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CAPITAL LINK CYPRUS SHIPPING FORUM

SHIPPING OFFERS OPPORTUNITIES FOR BANKS IN CYPRUS

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Over the past few years, notably since the 2008 financial crisis, there have been significant changes in the way banks operate and assess risk. There are increased requirements for disclosure, transparency and enhanced due diligence. Banks have strong preference for Corporate Structures and disfavour bearer shares. Everyone working for a bank will tell you that Compliance is part of our everyday life. Importantly, Capital Adequacy rules have increased the cost of capital on lending. As a result, larger more established Shipping Banks are restricting their shipping portfolios or even existing shipping exposures all together. So Banks are compelled to be more selective on their clients and the projects they choose to support.

These conditions have created a **two-tier financing market** for the large and smaller shipowners. Volatile shipping market conditions over the past few years, have also exaggerated the disadvantage of smaller companies. Operational economies of scale and stronger negotiating power with charterers, offer a considerable advantage for large shipowners.

To illustrate the impact of this, there has been a reduction of the number of smaller shipping companies. According to Petrofin Research, in the Hellenic space (Greek and Cypriot shipping companies), the number of companies controlling fleets of up to 8 vessels have decreased by about 22% since 2008, whilst the number of larger shipping companies remaining almost unchanged.

As a result of the retraction of larger European banks, a number of alternative, non-traditional sources of shipping capital have developed over the past few years, including:

1. Financing from Asian Banks for European owners;
2. Leasing and in particular Chinese leasing;
3. Export Credit Agency (ECA) structures;

The above focus on newbuilding or modern vessel financing, mostly for the larger, more corporate style shipowners.

There has also been an increased role played by:

4. Private capital;
5. Equity funds; and
6. Structures that include Purchase and Bare-Boat charter back.

These types of financing may partly offer competitive terms, like loan advance and repayment profile but they are often more expensive and inflexible to change in case of need.

Bank finance has traditionally remained the largest source of financing for shipping and, in my view, the most flexible and cost efficient.

THE ROLE OF LOCAL BANKS

The above changes have created a financing void, mostly for the small to medium sized, traditional family-owned shipping companies. This is where I feel local banks have an opportunity to play an important role in providing ship-financing. The proximity to the local owners, common culture and language and in many cases, the relationship that already exists through accounts and other services provided, can help banks like the banks in Cyprus, to develop selective shipping portfolios.

In a counter-cyclical approach, the market conditions appear favourable at the moment. And with Cyprus being an increasingly important Shipping Centre, Shipping being an important contributor to the Country's GDP, this development is a 'win-win-win' for banks, their shipping customers and the Cyprus economy as a whole.

For the banks in Cyprus, it is important to approach shipping conservatively and be focused on relationship banking. They must build their expertise in shipping and be selective on their clients. To meet their required returns, they would need to take advantage of available ancillary business, like operational banking, FX, Interest Rate hedging instruments, Wealth Management and other supportive Corporate Finance opportunities.

To conclude, I am enthusiastic about the prospects and the role that Cypriot banks can play in shipping finance, particularly in the Hellenic space. I have recently moved to Cyprus and joined the Bank of Cyprus, where I found a lot of support and fertile ground to establish our new Shipping Centre. We now need to carefully follow our set strategy, remain disciplined and take long-term view of the cyclical shipping market. Provided we do that, stay focused on close client relationships and offer high quality service, **I firmly believe that the Bank of Cyprus and other local banks can play an increasingly important role in shipping finance**, in Cyprus and beyond.

Thank you