EURASIAN EXPERIMENT JOURNAL OF HUMANITIES AND SOCIAL SCIENCES (EEJHSS) ISSN: 2992-4111

©EEJHSS Publications Volume 7 Issue 2 2025

Financial Regulations and Public Understanding: A Communication Approach

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ABSTRACT

The 2007–2008 global financial crisis revealed critical gaps not only in regulatory frameworks but also in the public's understanding of financial systems. This paper explores how financial institutions and regulatory bodies have adapted their communication strategies to rebuild public trust and enhance comprehension of financial regulations. By conceptualizing financial breakdowns as unique crises, the study proposes a tailored communication framework suited to the complexities of financial regulation. Through case studies of the Dodd-Frank Act and Basel III, the research highlights the varied reception and comprehension of financial policies across different social contexts. The paper argues that effective communication, grounded in transparency, socio-cultural awareness, and digital literacy, is essential for the legitimacy and efficacy of financial governance. It concludes with insights on integrating technological innovations and data-driven tools to measure and enhance public understanding, ultimately fostering resilient financial systems and informed citizenry.

Keywords: financial regulations, public understanding, financial communication, trust and transparency, crisis communication, financial literacy, Basel III.

INTRODUCTION

Financial crises affect organizations and society, representing a breakdown in trust among those handling public funds. This article examines how financial organizations adapted their communication processes in response to the 2007-2008 crisis to rebuild public trust. It starts by defining financial breakdowns as a unique crisis type with implications for both individual entities and society. A framework is proposed for adjusting communication strategies to distinct crisis characteristics, applied to identify the specific needs of financial organizations emerging from these crises. The conclusion presents the main implications and suggests future directions for management and research. Historical analyses indicate that the 2008 events signal an evolution unseen in 80 years, echoing classic theories related to speculation, illiquid investments, and economic cycles from 1929. However, these events prompt new questions about society's reliance on trust: What is the significance of truths when trust is foundational? Who bears moral responsibility in such a framework? How is trust preserved amid dysfunction, significantly impacting organizational and societal integrity? Furthermore, how do various organizational levels respond to the crises, and who is accountable to whom? Given the unprecedented nature of these systemic breakdowns, organizations must navigate novel environments, calling for urgent examination [1, 2].

The Importance of Financial Regulations

Financial regulations represent an essential component of the efforts to preserve public confidence in the banking systems, which in turn represent a precondition for their proper functioning. Inadequate financial regulations can lead to the perception of the banking systems as unsafe and unreliable, which would trigger withdrawals of deposits and therefore impact the stability of the banking systems concerned. On the other hand, an overly strict regulatory framework can block the functioning of safety valves for the banking systems, like secondary markets for banking products, or impede the transnational regulation necessary in today's interconnected world. Financial regulations are formulated at two levels: globally and locally. As reactions to the excesses of the collapse of the mortgage markets in the US in mid-2007 and the insemination of this to the financial markets and banking systems of most of the developed and emerging economies, the Financial Stability Forum was charged with analyzing the regulations governing the banking systems to propose new ones and remodel existing ones. The FSF proposed a series of regulations that were accepted by the leaders of G20 states at the London Summit in 2009. The Basel Committee on Banking Supervision was subsequently charged with formulating more detailed regulations and guidelines that would govern the banking systems in OECD and G20 states. A significant part of these proposed regulations and guidelines was adopted within the European Union and by many other states as well. After this, central banks, and particularly the Euro area's core states, retaliated by taking financial measures to preserve public confidence in the banking system, which resulted in alarmingly high price hikes since early April 2008. It is an accepted notion that an unequivocal banking system is imperative for public confidence in any country. This is all the more so in the case of the transnational banking systems of the most developed states. On the other hand, a banking system that ever lowers rates to convince the public to invest their hard-earned savings cannot be credible either, and a banking system that refuses to accept deposits at the cost of invisible prices troubles people's good judgment regarding its reliability [3, 4].

Public Understanding of Financial Regulations

Research on public understanding of financial regulations is limited, despite calls for more focus on communication issues related to them. This gap is concerning in light of the significant regulatory changes since the global financial crisis, which occurred between 2007-2009 due to the collapse of the U.S. subprime mortgage sector. This crisis led to severe global economic downturns, prompting governments to implement regulations to repair financial systems. Although substantial regulatory measures were enacted during and after this period, little academic inquiry has addressed widespread misconceptions regarding these complex regulations. This study aims to explore societal understanding of financial regulations, which are inherently more complicated than routine government policies. These regulations are crucial in driving market forces affecting individual behaviors, with brokers interacting directly with markets on traders' behalf, often without visible compliance metrics. The intricacies of algorithmic trading and mathematical electronic systems call for deeper analysis by communication scholars. It is essential to develop and share clearer frameworks for financial regulations with the public, who often lack understanding amid the obscure motivations behind complex terms like high-frequency trading. Such efforts should consider socio-cultural communication principles to effectively shape and disseminate public knowledge [5, 6].

