Cell phone 'bill shock' warnings can leave consumers worse off, says new study

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Policies that push cellphone carriers to alert customers when they're about to exceed their plan limit are supposed to make things better for consumers.

But just the opposite may be happening, says a study from faculty at the University of Toronto's and Boston College.

It shows that such warnings can be more costly, because cellphone companies adjust their plans and fees accordingly to maintain profits. While some consumers do benefit, others either decrease or stop usage, end up with more expensive plans or continue to underestimate their usage and choose the wrong plan.

"Fixed prices go up, free minutes go down and then some of the overage rates drop. But the overall effect is that the average person pays more," says Matthew Osborne, an assistant professor of marketing at the University of Toronto Mississauga, cross-appointed to UofT's Rotman School of Management, who co-wrote the paper with Michael Grubb, an assistant professor of economics of Boston College.

How much more? In the data and modelling the researchers used, bill shock alerts cost people an average of $33 extra. Those who chose to stay on the most expensive plans fared best.

The researchers used monthly billing data for a group of student cellphone customers between 2002 and 2004. That formed the basis of a model for what their usage and plan choices would look like under billing alerts, which many cellphone companies did not adopt until a federal agreement took effect in the U.S. in 2013.

Although much has changed in the mobile phone world in the last decade and students' choices may not reflect the broader market, verification tests run by the researchers suggested bill shock alerts still take a toll.

That should lead policy-makers to reconsider what measures will actually benefit consumers, says Prof. Osborne, suggesting education efforts could help consumers make more realistic decisions around their mobile phone service.

"Perhaps a better avenue is policy that helps consumers do a better job of forecasting their usage," he says, such as encouraging more detailed summaries of past usage or average use over a year.

The research could have application to other services where consumers need to monitor their activity to avoid extra costs, such as banking overdrafts, utility services and even health insurance.

The study is published in a recent issue of *American Economic Review*.

Provided by University of Toronto

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