SHIPPING

SHIPPING RISK SURVEY 2019

The survey revealed respondents are significantly happier than they were twelve months ago that sound enterprise and business risk management is contributing to the success of their organisations.

There was an increase in the use of third-party software and internally developed software to manage enterprise and business risk, but a fall in the use of spreadsheets and written reports. Respondents identified the cost and availability of finance 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 6.4 out of a possible maximum score of 10.0, compared to 5.9 in the 2018 survey. The survey was launched in 2015 with a rating of 6.9.

Owners posted the highest score of all main respondents, up to 6.5 from 6.0 last time, followed by managers (down from 6.5 to 6.3).

Risk management contributing to success

2019	2018
6.4 ▲	5.9

The ratings for charterers and brokers were significantly down, from 6.0 to 4.5 and from 6.7 to 4.0 respectively. Asia led the way in terms of geographical sentiment, with a rating of 6.5, up from 6.4 in 2018. Next came Europe, up to 6.2 from 5.7 last time. The figures for the Middle East and North America were also up, from 6.8 to 7.2 and from 3.8 to 5.0 respectively.

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> “Lack of operating capital and external environmental pressure leads to increased business volatility.”

> “Regulatory and financial risk management are essential ingredients of a sustainable business model.”

> “The success of any shipping business may be very dependent on how others manage or don't manage their risks.”

> “Cyber security could be a major threat to shipping because the control systems on board the worldwide fleet may not be able to counter the threat posed by hackers.”

WHICH FACTORS POSE THE HIGHEST RISK?

The cost and availability of finance was cited by 29% of respondents (up from 17% in the previous survey) as the factor likely to pose the highest level of risk to their organisation. Demand trends, cited by 18% of respondents, featured in second place having ranked first at 17% last year, followed by competition (down from 16% to 11%). Geopolitics were ranked in fourth place at 8%, compared to 6% a year ago. There were also noticeable increases in respect of breaches in health and safety (up from 1% to 6%) and of fuel emissions (up from 3% to 7%).

The cost and availability of finance was the number one risk factor for owners and charterers (both 17%) as well as for managers (14%). Brokers, meanwhile, identified competition as posing the highest level of risk, albeit down from 26% in the previous survey to 23% this time.

The cost and availability of finance was deemed to pose the highest level of risk in all geographical areas covered by the survey with the exception of North America, where competition featured in first place.

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 fuel emissions, bunker and fuel costs, cyber security and geopolitics, which were all perceived to have the potential for increased risk.

Increased risk

- Bunker and fuel costs
- Fuel emissions
- Cyber security
- Geopolitics

Steady risk

- Ballast water management legislation
- Breaches in health and safety
- Changes to accounting standards
- Changes in tax legislation
- Competition
- Cost and availability of finance
- Data protection and privacy
- Demand trends
- 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

HOW IS ENTERPRISE/ BUSINESS RISK MANAGEMENT SUPPORTED BY MANAGEMENT

Overall, 67% of respondents (compared to 74% last time) felt that the senior managers in their organisations had a high degree of involvement in enterprise and business risk management. Meanwhile, 18% (up from 16% previously) said that senior management's involvement was limited to 'periodic interest if risks materialise', while 11% (up from 10% last time) said that senior management 'acknowledged but had limited involvement in enterprise / risk management. Meanwhile, 4% (compared to 1% last time) said that senior management had no involvement whatsoever.

HOW ARE ENTERPRISE AND BUSINESS RISK MANAGED?

Overall, 34% of respondents (compared to 36% in the previous survey) confirmed that such risk was managed by means of discussion without formal documentation, while 43% noted that risk was documented by the use of spreadsheets or written reports, compared to 48% previously. Third-party software was employed by 10% of respondents (4% last time) to manage and document risk, while 8% used internally developed software, as opposed to 7% 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 3.7 from 3.8 last time) was deemed the factor most likely to result in a material mis-statement in companies' period-end financial statements. Next came non-compliance with existing legislation, estimates of claims and provisions, disclosure of commitments and contingencies, and automated IT processes for financial reporting, all of which recorded a rating of 3.5. The rating for changes in accounting standards, meanwhile, fell to 3.0 from 3.4 last time.

