year, and how long they are likely to have continued paying for it absent any intervention. We are not aware of any direct evidence for either of these parameters.

[17] FSI asked "How long have you continued to pay for a subscription you feel you do not get value for money from or/and do not use regularly?" By contrast, YGUS asked a clearly time-bound question ('How many times, if at all, has this happened in the past year?') and MMH asked only about current subscriptions ('Thinking about your current subscriptions, which of the following applies?'). Given a much larger share of respondents to FSI reported having paid for a subscription for over a year, we believe respondents interpreted the FSI question as "How long have you [ever] continued…"

[18] Netflix blog, May 2020.

85. As a benchmarking exercise, we assume the number people with subscriptions is constant each year. Further, we assume that, after the first year of inactivity, half of all consumers with inactive subscriptions succeed in unsubscribing each year. Under these circumstances, 0.5% of subscribers entering their first year of inactivity each year would be consistent in the long run with 1% of subscribers reporting they pay for a subscription they have not used in at least 12 months, as reported in YGUS and Populous surveys. This is shown in detail in the table below, where each column shows a group of 0.5% of the total consumer population that enter their 12th month of an unwanted subscription in a year, and each subsequent row shows how half of that population exit the subscription in each year. This would also imply the FSI result—where 15% of consumers reported they had ever paid for a subscription for over 12 months after they stopped using it or decided it was not good value for money—are recalling incidents over the past 16 years.

Table 7: Benchmarking exercise for the number of customers in each year with unused subscriptions

Year		**Group 2**	**Group 3**	**Group 4**	**Group 5**	**Group 6**	**Group 7**	**Group 8**	**Group 9**	**Row sum**
1	0.50%									**0.50%**
2	0.25%	0.50%								**0.75%**
3	0.13%	0.25%	0.50%							**0.88%**
4	0.06%	0.13%	0.25%	0.50%						**0.94%**
5	0.03%	0.06%	0.13%	0.25%	0.50%					**0.97%**
6	0.02%	0.03%	0.06%	0.13%	0.25%	0.50%				**0.98%**
7	0.01%	0.02%	0.03%	0.06%	0.13%	0.25%	0.50%			**0.99%**
8	0.00%	0.01%	0.02%	0.03%	0.06%	0.13%	0.25%	0.50%		**1.00%**
9		0.00%	0.01%	0.02%	0.03%	0.06%	0.13%	0.25%	0.50%	**1.00%**

86. Finally, this would suggest the average consumer with a subscription they have not used in at least 12 months, pays for a total of 24 months before cancelling, while the subset of these who pay for at least 24 months continues to pay for 36 months.

87. This would suggest some 0.5% of annual detriment is a result of subscriptions not used in over one year, and the share of inactive subscriptions, as we are applying to option 3, around 0.25% of the total annual detriment, which we estimate to be around £4 million.

88. This model does not reflect reality. It does not account for growth in the number of consumers who buy subscriptions, and it makes simplistic assumptions about the rate at which they unsubscribe. However, it demonstrates inactive subscriptions are likely a small portion of consumer detriment. Even large errors in this analysis are unlikely to change the headline results beyond the uncertainty that already exists in these estimates.

6.4 Share of overspending from free trial rollovers

89. The YouGov (YGUS) survey asks specifically about consumers who were rolled over into an unwanted full price subscription after a free or reduced-price trial period.

90. Among survey respondents, 47% had accidentally signed up for a rolling subscription at some point. Of those, YGUS asked how often this had occurred in the last year. Responses to this question are shown in Table 8. Around 52% of respondents experienced an issue in the past year, with an average of 1.3 subscription issues per affected consumer. Assuming 51 million adult consumers in Great Britain,[19] we estimate that 12.5 million consumers experience trial-price overspend each year on an estimated 17 million subscriptions each year.

Table 8: Responses to YGUS question: How many times in the past year have you accidently signed up for a rolling subscription?

Response	Share of responses
Once	38%

[19] ONS Population estimates: Mid-2019

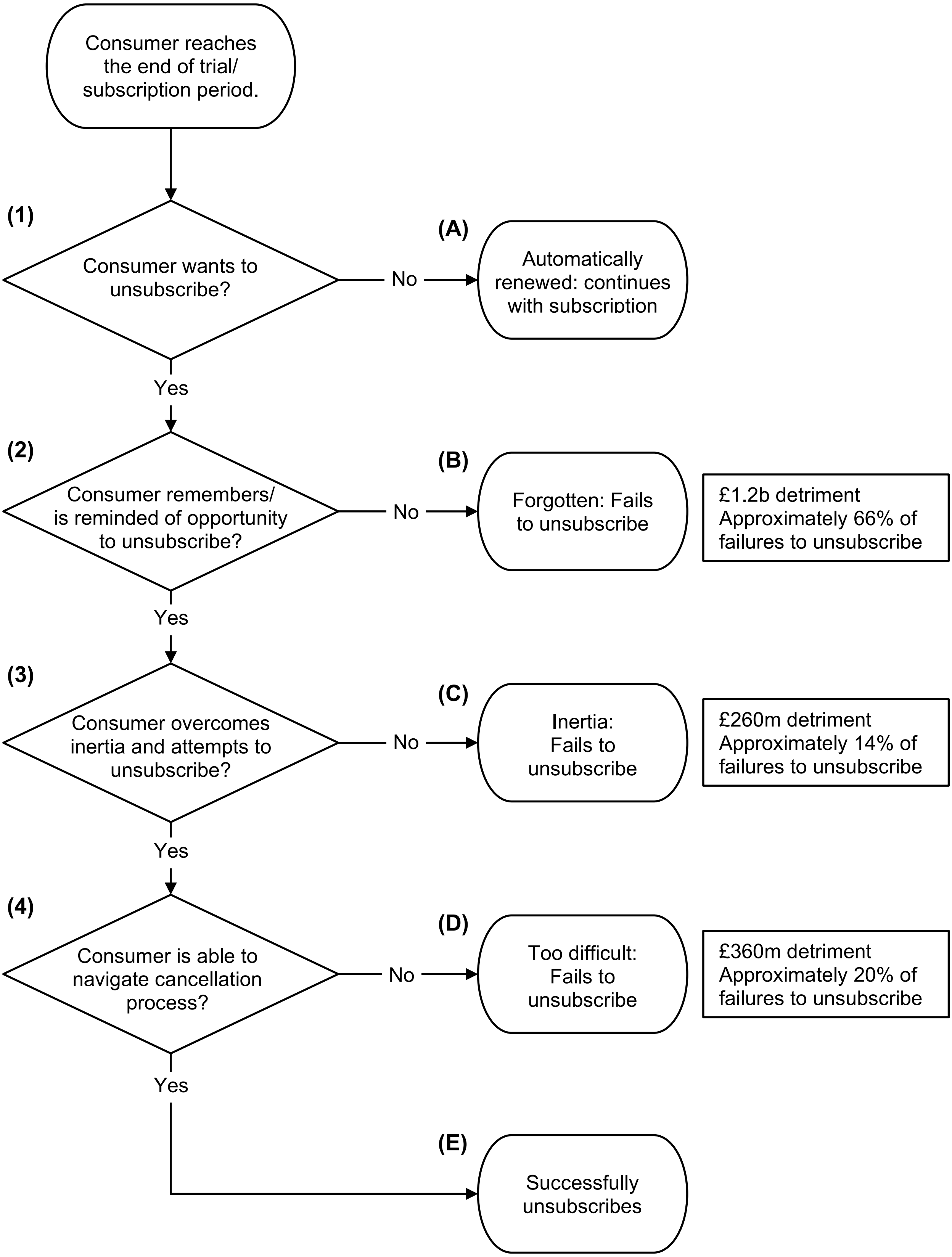
Twice	11%
Three times	3%
For or more times	0%
Don’t know	6%
Not since in the last year	42%

91. To compare to our estimate that GB consumers are paying for 11 million unwanted subscriptions at a given time, we need to convert the 17 million annual figure into a point-in-time estimate. As throughout, we assume the average consumer pays for an unwanted subscription for 2.4 months before cancelling. This would mean at a given point in the year, about one fifth (2.4 ÷ 12) of those subscriptions are active. We estimate around 2.8 million unwanted subscriptions, out of 11 million are the direct result of being rolled over from a free trial. **This totals £480 million per year, about 27% of the total consumer detriment.**

92. This estimate assumes there are no average differences between the costs of unwanted subscriptions resulting from trial period rollovers and unwanted subscriptions for which the customer was paying full price before deciding the subscription was not value for money. We note this assumption may not be true—it is possible higher-priced subscriptions are more likely to offer trial periods to reduce barriers to entry, especially given YGUS found a higher average monthly cost per subscription than other sources. However, this is already accounted for in the sensitivities around the total consumer detriment, so we do not separately test this assumption.