Communication Strategies

The low level of understanding of finance is often attributed to a lack of education among the public; however, it is not enough to simply educate the public on its importance. Financial literacy is necessary to understand financial regulations, particularly in complex finance-related markets. Financial regulators have the significant task of establishing their credibility in the eyes of the public. This requires consistent communication, careful selection of communication channels, and the promotion of public understanding of financial regulations. These communication strategies are also valid for non-financial regulators when attempting to build credibility and public acceptance of regulatory policies. For a policy to be fully accepted by the public, stakeholders must communicate their understanding of that policy in their argument. As a policy evolves, it obliges fresh communication from all stakeholders regarding the modified political landscape and reasons behind choosing the new course of action. It cannot be stressed enough how critical these communication steps are, as the absence of them can undermine both a policy's understanding and credibility. Given that a policy is most effectively communicated by those who are not a part of the audience, a policy must be robust enough to withstand traditional criticism. It is common to attempt the establishment of public communication after engagement with a major component of a new policy has occurred, thus limiting understanding at the very moment when understanding is most needed. About finance, it is easy for rationality to give way to emotion. The media can easily become filled with fear, uncertainty, and doubt regarding financial regulatory policies; such messages spread much faster than their opposing and calming counterparts would. Therefore, it is unfair to expect the media to withstand coverage of a regulatory issue at all costs because of the need to publish news [7, 8].

Case Studies

This study utilizes case studies through a communication approach in understanding how financial regulations are received by the public. Two cases are examined: 1) Dodd-Frank Wall Street Reform and Consumer Protection Act; and 2) Basel III Framework. These cases were chosen because they had significant impacts on the financial system, were widely covered in the press, and had extensive debate among various stakeholders. To narrow the scope of research, the specific provisions that went into effect in the years 2018 and 2019 were selected due to time constraints, and the provision text was analyzed through qualitative content analysis. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) is a piece of legislation that affects the financial industry in the United States. The major provisions of the Dodd-Frank Act fall into eight major titles, composed of nearly 2000 pages, which all include multiple rules and regulations. The Dodd-Frank Act is an omnibus bill designed to address a wide range of complex issues, making it difficult to reach agreement on a single legislative measure. Topics included in the Dodd-Frank Act are: 1) financial stability, 2) regulation of large financial firms, 3) regulation of over-the-counter derivatives, 4) consumer protection, 5) protection of investors, 6) government authority to wind-down firms, 7) transparency of exposures to more risk, and 8) enforcement of transparency and accountability rules. Basel III is a capital and liquidity framework agreed to by members of the Basel Committee on Banking Supervision. Basel III was initially aimed at reforming the banking system globally to increase the overall resilience of individual banks and the banking sector as a whole. Two reasons for this are mainly: 1) to fix the shortcomings of Basel II, and 2) to cope with the new risk developments in the financial system during the last decades. Basel III is a revised version of Basel II, retaining the core of the earlier Basel capital framework. It includes a mix of stricter definitions of capital, higher capital and liquidity ratios, a phase-in of the new measures and a gradual implementation over several years until 2019 (or 2015 for some elements). Basel III has been hugely debated, and coverage of Basel III in different societies has differed greatly [9, 10].

Role of Financial Institutions

Financial institutions, or financial intermediaries, are essential parts of the financial system that facilitate the flow of funds between agents. They channel money from surplus units into loans or investments for deficit units, thus playing a crucial mediating role. They can be categorized into deposit-taking and non-deposit-taking institutions, with financial instruments divided into money and capital instruments based on maturity. Maturity refers to the period between the origin of a financial instrument and its liquidation. The financial system encompasses two markets: the money market for short-term debt instruments (under one year) and the capital market for long-term debt and equity instruments (over one year). Financial instruments are intangible assets defined by contracts, providing future benefits. Financial regulation consists of interventions by authorized bodies to ensure fair treatment among market participants, identify issues that disrupt market functioning, and implement measures to restore balance. This regulatory response is undertaken by legally empowered entities, not by market participants themselves [11, 12].

