CFA
CFAnews
December 1999-
January 2000
Volume 25, No. 8
ISSN #0732-8281

Digital TV Poses Serious Consumer Threats

With stations in most major television markets beginning digital broadcasts in November, key public policy problems must be addressed to ensure that this new form of television plays a positive role in society, according to a report released in October by CFA and People for Better TV.

The report examines the major consumer implications of the transformation of television from an analog entertainment appliance to a digital, interactive communications and entertainment medium.

"There are massive economic forces shaping the digital TV industry that will have a profound effect on consumers," said CFA Research Director and report author Mark Cooper.

The substantial costs associated with obtaining digital broadcast equipment, upgrading TV distribution networks, and purchasing high definition TV sets makes it unlikely that digital television will spread easily through the population, the report finds.

Furthermore, a dramatic increase in television programming and the ability to target consumers directly with information and advertising will result in the equivalent of "direct mail on steroids."

Consumers will be able to click through for immediate purchases, and advertisers will be able to target their ads at demographically compatible viewers identified by detailed information on viewing patterns and past purchases.

Finally, whether signals are broadcast over-the-air or via cable or satellite, subscription services are expected to multiply and subscription fees are expected to rise.

Together, according to the report, these trends are likely to result in three major problems:

- abuse of private information;
- widening of the "digital divide;" and
- a dampening of programming diversity and civic discourse.

Abuse of Private Information Likely

With digital television, "the potential invasion of privacy will be massive," Cooper said.

"Advertisers will know not only what people watch, but also what they buy," he explained. "The interactive nature of DTV will provide a trail of personal information and buying activity that is unprecedented in marketing history.

"The potential to exploit consumers by using private information will be extraordinarily tempting to corporate America," he said.

Furthermore, as advertising becomes more powerful and targeted, through the use of personal information, and the purchase becomes more immediate, through the use of interactive technology, natural consumer defenses could easily be disarmed, Cooper warned.

"Electronic transactions provide little opportunity for consumers, especially children, to reflect on the purchase, and they make post-purchase action more difficult," he said.

High Costs Threaten To Widen Digital Divide

The expense of equipment, the cost of services, and target marketing will result in high value, high income consumers' being the most likely to participate and most likely to gain any potential benefits from DTV.

And the digital transformation does nothing to reduce economic, personal, and social barriers to the marketplace, the report notes. Instead, as the effects of the digital transformation spread, those who do not have command of the technology may become marginalized, the report predicts.

"The digital transformation may increase the problem of information 'haves' and 'have-nots,'" Cooper warned. "Those whom the digital divide has already disadvantaged may be further isolated."

Programming Diversity Threatened

The need to produce and sell commercial programming, which will be extremely profitable to broadcasters, may squeeze out educational, cultural, and informational programming, the report warns.

The gift of new broadcast spectrum free of charge to broadcasters came without any restrictions or responsibilities on how they use the new channels and air time, the report notes.

"It may take vigorous public policy intervention to ensure that digital TV serves the public interest with diverse program choices, socially relevant content, and access to the means of public expression of views," Cooper said.

Public policy should seek to ensure "that this new and powerful medium does not result in the abuse of political power by those who control it" and "that digital TV does not widen the gap between information haves and have-nots," he added.

Local broadcast stations are key to addressing these issues, because they play a vital role in the distribution of programming and because they are likely to be the ones that control the information for marketing purposes, the report finds.

"Because the allocation of the broadcast spectrum was a federal act, federal intervention is necessary to ensure that local use of the spectrum will be responsive to local demands," the report concludes.

"Federal regulators must use their authority to require local broadcasters to be responsive to local needs, provide access to local programming, and develop privacy policy that responds to local values," Cooper said.

The report is available on CFA's website at www.consumerfed.org/digitaltv.pdf and the website of People for Better TV at www.bettertv.org.

For a print copy of the report, send $10 prepaid to Digital TV Report, CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

Americans Waste Billions on Bank Fees

Through more informed use of banking services, consumers could save billions of dollars annually on bank fees, according to a report issued in November by CFA and the Credit Union National Association (CUNA).