6.5 Behavioural model of unsubscribing

Figure 1: Status quo consumer outcomes decision tree



93. In line with the behavioural model we set out above, we outline four criteria that separate different consumer outcomes. In order to unsubscribe a consumer must **(1)** want to unsubscribe, **(2)** remember or be reminded of the opportunity to unsubscribe, **(3)** overcome inertial biases and attempt to unsubscribe, and **(4)** understand how to unsubscribe and have the resources to do so. For simplicity, we address each of these sequentially, and outcomes **(A)** through **(E)** depend on

which criteria the consumer meets. Of these outcomes, **(B)** through **(D)** represent situations of consumer detriment, where a consumer was not able to act according to their preferences.

94. To allocate the £1.8 billion in subscription overspending to each of **(B)**, **(C)**, and **(D)**, we rely on the responses to the FSI, which includes two relevant questions for this decision tree, shown below. These questions were asked only to 1,559 of the total 2,105respondents who currently had at least one subscription.

- Have you ever signed up to a free trial, forgotten to cancel and continued to be charged?
- Have you ever signed up to a free trial and continued to pay for it because you couldn’t be bothered/had no time to cancel?

95. To the first question, 688 respondents said they had forgotten. To the second question 151 and 210 said they couldn’t be bothered or had no time, respectively.

96. We use these questions to distinguish consumers who simply forgot about their subscription **(B)** from the effects of inertia and default bias **(C)** and those who tried to unsubscribe but found the process too difficult **(D)** under the assumption “couldn’t be bothered” and “had no time” are good proxies for inertia and difficulty unsubscribing, respectively.

97. For this interpretation to be correct, we make two further assumptions. First, we assume no respondent was referring to the same subscription in both questions (i.e. no-one responded they had both forgotten and not been bothered/not had time to cancel the same subscription). Second we assume these question reflect the long-run relative likelihood of consumers experiencing each of the three barriers to unsubscribing so they are equal to the chance any given consumer will fail to cancel an unwanted subscription due to one of these factors.

98. This survey design, where respondents are filtered based on current subscriptions, but then asked about experiences they have *ever* had could exclude respondents who have had subscriptions in the past, but have since cancelled them, we are assuming this is a small subset of responses since This assumption could be justified since over half of those without current subscriptions subsequently responded they had ‘never’ felt the need to use subscription services meaning at most 12% of consumers who could have had responses to this question were excluded. By ignoring this inconsistency, we are assuming any respondent who had at one point paid for subscriptions, but had cancelled them at the point of the survey is as likely as those who had subscriptions at the point of the survey to forget, not make the effort, or run out of time to cancel the subscription.

99. Putting these ratios into the decision tree, we find 66% (688 ÷ 1,049[20]) of the total £1.8 billion detriment can be attributed to consumers forgetting to unsubscribe, a further 14% (151 ÷ 1,049) failed to overcome inertial biases, and 20% (210 ÷ 1,049) tried to unsubscribe but found the process too difficult.

Consultation question: Do you agree the model of consumer behaviour (Figure 1) reflects the steps needed to exit a subscription, and the allocation of consumers across outcomes (B), (C) and (D) reflect current customer experience?

6.6 Summary of consumer detriment by type of problem

100. For convenience, we summarise the ‘size of the problem’ below.

Table 9: Total consumer detriment from unwanted subscriptions, with subsets by immediate cause

Total consumer detriment		**£1,790 million**
Split by activity	…of which active in last 24 months	£1,780 million
	…of which inactive for last 24 months	£4 million
Split by free trial	…of which rolled over from free trial	£480 million
	…of which always full price	£1,300 million
	…of which forgotten	£1,170 million

[20] 688 + 151 + 210 = 1049.

Split by reason for inaction	…of which caused by inertia	£260 million
	…of which too difficult to cancel	£360 million

7 Number of firms using subscription payment models

101. To estimate the number of firms which operate on a subscription payment model, we use the ONS Annual Business Survey. These produce estimates of the number, size and turnover of the roughly 2.5 million registered firms in the UK.[21] To estimate which of these firms serve consumers directly, we refer to the ONS supply and use tables from 2016, the most recent year available with industry-level data.

102. We take the share of final demand for a given industry accounted for by households as reported in the ONS supply and use tables, and apply that percentage to the number of firms and turnover in that industry as reported in the ABS. This method assumes the turnover of a firm is unrelated to whether it serves consumers or not. We estimate with this method, 610,000 firms with annual turnover of £950 billion, directly serve consumers, giving a ratio of £1.38 million in turnover for every 1 firm.

103. As a corollary to our estimates of total detriment above, we estimate total spending on subscriptions to be between £21 billion per year, using the lowest estimate of monthly subscription costs, and £33 billion per year, using the highest estimate for monthly cost, as set out in Table 6.

104. To recognise the uncertainty in our estimation method, in this instance we use the highest possible figure for the share of firms providing subscriptions and explore lower estimates in the sensitivity analysis in section 9. That is, we use the maximum annual spending on subscription services of £33 billion. This is about 3.5% of turnover in the sample, so we assume it accounts for 3.5% of the number of firms, just over 21,000.

105. This estimation method makes multiple implicit assumptions. First, it assumes firms in the UK receive all their revenue either through a subscription model, or single transactions. In all likelihood, many firms earn revenue through both models, which would imply these figures are a low estimate of the true population of affected businesses.

106. Second, it assumes businesses offering subscriptions earn similar revenues to those firms that do not offer subscriptions. If, as we suggest in section 1, businesses prefer subscription models because they offer greater revenue opportunities, this method could overestimate the number of firms that offer subscriptions.

107. Third, this does not account for the fact the subscription market is likely to be more concentrated than the economy overall. Many consumers have subscription contracts with the same few firms, which would imply these figures overestimate the population of firms. For example, FSI suggests at least 40%[22] of consumer subscriptions are for music and video streaming services which are dominated by a small number of firms.

108. Finally, we recognise some firms may already have policies which comply with some or all of the proposed changes, meaning not the entire population of firms will be required to make a change. To reflect the uncertainty in these estimates, we use the highest figure we obtained as central estimate for the number of firms, and a sensitivity assessment below considers the changes that would occur to the policy options if one half of firms were already in compliance with the proposals.

109. Without better evidence to suggest the overall direction or magnitude of our estimation error, we do not make any corrections to our estimate for the number of firms beyond the sensitivity assessments in section 9.

[21] The ABS excludes the approximately 3 million sole trading firms with annual turnover under £85,000 per year.

[22] This could be an underestimate since Amazon Prime subscriptions may have been double counted as streaming and product delivery subscriptions.

110. In this analysis we assume firms offering subscription contracts follow a similar size distribution to the GB population of registered firms. Applying these proportions to our estimated sample of firms gives the estimates as shown in the table below.

Table 10: Estimated number of firms offering subscriptions by size and share of revenue

Employment size band	Share of firms[23]	Number of firms	Share of revenue[24]
Micro (0–9 employees)	89%	19,000	19%
Small (10–49 employees)	9%	1,900	15%
Medium (50–249 employees)	2%	400	16%
Large (250+ employees)	0.4%	100	49%
TOTAL	100%	21,300	100%

Consultation question: Do you agree these estimates reflect the number and approximate size of GB firms offering subscription goods, services and digital content to GB consumers?

8 Monetised and non-monetised costs and benefits of each option

8.1 Fixed costs to firms associated with changing subscription offers

111. We identify three areas of costs firms could incur as part of any change to their subscription offer. These are familiarisation costs, IT costs and costs of changing terms and conditions.

112. Familiarisation costs include the costs to firm staff of understanding the required changes, as well as the cost to customer services staff of learning the changes to procedures to appropriately advise consumers. We do not have robust evidence of the nature of these costs, and so we make conservative estimates based off other impact assessments for changes to regulations for consumer-facing businesses. We are consulting with businesses on the potential costs of implementing each of these policies.

