

Evaluating Maritime Risk

The challenges of evaluating maritime risk across a complex industry





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All those with any interest in a seaborne journey need to complete a thorough risk assessment in order to be assured that their investment will be safe – or the degree to which it will not be.

Without consistent, reliable intelligence that spans the full breadth of the maritime risk landscape, actors across the industry and all those associated with them are left vulnerable to compliance and regulatory breaches, not to mention ill-informed investments and partnerships.

The challenges associated with carrying out maritime risk evaluations

There are two main components to maritime risk: **ownership risk** and **operational risk**. The first relates to the ownership structure behind the ship, while operational risk refers to risks created by the environment in which vessels and their crews operate, as well as the international nature of their trade.

Shipping is a traditional industry in many respects but it's also very forward-thinking – constantly looking to streamline, improve and advance. This pursuit of efficiency, accuracy, cost-savings and other commercial interests is hugely beneficial but means operational methods are constantly shifting, which makes risk analysis more of a challenge.

This is because thorough risk evaluation has to take into account every advancement in real time, exploring every possibility, every step of the way. Yet what lies ahead is uncharted – new and as yet unfamiliar territory, but the risks must be comprehensively explored all the same – so that all parties relating to every voyage are satisfied that their investment or interest in any given charter is safe.

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Also acting as both a positive force and a challenge to the process of maritime risk evaluation is the international nature of the industry. There is no single set of international guidelines to adhere to, there are many. Breaching these guidelines or engaging in sanctionable activity, whether intentionally or unwittingly, and to even a minor extent, can have consequences as far-reaching as US financial lock-out in an industry that operates in US dollars, extensive fines and prison sentences.



Likewise, being associated with anyone found to be in breach of sanctions can also deal a heavy blow. This is why it is so important to be in possession of all the facts with regard to every party as well as counterparty relating to any given voyage, but also why effective risk analysis is such an important part of every journey for every single party involved.

But that itself presents a challenge – establishing who exactly is involved is a hurdle the risk evaluation must overcome. Shipping is a complicated eco-system with a huge number of parties attached, either directly or as third parties, to any single charter. Establishing who exactly they are – especially when some would rather not be identified – is a significant obstacle. They can include companies, vessels, individuals and even government bodies.

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“The opaque nature of the industry makes this task particularly complicated,” says Sebastian Otterstad Villyn, Head of Risk & Compliance Data for Lloyds List Intelligence. “Parties withhold their identities and falsify documentation and even flags for various reasons – at the more innocent end of the scale this can be to maintain a competitive advantage, but at the other end of the spectrum can be in the interests of being deliberately deceptive in order to engage in illegal or sanctionable activities.”

Nonetheless, it is the role of those carrying out the risk analysis to ensure that no guidelines have been breached by any parties relating to the journey, regardless of the industry’s opacity and despite the fact that the guidelines are subject to change and can be superseded by local laws and regulations. Being in possession of the very latest guidelines for every country, port authority and stretch of water is vital, but makes the process of maritime risk analysis significantly trickier.