Americans spend more than $25 billion a year just on checking and bank card fees – or more than $250 per household.

"American consumers could cut their bank fee expenditures by more than one-half if they just met minimum or average balance requirements in their checking accounts and made credit card payments on time," said CFA Executive Director Stephen Brobeck.

"Purchasing these two services from a credit union rather than a bank would also lower costs substantially," he said.

"By becoming more informed about what's in the fine print of their fee statements, many consumers could save over $150 a year," added CUNA Chief Economist Bill Hampel.

Americans spent nearly $20 billion in fees on deposit accounts last year and spent over $10 billion on such fees in the first six months of 1999, according to the FDIC.

The large majority of these fees are paid by individuals on checking accounts, including nearly $7 billion in fees for bounced checks and stopped payments alone, according to a 1998 CFA report.

Checking Fees See Slight Decline

"The only good news is that, between 1997 and 1998, most checking fees declined somewhat," Brobeck said.

At commercial banks, for example, bounced check fees fell from $17.30 to $17.01; stop payment fees fell from $14.98 to $14.19; "economy" checking fees declined from $3.17 per month (with nine free checks, then $.56 per check) to $2.74 per month (with 13 free checks, then $.38 per check).

"While encouraging, these fee reductions are not across-the-board and may reflect only a short-term trend," Brobeck said.

In contrast, credit card fees have been rising rapidly – to more than $10 billion paid by individuals last year. Annual fees rose 7.7 percent to $1.4 billion from 1997 to 1998, penalty fees rose 23.1 percent to $4.8 billion, and cash advance fees rose 36.7 percent to $4.1 billion.

"The good news for consumers is that, during this period, credit card interest paid by consumers declined from $57.6 billion to $56.7 billion," Hampel said.

"The alarming finding is that these other less obvious costs, such as late payment and over limit fees, have risen so sharply," he added. "Just by avoiding these penalty fees, many consumers could easily save over $50."

Credit Unions Charge Lower Fees

Credit unions continue to charge lower fees on checking accounts and credit cards than banks.

On interest checking, for example, monthly fees average $2.05 at credit unions and $7.42 at banks. On regular checking, monthly fees average $4.28 at credit unions and $6.72 at banks. And, on credit cards, late payment fees average $7.88 at credit unions and $27.45 at banks.

For a copy of the report, which includes consumer tips on how to reduce fees, send $10 prepaid to: CFA-CUNA Bank Fee Report, CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

1999 Legislative Wrap-Up

Financial Services

Financial Modernization – Congress passed and the president signed legislation (H.R. 10, S. 900, P.L. 106-102) tearing down the Depression-era barriers that have limited the ability of banks, insurance companies, and securities firms to enter one another's businesses. However, the new law does little to ensure that consumers benefit in the resulting world of financial supermarkets. Among its most serious short-comings are: its failure to require banks to offer low-cost lifeline bank accounts; its inclusion of a provision making it easier for mutual insurance companies to demutualize without fair compensation to policy-holders; its broad preemption of state authority to regulate the actitivies permitted by the new law, even where no federal protections for consumers exist; and its failure to provide adequate protections for consumers' confidential financial information. Under the new law, consumers will receive inadequate notice about information collection and use; they will be unable to gain access to their personally identifiable information to determine its accuracy or to correct errors; and they will have no control over the sharing of their private information with affiliates or even, in many cases, with outside parties. The one bright spot for consumers on the privacy issue was the inclusion of an amendment by Sen. Paul Sarbanes (D-MD) which preserves the ability of states to pass stronger privacy protections.

