Chapter 1

Reliance Versus Over-reliance

1.1 Contextual Setting

The 2007–2009 financial crisis and the ensuing global recession paved the way for regulatory interventions worldwide. The major credit rating agencies (CRAs) were considered to be among the ‘main culprits’ of the debacle.\(^1\) Much has been written on their responsibility for the crisis and this book will not explore this topic further.\(^2\) Rather, taking as a starting position the post-crisis regulatory reforms of CRAs at the national, international and regional levels, this book critically analyses the over-reliance of investors and market participants on external credit ratings and the extent to which such a phenomenon is exacerbated by the use of credit ratings in legislation and regulatory frameworks.

To introduce this subject, it is desirable to contrast two words in their respective meanings and implications, namely: ‘reliance’ and ‘over-reliance’. Both are to be discussed as human behaviours. As to the former, its meaning can be analysed in relation to the act of putting trust in something or somebody.\(^3\) Such a meaning can also be applied to the latter. However, in the context of over-reliance this meaning has a different connotation, and is commonly seen accompanied by such adverbs as ‘heavily’, ‘excessively’, ‘blindly’ or ‘unduly’, which characterise that too much trust is being placed in something or somebody.\(^4\) These adverbs help demark the line between the two words and understand that the word reliance, basically, has good connotations, while over-reliance negative ones.

The interpretation of the meaning of the word reliance vis-à-vis the meaning of over-reliance through its commonly associated adverbs leads us to consider the different degrees of trust that reliant and over-reliant people can place on something or somebody. Accordingly, a reliant person will not generate a total or entire trust. Specifically, those who rely and, thus, grant their trust, will do so with some reservations. In other words, they are neither likely to accept situations with the benefit of the doubt, nor are they likely to take anything at face

\(^2\) See Chapter 3.
\(^3\) See <www.oxforddictionaries.com> accessed 18 November 2015.
\(^4\) Ibid.
value. In essence, their reliance is accompanied by some degree of judgemental autonomy that is supposed to guarantee their independence from what or whom they rely on. Significantly, their behaviour is not totally influenced by external factors, situations or other people. Through their reliance, they are supposed to process the information they receive and make use of it in a way that is complementary to their own judgement.

If their trust could be measured, it could be said that 50 per cent is based on external factors, while the remaining percentage can be traced back to their own judgemental autonomy. However, even if the difference is 98 per cent of trust in something or somebody and the remaining 2 per cent is their own judgement, this would be equally sufficient to exclude an entirely external influence. Consequently, reliance also implies the freedom of giving whatever measure of trust to outside factors, provided that what or who is relied upon does not receive 'excessive', 'heavy', 'blind' or 'undue' reliance. This, in fact, would mark the shift from reliance to over-reliance. Clearly, any trust placed would assume a negative connotation within this new context. Over-reliance is therefore the other side of the coin.

Importantly, over-reliance implies an over-estimation of the information received. In practice, this information would assume the characteristic of something not fallacious and, for this reason, would receive 100 per cent trust. It may be argued that even 100 per cent trust could be regarded as the consequence of reliance where such a choice is the result of an independent analysis that has considered several perspectives. Nonetheless, where this 100 per cent trust is construed in combination with adverbs such as 'heavily', 'unduly', and so on, the trust is inappropriate, in one word, blind. This means that the person or information that is given blind trust is taken at their face value. When trust is blind, room for undertaking one's own judgement, aimed at understanding the limits of what or who is given 100 per cent trust, has been dramatically reduced, if not absent. Many factors can play a role with regard to over-reliance: negligence, ignorance, imprudence or, sometimes, the impossibility of undertaking one's own judgement.

Over-reliance, in its negative connotation and implications, is emphasised in numerous contexts. For instance, in sports that are based on teamwork, over-reliance may be identified in the excessive trust on the capacity of a top player, which finally leads the rest to believe that he will make the difference in any match even when the overall team's performance is not good.\textsuperscript{5} In the

\textsuperscript{5} Sid Lowe, 'Argentina See Danger in their Over-reliance on Lionel Messi' \textit{The Guardian} (London 24 June 2014).