BUNKERSPOT

INDEPENDENT INTELLIGENCE FOR THE GLOBAL BUNKER INDUSTRY

www.bunkerspot.com

Volume 3 Number 2 April / May 2006

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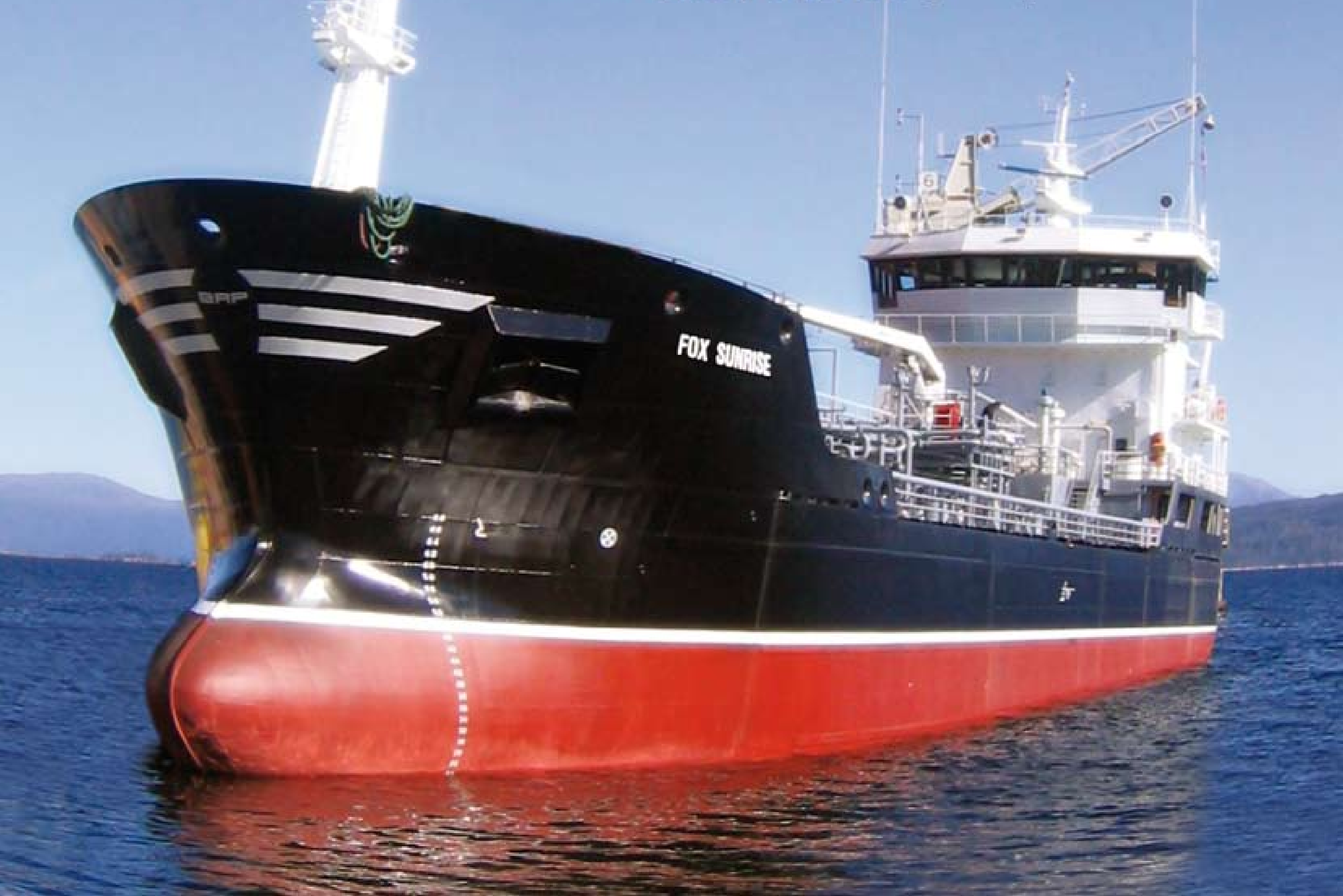

Making insurance work

Graham Watts, of specialist insurance broker Bunker Insure, outlines some of the benefits to suppliers of marine credit insurance

What is the point of buying credit insurance? Well, first of all, bunkering hinges on the provision of credit and although many people often wonder why payments cannot be made in advance, I believe that there is always going to be need to provide credit terms, not least because owners will demand time to check fuel quantity and quality prior to payment. Even in current market conditions, where shipping is reasonably profitable and interest rates low, it might be possible that owners could be persuaded to pay prior to delivery. But, as soon as interest rates rise or market conditions become less propitious, it would not take very long before credit terms were re-introduced. So, accepting that the business is a credit provision business almost as much as it is a bunker supply business, it makes sense to insure against non-payment.

However, there is a second reason to buy insurance cover, and this is the demand to improve credit facilities and obtain cheaper money to finance supply. While fuel prices have been rising dramatically, it is no accident that the major bunker suppliers have flourished while the smaller companies have been struggling to stay afloat. The reality is that when a Panamax ship or a Very Large Crude Carrier (VLCC) arrives in port, there are very few bunker suppliers who can afford to risk overstretched credit facilities to compete in the market to make a 2,000-3,000 metric tonne (mt) delivery, which leaves the major oil companies and larger suppliers with little or no competition. In contrast, as soon as a smaller vessel arrives in port everybody competes to supply it, driving down margins in the process.