Bankruptcy "Reform" – The House passed legislation (H.R. 833) in May that would restrict the ability of financially strapped consumers to make a fresh start in bankruptcy by imposing a rigid new means test on debtors seeking to file under Chapter 7. Before adopting the legislation, the House turned aside a more balanced substitute, as well as a narrower amendment to add flexibility to the means test. Instead, the House adopted a weak credit card amendment that would, among other things, require credit card companies to disclose how long it would take to pay off credit card debt making only minimum payments, but not how much it would cost. The Senate Judiciary Committee reported out a virtually identical bill (S. 625) in April amid promises to consider a compromise on the floor. During several days of debate on the measure at the end of the session, however, the Senate defeated pro-consumer amendments: to invalidate claims against borrowers by creditors that had violated the Truth in Lending Act; to expand the list of allowable expenses for debtors to include such items as health care costs and child and spousal support payments; and to prohibit credit card companies from issuing a card to any consumer under 21 without first obtaining either proof of independent income or parental consent. The Senate did adopt an amendment limiting the value of real estate that debtors can exempt under state and local homestead laws. Ultimately, the Senate adjourned for the year without voting on the overall bill.

Financial Privacy – Bills were introduced in November in both the House – by Reps. Edward J. Markey (D-MA) and Joe Barton (R-TX) – and in the Senate – by Sens. Richard Shelby (R-AL) and Richard Bryan (D-NV) – to address shortcomings in the privacy provisions of the new financial modernization act. Both H.R. 3320 and S. 1903 would require financial firms, before sharing or selling confidential customer information, to obtain the customer's affirmative informed consent. They would apply that "opt-in" standard to the sharing of information among affiliates as well as with third parties.

Financial Planning Benefits – Included in the tax cut legislation (H.R. 2488) passed by Congress, but vetoed for unrelated reasons by the president, was a provision to clarify that employers can provide retirement planning services to workers and their spouses as a tax-free fringe benefit. Supporters of the measure are expected to attempt to attach it to other legislative vehicles.

Mutual Fund Performance Disclosure – The House Financial and Hazardous Materials Subcommittee gave voice vote approval in November to bipartisan legislation (H.R. 1089) to improve mutual fund performance disclosure by requiring fund companies to disclose after-tax performance.

Truth in Lending – Legislation (H.R. 1332) was introduced, but not acted on, to modernize the Truth in Lending law by raising the dollar limits on loans covered from $25,000 to $50,000 and by outlawing the use of the Rule of 78s to compute interest rebates on installment loan contracts for borrowers who repay loans early, refinance, or default on loans.

Payday Lending – Legislation (H.R. 1684) was introduced, but not acted on, to set minimum standards for state payday loan laws, limit the finance charges banks can impose, and require banks to comply with the payday loan laws of the state in which the borrower lives.

Disaster Insurance – Anti-consumer legislation (H.R. 21) was once again introduced to provide federal backing to the insurance industry in the event of catastrophic natural disasters. Virtually identical to legislation that was reported out of the House Banking Committee last year but never brought to the floor for a vote, H.R. 21 would establish a federal reinsurance program for state catastrophe pools and private insurers to cover up to $25 billion a year in residential property losses from earthquakes and ensuing fires, hurricanes, and tsunamis. CFA opposed the bill on the grounds that it: is unnecessary, would thwart further development of private reinsurance, provides inadequate assurance that consumers would have access to adequate and affordable insurance protection, contains weak loss prevention provisions, would increase the costs to taxpayers in states already paying the bill for federal disaster relief, and would provide federal backing to an industry the federal government does not oversee. The bill was reported out of committee in November.

