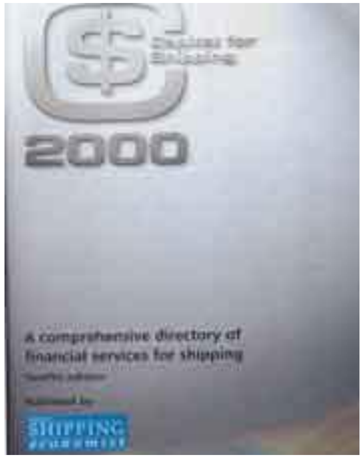
Analysis and trends in the comparison of active International Shipping Banks

2000

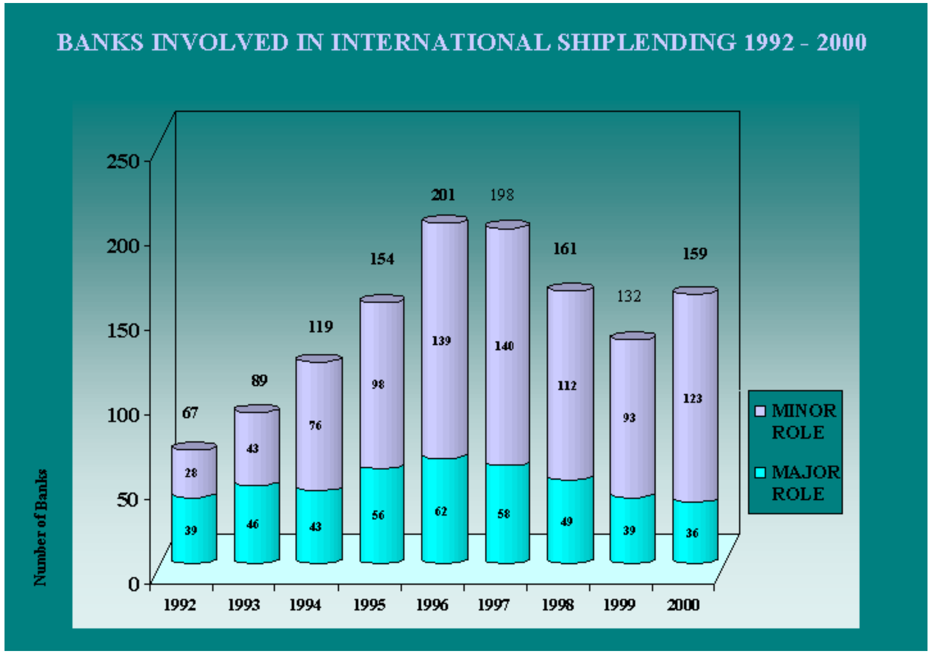


Ted Petropoulos, MD of Petrofin S.A., financial consultants, presents the keenly awaited Petrofin Bank Research for the year 2000.

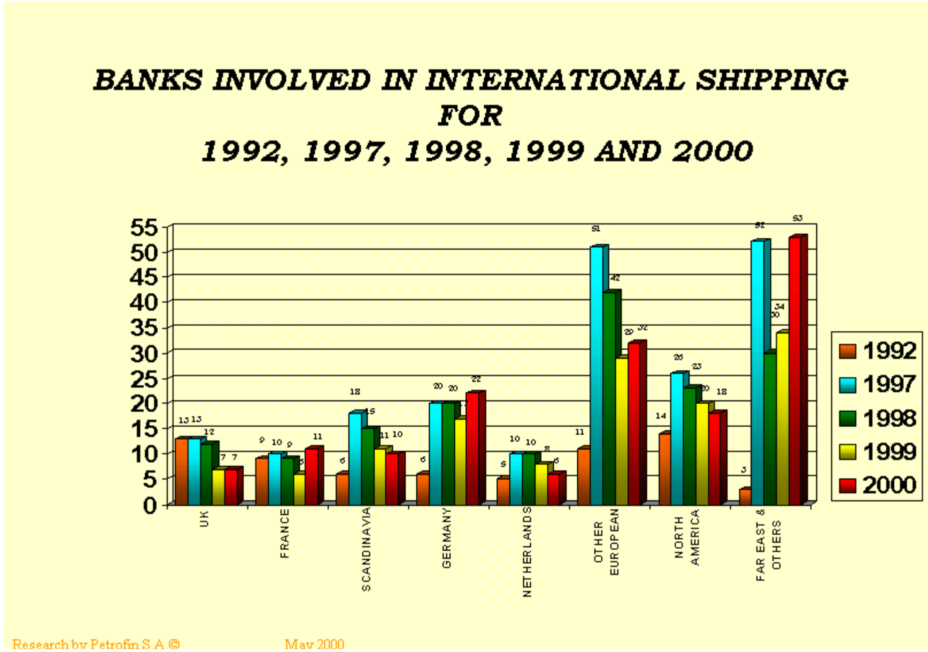
Petrofin has been publishing its research on the number, nationality and importance of active international shipping banks since 1992. In Table 1 below, you will observe the year 2000 research results set against the corresponding one for 1999.

