

Survey

Shipping

PRECISE. PROVEN. PERFORMANCE.

Shipping Risk Survey 2018

“Many shipping companies have gone into bankruptcy as a result of mismanagement of risk.”

Risk management contributing to success



“Shipping is one of the most high-risk industries in the world.”

“The biggest risk faced by the shipping industry today is the disappearance of traditional owners.”

“The motto for today’s ship manager should be: ‘Do the basics right and keep it simple’.”

The survey revealed respondents are significantly less satisfied than they were 12 months ago that sound enterprise and business risk management is contributing to the success of their organisations. However, there was a small increase in the number of respondents who felt that such risk was being managed effectively, and evidence of greater involvement by senior management.

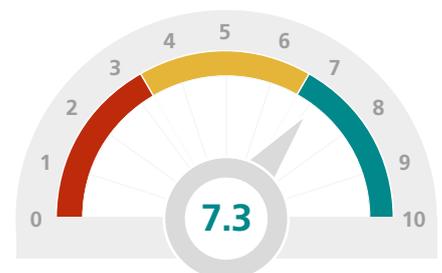
There was a small increase in the number of respondents who said that enterprise and business risk was managed using spreadsheets or written reports. Respondents identified demand trends as the factor posing the highest risk to their organisation.

Survey respondents rated the extent to which enterprise and business risk management is contributing to the success of their organisation at an average 5.9 out of a possible score of 10.0, compared to 6.8 in the 2017 survey.

Brokers, having posted the lowest rating in the previous survey, returned the highest rating (6.7) this time, followed by ship managers (6.5). For ship owners and

charterers, meanwhile, the rating was 6.0. For the first time in the four-year life of the survey, Europe (5.7) was behind Asia (6.4) in terms of geographical sentiment.

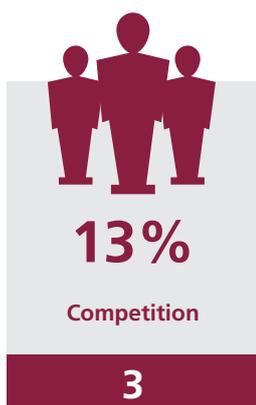
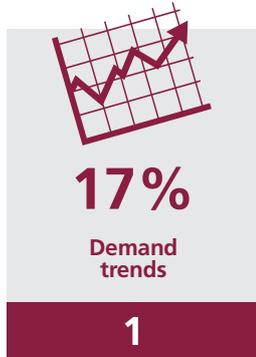
Overall, respondents rated the extent to which enterprise and business risk was being managed effectively by their organisation at 7.3 out of 10.0, up from the rating of 7.1 recorded last time to the highest figure in the life of the survey. Charterers (7.9) once again expressed the highest level of confidence, albeit down from the 8.8 recorded last time. For owners, there was a fall from 7.3 to 7.2, but for brokers an increase from 6.3 to 7.3. The rating for managers, meanwhile, was unchanged at 6.9.



Enterprise and business risk management confidence

Risk factors

The three factors likely to pose the highest risk to their organisation over the next 12 months.



Which factors pose the highest risk?

Demand trends was cited by 17% of respondents (up from 16% in the previous survey) as the factor likely to pose the highest level of risk to their organisation. The cost and availability of finance (up from 13% to 16%) featured in second place, followed by competition, down from 14% to 13%. Operating costs were ranked in fourth place at 9% compared to 10% last year. There were also significant increases for bunker and fuel costs (up from 4% to 7%) and geopolitics (up from 4% to 6%). Meanwhile, supply of crew declined from 6% to 3%.

Geographically demand trends remained the number one concern in Europe (up from 14% to 17%), Asia (down from 22% to 16%) and the Middle East (up from 20% to 23%).

Changes to the level of risk over the next 12 months

Respondents to the survey felt that the level of risk posed by most of the factors which impacted their business would remain steady over the next 12 months, with the exception of demand trends, fuel emissions, bunker and fuel costs, and geopolitics, which were all perceived to have the potential for increased risk.

Increased risk

- Bunker and fuel costs
- Demand trends
- Fuel emissions
- Geopolitics

Steady risk

- Ballast water management legislation
- Breaches in health and safety
- Changes in tax legislation
- Changes to accounting standards
- Competition
- Cost and availability of finance
- Cyber security in shipping
- Data protection and privacy
- Insufficient controls over financial reporting
- Operating costs
- Other changes to laws and regulations
- Piracy
- Port congestion
- Supply of competent crew
- Supply of shore based personnel
- Supply of tonnage

Less risk

How is enterprise/business risk management supported by management?

Overall, 73% of respondents (compared to 69% last time) felt that the senior managers in their organisations had a high degree of involvement in enterprise and business risk management. Meanwhile, 16% (down from 22% previously) said that senior management's involvement was limited to 'periodic interest if risks materialise', while 10% (up from 7% last time) said that senior management 'acknowledged but had a limited involvement in' enterprise / risk management. Just 1% (compared to 2% last time) said that senior management had no involvement whatsoever.