Regulatory Bodies and Communication

Depending on the jurisdiction, regulatory bodies in finance have different names and structures, such as the SEC in the USA and the FSA in the UK. They communicate with the public through various channels, proposing and adopting regulations that are published in government offices. These organizations deliver public reports semi-annually and provide disclosures on risk assessments. Occasionally, they issue press releases on controversial issues and may have their own media outlets. Regulators enforce rules and monitor compliance with disclosure documents. Unlike financial institutions focused on stakeholder interests, regulators aim to support the public interest. Their reports should assess public understanding of regulations rather than just report on compliance. However, evaluating public understanding is infrequent, as companies protect their interests while regulators consider societal welfare. Post-2008 financial crisis, regulation has gained attention in the media, with regulators having substantial input on financial markets. The crisis has heightened public awareness of government intervention in these markets, increasing interest in regulations and posing communication challenges for regulatory bodies [13, 14].

The Role of Technology

The Internet was originally developed to enable data exchange among researchers, primarily to facilitate academic collaboration and the sharing of information. However, through numerous technological advances and innovations, it has transformed into a ubiquitous phenomenon that permeates almost every aspect of daily life. Communication has drastically shifted from traditional 'matter' to a more fluid and dynamic form of 'information', and it has evolved from being merely an 'instrument' to becoming an essential 'process' in everyday interactions. This profound change is reflected in how communication companies have adapted their practices, blending various forms of voice, data, and video into cohesive experiences. Information is now widely recognized as a product in its own right, with media organizations working diligently to create content characterized by convergence, interactivity, and persuasibility tailored to diverse audience interests and preferences. Content developers are now actively marketing their offerings, with the primary aim of securing advertising revenue while fostering closer and more meaningful connections with their target audiences. In this evolving landscape, firms are compelled to rethink their business models fundamentally, discarding outdated and inefficient structures that separate programming, production, and distribution to compete effectively. To succeed in this increasingly complex environment, companies must invest significantly in convergence strategies across multiple media formats. This means employing unified audience analytics and creating integrated content that harnesses the power of collective intelligence. Firms must also diversify their advertising revenue streams and maintain acquisition of marketing control that influences consumer behaviors. This convergence not only shifts our understanding of information but also likens data to intricate biological systems that govern human function and interaction. Data can increasingly be seen as a vital raw material, mined and processed to create a continuous and engaging flow of news, entertainment, and valuable insights aimed at enriching the user experience [15, 16].

Measuring Public Understanding

Studies assessing public understanding of financial regulations were sparse in the years before the pandemic. On the one hand, only a few studies have investigated public understanding of financial regulations. On the other hand, despite the growing popularity of big data approaches for measuring public understanding, regulation-related big data approaches are still rare. Unfortunately, however, existing measures to assess public understanding of financial regulations have limitations that can hinder fruitful communication. To enable communication about resources, interests, and information shared regarding financial regulations, research efforts to develop more reliable and insightful measures of public understanding are in demand. Most research efforts have focused on risk regulations of systemically important financial institutions, while less focus has been given to perceptible market conduct regulations to alleviate severe consumer deprivation. Moreover, literature measuring public understanding has largely ignored high-volume markets and their unregulated operations, to which many systemic risks of financial institutions are voluntarily transferred, as excessive use of these derivatives renders risk regulations ineffective. Since big data approaches can easily cover unregulated operations, the possibility of using them to examine public understanding of the rules has yet to be explored. The existing literature has measured public understanding through near-term volatility and co-movements between stock prices, returns, and volumes, bond ratings, interest rates, and yield spreads, and discussions and inquiries in news articles and online forums regarding risk regulations. However, these measures cannot provide proper insights or useful direction for intimacy, diligence, transparency, and continuous reciprocity of communication on regulation-related entities, but instead focus attention on volatility, the edge of intervention, and enforcement-related phenomena [17, 18].

Challenges in Financial Communication

Since the advent of the complex and multifaceted world economic crisis, which has had far-reaching effects and serious repercussions across a broad spectrum of various sectors, many companies operating within the banking, insurance, and financial industries have been compelled to confront an extensive array of significant challenges that are directly related to their communication strategies. These challenges manifest not only in their interactions with the public but also in their engagement with various other categories of investors, which is paramount for maintaining and nurturing strong, lasting relationships. A series of crucial aspects must be highlighted in this specific context, addressing how organizations should effectively communicate during these turbulent and unpredictable periods of uncertainty, alongside the growing rejection that they experience from their audience members. To successfully navigate this tumultuous landscape, with all its unpredictability and complexity, it is essential and crucial for these organizations to establish and maintain clear, consistent, and transparent channels of communication. This proactive approach is necessary to actively rebuild and strengthen trust with their stakeholders. By ensuring that concerns are acknowledged and addressed appropriately and promptly, organizations can foster a significant sense of security and confidence among investors and clients alike, thereby enhancing their reputation and viability in an increasingly challenging market environment [19, 20].