In the attached 2 diagrams, you will also observe the changes in the number of major and minor banks, as well, as totals for every year from 1992 to 2000, in addition to the changes in the number of banks classified by region over the same period.

Banks involved in international shiplending 1992-2000



Banks involved in international shiplending - Analysis by region



The analysis that follows makes use of the above table and two diagrams and leads on to the identification and significance of the main trends in shipfinance, as seen from the involvement and interests of the international banking community.

Rise in Number of Shiplending Banks

According to the latest research, the overall number of shiplending banks in year 2000 has risen from 132 in 1999 to 159. As such, this increase represents a reversal of the downward trend from 1997 to 1999.

What may have contributed to this rise? Bearing in mind that in the last year, there has been a record number of mergers and acquisitions among banks resulting in some obvious consolidation, the above research may, at first, appear surprising. However, readers can observe that the resurgence in numbers has only taken place in the minor role banks, whereas the major role banks have actually declined from 39 to 36.

What has been happening during the year, is that on the one hand bank consolidation through mergers and acquisitions has resulted in a reduction in the number of major banks and some elimination in the number of minor banks, whereas, on the other hand, a large number of banks have developed an appetite for shipping or have simply returned to shiplending after an absence of a few years.

The latter applies primarily to Far Eastern banks, which were deeply affected by the Far Eastern crisis in 1998 and 1999, but which are recovering fast on the back of a strong rebound recovery in the Far East and International Trade in general.

Shipfinance, just like any industry, attracts banks which may not be deeply committed to the industry, but develop a flexible in-out approach depending on the prospects and opportunities of each industry, as well as demands from their own clients.

Banks Supportive of Clients

The recent shipping recovery in vessel prices and earnings, as well as the overall firmer tone and expectations for the shipping market has induced the return of some banks and the interest of some new ones. Furthermore, shipfinance has weathered well the tough and horrible market conditions of 1997-1998, without widespread losses. Banks having learnt their lessons, have shied away from precipitous action and have largely been rewarded by a rising market that has justified their strategy of supporting clients. Banks, therefore, have (through their actions), disproved, for the time being, that shipping is a highly risky business, in which there are unavoidable "systemic" losses. Although the process of doubtful loan discarding is far from over, the experience so far has been heartening and supportive, as to banks' further commitment and / or involvement in shipfinance.

Hidden within the overall numbers has been another change. Many of the newer banks have simply been smaller participants in larger syndications, where the expertise and reputation of the lead bank has enticed them to participate. As such, these participating banks do not possess shipfinance expertise (i.e. a shipping department), but are merely lending to an industry they hardly know under the umbrella of the lead bank. Quite clearly these banks will tend to be the first to "vote with their feet" if shipping should appear to be entering another low phase and as major syndications may slow down at that time.

The Year 2000 Results

Looking critically at the 2000 results on a country / regional basis, it is interesting to observe the following:

1. through mergers and acquisitions the number of European major banks has fallen from 26 to 23 over the period;
2. the number of minor role European banks, however, has risen from 52 to 65. Within this nucleus there are some major developments, though namely:

    a. there has been a resurgence of interest in Germany and France, mainly on the back of participation in syndications and the search for new industries / niches in which to participate, and

    b. the active interest and impressive growth of the Greek and Italian banks aimed at serving their local clients. In these countries, shipping loan demand could not be met by the existing international banks that were still recovering from the last shipping slump and could not compete with the more committed local banks.

3. the impressive resurgence of the Far Eastern regions, is the underlying reason for the significant growth in the number of minor role banks in the region from 29 to 48 over the period.

Assessing the regional centres over time, one can observe the relative decline in shipfinance interest by the UK banks from 13 in 1992 to only 7 in 2000. Over the period, the UK "merchant banks" names, such as Hambros, Guiness Mahon, Ausbacher and others have simply disappeared. As a result, the sheer variety and shipfinance flexibility and innovation offered by these banks has died as well, thus making shipfinance a duller scene.

France (including Belgium) has largely maintained its presence in number terms, although the heydays of French shipfinance in the 90's seems to have passed.

Despite a fall in the number of Dutch banks, the significance and commitment of the remainder is still important. Coupled with the presence of the German banks as well as the reduced, but still significant, interest of the Scandinavian banks, the central European region is still a major centre for shipfinance on a world-wide basis.

The North American presence continues along the same lines with a decline in numbers through the effective departure of some lenders. The resurgence of the capital markets over the last years has increased the region's awareness to shipping and the role of the international banks. However, other than lenders, such as **Citibank** and **Chase**, commercial banks' interest in shipfinance has been on the decline.