113. IT costs are defined broadly to include the changes a firms must make to their websites, internal account management software, and communications with customers. Again, we do not have robust estimates for these costs and have used similar estimates for the hours of labour involved as familiarisation costs.

114. Costs of changing to terms and conditions include the costs of making the necessary changes to the terms and conditions as well as updating internal guidance and documentation for the changes based on a BIS 2014 survey.

115. Across the three subsections below, we estimate the maximum total cost to firms from familiarisation, website and communications changes, and changes to terms and conditions is £10 million.

Familiarisation costs

116. Regardless of the policy options that are ultimately enacted, firms will have to familiarise themselves with the regulation and their new responsibilities. The number of staff that will have to familiarise themselves with the regulations will vary according to the size of the business. These estimates have no empirical underpinnings, but we hope they can give an indicative estimate of the scale of the costs firms will face.

117. The overwhelming majority of firms in the UK are microbusinesses consisting of the owner/proprietor and no more than 9 additional employees. Moreover, around 90% of microbusinesses have five or fewer total staff including the owner/proprietor. For

[23] BEIS Business Population Estimates, 2020. We exclude unregistered firms from this calculation.

[24] BEIS Business Population Estimates, 2020.

microbusinesses, we assume the owner/proprietor will perform this role. We estimate familiarisation will take approximately four hours to understand the requirements and how these will apply to their business. We base our costs on the wages for managers, directors and senior officials at £25.10 per hour.[25]

118. For small firms with 10 to 49 employees, we assume two management-level staff members will need to familiarise themselves with regulations for 4 hours each.

119. For medium firms with 50 to 249 employees, we assume in addition to senior staff familiarisation costs, ten customer service staff will have to receive training on the new rules for a total of 40 work hours at an hourly cost of £12.38. For large firms, we have doubled these estimates.

Table 11: Assumptions for staff time required to familiarise with a new policy

Size	Senior staff time (h)	Senior staff cost (£)	Service staff time (h)	Service staff cost (£)	Cost per firm (£)	Number of firms	Total cost (£k)
Micro	4	100	0	0	100	19,132	2,000
Small	8	200	0	0	200	1,813	370
Medium	8	200	40	500	700	311	220
Large	16	400	80	1,000	1,400	71	100
TOTAL							2,600

Changes to websites and customer communications

120. In all cases firms will have to make changes to their website and prepare additional email communications with their customers. For these purposes, we assume all SMEs and microbusinesses offering subscription contracts have an online presence. Since the baseline changes required are minor, we assume these will require eight hours' work from an IT professional. And we assume the costs are uncorrelated with the size of the firm. We base these costs on web IT professionals, £19.08 per hour. Across all affected businesses, these will result in a one-time cost of £3.4 million.

Changes to subscription terms and conditions

121. For the purposes of this analysis we assume all firms that offer a subscription service have pre-drafted terms and conditions which will have to be updated to accommodate these regulations. Firms will incur a one off cost in proceeding with this change. A survey commissioned by BIS surveyed firms about the cost updating terms and conditions and the frequency at which they do so.

- 12% of businesses update terms and conditions at least once every 6 months. Since these regulations will provide at least 6 month's notice, we believe these businesses can be prepared to incorporate these rules in line with their regular update at no additional cost.
- 15% of businesses update terms and conditions between every 7 to 12 months. We assume one half of these firms (8% of all firms) will have to bring forward their next planned update to accommodate these regulations.
- 30% of businesses update their terms and conditions every 1 to 2 years. We assume one quarter of these firms will plan to update their terms and conditions within six months of any rule change, and the remaining three quarters (23% of all firms) will have to bring forward their planned update.
- The remaining 44% of firms reported they updated their terms and conditions less often then every 2 years or not at all. We assume all of these firms will have to make a revision to their terms and conditions outside of any planned update.

[25] Estimates for required hours of familiarisation are based on the impact assessment for changes requirements for alternative dispute resolution services on the basis this policies, like ADR changes will affect consumer-facing firms.

The estimated hourly cost uses the gross hourly wages as reported in ONS Annual Survey of Hours and Earnings plus a 22% non-wage uplift to reflect the cost of national insurance, pension contributions, etc.

122. In total we estimate 74% of firms of all sizes will incur additional costs updating their terms and conditions outside of their usual revision cycle.

123. The BIS survey also estimated the costs to firms of updating their terms and conditions. These varied by business size. The survey found these costs were,

- £260 for microbusinesses,
- £1,100 for small businesses,
- £880 for medium businesses, and
- £3,000 for large businesses.

Table 12: Costs to firms of updating terms and conditions

Size	Number of firms making T&C changes outside their usual cycle	Cost per firm	Total costs (£k)
Micro	14,000	255	3,600
Small	1,300	1,080	1,400
Medium	200	884	200
Large	50	3,029	160
Total	16,000		**5,400**

Across all firms, these one-off costs are £5.4 million.

Ongoing costs

124. In addition to fixed transition costs, firms may incur ongoing costs to maintain new systems required by the options we consider. The size of these costs is unknown and is likely to change according the degree of automation firms are able to put in place in advance. We have not attempted to estimate the size of these costs because they are to be small in comparison to the. We note, for example that Ofcom assessed the business costs of providing customers with notifications at the end of their contracts. These involved similar possible ongoing costs, such as identifying customers that needed notifications on an ongoing basis, and providing them with the notification. After consultation with stakeholders, Ofcom only estimated the costs of providing consumers with letters, on the basis that only this medium had significant ongoing costs.

8.2 Option 1: Opt-in

A requirement for traders to seek 'opt-in' from consumers before the end of any initial free or reduced-price trial period in order to continue into the subscription contract.

125. Option 2 would require traders to seek express permission from consumers during any initial free or reduced-price trial period in order to continue onto a full-priced subscription. A request for permission would serve as a reminder to consumers that a trial-period is coming to an end, as well as moving the default position to 'unsubscribe' should this permission not be granted. We expect an 'opt-in' request to improve outcomes for consumers that want to cancel but forget and those who remember to cancel but suffer from consumer inertia or face frictions to unsubscribing.

126. As subscription contracts will terminate by default unless express permission to continue is provided, we expect the 'opt-in' proposal to completely remove the consumer detriment associated with consumers being automatically moved onto full-priced subscription contracts that they have either forgotten about, faced frictions to unsubscribing from or delayed unsubscribing. As such, we estimate the 'opt-in' proposal will reduce annual consumer detriment by **£480m**, the value of such subscriptions presented in Table 6.

127. The opt-in proposal is also expected to generate time savings for those who successfully unsubscribe or face frictions to unsubscribing by removing the need to follow cancellation processes following a free trial, although this is unquantified at this stage.

128. The opt-in proposal may incur some additional costs on consumers who want to continue the subscription, but forget to opt-in. These consumers could face time costs in re-joining the subscription, and the disbenefit of not receiving the good or services in the interim.

8.3 Option 2: Inactive subscriptions

Require traders to automatically cancel the subscriptions of customers who have not used the service in 24 months

129. This option would directly address the detriment caused by inactive subscriptions held for more than 24 months. For the purposes of this analysis, we exclude from this description subscriptions that involve physical delivery of goods. This simplifying assumption is primarily because a firm is unlikely to be able to monitor the use of goods and so could not identify which consumers to unsubscribe. Moreover the physical delivery of goods to the consumer constitutes some form of 'use' and we expect it would act as reminder of the need to unsubscribe.

130. Of the categories of subscriptions in FSI, we assume nine (food delivery, beauty, essentials, clothing and accessories, plants and flowers, and crafting subscriptions) involve physical goods delivery. The remaining categories account for roughly 70% of the number of subscriptions. We are not able to separate the categories of books (which includes physical books as well as audiobooks), newspapers (which includes physical delivery as well as digital subscriptions), or hobbies (whose components are unclear) for more detailed analysis. We assume these include exclusively non-physical goods for the purposes of this analysis.

131. As above, we assume the total detriment from inactive subscriptions is £4 million. Of this we assume 70% is not related to the delivery of physical products. In fact, this no-physical-products share could be higher since some of the sectors most likely to be inactive, such as gym and fitness subscriptions, or streaming services, are do not involve delivery of products. However, the survey responses are not granular enough to make this distinction reliably. As a result, **we estimate that this policy option would resolve £3 million of consumer detriment**.

