Nudge of shared information responsibilities: a meso-economic perspective of the Italian consumer credit reform.

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Abstract

This paper analyses the individual decision-making process in consumer credit market. Irrational or inadequate debt decisions, at the individual level, may end up to undermine collective welfare; this evidence explains the commitment of regulators, at the international level, to foster sound debt decision-making. Nevertheless, the protection of common interest and well-being must not violate the individual freedom to choose; it has also to be kept in mind that the downside of limiting individual choice it has not been counterbalanced by a significant upside in general welfare, as detailed and severe consumer protection laws have not always proved as successful and effective as expected.

The paper will analyze a natural experiment, available in Italy, due to the Legislative Decree N. 141 of 13th August 2010 that reformed the consumer credit market. We will explore if mandatory information acquisition, which the new law imposes both on lenders and borrowers, is effective in reducing some behavioral biases that may interfere with sound debt decision making, stimulating a more widespread responsible borrowing and lending. Enforcement of Italian law offers a cut-off date to test, with diff-in-diff estimators, giving empirical evidence on the impact of enhanced information on the improvement of borrowing and lending decisions.

The paper is original under two different perspectives. Firstly, the 'law making' method will be based on the value given to information in the convergence of responsibility in debt/lending decisional process, based on systematic interaction between borrowers and lenders: customers are nudged to ask lenders for more and better information, before choosing (pre-contractual information), financial intermediaries are obliged to enhance evaluation of customers' creditworthiness, before lending. Secondly, our empirical observation will be based on the meso-economic perspective of data collected by the Italian Credit Bureau, that we expect constitutes a catalyst for the functioning of the entire informative system.

We expect our findings to support the hypothesis that in the very short term, the law enforcement will cause a reduction of bad behaviours toward loan requests, with a decrease of repetitions of loan requests when arguably induced by obstinacy behaviors. Moreover, we are convinced that in the medium term, the new consumer credit regulation significantly improves customers' repayment ability, enhancing the quality of credit distribution, with respect to the pre-law situation.

These evidences could strengthen the idea that information really contributes to the improvement of debt behaviours, even when introduced by a legislative action. While a systematic and direct 'better information-better behaviour' relationship cannot be assured, this effectiveness

has been shown to be improved by the conjunct adaptation of behaviours, as well as shared responsibilities, on both the demand and offer sides of the consumer credit marketplace.