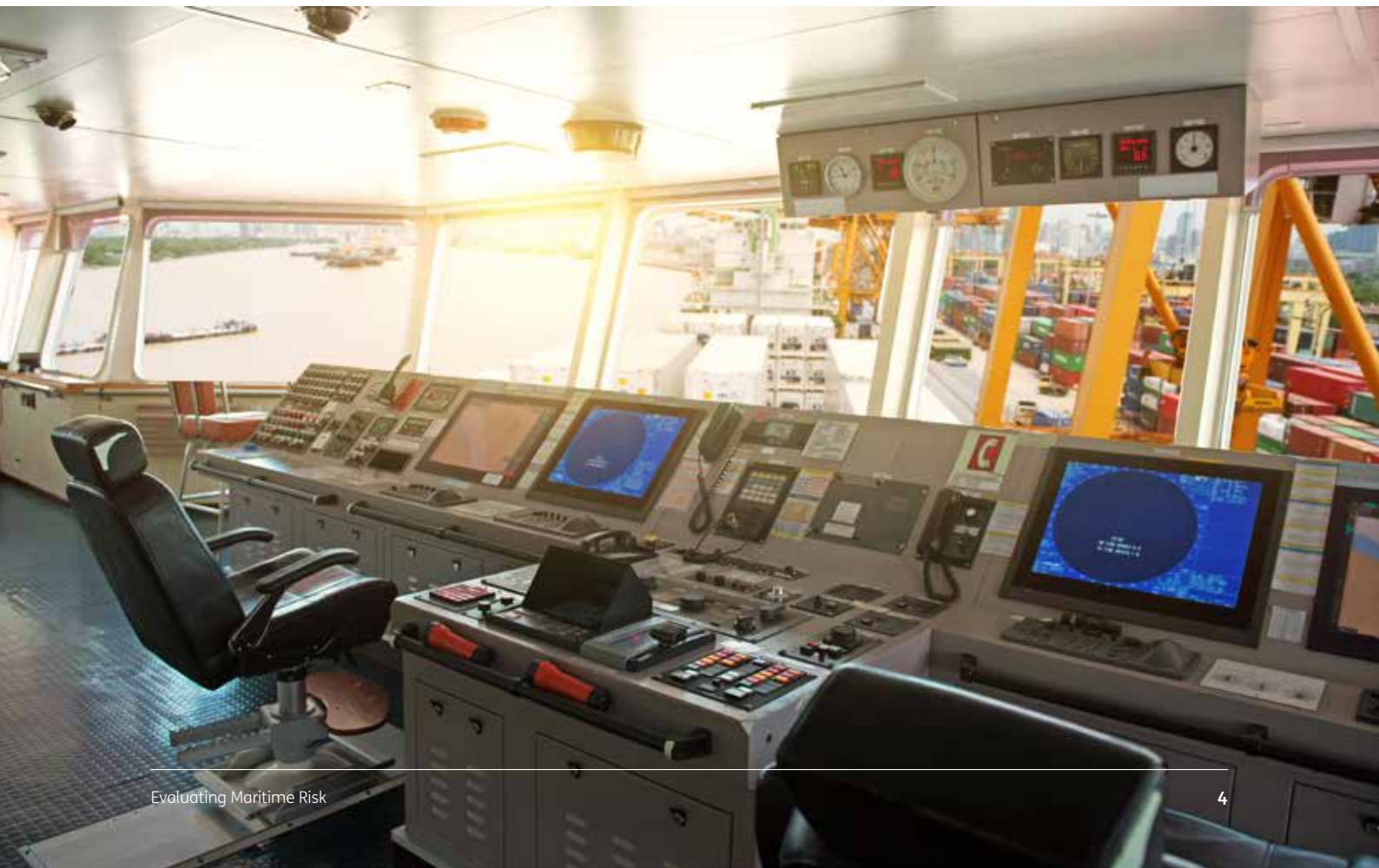
Once in possession of all the facts relating to the relevant regulations for each journey, there’s the further issue of keeping track of the vessel’s every movement. There is always a planned destination, route, scheduled stops and (if applicable) bunkering activities, as detailed on the bill of lading, but because of the nature of international trade, as well as factors ranging from weather and traffic to deceptive activities and crew changes, these are subject to alteration, but also open to manipulation.

Sebastian Otterstad Villyn says the process of conducting maritime risk evaluation is a complex one, “which for the most part is because the data needed to thoroughly complete the assessment is often withheld, inaccurate or unavailable, often because of data input mistakes, (intentional or otherwise), or a lack of available Automatic Identification System (AIS) signal or it being turned off. For the most part these data gaps and the lack of clarity are a result of the lack of transparency within the industry and all this entails.”

The AIS tracking equipment used to monitor and record the ship’s movements isn’t perfect – receivers and satellites can lose signal, sometimes for extended periods of time. But it can also be switched off, which can be for legitimate reasons, though can also indicate sanctionable activity. In either instance, losing touch with a vessel can have far-reaching consequences for risk assessment teams, as it is then unclear which waters the ship has entered, who it has made contact with and/or traded with and whether any illicit activity has taken place.

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But even if all the relevant regulations are adhered to and the ship in question remains traceable at all times, there are still plenty of complications that the risk analysis evaluation must take into account. These include (but are by no means limited to), evaluating counterparty risk, understanding vessel ownership and understanding operational risk.