8.4 Option 3: Reminders

Require firms to remind consumers at the end of a trial period and at the end of each billing cycle of the opportunity to unsubscribe from the service

Benefits

132. Referring to Figure 1, we assume for simplicity that a reminder letter, text or email will force the outcome of criterion **(2)**: all consumers are now reminded of the opportunity to exit the subscription, and this removes the detriment from outcome **(B)**. However, we must also estimate the share of consumers who, once reminded, travel rough the rest of the decision tree and suffer from inertia (C) or find it too difficult to unsubscribe (D).

133. We adapt results from the Ofgem Collective Switch Trials and so assume that the retail energy market, where consumers may have stronger inertial biases, is a reasonable comparison. The trial found that three sets of communications, including a reminder letters branded as coming from consumers' incumbent supplier, led to a 24-percentage point increase in the rate of switching, from 3% to 27%.[26] We assume that one reminder communication would have a third of the impact, such that 8% of people who receive it will successfully cancel their unwanted subscription. We further assume that the remaining 92% of reminded consumers will split in the same proportion as under the behavioural model under 6.5. That is 66% of 92% will forget again (**B**), 14% will note but take no action (**C**) and 20% will attempt unsuccessfully to cancel (**D**). The outcomes of these calculations are summarised in the table below. The figures relate only to the detriment reallocated through the reminder, not baseline (**C**) or (**D**) outcomes.

[26] Ofgem Collective Switch trials, 2019

Table 13: Reallocated detriment after reminders according to each option

	Consumer category	Share of consumers	Value of subscriptions (£m)
Before intervention	Outcome **(B)**: Forgotten (Experiences detriment)	100%	1,174
After intervention	Outcome **(B)**: Forgotten (Experiences detriment)	60%	707
	Outcome **(C)**: Inertia (Experiences detriment)	13%	155
	Outcome **(D)**: Difficulty unsubscribing (Experiences detriment)	18%	216
	Outcome **(E)**: Unsubscribes (Detriment resolved)	8%	97

134. The consumer benefit of a reminder letter is the amount by which it reduces expenditure on unwanted subscriptions by encouraging those with forgotten subscriptions to unsubscribe. We estimate a reminder letter would provide an annual benefit of **£340 million to £580 million** to consumers that successfully unsubscribe.

8.5 Option 4: Easy exiting

135. We estimated above an annual consumer detriment of £360 million arising from difficulties unsubscribing from subscription contracts. The easy-exiting proposals aim to resolve some or all of this detriment by removing barriers to customers cancelling their subscriptions. Consumers may find cancelling difficult for a number of reasons. The Money and Mental Health survey (MMH) asked specifically why some consumers delayed cancelling their subscription. The full set of responses in reproduced in Table 14. Note respondents could select more than one response, so the column does not add to 100%.

Table 14: Responses to MMH question, Have any of the following delayed you from cancelling your subscriptions?

Response	Share of respondents
I keep forgetting	36%
I want to finish my free trial before cancelling	33%
I'm worried the company will pressure me to stay if I call	17%
I think it will take lots of effort to cancel	17%
I struggle to make phone calls	12%
I prefer not to think about it	10%
I'm embarrassed to cancel	8%
I don't know how to cancel	8%
Other	12%

136. Broadly, the variety of responses to this question, suggests that entirely resolving difficulties exiting is a multi-faceted challenge that could require changes at all stages of the subscription experience. We also identify multiple points where action on behalf of firms could remedy some of these issues.

137. A large share of consumers find subscriptions difficult to exit as a result of the process designed by firms. For example, fear of pressure-selling at the point of cancellation, or difficulty making phone calls account were selected by 17% and 12% of respondents, respectively. These could be solved if firms provided the option to cancel without making a phone call. Tone may also be an important factor, 8% of customers reported they were embarrassed to cancel in addition to those

wanting to avoid pressure selling. retraining call staff, and using friendly online interfaces[27] could help consumers succeed in cancelling contracts. Changes to communication could address some concerns, too. Displaying the cancellation process prominently on their website, or in email communications could address the 8% consumers who didn't know how to cancel, in addition to acting as a reminder, for example.

138. FSI asks respondents how they cancelled their most recent subscription. Respondents reported around 25% had cancelled over the phone, while around 75% had used online channels, including email, the trader's website, or their app.

Table 15: Respondents to FSI question, Thinking about the last subscription you cancelled, how did you cancel it?

Answer Choices	Share of responses
Online	55%
Over the phone	23%
Sent an email	17%
Visited a branch / shop	2%
Sent a letter	1%
Other	2%

139. We do not have direct evidence on the channels consumers used to purchase subscriptions and so cannot compare channel preferences between signing up and cancelling. Such a comparison could identify how consumers would behave differently during cancellations if provided more choice. Instead, we use sector-specific complaints data from Citizens Advice.[28] This data set is imperfect since it is informed by only those purchases consumers later complained about, but it includes total values for spending over different purchase channels, making it useful in this instance.

140. Of the 18 sectors included in FSI, we consider the 15 sectors for which a near match can be identified in the Citizens Advice data.[29] We take the average share of sales in each sector conducted by phone, online, or at the trader's premises, weighted by the sector's share of spending in FSI. Since the Citizens Advice data are not specific to subscriptions, it is possible in-person sales are overrepresented. For example, Citizens Advice data suggests just over 30% of sales in the cinema sector occur in person, this is likely to reflect cinema ticket sales rather than purchases of memberships via subscription. The results of this exercise are presented in Table 16.

141. We note large effect of gym memberships, of which 73% reported to Citizens Advice are purchased in person and have a large effect on the averages, however we believe this reflects a difference in business model for gym memberships and retain this sector in our calculations.

Table 16: Share of purchases by channel in 15 subscriptions sectors surveyed in FSI

	Online	Over the phone	In person
All subscriptions sectors	60%	11%	28%
All subscriptions sectors (excluding gym memberships)	73%	12%	14%

[27] For example, a Princeton study found 169 examples of 'confirmshaming' in 164 sampled websites, where cancellation or opting-out of services is presented by the company as harmful or unwise.

[28] Citizens Advice, Consumer advice trends 2019.

[29] For three subscription box sectors included in FSI, we use the Citizens Advice 'postal and courier services' sector. However, excluding these sectors entirely does not have a large effect on the results.

142. Comparing tables Table 15 and Table 16, it is clear a broad trend exists where a larger share of customers cancel subscriptions by phone than purchase subscriptions by phone. The true difference may be greater than 10 percentage points since the method in Table 16 is likely to overestimate the share of in-person sales.

143. Next, we refer to Table 14: Responses to MMH question, Have any of the following delayed you from cancelling your subscriptions? which reports reasons customers have delayed cancelling subscriptions, and our estimate in section 6.5 that around 20% of customers who fail to unsubscribe do so as a result of frictions.

144. Making direct comparisons in this instance is not straightforward. Since respondents to MMH could report multiple reasons for delays to unsubscribing we cannot combine groups of responses to MMH. Moreover, unlike our estimates in section 6.5, responses to MMH were not time bound and do not necessarily reflect the immediate cause of the detriment. For example, a respondent might have responded they 'keep forgetting' to cancel subscriptions and they 'struggle to make phone calls', but in our behavioural model this would suggest the immediate cause is forgetfulness, at criterion **(2)**, not frictions to cancelling at criterion **(4)**. Which could mean this survey overstates the importance of exiting frictions relative to our model.

145. We draw two main conclusions from this comparison. First, the fact 17% and 12% reported fears of pressure selling, or general concerns of using the phone suggests at least half, or as much as 87% (17 ÷ 20) of frictions are a result of requiring phones as the main means of cancelling. The role of telephone-only cancellations in causing frictions to unsubscribing is highlighted in Citizens Advice research on routes to tackle subscription traps. This gives some support to a high upper bound for the amount of detriment that can be addressed by easy exiting.

146. Our second conclusion is this suggests a lack of clarity on how to cancel a subscription is a secondary, but significant barrier to cancelling subscriptions. MMH responses indicate 8% of consumers face frictions from not knowing what is needed to cancel their subscription, or as much as 40% (8 ÷ 20) of the detriment.

147. As discussed above, the easy-exiting proposals are intended to cover better information and signposting for customers as well as changes to the exiting route, so we make the simplifying assumption consumers would be informed of the cancellation routes under this option.

