

3. The paradox of the digital consumer: more demanding but less aware of his rights

Growth of digital B2C transactions

The digital environment has dramatically changed the way consumers and businesses interact, by allowing easier remote B2C transactions. The rise in the use of online channels has driven the market to an unprecedented business model shift. In financial services, the change brought about by digital interaction has been big and had major implications for banks. However, on the customer side, the move over to these new digital environment has sometimes implied certain risks for their consumer rights.

New customer behaviour

There are some characteristics that define online customer behaviour and distinguish it from the way customers interact in the physical world:

- **24/7 service expectations**

Customers now demand services 24/7, rather than 9-to-5. In the physical world, financial service customers used to accept the regular business-hour model and were willing to wait until Monday to open accounts or apply for loans. This situation has changed: **customers expect companies to monitor their communications, complaints and compliments permanently**, regardless of the time, and wish to have instant answers to their demands. According to [Edison Research](#), 42% of customers expect service requests made online to be sorted out within 60 minutes, while 32% expect a response within 30 minutes. Around 57% expect the same response in the evening and at weekends as during normal business hours.

- **Omnichannel integration**

Online customers **expect firms to offer the same services and products through all channels** (web, in-store, tablet, mobile) and expect to switch between channels seamlessly. A credit card ordered over the phone should be ready to use when the customer buys in the store. A purchase made in a physical shop should be easily returnable through the app. In the banking sector, even though customers are expected to interact less with the branch, 62% of respondents to a PwC survey felt that it was important for them to have local branches. In the future, “branches” will probably be different, with more sophisticated ATMs or offices that provide virtual capabilities.

- **Customers expect companies to be proactive**

Customers are used to digital experiences and expect personalised help from the firms that support them in their financial management. Traditionally, banks' approaches to customers have been reactive but nowadays customers

expect the bank to notify them when their account balance has gone down to a level that puts them at risk of overdraft or alerts to be sent to them about suspicious credit card transactions. Moreover, if customers are in the process of obtaining mortgages, their bank should proactively inform them about their status.

- Customer empowerment

Customers want to be in control of when and where their communication with firms takes place and, what is most important, they are **ready to make the move into services that offer the best customer experience quickly**. As for financial services, customers consider their banking relationships as mainly transactional. Even if customers hold a checking account with their primary bank, they often buy high-margin products from other companies. They know that they will always be listened to, thanks to the social media options at their disposal. Social media customers have increasingly demanding expectations. When a customer says something about a company on Twitter, Facebook or any other social channel, they expect the company to answer and to do so instantly. Companies must dedicate resources to deal with the reputational risk associated with these social platforms.

Figure 1



Source: Provide Support.com (USA market)

With such exacting customers, **companies are compelled to innovate constantly** in order to shorten delivery times and satisfy increasingly high consumer expectations. Banks need to invest and move fast to be able to offer the best services online, while looking carefully at their processes to provide the best customer experience without compromising the quality of the service.

Digital consumer challenges

After analysing the profile of the new digital customer, we might reach the conclusion that, given that they are so well informed and proactive, they are likely to be more aware of their rights and take steps to safeguard them. However, counter-intuitively, it seems that **consumer rights are not as well protected in the virtual world as they are in the physical environment**. Key issues of concern in this regard are:

- **Excess information and the customer's so-called bounded rationality**

The Internet provides consumers with much better information about products, services and prices by means of social networks, comparison sites and discussion forums. Sometimes, they find the amount of information **overwhelming**. Traditional economic theory predicts that consumers are rational and that they will systematically search for and analyse information in the market before making a purchase. Nonetheless, obtaining and studying the information may be costly, due to rational consumers possibly failing to search the entire market before making a decision⁴.

Besides, and according to the theory of *bounded rationality*⁵, the purchasing patterns of consumers may be influenced by a number of behavioural biases that arise from phenomena such as specific context and psychological factors and which might induce errors in their decisions.

- **Lack of transparency**

When consumers interact online, **they are usually unaware of the identity of their contractual partner and the extent of their rights**. This may lead to consumer harm if problems arise after transactions. Regarding financial services, a recent survey of active users of peer-to-peer platforms⁶ has revealed that 60% of P2P consumers “did not know who was responsible if something were to go wrong and only 25% of P2P providers responded that they had a precise knowledge of their rights and responsibilities”. This lack of transparency of online intermediaries makes it difficult for consumers to claim their rights.

- **Data protection unawareness**

Consumers are willing to share their personal data with companies when there is a clear trade-off and they benefit from sharing it if this leads to a more tailored product or a better price. Recent surveys⁷ revealed that 67% of online consumers would grant investment advisory firms access to more personal data in return for benefits. Customers are sometimes not fully aware of the implications of consenting to the use of their data, due to the fact that they do not read all the information on such potential consequences, or else they just skim through it or only partially grasp the implications.

4: [The Future of Retail Financial Services. What policy mix for a balanced digital transformation?](#). CEPS. February 2107

5: [Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective](#). N Chater, S Huck, R Inderst_2010

6: [Key findings about problems consumers face in the collaborative economy](#). European Commission Factsheet. June 2016

7: [Investment advice: Maintaining trust amid shifting consumer demands](#). Accenture. January 2017

- Regulation not fully adapted to the digital environment

The omnichannel approach raises issues regarding the consistency of rules across online and offline channels, as the principle of non-discrimination across both types of channels has to be maintained. **No matter the means through which information is supplied to customers (paper, websites, apps), its content and the timing must be similar.** For instance, when the consumer uses mobile telephones in their search for a service, often with small screens that have space restrictions (affecting the number of visualised text, for instance), the information provided is not the same as the one provided via a computer screen. This issue has not been covered in financial services regulation yet.

Furthermore, in cross-border transactions consumers are confused about the implications of the national differences in consumer law and practices.

Consumer rights awareness and future EU regulations

The European Commission has recently completed its [Fitness check of consumer and marketing law](#) and one of the conclusions is that **many of the standards which are fully accepted in the physical world are still ignored when consumers, traders and providers interact in the virtual world.**⁸

The assessment confirms that there is a need to improve awareness, enforcement of the rules and how opportunities are addressed to make the best of existing consumer legislation, which is not properly adhered to in the online world. Regarding awareness of customer rights, surveys show that only four in ten people (41%) knew they had the right to a free repair or replacement if their goods are defective and only one third (33%) knew that they do not need to pay for or return products they did not ask for.

There is evidence that legislative changes are necessary in certain areas within the EU⁹ such as:

- Providing **more transparency** over both who consumers conclude contracts with when buying over online platforms (online marketplaces) and whether EU consumer laws apply to such contracts.
- **Extending certain consumer rights to contracts for online services where customers provide data instead of paying with money.**
- Simplifying rules and requirements, and **harmonising** regulation, to avoid problems raised by national differences in consumer law and practices.
- Studying the possibility of applying **behavioural insights** to financial regulations.

8: EESC's European Consumer Day 2017 Conclusions. Malta, May 2017

9: Targeted revision of EU consumer law directives. 2017 European Commission, June 2017

Conclusion

The new digital consumer is, on the one hand, exigent and proactive: customers are forcing firms to keep up with their demands by investing in technologies and developing analytics capabilities. These should help integrate and track a personalised service and the best customer experience across all channels, while also providing responses in real time. On the other hand, the digital consumer is not completely aware of his rights. Some online platforms do not comply with regulation, and the lack of transparency in information provided by companies is a central issue which the latter needs to address. **An appropriate balance between the level of complexity in the information provided and simplifying the processes whereby customers can understand their rights should be defined jointly by suppliers, consumers and regulators.**

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