Who uses maritime risk information?

Any organisation with connections to the shipping industry requires the ability to predict the risk exposure of shipping activities, to optimise asset allocation but also mitigate and prevent incidents. This need is now heightened across the board, due to both increasingly tight sanctions but also the new and unfamiliar risks, such as those brought about by the pandemic.

But effective maritime risk information has differing implications for each sector of the industry. The following list is by no means exhaustive but gives insight into the broad range of professionals for whom effective risk analysis is vitally important.

Port Managers are increasingly examining new ways to improve risk management and digital processes, (according to The 2020 iSpec Ports Industry Survey, conducted by Remy InfoSource). It found 51% of port executive respondents now identify risk management as the key area they would like to improve on in the future, up from 32% in the previous iteration of the biennial global ports survey.

Analysts must have an awareness of all global shipping developments and their specific risk implications. An anticipation of forthcoming potential risks aids anticipation of market activity and strategic direction, which are essential in order to fortify relationships with maritime players. Furthermore, without a thorough risk analysis process, they aren't able to prepare watertight fleet analyses, which are essential in the context of transactions.

Board-Level Managers and Heads of Department must identify robust and resilient markets and their forthcoming opportunities – in order to achieve this, thorough risk analysis is key. They must remain constantly reactive to current market conditions and aware of any and all risks that might affect their future operations. For them, streamlining processes and putting systems in place to maximise efficiency and productivity demands a watertight, time-efficient risk analysis process.

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Credit Operations Teams must be able to identify all plausible risks, though especially security breaches such as sanctioned port callings. They must be armed with irrefutable evidence of accurate vessel characteristics, vessel movement and any scheduled future movement and all the risks associated with it, in order to operate effectively.

Know Your Customer (KYC) and Research Teams must complete all trades without any financial, reputational or criminal repercussions, which is why risk analysis is such a vital part of their operations. They must ensure the latest Customer Due Diligence (CDD) information is adhered to beyond reproach, which must include an assessment of every plausible risk, though in particular, the latest risks regarding Trade-Based Money Laundering (TBML).

Compliance Teams must have a high-level understanding of all current and impending risks, regulations and sanctions – and especially an awareness of all TBML risk events as they happen, to establish effective oversight. The mitigation of counterparty risk is vital to the role.

Anti-Money Laundering Teams must identify emerging risks and update company policy and procedures accordingly, in order to provide impenetrable evidence of all TBML activity.

Insurance Teams must base the structure and pricing of every policy on as much evidence as can possibly be gleaned. They must then be armed with live risk analysis information throughout the vessel's passage.

Maritime Law Teams, as well as Regulators and Government Agencies need to know the very latest developments, advances and changes in behaviour on a global scale when it comes to risk analysis, in order to stay abreast of the law and guidelines, and whether they fairly and comprehensively represent and protect all those connected to the industry.

Irrespective of the sector though, every role within the industry is under a relentless time pressure, which only emphasises the need for unwavering clarity, efficiency, and absolute accuracy in terms of risk analysis.

This is because it plays a significant role in every sector, spanning the price of insurance though also the stringent restrictions placed on each policy, the price of goods, the need for ever more detailed and extensive sanctions and regulations, and the direction in which the markets move – to name but a few.

Sebastian Otterstad Villyn concludes: “As maritime risk analysis is constantly developing, changing and evolving, it can only be effectively addressed by a huge wealth of experience, training and access to the very latest data, as it happens. It has to be incredibly thorough, continual, flexible and reviewed constantly, handled by experts in order to allow those in need of the analyses – which is pretty much everyone in the industry – to operate at their optimal level and remain operable, profitable and, ultimately, afloat.”

This guide was brought to you by the experts at Lloyd’s List Intelligence, part of Informa PLC, a leading global provider of business intelligence.

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Sanctionable activity or the processing of prohibited transactions risks US financial lock-out.

Our free report, *Shining A Light on Compliance*, describes how businesses can mitigate that risk.

Find it at: www.lloydslistintelligence.com/who-we-help/finance/trade-finance

To find out more about any of the challenges mentioned, or how to resolve them, get in touch with a member of our team today.

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