The major story of the 1990's has been the growth of the Far Eastern banks from a mere handful in 1992 to 53 today. The Far East crisis saw the numbers falling from 52 in 1997 to 30 in 1998, but back to 53 this year.

Lastly, via consolidation and departure, the numbers of major role banks, which rose from 39 in 1992 to 62 in 1996 has fallen steadily to only 36 in 2000, which is below the 1992 levels!!

Industry Needs Commitment

The industry needs the committed, knowledgeable and continuous presence of major lenders to meet the hefty capital sums required. The development of the capital markets and increasing role of shipping banks as arrangers and advisers for public floatations, mergers and acquisitions, raising private capital, junk bonds and so on, has meant that the slowdown in overall lending capacity by the major lenders has been largely absorbed by increased investor interest and the participation of minor role banks in syndications.

Turning to trends in shipfinance terms and the credit strategy of shiplenders, we have the following comments:

a. Although shiplenders have always preferred clients that are strong, large, focussed, well managed and with a clean corporate structure, their interest to potential clients outside the above ideal characteristics has virtually disappeared.

b. Shipfinance had developed into a two tier market, whereby different banks competed for the top tier and the medium to smaller tiers. This two-tier structure has almost disappeared, as all banks compete for the same or similar style clients and ignore the remainder.

c. The “quality and size first” credit policy has been further reinforced by the banks’ interest in non-risk services often linked with the capital markets and investment banking, where only their larger clients qualify for use of such services.

d. The risk of newbuildings coupled with the low interest by traditional local lenders in Japan, Korea and China and the prominence of Greeks and other Europeans in newbuildings has enabled shipping banks to meet their loan targets relatively effortlessly.

e. Credit policy and offered terms by shipping banks have become quite stereotyped and predictable. Innovation is limited to fine tuning and not finding ways of accepting / packaging risk. Flexibility is rare and competition for the top names remains keen, but without “giving the bank away”. The prolific demand for loans by the major shipping companies actively modernising and growing their fleets has kept competition for terms by banks to relatively modest levels.

f. Mandates for non-credit work has become fierce and the use of credit is often exploited by banks to build up their auxiliary advisory services.

g. By and large, banks have kept to the “golden rule” of lending in most cases up to 70%, which calls for a healthy ratio between loan and equity and involving clients with liquidity reserves and additional income streams.

h. Loan appetite for medium to smaller owners has been seriously curtailed, unless there can be shown a long and smooth client bank relationship.

i. Perhaps the most significant change by banks has been their preference for young vessels. As a result, the shipfinance market for 15-20 year old vessels has become more difficult whereas interest in over 20 year old vessels is nil. In the wake of the emphasis put by all regulatory bodies in good quality younger vessels, banks have been the first to adopt a lending strategy that only favours younger vessels.

j. Clearly a market vacuum has developed for the smaller client wishing to grow by acquiring early 80's vessels. This market is a potentially lucrative one that will not escape for long the interest of some "niche" or smaller banks.

What of the future?

Since the immediate prospects for shipping appear promising and as long as international trade in general are the US and Far Eastern economies in particular continue to grow, the interest in shipping shall continue. As such, it may well be that the number of banks engaged in international shiplending shall grow.

However, the role of mergers and acquisitions is expected to continue unabated and as such, further consolidation is expected in the number of major lenders.

Major banks will seek to monopolise and fully exploit all the credit and non-credit requirements of their clients. Clients will need to develop very close ties with at least one to two major banks in order to obtain the necessary sponsoring in their quest to develop from major local players to major regional or global players.

Consolidation among owners is swiftly changing the face of shipping, which shall become a less fragmented industry. This trend is a most welcoming one to the major banks that possess the necessary shipping expertise, as well as size / resources to assist such clients in their own development strategy.

As the gap between major and minor lenders shall increase, the gap shall soon be exploited by banks with a fresher and more client oriented approach. Shipping desperately needs some individualism and diverseness by banks, since the strategic profiles and aspirations of each client remain distinctively individualistic. Putting the client first, is a motto that needs to return to shiplending.

TABLE 1: INTERNATIONAL SHIPPING BANKS 2000-1999								
COUNTRY/REGION	**MAJOR ROLE**		**MINOR ROLE**		**TOTAL**		**%**	
	2000	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**
BRITAIN	2	3	5	4	7	7	4.4	5.03
FRANCE/BELGIUM	2	2	9	4	11	6	6.91	4.5
SCANDINAVIA	4	4	6	7	10	11	6.28	8.3
GERMANY	7	7	15	10	22	17	13.84	12.9
HOLLAND	4	5	2	3	6	8	3.78	6
OTHER EUROPEAN	4	5	28	24	32	29	2.13	22
NORTH AMERICA	8	8	10	12	18	20	11.33	15.2
FAR EAST & OTHER COUNTRIES	5	5	48	29	53	34	33.33	25.8
GRAND TOTAL	36	39	123	93	159	132	100	100

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