148. Given the uncertainty in our evidence base for this option, we choose the widest range of estimates for the benefits of this option. That is, the option will resolve between 17% and 87% of the remaining detriment caused by frictions to unsubscribing, or £62m - £311m.

Cost to firms

149. We assume that in all instances where consumers did not unsubscribe online (55% as per Table 15), firms will need to provide for the option of unsubscribing online. We make the simplifying assumption that because 45% of subscriptions are cancelled via channels other than online, 45% of businesses, around 9,600, would need to establish such a channel. Designing and integrating these forms will require additional investment from firms.

150. We lack high quality evidence on the costs firms would incur performing this function. The American eCommerce agency OuterBox indicates a possible range of costs. It suggests integrating simple tools into an existing eCommerce platform costs the firm approximately $500, while merging multiple systems in the largest firms could require an investment of $20,000, a mid-size project is estimated at $8,000.[30] We take the smallest value from this range or $500 or approximately £400. While this estimate remains highly uncertain, we believe using the lowest figure reflects the objectives of this policy as stated in section 3—that the measures do not impose an unreasonable burden on firms. Through further engagement with firms over the course of policy development we aim to improve the estimate of these costs.

151. We assume, that these integration costs do not vary with the size of the firm, so at a cost of £400 across 9,600 firms, we estimate a total one-off cost of £3.8m.

8.6 Policy option interactions

152. We intend to bring forward these policies as a package of reforms. The addressed consumer detriment will change depending on which set of proposals are ultimately enacted. For example, option 4, a requirement for firms to remind customers of the opportunity to cancel is expected to reduce detriment overall, but cause more detriment to result from difficulties in unsubscribing. This means the combined impact on consumer detriment of the reminders and easy exiting options will be greater than the individual effect of each one. Similarly, since option 1, a requirement for customers to have the choice between an auto-renewing contract and a fixed term, reduces the total number of people with auto-renewing subscriptions, it will reduce the detriment caused as an immediate result of forgetfulness, reducing the benefits of the reminder option. These interactions are summarised in the table below.

153. To explore the different combinations of policies, we show the effects of each policy individually, along with five combined policy scenarios. The check marks in the respective columns indicate which options are summarised in each row. At this stage, while the details of these polices are under consultation, we do not have a preferred scenario, but we have selected 'maximalist', 'balanced', and 'light touch' options to present on the summary pages of this assessment to demonstrate the range of costs and benefits that could reasonably emerge as a result of these policies.

154. As highlighted in section 5, the main effect of these policies is a transfer from businesses to consumers equal to the detriment resolved by the policies. In addition to this transfer, firms will need to make direct expenditures of different sizes in order to comply with the policy. These are summarised in the 'Costs to firms' columns. We calculate net present value (NPV) over the ten-year appraisal period. Transition costs are incurred only once, in the first year of the appraisal period, while annual costs are incurred in each year at the same year, with an annual discounting rate of 3.5%.

155. For these calculations, we do not allow for any cost-reductions that may occur by bringing forward multiple policies simultaneously. For example, firms may require less than twice the estimated training costs to train customer services staff on both the easy-exiting policy and the auto-renewal policy at once, but we do not make this assumption in the aggregated scenarios.

156. Where we have estimated a range of outcomes elsewhere in this analysis such as the total size of consumer detriment (£0.9 billion to £3.3 billion), or the proportion of detriment resolved by option 1, auto-renewal, we show only the central estimate (or, the mean of high and low estimates, where no explicit central estimate exists).

Consultation question: Do you agree the costs to firms estimated in section 8.1 and 8.6 reflect the types and approximate size of costs an individual firm would likely incur complying with these policies?

Consultation question: We make a modelling assumption no subscription services currently meet the standards set out by these policies, and all firms would incur costs to become compliant. Are you aware of evidence that would support or challenge this assumption?

Consultation question: Do you agree with our estimates in sections 8.2 to 8.6 of the share of customers with unwanted subscriptions that would exit their subscription as a result of these policies?

Table 17: Policy option interactions, £ millions, rounded to 2 significant figures

		Inactive	Opt-in	Reminders	Easy exit	Resolved detriment	Transition costs				
							Familiar-isation costs	IT costs	Terms and conditions	Webform cost	Total transition costs
Combined scenarios	Maximalist combination	✓	✓	✓	✓	848	9.9	13.5	0.33	3.8	27.5
	Intermediate combination			✓	✓	396	4.9	6.8	0.33	3.8	15.8
	Light-touch			✓		97	2.5	3.4	0.33	0	6.2
Single options	Inactive only	✓				4	2.5	3.4	0.33	0	6.2
	Opt-in only		✓			578	2.5	3.4	0.33	0	6.2
	Reminders only			✓		97	2.5	3.4	0.33	0	6.2
	Easy exit only				✓	186	2.5	3.4	0.33	3.8	9.9

9 Wider impacts

157. In addition to the direct effects discussed in section 8, we anticipate a number of wider impacts from these policies. These include the following.

- Better allocation of consumer spending as a result of resolved detriment.
- Changes to business practices in the subscription industry as a result of higher consumer mobility.
- Improved consumer confidence in subscriptions models.
- The effects of increased competitive pressures on firm productivity.

158. We have not attempted to quantify these effects. The improvements to consumer welfare from reallocated spending are difficult to quantify, but are implicated by the size of the resolved detriment. Similarly, productivity improvements operate by an indirect mechanism and we do not have the evidence to quantify the size of these effects.

159. We have not quantified the effects of changes to business models in the industry at this stage in the analysis. We will use the consultation period to develop our understanding of how businesses may react to these policies in order to better estimate the size of these effects.

Better allocation of spending

160. While our central estimate suggests this combination of policies could return as much as £1.4 billion to consumers every year, we do not expect these will ultimately reduce private sector revenues by the same amount. Instead, we would anticipate consumers to use savings from reduced spending on unwanted subscriptions to purchase other goods and services, including other subscriptions, elsewhere in the economy.

161. The size of this reallocated spending is unknown, as a benchmark, we refer to the UK consumer savings ratio, around 7% over the five years up to the end of 2019.[31] This could indicate as much as 90% of resolved detriment could be used to purchase other goods and services.

162. This has two important effects. First, by using their savings to purchase new goods and services, consumers will reduce the aggregate cost to businesses we estimated as a result of reduced detrimental spending,

163. Second, since consumers are no longer spending this income on unwanted subscriptions, this increases consumer benefits from their earnings. The exact size of this benefit is unknown since it depends on the additional value consumers place on new purchases compared to the unwanted subscriptions in the baseline scenario.

Changes to business practices

164. As explained in section 2, the current practices mean businesses can retain consumers more easily, increasing expected revenue per consumer. Increased revenues from existing customers might provide firms with the opportunity to offer introductory offers to entice new customers. Similarly, increased revenue over the customer's lifetime may allow firms to offer reduced monthly prices to their customers.

165. These policy changes can make income for subscriptions firms less certain, they may also reduce the profitability of subscription firms. Firms may respond to these changes by reducing introductory price offers, which are valuable to consumers, both by allowing access to the subscription product at a reduced price and allowing customers to compare products with reduced risk.

---

[31] ONS, Household savings ratio. We exclude 2020 from this estimate due to the increase because of public health restrictions to during the coronavirus pandemic.

166. If increasing customer mobility means the total revenue firms can expect over a consumer's lifetime are reduced, firms may respond by increasing the monthly price of a subscription. Which will also reduce the utility of subscriptions for remaining customers.

167. We do not have evidence at this point to estimate the possible size of these effects, but will use the consultation period to explore how businesses could respond to the policies and the possible effects that will have on consumer surplus.

Improved consumer confidence in subscription models

168. The difficulty of managing subscriptions deters some consumers from entering the subscriptions market. FSI asked respondents who did not have any active subscriptions what factors deterred them from purchasing one. 24% of respondents said committing to monthly payments was off-putting, and 8% viewed subscription contracts as a 'hassle'.

169. Taking steps to ensure consumers can easily exit subscriptions they do not value, and ensure they are kept in control of their subscriptions throughout could encourage these consumers to enter the subscription market.

170. The degree to which new consumers will enter, or degree to which these changes represent new spending and increases in demand, as opposed to reallocated spending from other firms is unknown and we have not attempted to quantify it.

