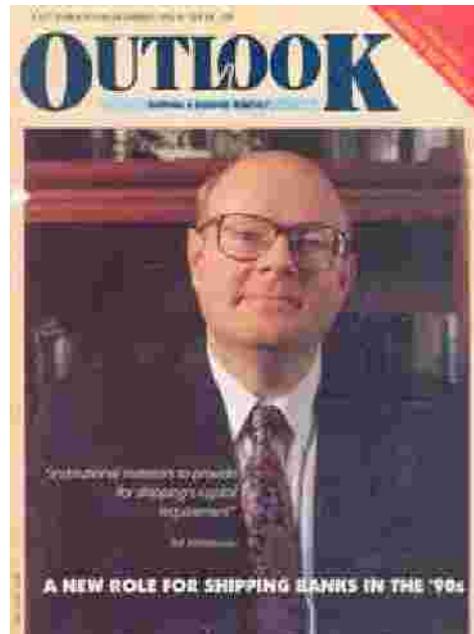


A New Role for Shipping Banks in the 90s

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by Ted Petropoulos

The inadequacy of Banks to meet shipping's credit needs and assist in the search for capital.

There has recently been a widespread view that shipping is experiencing a "credit squeeze".

The idea is not new and it tends to recur at times when the industry is facing a recession. During such times, vessel values and earnings fall, liquidity resources are stretched and less robust owners describe the lack of shiplending appetite by Banks as a "credit squeeze". However, there are serious grounds to believe that the industry is truly experiencing a structural "credit squeeze" since both the number and ability of shiplending Banks have declined alarmingly over the last decade. Although, the problem does not arise from a sudden and massive increase in the demand for shipping loans (not yet anyway) but from the unavailability of sufficient credit to meet the industry's fleet renewal requirements.

In order to substantiate the truth of the above, we have conducted research into the number of active shiplending Banks and their nationalities. The findings, which are displayed in the attached table, are both significant and supportive of the widespread belief that there are relatively few Banks engaged in International shiplending.

The number of Banks with a major role are only 39 of which 77% are

European based and only 18% North American based. With this number, however, are numerous Banks, which may be described as major regional rather than International shiplending Banks.

**TABLE: BANKS INVOLVED IN INTERNATIONAL SHIPLENDING
1992**

COUNTRY/ REGION	MAJOR ROLE		MINOR ROLE		TOTAL	
UNITED KINGDOM	7	18%	6	21%	13	19%
FRANCE	7	18%	2	7%	9	14%
SCANDINAVIA	5	13%	1	4%	6	9%
GERMANY	4	10%	2	7%	6	9%
NETHERLANDS	4	10%	1	4%	5	8%
OTHER EUROPEAN	3	8%	8	28%	11	16%
NORTH AMERICA	7	18%	7	25%	14	21%
OTHER COUNTRIES	2	6%	1	4%	3	4%
GRAND TOTAL	39	100%	28	100%	67	100%

Bearing in mind the importance of worldwide transportation in general and shipping in particular, as well as, the capital intensive nature of the industry, and given the great number of International and National Banks on a worldwide basis, the small number of Banks with a major shipping involvement is truly startling.

The minor lending Banks (28) are those, either enjoying small market "niches" or consider shiplending as one of their many credit areas, and which commit little concentration of resources and especially personnel. However, these are Banks with a "shipping desk" and the ability to enter into a shipping transaction on their own.

We have not considered "shiplending" Banks those Banks that merely participate in other lenders' credits, since they would be relying more on the lead Bank's own knowledge and reputation and less on their own ability to assess shipping credit risk.

It is important to note that European Banks account for 75% of the total and that their share of shiplending has come to dominate the industry, whereas only a decade ago it was U.S. based Banks that provided the bulk of the industry's requirements.

The main reason for the small number of shiplending Banks, lies with the poor lending record of the industry for many Banks in the 70's and more importantly in the 80's. A number of Banks faced considerable losses although it would be wrong to only blame the cyclical nature of the shipping industry, because part of the blame must fall on excessive lending and lax credit criteria used by many Banks at that time. Still, shipping developed a name for complexity, specialization and high risk; hardly conducive to keeping, let alone attracting new Banks to the industry.

Turning to the ability of shiplending Banks to lend, we must relate this declining ability to:

-  The higher capital adequacy ratios decreed by the central Banks.
-  The "high risk profile" of shipping.
-  The mounting provisions and losses faced by Banks in other areas e.g. real estate, sovereign lending, energy etc. and



The increasing emphasis by Banks in non-risk products and services.