Health Care

Managed Care Reform – Despite the adamant opposition of the Republican leadership, the House adopted pro-consumer managed care reform legislation (H.R. 2723) in October. It would: require a timely and independent external grievance and appeals system; hold managed care organizations legally accountable for negligence; allow health care providers to prescribe the right drug for their patients, even if that drug is not on the plan's formulary; guarantee patients a period of continuity of care with their physicians if the physician leaves the plan; require comprehensive disclosure of information to enrollees; allow patients to have direct access to specialists in some cases; and protect the doctor-patient relationship, by ensuring that physician decisions prevail over plan objections if upheld by an external review and by eliminating improper physician incentive plans. In the Senate, however, Republican leaders succeeded in defeating pro-consumer legislation (S. 6), as well as numerous strengthening amendments, before adopting a weak alternative (S. 1344) on a 53-47 vote. The bill falls short of the House bill in many ways. Most notably, most of its protections apply only to the 48 million patients in health plans that are exempt from state regulation, while the House bill's protections apply to all 161 million Americans enrolled in private insurance plans. Also, the Senate bill does not: guarantee access to specialists; ban gag clauses and financial incentives to deny care; ensure that doctors, not health plans, have the final say over what is medically necessary for the patient; or hold plans legally liable when they make medical decisions that result in harm to the patient. A conference committee will attempt to work out differences between the two versions next year. Consumers suffered a serious set-back, however, when House Republican leaders appointed opponents of the House bill to all but one of the Republican slots on the conference committee. Also, the administration has threatened to veto the bill if it includes House insurance access provisions that the administration argues would add enormous costs that are not paid for in the bill and would benefit only the healthiest and wealthiest Americans.

Medicare Prescription Drug Benefits – The prospect of budget surpluses led some in Congress and the administration to suggest expanding Medicare coverage to include prescription drugs. However, the Senate rejected a motion by Sen. Edward M. Kennedy (D-MA) to recommit the budget bill (S. 1429) in order to provide funding for a Medicare prescription drug benefit program.

Drug Patent Extensions – Bills were once again introduced in both the House and Senate (H.R. 1598, S. 1172) that would allow patent extensions for top-selling prescription drugs, thus delaying competition from generic alternatives. Hearings were held in both the House and Senate, at which CFA testified in opposition, but no further action was taken.

Patient Privacy – When Congress passed the Health Insurance Portability and Accountability Act in 1996, it imposed a deadline of August 1999 for enactment of comprehensive health privacy legislation. Although numerous medical privacy bills were introduced this year, none was enacted by the August deadline. As a result, the issue shifted to the administration, which issued proposed rules in October. Final rules are expected to be adopted this year.

Health Research Giveaways – Bipartisan legislation (H.R. 626) was introduced, but not acted on, to prevent companies from overcharging for prescription drugs and other health care technologies developed with federal funds.

FDA Funding – Congress approved a $1.18 billion budget for the Food and Drug Administation in fiscal year 2000, $70 million more than the agency received in 1999. Although the increase was less than the $90 million in additional funding requested by the administration, it did include the full $30 million extra requested for food safety. CFA and other consumer and health organizations had argued for an even larger increase to allow the agency to meet its regulatory responsibilities and to fund efforts in the areas of drug reviews, investigations of direct-to-consumer advertising for pharmaceutical products, enforcement of regulations governing off-label promotions of drugs and medical devices, and study of the safety of pharmaceuticals for children.

Product Safety

Product Liability – The House Judiciary Committee debated legislation (H.R. 2366) to limit the ability of consumers injured by dangerous or defective products to recover damages. Like product liability bills considered in previous congresses, the bill would cap punitive damages at $250,000 or three times compensatory damages, whichever is less, restrict the cases in which punitive damages could be awarded, restrict joint and several liability, and preempt state laws that offer stronger protections to consumers. Unlike previous bills, however, this year's version applies only to manufacturers with fewer than 25 full-time employees and to product sellers. During the markup, the committee defeated an amendment to add balance to the bill by extending the state preemption language to cover laws that favor business over consumers. No action was taken on the companion bill in the Senate (S. 1185).

Handgun Safety – In the wake of the Columbine High School shooting deaths, a number of gun safety measures were given serious attention during the debate on the juvenile justice bill. Although the Senate included both a child safety lock requirement and a gun show background check requirement in its bill (S. 254), the House rejected even a watered down version of these protections. Conferees had still not produced a compromise by the end of the session. CFA had endorsed a child safety lock bill (H.R. 515), introduced by Rep. Julia Carson (D-IN), which went farther than the Senate provisions, by requiring that minimum safety standards be developed for firearm locking devices to ensure that the locks work effectively. CFA also endorsed legislation (H.R. 920, S. 534) to grant the Department of the Treasury important health and safety authority over firearms, including the authority to set minimum safety standards, issue recalls, and mandate safety warnings. No action was taken on the measure.