Future Directions

Little is known regarding public understanding of financial regulations. Research on this subject is undoubtedly limited and direly needed, especially since financial regulations are a quite accentuated topic of daily news consumption and because regulations are among the most powerful tools figures and boards have to influence citizens' consumption, loans, and investment behavior. In this regard, it can be anticipated that with the exponentially growing interest in the behavior of financial organizations, providing feedback and understanding by regulatory bodies, some new means of communication with corresponding great potential for research will emerge. As an example, it can be expected that an increasing number of online discussion forums and chats will be introduced, including information to educate the public and allow citizens to ask questions. In these tentative future directions, it should also be noted that large country and world-level regulation figures cannot be expected to communicate effectively and immediately as local associations and boards do. A comparable difference emanates, for example, from the divergent cultures and historical, political, or economic settings of continents, nations, and regions. As an illustration, it has not only to be distinguished whether financial regulations are known and comprehended, but there are also causes and consequences diverging among, for instance, citizens from Asia and Europe. All this indicates that analysis of public knowledge of legislation, and additional domains of research, will not only deepen communication research in a topical but also in a methodological way, including multi-national and multi-language research and writing. It is believed that this research will support both the general public in becoming more literate in legislation as well as figures of regulation or respective boards in obtaining lifelong protection and management of issues [21, 22].

Recommendations

After this paper, we propose a set of recommendations regarding financial regulation, a field still evolving even in advanced economies. The complexity of creating and comprehending regulations is growing, necessitating effective communication strategies. Our framework focuses on three key parties: regulators, intermediaries, and the public, emphasizing the importance of including the public, often overlooked in the literature. Public misunderstandings hinder acceptance and contribute to dissatisfaction. Instead of solely academic criticism, public involvement in shaping regulations is encouraged. Regulatory risk analysis and research should inform a better understanding of public needs, supported by extensive literature reviews. These preparatory steps will guide optimal communication strategies tailored to specific audiences. Selecting the right narrative is vital when presenting complex regulations; the starting point can be regulators' proposals, but alternative narratives must also be considered. It's essential to emphasize societal benefits and transparently address costs to avoid public mistrust. Continuous engagement with the public is crucial to prevent superficial "one hit wonder" strategies that could lead to disdain. Inviting public input during regulatory discussions fosters a sense of involvement. Impact assessments should not only examine economic implications but also analyze potential public reactions, with results being made available to inform regulatory development. Respecting the psychological safety of discussions around rules can reinforce this area politically. Employing democratic principles could challenge defenders of the current system. Understanding reactions to criticism, in addition to approval ratings, will be valuable in shaping future regulations and research guidelines [23, 24].

CONCLUSION

The aftermath of the 2007–2008 financial crisis emphasized the need for stronger regulatory frameworks and, equally, for better public comprehension of these frameworks. Financial institutions and regulatory bodies have learned that trust cannot be mandated through policy alone; it must be earned and maintained through consistent, transparent, and culturally attuned communication. This study demonstrates that public understanding of financial regulation is shaped not only by the content of the policies themselves but also by how these policies are conveyed and contextualized. Case studies of the Dodd-Frank Act and Basel III reveal that even well-designed regulations can fail in their goals if they are not effectively communicated to those they affect. To close the gap between regulatory intent and public perception, financial communicators must adopt a multidimensional strategy—incorporating clear messaging, education, digital engagement, and responsive feedback mechanisms. Furthermore, as financial technologies evolve and regulation becomes increasingly complex, communication efforts must also evolve to remain relevant and accessible. Future research should focus on developing robust metrics for assessing public understanding, as well as exploring the role of emerging media in shaping regulatory narratives. In doing so, stakeholders can ensure that financial regulation serves its ultimate purpose: safeguarding both systemic stability and public trust.

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CITE AS: Kakembo Aisha Annet (2025). Financial Regulations and Public Understanding: A Communication Approach. EURASIAN EXPERIMENT JOURNAL OF HUMANITIES AND SOCIAL SCIENCES, 7(2):75-81