



## Ship Finance: More banks and Competition



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It is now the third year the PETROFIN publishes its research into the number, size and nationality of Banks active in international shipfinance. This information, we are glad to see, has been widely used by academic institutions, including Professor Grammenos and CITY UNIVERSITY BUSINESS SCHOOL. This year's results are attached. They are regarded by the writer as both significant and a good indication of the trend towards greater participation by Banks in shipfinance.

Last year, we made two predictions, namely "we believe that a) the number of Banks involved in shiplending will increase over the years and b) the increase will come primarily from minor / local Banks, which will produce much needed loan capital to meet the industry's ever-increasing loan requirements."

This year's results are shown in the table attached with the end 1993 results shown in brackets. The major changes we wish to highlight are the following:

1. The overall number of shiplending Banks increased from 89 to 119 i.e. an increase of 34% over the year and an increase of 78% over the last three years since 1992. However, the number is still smaller in comparison to the over 200 Banks that were active in the 70's.
2. The number of Banks enjoying a major role in shiplending remains

virtually the same although their overall levels of exposure were substantially increased.

3. The number of minor / locally active Banks showed a remarkable rise of 77% i.e. from 43 to 76 Banks over the last year and 171% over the 1992 figures. This rapid increase shows that shiplending is being re-assessed by an increasing number of Banks who have developed shiplending departments and small but rapidly growing loan portfolios.

In addition, the industry is beginning to demonstrate ship finance depth, something that was lacking a few years ago. Simultaneously, these Banks provide the much needed support to the activities of the larger, more experienced shiplending Banks, as syndicate or club deal participants.

4. European shiplending Banks still account for two thirds of all Banks and undoubtedly, represent the highest concentration of ship finance interest. However, their role is being slightly reduced by the emergence of other nationalities, especially in the Far East.

5. In terms of specific nationalities, the Scandinavian, Dutch and German Banks increased their presence whilst the French and US based Banks lost a little ground.

The major factors that have contributed to the increase in shiplending activity relate to a) the increased demand for loans for either finance newbuildings or second-hand vessels whose values have risen, b) the strong worldwide economic recovery, c) the enhanced prospects for the shipping industry and d) the recovery in Bank capital ratios, which allow for increased shiplending.

Finance activity in the Greek shipping sector has been very strong and there has been an increased Banks presence in Piraeus not so much through an increased physical presence but more often via frequent visits to Akti Miaouli of shipping teams located abroad.

The prospects for the number of shiplending Banks on a worldwide basis are dependent on a) the continuing strength of the world economy and Bank capital ratios and b) the relative attractiveness and progress of the shipping market from a lender's point of view.

Undoubtedly, increase of competition has led to a reduction in Bank spreads by between 1/8 – 1/4 for typical transactions although some Banks are trying to resist this pressure. More drastic reductions have taken place in arrangement fees, which have been reduced by between 1/3 and 1/2 for typical transactions.

A continuation of this trend will undermine the competitiveness of shiplending against other forms of lending in a world of economic recovery and enhanced prospects for lending in other sectors of the economy.

Thus far, the increased competition has not seriously affected credit quality and although the percentage of finance has risen by approximately 5% from 60% to 65% for average transactions, most clients have demonstrated high liquidity and quality of operations and good cash flow, which enhance credit quality.

In addition, the increased finance is more often involving younger vessels, which require a long period of repayment, which has in turn increased with the average length of Bank loans or the size of allocations.

We believe that 1995 will be another positive year for shipping and

shiplending Banks. In recognition of the good record of shipping over the last 7 years and its enhanced prospects, more Banks will be attracted to the sector.

However, we do not believe that the number of major shiplending Banks will increase. Instead, the overall volume of shiplending will increase and the shipping industry will continue to lose the "stigma" it acquired in the 80's.

The only immediate danger is the overheating vessel values. This undermines investment returns, commits owners to even higher and artificial prices and tightens the cash flows of each investment and financial decision. However, owners are aware of the dangers and have begun to show increased skepticism towards inflated vessel prices.

Prevailing market conditions, though, are most supportive of an increased number of public floatations of shipping companies or investment schemes in the international stock exchanges, which is expected to be a key feature of 1995.

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