Food and Nutrition

Food Safety Agency – Sen. Richard Durbin (D-IL) and Rep. Laura DeLauro (D-CT) introduced companion bills (S. 1281, H.R. 2245) to create a single food safety agency. The bills would consolidate functions that are currently scattered among 12 agencies and governed by 35 different laws. A hearing was held, at which CFA

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testified in favor of the legislation, but no additional action was taken.

Imported Food Safety – Bills were introduced in both the House and Senate (H.R. 2055, S. 1126) to improve the Food and Drug Administration's ability to protect American consumers from adulterated imported food. Although the administration announced an imported food safety initiative in July, accomplishing a number of the bills' objectives, the legislation is still needed to give the Food and Drug Administration the same authority the U.S. Department of Agriculture has to require that imported foods under its jurisdiction be produced and packaged under circumstances that provide the same level of health protection required for domestic food producers and processors.

Produce Safety – Legislation (S. 823) was introduced, but not acted on, to improve the safety of processed fresh fruits and vegetables. The bill would give the force of law to existing voluntary good manufacturing practices for ready-to-eat fresh produce and would grant the Food and Drug Administration authority to enforce santitation standards, develop safe produce growing and harvesting guidelines, increase research on produce-related illness, and begin developing performance standards for the safety of fresh produce.

Farm Aid – Congress included an $8.7 billion emergency farm assistance package in its agriculture appropriations bill, but without adopting reforms necessary to ensure that the aid reaches small farmers most in need of assistance. Congress is expected to take a fresh look at all government farm subsidies next year.

Dairy Compacts – As part of the omnibus budget bill passed at the end of the year and signed by the president, Congress approved a two-year extension of the Northeast Interstate Dairy Compact, which lets a regional commission set a farm price for milk that is higher than the price dictated under the federal dairy program. The bill also nullified the modest pro-consumer reforms in the milk pricing provisions of the federal dairy program. By updating and moderating regional add-ons to the farm price of milk that have been a feature of the federal dairy program for years, the reforms would have saved consumers nationwide about $200 million a year. In a modest win for consumers, Congress did stop short of endorsing proposals to expand the Northeast compact to the mid-Atlantic states and to establish a new Southern dairy compact. In addition, Senate opponents of the dairy provisions won a commitment from the leadership to revisit dairy issues next year.

Sugar and Peanut Programs – Bills were introduced in the House and Senate to reform the sugar program (H.R.1850, S. 1118) and the peanut program (H.R. 2571, S. 802) by phasing out price supports over a period of several years. Although those bills were never brought to a vote, Sen. John McCain (R-AZ) did offer an amendment to the agriculture appropriations bill to prohibit the Agriculture Department from using money provided in the bill to fund the sugar program. The amendment was defeated.

Utilities

Electric Deregulation – The House Energy and Power Subcommittee reported out legislation (H.R. 2944) in October to deregulate the electricity market. The bill is opposed by consumer groups on the grounds that it: would deregulate without first ensuring that the generation market will be competitive; fails to guarantee reasonable and affordable rates; fails to require open, nondiscriminatory access to transmission services; creates a major obstacle to consumer aggregation; fails to impose any oversight over financial transactions to ensure the smooth function of the market; contains no provisions to preserve or improve environmental quality; and does not outline a clear and equitable strategy for assigning stranded costs. The Senate Banking Committee also reported out anti-consumer legislation (S. 313), in this case a bill that would prematurely repeal the Public Utility Holding Company Act.