> **'Credit risk is all about confidence and security and the greater you can secure yourself, the more confidence other people will have in you'**

Credit insurance

Credit insurance allows bankers to provide suppliers a better rate of interest for loans and to use the secured outstanding receivables as collateral to provide an increased credit line. This allows companies to compete in the market to supply any sized vessel. It also levels the playing field in the sense that if one supplier has to pay more to borrow money than his competitors, then he is competing at a disadvantage.

If a supplier were interested in buying marine credit insurance, what are the pitfalls he should be wary of? First of all, the credit rating of the insurers concerned is a key factor. Banks are generally happy with any insurer rated 'A' or higher, but the higher the rating, the better the negotiating position. Secondly, it is important to find an insurer who understands shipping. This is less common than one would imagine. Most credit insurers have been educated to underwrite only onshore risk, but marine credit risk is still a relatively new development. The shipping industry has its own unique rules and if insurers do not fully understand these they can encounter great difficulty providing the right cover at a reasonable price.

A common mistake that bunkering companies make is to buy insurance only to cover against their counterpart's insolvency, without realising that this will not pay claims in many situations. It is a cheaper cover to buy and, on the surface, this can appear to be a very good deal. It may not even be obvious to the untrained eye that the coverage is limited because the product would still have been described as credit insurance and will look very similar to a standard policy. But this is important because if the supplier only has coverage against insolvency, then he cannot make a claim until his counterpart, the bunker buyer, has been proved to be insolvent. In the non-marine world this generally works, but in the shipping world it frequently happens that when a buyer defaults, it can be difficult to establish where the official jurisdiction for the buyer is and, even if this can be established, it can then take several years to eventually prove bankruptcy – if it can be proved at all. Therefore, we always ensure that our clients have quotes for fully comprehensive cover so that the policy will pay a claim, even if the buyer is not insolvent.

Freedom to make decisions

Nowadays, it is popular to buy a policy that allows a supplier freedom to make decisions about a buyer's credit limits without reference to the insurance company. This trend has grown out of frustration because some insurers have been known to refuse insurance to cover sales to what are often perfectly reasonable buyers. On the face of it, this type of cover can appear an attractive proposition, but I think there is a better solution. Credit insurance policies are designed to rely upon

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the insured to follow a set of pre-agreed procedures, including collection procedures. We work closely with insurers to make sure that these procedures are reasonable for our clients to follow and then we counsel our clients to make sure that they understand and are comfortable following them. However, once these procedures are agreed, insurers do expect the insured party to follow them because, as a general rule – and this is true of all insurance – you must always act in the same way you would have acted if you had been uninsured. The policy will pay when you have followed these procedures but have been unable to recover the debt. Our concern about a client setting his own limits is that, when making a claim, in addition to showing that he has followed his procedures, he will also have to show why and how he decided upon the buyer limit.

What we therefore recommend is a compromise where we arrange a certain level of self-approval but we would then arrange proper written and agreed limits for all the biggest buyers, even before the policy has been purchased so as to fairly show what limits can be provided. There is also an added advantage to the client because once a limit is provided, he will have the certainty that the buyer has been investigated and approved for that limit without having to invest time in his own examination or in paying for an expensive credit report. When it comes to security and peace of mind, our own clients generally say that they are far happier with this process, especially for their largest customers, because they will have a signed agreement to show that they are insured for every single major buyer to a certain level. The banks are similarly happier with this. Credit risk is all about confidence and security and the greater you can secure yourself, the more confidence other people will have in you.

Brokers are important

Insurance brokers are also very important in this process because they work for their client and not the insurer. Aside from their main role negotiating the best price and coverage, they will also work with insurers to fine-tune the wording and the basis of cover for the benefit of their client. Most importantly, the broker will fight on behalf of his client when there is a claim. Being as well educated in insurance as the underwriters, they talk the same language and can cut through any fudging or unnecessary obstacles very quickly. Also, because the broker will usually have built several relationships over a length of time with that insurer, he will have more leverage to apply if goodwill is needed. We have all heard horror stories about insurance companies that try to avoid paying claims based upon some obscure technicality, but brokers should not allow this to happen. As long as general due diligence has been exercised, then insurers should always pay claims. We have actually encountered situations where clients have forgotten to follow certain procedures or have even behaved recklessly and yet we have still arranged claims payments which have saved businesses in the past. We are very happy to provide a first class service to the bunker industry.

Marine credit insurance has proved to be a reliable tool for protection against bad debt, the enhancement of one's credit rating and the securitisation of debt. Within the bunkering area we have developed special wordings to fit the business and insurance premiums can usually be tailored to meet a budget. Claims will be reliably paid providing that the general rules have been followed as far as possible. So, as all insurance brokers offering their services to the bunker community, we hope that marine credit insurance is found to be a valuable resource for years to come.