

## **Integrated purchases in apps and online games – consumer challenges**

*Executive summary*  
June 2016

The increased availability of mobile devices and data plans is leading consumers to make greater use of mobile devices and applications; Canadians have on average 19 apps on their smartphones. The universe of mobile applications is a complex ecosystem in which numerous actors play a variety of roles. More and more mobile applications are now “freemium”: downloading them is free but involves the possibility of making in-app purchases that will supposedly improve the consumer’s experience or performance.

The freemium business model has several advantages for the industry. For developers and app stores, it’s a promising source of revenue. Developers are using this monetizing strategy more and more frequently. It’s now found in most types of applications – educational, musical, gaming, etc. – and the products sold through in-app purchases are also extremely varied – “level ups,” “personalities,” advertisement-free services, virtual currencies, etc.

Given developers’ increased use of the freemium model and its popularity among consumers, we explored consumer issues related to in-app purchases. To that end, we examined problems raised in the literature; the mechanism of in-app purchases from the consumer’s viewpoint (downloading, authorization, notices, collection of charges, etc.); the content of notices given to consumers before such an application is downloaded and during its use; and the various marketing techniques used for inducing consumers to make in-app purchases. Although our research pertained to applications intended for children as well as adults, we paid special attention to in-app purchases made by children – the issue most often reported and publicized in the media.

In our field research, we downloaded and used 33 applications from the app stores that hold the largest market shares in Canada. This enabled us to examine the sources of problems reported by consumers; the presence and effectiveness of disclosures made of the in-app purchases’ existence, types, prices and usefulness; and the procedure for acquiring the applications and making in-app purchases.

We identified a series of problems that consumers may face in using free applications with in-app purchases – notably the representations made about the applications’ free nature and the confusion such representations can cause; the marketing strategies used; the default settings of some devices and app stores; the collection of personal information; and the dispute-resolution process. We also observed that consumer protection laws in effect in Canada contain measures to protect consumers effectively regarding in-app purchases. However, our research reveals that there is a discrepancy between those regulatory frameworks and the virtual world in which in-app purchases take place. We point out major difficulties in implementing those consumer protection measures, as well as some flagrant violations.

*La force d’un réseau*

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A study of actions taken in foreign jurisdictions to better protect consumers who use freemium applications reveals very different approaches from one jurisdiction to another: the publication of documents to assist compliance, the adoption of specific legislation for digital content, or lawsuits. Although those actions have led to some changes in the business practices of app stores, none appear to be a panacea for all the problems that consumers may encounter by using this type of application.

The grey area where in-app purchases take place, and the fact that this is a new and rapidly growing type of business, complicate matters. The industry would thus benefit from adopting a series of better practices likely to better protect consumers and enable them to use the applications confidently. In that vein, we make numerous recommendations, notably related to the designation “free”: it should be used only if certain conditions are met by the developer and the app store to qualify the applications as freemium. The default settings of app stores and devices should be modified, to limit rather than facilitate by default any in-app purchases. Such purchases should be prohibited in applications intended for young children or likely to interest them particularly; etc.

We recommend cooperation between the various actors – industry, government authorities and consumer groups – to identify best practices and the most effective ways to protect consumers, notably against surprise bills generated by unauthorized in-app purchases. If the industry refuses to voluntarily adopt practices to better protect consumers, governments should take every available measure to ensure that business practices comply with consumer protection laws, and that consumers who use freemium applications are well protected and their rights respected. Lastly, we invite the two levels of government to support consumer digital literacy programs.

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French version available.

Union des consommateurs received funding from Industry Canada's Contributions Program for Non-profit Consumer and Voluntary Organizations. The views expressed in the report are not necessarily those of Industry Canada or the Government of Canada.