Transportation

Auto Salvage – Both pro- and anti-consumer auto salvage bills were introduced in the Senate this year. The pro-consumer bill (S. 678) – drafted by Sens. Dianne Feinstein (D-CA), Carl Levin (D-MI), and Richard Bryan – would require disclosure of major damage to vehicles, provide broad coverage of most used vehicles, prevent laundering or washing of titles to conceal prior damage, provide for effective criminal and civil enforcement, and establish a federal minimum standard of consumer protection while preserving the right of states to offer stronger protections to their citizens. In contrast, S. 655, sponsored by Senate Majority Leader Trent Lott (R-MS), would actually make it more difficult for consumers to seek recourse when they unknowingly purchased vehicles that had been wrecked, refurbished to hide the prior damage, and sold without safety inspections or disclosures of their prior history. No action was taken on either bill.

Highway Safety – The House approved legislation (H.R. 2679) to create a strengthened National Motor Carrier Safety Administration within the Department of Transportation to improve safety regulation of trucks and buses. While calling the bill a first, tentative step toward comprehensive motor carrier safety reform, consumer groups critized the measure for co-mingling safety and economic regulation. Safety advocates instead endorsed legislation (H.R. 507), introduced by Rep. Frank Wolf (R-VA), to move the agency into the National Highway Traffic Safety Administration. A Senate bill (S. 1501) follows an approach similar to that adopted by the House, but would go further, by requiring the new agency to implement all the reforms advocated in a recent inspector general's report. Hearings were held on the bill, but no action was taken.

Government Reform

Campaign Finance Reform – For the second year in a row, the House passed strong, bipartisan campaign finance reform legislation (H.R. 417). Among other things, the bill would ban soft money contributions and restrict issue-oriented advertising. In the Senate, however, a narrower version of the legislation, sponsored by Sens. John McCain (R-AZ) and Russell Feingold (D-WI), came under attack from both ends of the political spectrum and bogged down in procedural maneuvering. As part of that debate, Minority Leader Tom Daschle (D-SD) attempted to bring the House version to the Senate floor. Faced with a Republican-led filibuster, however, that effort fell eight votes short of the 60 needed to end debate and proceed to a vote.

Mandate Restrictions – The House passed legislation (H.R. 350) allowing a point of order to be raised on the House floor against any bill that imposes implementation costs of more than $100 million on the private sector. The point of order would trigger 20 minutes of debate followed by a vote on whether to proceed. Before adopting the bill on a 274-149 vote, the House first rejected pro-consumer amendments: to allow the point of order to be raised, triggering the extra debate, but without triggering the procedural vote on whether to proceed; and to extend the bill's procedural protections to legislation that would weaken health, safety, and environmental protections.

Record-keeping Violations – Early in the session, the House adopted legislation (H.R. 391) limiting the ability of federal agencies to impose civil fines against first-time violators of federal record-keeping and reporting requirements. Before adopting the bill, the House first turned aside an amendment that would have restored agencies' ability to fine willful violators. Instead, the House adopted a weaker amendment permitting agencies to impose civil fines on first-time violators if the violation has the "potential to cause harm" to the public interest. A hearing was held on the issue in the Senate Committee on Government Affairs, but no further action was taken.

Regulatory Reform – Legislation (S. 746, H.R. 1074) was once again introduced to impose new burdens on federal agencies seeking to adopt regulations, particularly health and safety regulations. Both bills would impose burdensome new risk assessment, cost-benefit analysis, and peer review requirements and would make most steps of the process subject to court challenge. The House adopted its bill in July. The Senate bill was reported out of committee but was not brought to the floor for a vote.

Miscellaneous

Class Action "Reforms" – The House passed legislation (H.R. 1875) to end state court jurisdiction over most state class actions, even when they involve violations of state law. This would add to already substantial delays experienced in federal courts. The bill also regulates attorneys fees, without regard to the differences among cases, and mandates sanctions for "frivolous" lawsuits, undermining attempts to extend the law in innovative ways. Subcommittee hearings were held on a similar bill in the Senate (S. 353), but no further action was taken.

