choice
THE PEOPLE'S WATCHDOG

Submission to 'App purchases by Australian consumers on mobile and handheld devices'

February 2013

About CHOICE

CHOICE exists to unlock the power of consumers. Our vision is for Australians to be the most savvy and active consumers in the world.

As a social enterprise we do this by providing clear information, advice and support on consumer goods and services; by taking action with consumers against bad practice wherever it may exist; and by fearlessly speaking out to promote consumers' interests – ensuring the consumer voice is heard clearly, loudly and cogently in corporations and in governments.

To find out more about CHOICE's campaign work visit www.choice.com.au/campaigns and subscribe to CHOICE Campaigns Update at www.choice.com.au/ccu.

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Introduction

In recent years there has been a growth in games which require in-app purchases. These games often do not function properly without some form of digital currency which must be purchased with real money. As CHOICE research has shown, the games are sometimes marketed at children who have little understanding that they are spending actual money.

CHOICE investigated these games in 2011 when we awarded a Shonky to *Smurf Village* for requiring gamers to buy 'Smurfberries' with real money in order to play and enjoy the game.

CHOICE has continuing concerns about the lack of disclosure of in-app costs and the lack of safeguards against unauthorised in-app purchases.

Smartphones and apps in Australia

Australians are the second highest per capita users of smartphones in the world, behind Singapore. According to research undertaken Google[1] in 2012, 52% of Australians over the age of 16 currently use a smartphone. This number has risen 15 points since the survey was conducted in 2011, indicating that smartphone penetration in the Australian market is increasing rapidly.

The average Australian smartphone user has 27 apps, most of which are 'free'. Meanwhile, 63% of smartphone users play games on their devices, making it the fourth most popular use behind emailing, browsing and social networking.

Apps are also available on tablet devices, which have also become more widespread in Australia. According to separate research last year[2], almost 20% of Australian households have at least one tablet device.

Access to smartphones and apps by children

With smartphone and tablet penetration so high, it is clear that many Australian children will have access to the devices of parents and other family members. However, research by the ABS[3] last year shows that many children also have their own devices. In fact 29.4% of children between the ages of 5 and 14 have their own mobile phone, including 21.5% of 9-11 year olds, and 73.4% of 12-14 year olds.

After education, playing games is the most popular online activity for children between the ages of 5 and 14. Over 65% of children use the internet for games. This is higher for children between 5-8 (66.4%) and 9-11 (69.7%) years of age.

Children therefore have ample access to both smartphone and tablet devices, and online games.

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[1] Google, (May 2012), *Our Mobile Planet: Australia*
[2] *The Australian,* (09th October 2012), *One in five Australian households has tablet device such as iPad*
[3] Australian Bureau of Statistics, (April 2012), *4901.0 - Children's Participation in Cultural and Leisure Activities, Australia*

In-app purchases

Many parents make apps and games available to children. Research by Bond University[4] shows that approximately 40% of parents who play games themselves and over 20% of parents who don't play games themselves consider games a trusted form of entertainment.

However games relying on in-app purchases often engage users in some form of on-going task, such as 'building' and 'running' a virtual village, city, or farm, etc. Progress within these games is slow or in some way incomplete, requiring a form of non-tangible digital currency to operate effectively. In many cases, this digital currency, be it 'donuts' or 'Smurfberries' or something similar, must be purchased with actual money which is billed to the credit card attached to the app account.

The sum paid for these digital currencies can be significant. For example, a 'wagon' of 2,000 'Smurfberries' in the popular game *Smurf Village* costs $109.99. While this could be considered unreasonable to many consumers, children often do not understand that they are spending real money, or how much they are spending.

Users are sometimes prompted to buy these in-game currencies while playing, as if it is a normal part of the game play rather than an exceptional transaction. These games often revolve around collecting goods and trading them for other goods, so the idea of 'buying' something is not a major deviation from how the games are played. This is especially true for some games which have in-game 'money' represented as coins or dollars, such as *Smurf Village* and the Simpson's *Tapped Out*.

It is clear that some of the games that include in-app purchasing are marketed at children. Figure one below is a screen shot of the game *Fun Run*. It includes cuddly and cartoon-like characters, which clearly appeal to children. Other games are based on popular children's franchises such as the Smurfs and the Simpsons.

Figure 1.

Screenshot of *Fun Run* retrieved from the iTunes store.

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[4] Bond University, (2012), *Digital Australia 2012*

Importantly, while these games often require the purchasing of digital currencies in order to work effectively, they are advertised as 'free' in app stores. While the relevant pages in the app stores do include disclosures of the in-app costs, these are not visible when viewing the page in landscape (see figure 2), unless you scroll down. The disclosures are not included **at all** when viewing the app from a search result (see figure 3), despite the fact that you can download directly from the search results. In both these instances, the app appears as 'free'.

Figure 2.

Screenshot of the app store with in-app costs not visible.

Figure 3.

Screenshot of the app store search results with in-app costs not visible.

Inadequacy of current safeguards

While there are some mechanisms in place at the moment to prevent unauthorised in-app purchasing, CHOICE considers them to be inadequate. The two main mechanisms include:

1. Passwords for app purchases and in-app purchases

2. Restrictions on all in-app purchases.

Accounts will often have a password, such as those which exist for Apple iTunes accounts. However, these are the same for in-app and app purchases. Parents may give their password to their children to buy 'free' games, and not realise the password is being used for in-app purchases. There is also a window of time between entering the password to install a 'free' game when in-app purchases can be made without re-entering the password.

In addition to account passwords there are also options to implement other restrictions on in-app purchases. On Apple products this is done from the devise settings, and for Android products this is done from the app store settings. However this is not prominent, and can be confusing. For example on the iPad the option is stored under 'restrictions'- however instead of turning the restrictions 'on' you turn the allowed content 'off'.

Because the apps are displayed as 'free', it is unlikely that parents will be aware of the needs for these sorts of restrictions until after they have been charged.

Recommendations

The problems with the current system relates to disclosure of in-app purchases and safeguards against unauthorised in-app purchases. Accordingly, CHOICE would like to make the following recommendations:

> *Recommendation 1:*   All games which include in-app purchases should be required to disclose their costs prominently at the point of sale. Consideration should be given to a mandatory popups warning consumers that they are buying a game with in-app purchases. When installing a game with in-app purchases a password must be supplied, even if the game is free to install.

> *Recommendation 2:*   A double opt-in mechanism should be implemented for in-app purchases. For example in-app purchases should require a pin or password which is different to the app store password for the account. All in-app purchases should require both the app store password and the unique in-app purchase password.

> *Recommendation 3:*   All in-app purchases should require a password, with no exceptions.