Increased competitive pressures

171. These policies aim to increase buyer information in the subscription industry by allowing consumers to better compare subscription offers in advance, and allow customers to exit subscriptions that are unsatisfactory more easily. In both cases this will empower consumers to direct spending away from unsatisfactory subscriptions more easily than in the status quo, increasing competitive pressures.

172. Heightened competition could improve the quality of subscription contracts available to consumers as well as improve firm productivity. These effects are unquantified.

Consultation question: Do you agree these reflect the likely wider impacts of the proposed policies? Can you provide additional evidence that could indicate the scale of wider impacts on businesses and consumers?

10 Equalities assessment

10.1 Current evidence on differential baseline detriment across protected characteristics

173. While these policies do not affect people differently because of protected characteristics, these policies are likely to have a differential impact on people with some protected characteristics. Broadly speaking we consider two loosely-defined causes of differential impacts.

174. First are results of different average baseline detriment. These are driven by the number and type of subscriptions people have today, and do not necessarily change which policies will be most effective for some groups. The second type of causes are the results of different average behaviours that may mean different groups have different average responses to certain policy interventions. Our evidence for the first type of is mixed and has some inconsistencies, our evidence for the second kind is very limited and we have not made clear assessments of the average changes.

175. Citizens Advice conducted an online survey of around 500 people who had been affected by so-called subscription traps, where consumers are tricked by unscrupulous firms into registering for costly subscriptions. While the survey was self-selected, 71% of respondents were women, and 55% of the responded were over the age of 55 (compared to 40% in the general population), suggesting subscriptions traps are primarily affecting older women.

176. YouGov survey disaggregates responses by age and gender, as presented in Table 18. These results suggest men spend slightly more for unwanted subscriptions than women do, and those under the age of 25 spend considerably less per subscriptions than those over 25. While sample sizes are small, the survey did not find large differences in the number of unwanted subscriptions respondents had had during the last 12 months. Similarly, there were no large differences in the length of time respondents paid for subscriptions before cancelling. This survey is limited in that it only asks about unwanted subscriptions respondents joined through a free trial, which may not be representative of all subscriptions.

Table 18: Responses to YouGov question, Approximately what was the monthly cost of the last unwanted subscription you cancelled?

Group	Weighted sample size	Average monthly price
Men	451	£19.71
Women	487	£17.56
Ages 18–24	102	£11.72
Ages 25–34	164	£20.92
Ages 35–44	189	£19.64
Ages 45–54	196	£20.90
Ages 55+	287	£19.45

177. Differential participation in subscriptions markets by gender is supported by Barclaycard research suggesting men spend on average £680 per year across all their subscriptions (including wanted and unwanted subscriptions), while women spent £420 per year, on average. Evidence on differential baseline detriment by age is more mixed. In addition to the varying prices implied by the YouGov survey, responses to the Money and Mental Health (MMH) survey suggest young consumers are more likely to have unwanted subscriptions, and are likelier to delay longer before cancelling, see Table 19. Moreover people at younger ages are likely to have lower incomes, meaning lower-priced subscriptions are not necessarily more affordable.

Table 19: Summary of MMH responses. Number of unwanted subscriptions per respondent, and share of subscriptions unwanted for over 4 months.

Group	Weighted sample size	Average number of unwanted subscriptions per person	Share of unwanted subscriptions older than 4 months
Ages 18–24	130	0.15	15%
Ages 25–34	178	0.12	26%
Ages 35–44	151	0.11	20%
Ages 45–54	145	0.08	14%
Ages 55–64	96	0.07	13%
Ages 65+	123	<0.01	11%

178. Responses to MMH on the causes of delays to cancelling subscriptions show little variation across groups, and even the largest differences are small in absolute terms, for example, 2% of respondents over 65 reported they struggled to make phone calls, compared with 14% of those between 18 and 24, and 18% of those between 18 and 24 reported they did not know how to cancel their subscriptions, compared to around 5% in other age bands. These might suggest easy-exiting rules requiring online options would be more effective at reducing detriment in young groups.

179. This evidence does not provide a consistent understanding of the level of harm experienced by protected groups today, nor possible variations in the outcomes for each group.

10.2 Evidence gaps on differential average impacts across protected characteristics

180. The evidence above also leaves several gaps in our understanding. First, these average figures do not demonstrate behaviours at the individual level, and cannot easily capture high-impact, low-incidence harm such as the subscription traps highlighted by the Citizens Advice survey.

181. Second, there are average differences in subscriptions to particular sectors across some protected characteristics. Over half of respondents to the Citizens Advice survey had experienced problems ordering face creams or slimming pills online. In addition, MMH suggests there are significant variations in subscription products by age. For example, 20% of respondents between 18 and 24 reported a gym membership, compared with only 4% of those over 65. News subscriptions show less variation; 11% of those between 18 and 24 reported having a newspaper subscription (including online) compared with 14% of those over 65. Our evidence on differing levels of harm in these sectors is limited, so we have not expanded on this analysis at this stage of our assessment.

182. Finally, it is likely consumers with certain characteristics are more likely to have personal circumstances which make managing subscriptions easier. For example, ONS data on digital exclusion suggest women, elderly people and people in ethnic minority groups are all less likely to have internet access. To the extent digital connectivity affects a customer's ability to manage their subscriptions, these groups may experience a smaller reduction in detriment than we assume in this assessment.

183. Addressing these evidence gaps is one of the purposes for this consultation. We will continue to engage with stakeholders across subscriptions markets to understand for what reasons consumers experience different levels of detriment today, and how they may respond differently to the options we are assessing. The results of this consultation will inform our preferences for the ultimate combination of options we believe meets the objectives for this policy.

11 Sensitivity assessment

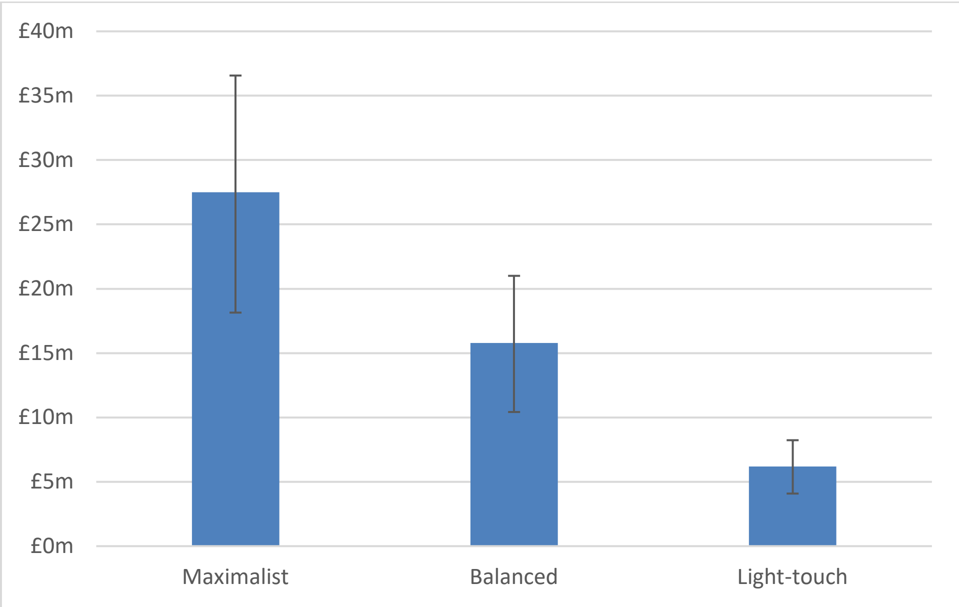
184. This analysis is very sensitive to the input assumptions. We identify three main sources of uncertainty in this analysis.

- We do not know the actual average monthly cost of a subscription service. Reasonable estimates we have found range from around £11.89 to £18.88 per month. For our central estimate, we assumed subscriptions cost £14.19, but we include here sensitivity tests for average costs at each of those extremes.
- We are not certain of the share of subscriptions consumers continue to pay for that they would rather cancel. During this assessment we have assumed 7% of subscriptions are unwanted, we explore the effects of whether 4% or 11% of subscriptions were unwanted instead.
- As stated above, we are not certain of which firms are in scope of these regulations. While we estimated 26,000 firms provide subscription contracts to consumers, we are not certain of the true number. Second, we understand some firms will already be in compliance with some of these regulations, and will not incur additional costs as part of these regulations.