How are enterprise and business risks managed?

Overall, 36% of respondents (compared to 30% in the previous survey) confirmed that such risk was managed by means of discussion without formal documentation, while 48% noted that risk was managed by the use of spreadsheets or written reports, compared to 45% previously. Third-party software was employed by 4% of respondents (14% last time) to manage and document risk, while 7% used internally developed software, as opposed to 10% at the time of the previous survey.

What is the likelihood of material mis-statement?

On a scale of 1.0 (low) to 10.0 (high), changes to legislation (although down to 3.8 from 4.1 last time) was deemed the factor most likely to result in a material misstatement in companies' period-end financial statements. Next came estimates of claims and provisions (down from 4.3 to 3.6), vessel impairment (down from 4.1 to 3.5), disclosure of commitments and contingencies (down from 4.0 to 3.5) and loan covenant non-compliance (down from 4.0 to 3.5). Meanwhile, automated IT processes for financial reporting, was also down to 3.5, from 3.9 last time.



“Too often in shipping, risk has outweighed reward. Businesses which fail to recognise and address their genuine level of exposure are at great risk of both financial and reputational damage.”

Michael Simms,
Moore Stephens partner,
Shipping Industry Group

Conclusion

Shipping is a high-risk industry, and one where inattention to the proper identification and management of risk can have catastrophic consequences. It is not possible to take the risk out of shipping. It is an inherent part – and, indeed, attraction – of the industry. But it is possible to reduce the levels of risk by identifying potential hazards and then putting in place measures to eliminate or reduce them.

Traditionally, this has not been something at which shipping has excelled. Too often in the industry, the risk has outweighed the reward. But there has arguably never been a more pressing need for shipping to address the way in which it analyses and manages its exposure to risk. The nature of risk itself is changing, not least with the insidious increase in levels of cyber-crime. And the need to manage risk effectively is the subject of increasing legislation, notably in the form of the UK Corporate Governance Code and more stringent requirements in other jurisdictions. Our survey reveals that shipping is responding on some levels to existing and new challenges relating to the management of risk, but falling short in others.

The disappointing news is that the respondents to our survey emerged as significantly less satisfied than they were 12 months ago that sound enterprise and business risk management was contributing to commercial success.

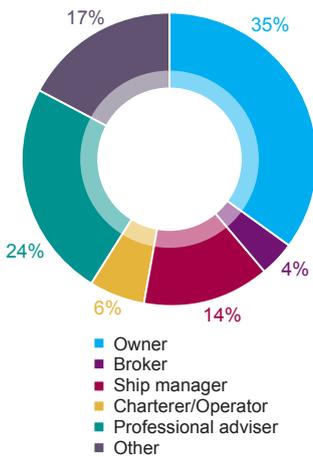
On the plus side, almost three-quarters of respondents reported that their senior managers had a high level of involvement in risk management. There was a small increase, to just under 50%, in the number of respondents who noted that risk was managed by the use of proper written documentations, accompanied by an increase in the level of undocumented risk management discussions. But there was a 10% drop in the use of third-party software, and a smaller decline in the use of software developed internally.

The findings of the survey suggest that shipping still has some way to go in order to significantly improve its risk management profile. This is particularly relevant if, as seems likely, we are beginning to see the start of a recovery in the industry's fortunes after a ten-year slump. New opportunities will bring more – and some new – risks, and these will need careful management.

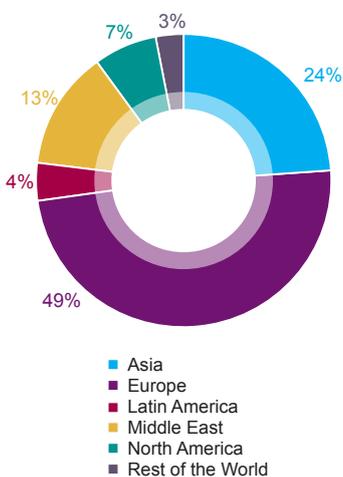
Respondents to our survey deemed demand trends to be the biggest risk they face. They also identified, fuel emissions, bunker and fuel costs, and geopolitics as posing an increased risk to their businesses over the next 12 months. There are sound reasons to explain why respondents should identify the potential risks to business posed by these classic elements of shipping practice. But it is open to question whether it is entirely prudent to classify certain other risks as merely 'steady', including the risk posed by the likes of cyber security, which is an increasing threat in shipping, as are changes to corporation tax and transfer pricing legislation around the world.

Declining satisfaction in the contribution to commercial success being made by sound risk management comes at a bad time for the industry. This is not the time for shipping to be taking its eye off the risk ball. The tone at the top is everything, the starting point for good practice and transparent management which can improve the confidence of investors and other stakeholders. Shipping businesses which fail to recognise and address their genuine level of exposure to threat are at great risk of both financial and reputational damage.

Respondents by type (%)



Respondents by location (%)



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Rhiza: our risk management software



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www.moorestephens.co.uk/rhiza

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