CONCLUSION

There has never been a more obvious and pressing need for shipping to identify and reduce its exposure to risk. However, the findings of our survey suggest that the industry is still not fully cognisant of the nature and extent of the risks to which it is exposed, and will need to address a number of issues in order to preserve its integrity and to maintain and increase its attractiveness to existing and new investors alike.

Shipping is a classic risk-and-reward industry, and one which throughout its history has both rewarded and punished those taking the risks. Generally speaking, those who do their due diligence, and who come up with a sound business plan, are the ones best placed to reap the rewards. In many respects, today's industry faces the same challenges that it did two centuries ago, not least competition, tonnage supply and demand, and operating expenses. But there are new problems to be faced now, such as cyber security and the cost of environmental compliance, which today's industry will ignore at its peril. Going forwards it may be expected that further attention will need to be paid by the industry to managing other emerging risks such as the OECD scrutiny of low tax jurisdictions as well as the increased focus on the "greening" of finance.

The fact that cyber security and geopolitics were identified by the respondents to our survey as among those issues having the potential for increased business risk over the next 12 months suggests that the industry is well aware of the dangers posed in these two volatile areas. And yet only 2% of our respondent felt that IT and cyber security posed the highest risk to their organisation. The cost and availability of finance was far and away the biggest perceived risk, but sourcing finance will no longer be an issue for companies which are hacked out of business because of a lack of IT integrity and security. Meanwhile, given the proximity of the IMO 2020 implementation deadline, it was no surprise to see both fuel emissions and bunker and fuel costs rated as having increased business risk.

The encouraging news is that the respondents to our survey emerged as significantly more satisfied than they were twelve months ago that sound enterprise and business risk management was contributing to commercial success. However, it was of note that less respondents than last year had a dedicated risk committee. Although there was an increase this time compared to 2018 in the number of such committees meeting on a quarterly, annual and semi-annual basis, there was disappointment in the shape of a fall, to the lowest level in the five-year life of the survey, in the number of senior managers with a high degree of involvement in risk management. Risk management must start at the top, and be seen to sit there comfortably.

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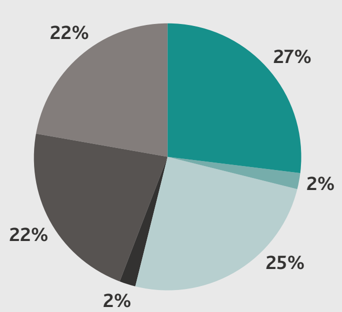
SHIPPING & TRANSPORT AT BDO

There was a decline both in the number of respondents who noted that risk was documented by the use of proper written documents, and in the level of undocumented risk management discussions. But whereas last year's survey revealed a drop in the use of third-party software and in the use of software developed internally, this time the corresponding figures were up.

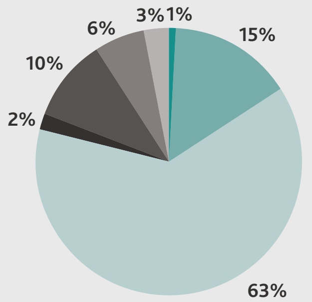
Shipping's is a highly entrepreneurial business, and entrepreneurialism and risk management can make uncomfortable bedfellows when one or other is hogging most of the bedclothes. Our survey suggests that the industry needs to improve its risk management procedures. Shipping confidence may be holding up reasonably well, but shipping cannot afford to be complacent about its exposure to risk. Awareness of risk should not be confused with risk aversion, which is not - and never will be - a characteristic highly prized in the international shipping industry.

Respondents by type (%)



- Owner
- Broker
- Ship manager
- Charterer/operator
- Professional adviser
- Other (please specify)

Respondents by location (%)



- Africa
- Asia
- Europe
- Latin America
- Middle East
- North America
- Rest of the World

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