185. To narrow the scope of policy selections, we limit the sensitivity analysis to the three main proposed options, the maximalist approach, requiring all regulatory options, our balanced option which does not include option 3, inactive subscriptions, and makes use of option 5b, exiting via the same means, and the light-touch approach including only the behavioural nudge options of reminders and auto-renewing.

186. These sensitivity tests are used as the high and low options on the summary pages for this document.

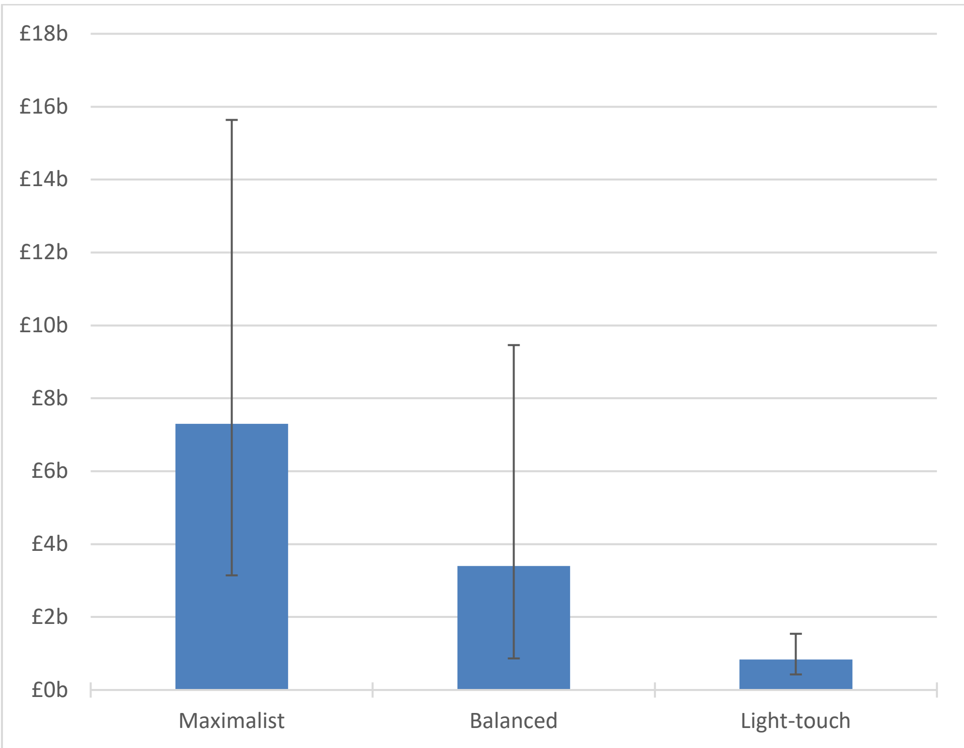
Figure 2: Changes to business costs for each policy option according to sensitivity assessment



187. As discussed in section 7, the number of firms that will be affected by this legislation is unknown, and the costs to firms of complying with these options is largely assumption-driven. To reflect this uncertainty, we have included sensitivity scenarios where the costs to firms increases and decreases by one third.

188. While this has the straightforward effect of increasing and decreasing the costs to firms by a proportional amount, it is notable high sensitivity scenario for costs to firms in the light-touch combination is greater than the low sensitivity scenario in the balanced option. Emphasising the difficulty in using our estimates of costs to firms as they stand in determining the preferred combined scenario.

Figure 3: Change in consumer benefits for each policy option according to the sensitivity assessment



189. A similar exercise for the reduction of consumer detriment over the 10-year period shows the size of the range for estimates of consumer detriment. These large ranges are a result of relying on consumer surveys to estimate the total detriment. Despite using multiple sources, the uncertainty

inherent in the sampling for a survey means there will be differences of several percentage points in the estimated share of subscriptions that consumers do not want, and a range of estimates foe the cost of those subscriptions.

12 Small and micro businesses assessment

190. In section 7, we assume the population of firms providing subscriptions is similar to the general population of consumer-facing businesses, and a firm's share of revenue is equivalent to its share of subscription customers. On this basis, we include small and micro firms in the scope of these policies. Small and micro firms account for around 35% of revenue among consumer-facing firms, and so, we assume, 35% of the consumer detriment from subscriptions. Excluding these firms would significantly reduce the benefits of this policy.

191. In this section, we use two of the three main policy scenarios to show the trends in our assumptions for costs to businesses. First in the balanced scenario, we see small and micro firms account for around 99% of businesses by number and 96% of the cost. While this suggests the cost per firm are lower than those for medium and large firms, it also illustrates the policies with lower overall costs are proportional to the number of firms, and not the number of subscribers that firm has.

192. By contrast, under the maximalist scenario, small and micro firms account for around 60% of the costs. This is because the costs of call centre capabilities are large and we assume they are proportional to the number of customers a firm has.

193. Overall, this sensitivity assessment demonstrates the costs to an individual business of these polices increases with the size of the business. In each of the main policy scenarios we consider, micro firms incur lower total costs than their share of the business population. While small firms incur a greater share of costs than their share of the population, the difference between a firm's share of the population and its share of the costs increases with the size of the firm. For the balanced and light-touch policy options, this suggests small firms carry around twice their share of the costs, while medium firms carry around three times their share, and large firms carry costs an order of magnitude greater than their share of the business population. For the maximalist policy scenario, the costs are skewed towards the largest firms.

194. However, when considering costs in proportion to the firm's share of revenue, we find these policies have a greater effect on small firms. Under our cost assumptions, the share of costs borne by micro firms under the balanced and light-touch policy options is three times their share of revenue. For small firms their share of costs is roughly equal to their share of revenue, while medium and large firms bear a far smaller share of total costs than their shares of revenue. Under the maximalist policy scenario, this is less pronounced.

Figure 4: Cost breakdown for firms under the balanced policy scenario (LHS) and share of firms (RHS)

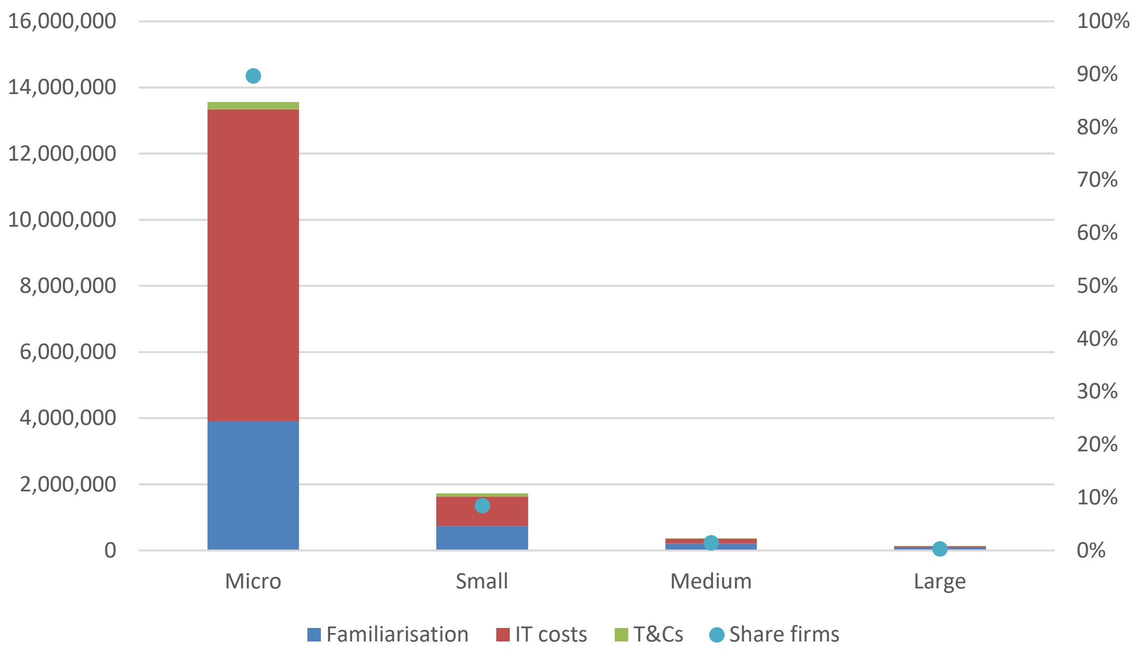
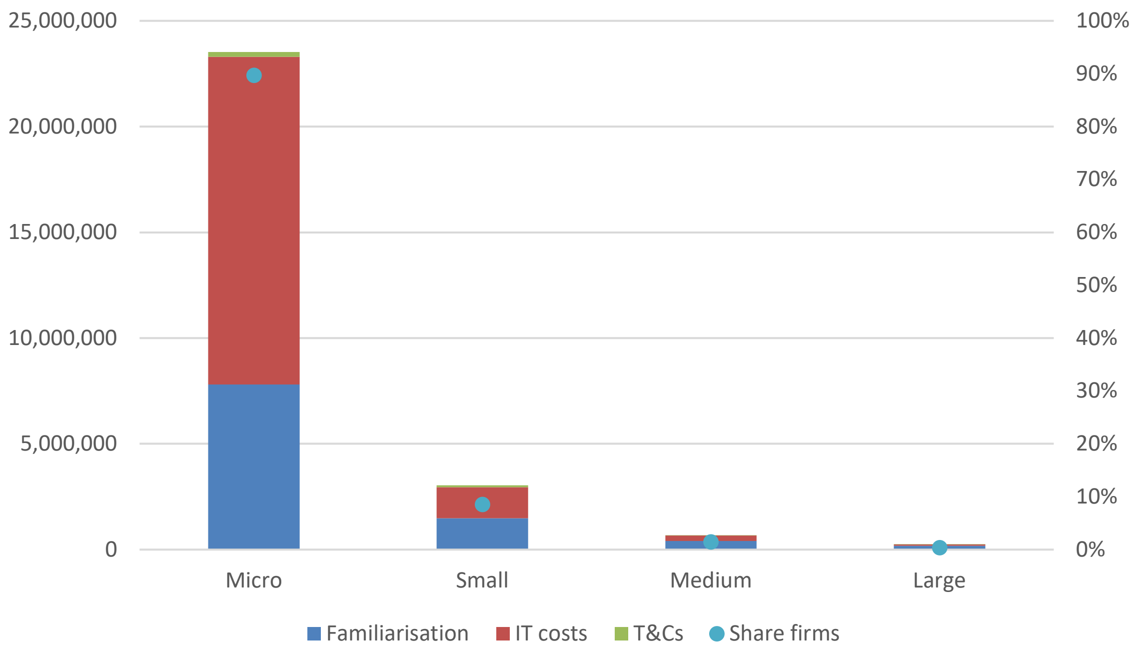