Y2K Liability – Congress passed and the president signed legislation (H.R. 775, S. 96, P.L. 106-37) limiting the liability of companies responsible for Y2K computer processing failures. Among other things, the new law: eliminates joint and several liability; makes it more difficult and costly to bring class action lawsuits; caps punitive damages in most cases against defendants with a net worth less than $500,000 or businesses with fewer than 50 employees; and allows disclaimers against implied warranties. An amendment in the Senate to exempt consumer cases from the legislation was defeated.

Antitrust Funding – The president proposed, and consumer groups supported, a 16 percent increase in the Department of Justice Antitrust Division budget for FY 2000. Microsoft Corporation, meanwhile, lobbied to see the division's budget cut. Congress approved a 12 percent increase for the agency in the Commerce, Justice and State appropriations bill, which was vetoed by the president for unrelated reasons. The budget increase was ultimately included in the omnibus budget bill passed at the end of the session and signed by the president.

Electronic Signatures – Both the House and Senate passed bills (H.R. 1714, S. 761) to establish minimum federal standards for the use and recognition of electronic signatures. Consumer groups supported the Senate bill, but opposed the House bill. Among other things, the House bill would allow crucial notices now required to be on paper and handed to consumers to be posted on a web site, even when the consumer conducted the business transaction in person and regardless of whether the consumer even owns a computer. In addition, the House bill contains broad state preemption language, including language that blocks states' ability to ensure that records are retained in a manner that is accessible to state regulators and in a format that can be used to protect against fraud. Before adopting its anti-consumer bill, the House defeated a Democratic substitute similar to the Senate bill on a 126-278 vote. A conference committee is expected to begin work in the next session to produce a final bill.

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1424 16th Street, N.W., Washington, D.C. 20036
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CFAnews is published eight times a year. Annual subscription rate is $25 per year.

Design & Typeset by: Dahlman/Middour Design

Cyber Pitfalls Await Internet Shoppers

Consumers who shop over the Internet must overcome serious barriers to obtaining comparative pricing and other important information, according to a CFA study released in November.

"The unprecedented and dramatic benefits that the Internet offers consumers are accompanied by an equally large opportunity for consumer abuse and misinformation," said CFA Public Affairs Director Jack Gillis.

"The very technology that has the potential to harness incredible power for consumers also has the ability to subtly and effectively mislead consumers without their even being aware of the deception," he added.

The CFA study – its first analysis of shopping on the Web – uncovered five significant consumer problems:

- search engines that lead the shopper to paid advertisers rather than to the best prices;
- undisclosed shipping and handling charges that dramatically raise the real cost of the product;
- sites that offer different prices for the same item depending on how the site is entered;
- searches that lead to unwitting disclosure of personal information; and
- failure of web searches to include important brand names.

CFA conducted its study using search engines on such popular website portals as Yahoo, Lycos, MSN, Excite, and CNET. These sites allow the shopper to enter certain keywords and receive information in return about the pricing of the product searched.

The study found, however, that it is common practice to sell keywords and preferred placements on many search engines.

The danger is that consumers will be misled into believing they are getting an objective search return when that is not the case, Gillis said.

Search Engines Produce Biased Results

He cited an example from the study in which the keyword "camcorder" was entered on the Lycos website search engine. The first returned page featured a link paid for by a specific video retailer and headed, "Start Here: Click to Save $ on Camcorders & Electronics."

If the user clicks on "Start Here," the products and prices returned are limited to whatever this particular merchant, who has paid to be found by the search, has to offer.

"Such tactics allow the consumer to be lulled into thinking that they truly have the best price," Gillis said.

Shipping prices – as high as 10 to 15 percent of the purchase price – are also typically omitted from the advertised selling price that lands a high spot on the web search, the study found.

"Often, such additional charges completely change the result of the original search," Gillis said. "The only way for consumers to know which is really the best value is to look up the shipping fees and add the fees back into the product's original price."

The study also found that searching the same site in different ways could result in different prices for the same product.

For example, when test shoppers looked for the Panasonic DVDA320 on Yahoo using the shopping link and the search bar, a retailer called GiantSavings.com showed up in each search.