Faced with the above challenges and with shipping being a “lender’s market”, Banks have reduced both the percentage of finance and the terms of shipping loans, which have had a dramatic effect on the amount of capital required by the industry to renew, let alone increase, its fleet.

Given the Banks’ prudent and quality oriented policies, shipping investments now require higher amounts of capital, which is scarce. The shipping industry has not been able, in the past, either to generate the necessary capital, through its own operations, or to offer sufficient and consistent returns to attract outside capital.

The need for outside capital has become a major issue for shipping today and will grow to be even bigger in importance in the 90’s. The reasons for the increasing importance of capital are not only those outlined herein but additional ones, linked with the need to replace older, poor quality and obsolete tonnage. This tonnage is being battered on the one hand by increasingly stringent technical requirements and on the other hand higher insurance, repair and operating costs, as well as, the reluctance of shiplenders to finance such tonnage.

How is it going to be possible for the shipping industry to attract the additional capital it requires?

Let us respond to the question by saying that the industry should not “pitch” itself as a “high risk – high reward” industry. It is not the speculative money that should be attracted but the investment quality capital. This capital is looking for consistent returns which are in line with those offered by other industries.

With reduced gearing, new building orders and good medium to long-term prospects, the industry has begun to offer good potential. The average age of the fleet is rising and in order to renew the fleet net operating revenues must rise to justify investment. Furthermore, the performance of the shipping industry in this recession to date has been markedly better than before, which is encouraging to both investors and Banks.

Outside capital consists primarily of private capital (individuals) and institutional investment capital.

The former is looking for somewhat higher returns and may participate either via the stock market, for those relatively few publicly quoted shipping companies, or via private investment funds.

The industry’s ability to raise quality private capital has been rather poor and although this type of capital is expected to contribute more to the industry’s needs, it is not regarded as sufficient to meet the massive capital requirements of the 90’s.

We wish, however, to concentrate on the institutional capital and how it may be attracted to meet the industry’s capital requirements.

The institutions we refer to are investment funds, pension funds and in general, all funds, which are run by professional investment managers and are seeking to provide to their clients attractive returns over the medium to longer term. These institutions put “safety first” and have in the past tended to invest their funds in bonds, shares etc. Part of their resources, though, have also been channeled into “private investments” and it is these resources that the shipping industry needs to attract.

These investments can take place either in the form of participation in the share capital or by creating a form of preferred capital structure offering enhanced security when compared to share capital, as well as, defined returns.

The way to also attract such capital would be by reducing shipping investment risk. This can be done, as has been outlined earlier, by reduced gearing, investing in quality tonnage, good timing of investments and avoiding those market segments that are looking weak on fundamental and/or technical grounds i.e. excessive supply tonnage, inadequate returns, high volatility etc. Moreover, the industry must reduce its risk through more joint ventures between cargo and shipowning interests, as well as, use of longer-term employment contracts. As the shipping industry's fundamentals improve and the potential returns become attractive, the biggest problem to be overcome will be the lack of familiarity and may we say trust between the institutional investment community and the shipping industry.

It is herein that we see, the greater service being performed by shipping Banks for their clients and the industry as a whole. Shipping Banks must become ambassadors to the shipping industry for those clients that they know and trust. It is the shipping Banks that stand between the shipping companies and these institutions and the only parties that can bridge the gap, which we have referred to. Specifically, we see an active role by shipping Banks in "sponsoring" their good clients to attract institutional monies over a long period of time. By doing so, not only will they be providing a real service to their clients, for which they can also be compensated, but they will also be able to finance these investments without an unduly high leverage.

This sponsoring can take the form of introductory meetings ranging to full presentations and, why not, occasionally having the Banks participating in these investments via their own funds, which so many of them have developed.

In addition, shipping Banks should seek to encourage joint ventures between their own clients in different industries. For example, shipowners and end users of raw material importers. Some will say that attracting capital has been the role of investment Banks such as, MERYLL LYNCH etc. This is true and there is scope for greater work with these investment Banks. However, their own knowledge of shipping client requirements is limited whereas the relationship between commercial shipping Banks and their quality clients has often been forged over decades. As such, the breakthrough for shipping will be achieved by the commercial banks becoming aware of their unique position to service the increasing needs of their clients. In so doing, they will be able to also increase their own profitability, as well as, consolidate their relationships with their clients.

At the same time, the quality required by institutional investors will provide greater incentives for shipping companies to concentrate on longer term quality projects rather than seek to maximize short-term returns.

Although the number of shipping Banks is expected to grow the above envisaged role can only be provided by relatively few banks. That is to say those which have the demonstrated, long term, successful presence in shipping and the quality relationships that will attract the institutional investors who will provide the bulk part of the industry's outside capital requirements in the 90's.

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