Figure 5: Costs breakdown for firms under the maximalist policy scenario (LHS) and share of firms (RHS)



Annexes

Annex A The independence of annual detriment estimate from the duration of an unwanted subscription

We calculate total detriment using this formula.

$$\frac{\text{No. of adults in GB} \times \text{No. of subscriptions per adult} \times \text{\% of subscriptions that are unwanted} \times \text{Length of time customers pay for unwanted subscriptions} \times \text{Monthly cost of a subscription}}{\text{\% of annual unwanted subscriptions captured in a survey}}$$

We use:

- $n =$ number of adults in GB
- $s =$ average number of subscriptions per adult
- $u =$ share of subscriptions that are unwanted
- $l =$ the mean length of time a consumer pays for an unwanted subscription
- $c =$ the mean monthly cost of a subscription
- $p =$ the share of annual unwanted subscriptions captured in the survey, note as above, we use $p = \frac{l}{12}$

$$\frac{n \times s \times u \times l \times c}{p} = \frac{n \times s \times u \times l \times c}{\frac{l}{12}}$$
$$= \frac{12(n \times s \times u \times l \times c)}{l}$$
$$= 12(n \times s \times u \times c)$$

Overall, we find the total annual detriment is 12 times the monthly cost of unwanted subscriptions, regardless of the average length of time consumers pay for unwanted subscriptions.

Annex B Shares of consumption in each industry directly from households

SIC code	Industry name	Share of demand from households	Number of firms	Total turnover (£m)
01 (Part)	Crop and animal production, hunting and related service activities	27%	6,500	1,800
02	Forestry and logging	19%	4,100	1,700
03	Fishing and aquaculture	1%	4,100	2,100
B	Mining and quarrying	2%	1,300	36,000
10	Manufacture of food products	36%	8,300	84,000
11	Manufacture of beverages	36%	2,400	22,000
12	Manufacture of tobacco products	36%	9	13
13	Manufacture of textiles	34%	4,400	6,000
14	Manufacture of wearing apparel	34%	4,000	2,700
15	Manufacture of leather and related products	34%	630	1,100
16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	7%	9,400	9,600
17	Manufacture of paper and paper products	6%	1,400	12,000
18	Printing and reproduction of recorded media	10%	12,000	11,000

SIC code	Industry name	Share of demand from households	Number of firms	Total turnover (£m)
19	Manufacture of coke and refined petroleum products	23%	120	39,000
20	Manufacture of chemicals and chemical products	10%	3,000	35,000
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	9%	650	20,000
22	Manufacture of rubber and plastic products	3%	5,700	25,000
23	Manufacture of other non-metallic mineral products	4%	3,700	17,000
24	Manufacture of basic metals	2%	1,800	17,000
25	Manufacture of fabricated metal products, except machinery and equipment	7%	28,000	38,000
26	Manufacture of computer, electronic and optical products	9%	6,000	23,000
27	Manufacture of electrical equipment	10%	3,000	14,000
28	Manufacture of machinery and equipment n.e.c.	5%	7,600	40,000
29	Manufacture of motor vehicles, trailers and semi-trailers	10%	3,400	79,000
30	Manufacture of other transport equipment	6%	2,400	37,000
31	Manufacture of furniture	31%	6,400	9,000
32	Other manufacturing	31%	9,700	11,000
33	Repair and installation of machinery and equipment	3%	14,000	19,000
D	Electricity, gas, steam and air conditioning supply	25%	5,600	100,000
36	Water collection, treatment and supply	47%	120	15,000
37	Sewerage	16%	1,100	3,300
38	Waste collection, treatment and disposal	16%	5,600	22,000
39	Remediation activities, other waste management activities	16%	1,000	1,100
F	Construction	2%	340,000	290,000
45	Wholesale and retail trade and repair of motor vehicles and motorcycles	55%	77,000	200,000
46	Wholesale trade, except of motor vehicles and motorcycles	12%	100,000	910,000
47	Retail trade, except of motor vehicles and motorcycles	74%	220,000	420,000
49	Land transport and transport via pipelines	28%	66,000	62,000
50	Water transport	33%	1,400	14,000
51	Air transport	7%	1,100	28,000
52	Warehousing and support activities for transportation	5%	20,000	68,000
53	Postal and courier activities	5%	22,000	22,000
I	Accommodation and food service activities	69%	160,000	100,000
58	Publishing activities	17%	12,000	22,000
59	Motion picture, video and television programme production, sound recording and music publishing activities	30%	27,000	32,000
60	Programming and broadcasting activities	30%	2,000	15,000
61	Telecommunications	34%	8,400	66,000
62	Computer programming, consultancy and related activities	4%	170,000	110,000
63	Information service activities	4%	8,500	17,000
L	Real estate activities	61%	100,000	67,000
69	Legal and accounting activities	1%	77,000	65,000
70	Activities of head offices, management consultancy activities	1%	180,000	85,000
71	Architectural and engineering activities; technical testing and analysis	2%	100,000	70,000
72	Scientific research and development	6%	5,500	21,000
73	Advertising and market research	1%	23,000	41,000
74	Other professional, scientific and technical activities	14%	77,000	22,000
75	Veterinary activities	14%	4,100	4,100
77	Rental and leasing activities	24%	18,000	39,000
78	Employment activities	1%	32,000	60,000

SIC code	Industry name	Share of demand from households	Number of firms	Total turnover (£m)
79	Travel agency, tour operator reservation service and related activities	65%	8,400	46,000
80	Security and investigation activities	4%	9,000	8,400
81	Services to buildings and landscape activities	4%	43,000	29,000
82	Office administrative, office support and other business support activities	4%	120,000	67,000
P (Part)	Education	16%	40,000	47,000
86	Human health activities	9%	23,000	16,000
87	Residential care activities	23%	11,000	26,000
88	Social work activities	23%	36,000	18,000
93	Sports activities and amusement and recreation activities	64%	34,000	27,000
94	Activities of membership organisations	55%	22,000	12,000
95	Repair of computers and personal and household goods	31%	9,400	6,400
96	Other personal service activities	83%	75,000	18,000
Total		25%	2,400,000	3,900,000