Test shoppers who used the shopping link were quoted a price of $499.99 for the DVD player. When they used the search engine/search bar technique, however, the same store offered the item for $399.99, a $100 difference based solely on how the site was entered.

Prices Vary Dramatically

The study also uncovered major price differences based on the portal used to conduct the search.

For example, the lowest priced retailers on AltaVista, Amazon, AOL, and CNET offered the Panasonic DVDA320 for prices ranging from $370 to $400. On Excite, however, the lowest price was $550.

Price and product selection on the Web is complicated by the fact that certain major brands have policies barring sales on the Internet.

"When key brands are not included in a web search, the chances that consumers are getting the best price and value are reduced," Gillis warned.

Finally, the study found that consumers may have to disclose personal information in order to obtain price and product information, particularly when using Internet shopping clubs.

For example, the AOL shopping club, NetMarket, offers prices that initially seem attractive, the study found. Only after filling out a form that includes name, address, telephone number, and email address does the shopper learn that membership costs $69.95 a year.

"Worse, if the consumer decides not to go ahead with the membership, his or her personal information is already in the hands of the shopping club and cannot be retracted," Gillis said.

While the Internet offers consumers a powerful new means of obtaining comparative price and product information, the market is still marred by serious pitfalls, the study concludes.

"The new technology and implied impartiality of the Web, combined with manipulative selling practices, offer a new and potent brew of consumer hazards," Gillis said.

One tool to help consumers circumvent these problems is a website – www.bargains.org – operated by the Center for the Study of Services, a nonprofit CFA member and publisher of *Checkbook* magazine.

The site does not sell placements on its search engine and makes special efforts to ensure that information is straightforward, not misleading, and covers the broadest array of products possible.

For a copy of the report, send $10 prepaid to Internet Shopping Study, CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

Complaints Rise, But Not Complaint Agency Budgets

Complaints to state and local consumer agencies rose 49 percent between 1996 and 1998, according to the eighth annual survey of consumer complaints released in November by CFA and the National Association of Consumer Agency Administrators (NACAA). During the same period, the budgets of these consumer protection agencies rose only two percent.

"For several years, consumer protection agencies have handled a rising number of complaints with roughly the same resources," said CFA Director of Consumer Protection Jean Ann Fox. "If consumer protection agencies are to be effective in deterring fraud and helping consumers resolve problems, their funding should keep pace with their workload."

NACAA Executive Director Wendy Weinberg noted that newer consumer concerns, such as problems with the Internet, have risen dramatically since the last study. "However, the bulk of consumer complaints to local agencies still concern the traditional big-ticket categories," she said.

According to the 50 reporting consumer agencies, auto sales, auto repair, and home improvements continue to far outpace all other types of grievance, as they have each year since 1994. Approximately seven in ten agencies listed each of these three areas among the top five areas of complaint in the most recent study. Also included among the top ten problems were: household goods (48 percent), credit/lending (40 percent), mail order (24 percent), auto leasing (20 percent), landlord-tenant (20 percent), utilities (18 percent), and travel/tourism (16 percent).

Home improvement complaints generated the biggest increase in complaints from 1997 to 1998. Also seeing significant increases were auto leasing, consumer credit, and Internet problems.

Based on the study findings, many NACAA members urge reforms in the areas of the sale and repair of automobiles, such as requiring the licensing of repair shops and requiring 30-day warranties with the sale of used cars. Agencies also proposed federal legislation to set standards for privacy, security, and merchant disclosures for Internet transactions.

NACAA announced a new Internet service, at www.nacaanet.org, to help consumers complain effectively and efficiently. In addition to providing advice on how to approach a consumer problem, the site includes a listing of consumer protection agencies across the country with hotlinks to those that take complaints on-line.

The complete NACAA/CFA report is available online at www.nacaanet.org. For a print copy, send $10 prepaid to CFA/NACAA Consumer Complaint Study at CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

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