



*“The consumer’s financial capability: a  
regulatory’s perspective”*

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## **The consumer’s financial capability: a regulatory’s perspective**

(Gianni Nicolini<sup>1</sup>)

### **Abstract**

*The increasing level of complexity of financial products means that there is a need for a higher level of consumer financial capability. A market able to reduce the current gap in information and financial expertise between financial intermediaries and consumers would have the effect of reducing the risk of over-indebtedness, default or bankruptcy). This would also generate more competition between lenders and thus raise the overall efficiency of the market.*

*This paper analyses the topic from a regulatory perspective based upon the different approaches that the main European countries currently take towards financial literacy. The analysis shows a choice between an ‘invasive approach’ and an ‘information approach’.*

*The objective of this paper is to evaluate whether or not a regulatory initiative designed to stimulate debtors’ perception of their own financial capabilities would be advisable. The proposal for a financial capability index is addressed. In addition, guidelines for selecting the information to be used in the index are discussed.*

*The financial capability index, is meant to help the consumer estimate his/ her financial situation and to evaluate the impact that a (new) load would have on his/her current financial situation. This paper is meant to be a preliminary study, preparing the way for a more elaborate proposal for a financial capability index.*

**Keywords:** Financial capability, financial literacy, regulation, over-indebtedness.

**JEL Classification:** G14, G18, G28

### **Contents**

#### **Introduction**

1. Financial capability as a problem with different solutions
2. The role of legislation in the different approaches to the subject of financial capability: invasive approach vs. information approach
3. The current regulatory framework
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#### **Conclusions**

#### **References**

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