

# Not sure? Insure

**Unlike land-based industries and the shipping sector, participants in the bunker industry do not have a 'one size fits all' option when seeking credit insurance. Indeed, despite taking on potentially huge credit risks each day, there are few companies that offer credit insurance to bunker companies, and fewer still that understand bunker insurance.**

**Graham Watts, head of Bunker Insure, sifts through the small print.**

The greatest threat to any bunker supply business is the risk of non-payment by a single buyer. This is largely due to the fact that the margins earned within the business are very fine in comparison with other businesses and total debt to even a single Buyer can reach hundreds of thousands of dollars, if not millions.

In tandem with the fact that the number of individual buyers a company supplies can also number well into the hundreds, multiple opportunities for loss loom over bunker traders and suppliers. A large loss can wipe out a whole year's profit, whilst a very large loss might bankrupt a company completely.

In many senses, bunker suppliers, and particularly traders, act as much as credit providers as they do in supplying fuel. Unlike many other businesses that provide credit, decisions frequently have to be taken at short notice and usually without the benefit of any tangible financial information. Given the fact that in addition to working on fine margins, the cost of funding any delays in payment eats away at any profit from the transaction, it is remarkable in some senses that so many bunker companies thrive and prosper as they do.

## Thrive and Prosper

Of course, most shipowners are extremely reliable payers and many have financial resources that a large number of 'onshore' companies could only dream of, but shipping is not a cheap business to be involved in and is prone to peaks and troughs.

While the risk of loss, in general, is quite manageable, a risk does exist and nowadays that risk can be insured against. In a world where it is becoming more important to minimise the biggest risks as far as possible, this can be a prudent option.

If there is a criticism of credit insurance it is that it does not work in the same way as normal insurance. It does not cover risk in the same way and it does not allow cover in the same way.

Therefore, the first point to make clear is that credit insurance generally exists only to cover the bigger bad debts. In terms of car insurance this would mean the total or partial destruction of the car and in terms of house insurance, the destruction or partial of the house. It might also cover a severe amount of damage but, extending the analogy, it would

not cover the theft of small items or damage to a side door. It is therefore cover for a serious bad debt and it is not designed for the day to day losses of ten, twenty or thirty thousand dollars or so which occur in all business from time to time.

In other words, if you take the statement in an earlier paragraph that the risk of loss is quite manageable, this is quite true and most of the time most bunker companies will be in business for years without suffering even a ripple of a serious bad debt.

But, put simply, we provide cover for that one day when the worst happens. Of course, we hope this never happens to anybody but if it does, we like to think that the coverage we arrange will ensure the survival of the business and save profitability. There have already been occasions where the provision of bunker insurance has definitely saved clients from certain bankruptcy.

Vitaly important to any successful conclusion, from a financial standpoint, is that coverage providers are A+ rated companies. This, in turn, would enhance your own credit rating - as you would effectively have an A+ rated company securing all your receivables.

This is an attractive enhancement for financiers and can frequently assist with the arrangement and improvement of financial facilities. This coverage should also give confidence to make decisions about the credit-worthiness of buyers if there is any doubt. Moreover, when an insurance company provides a written guarantee of a limit of coverage against a certain buyer, this is far more valuable than a piece of paper from a reporting company about the same buyer.

Secondly, when it comes to providing coverage against specific buyers, it is very difficult at the initiation of the policy to guarantee that all limits requested will be insured. One complaint often mooted, and one Bunker Insure take care to try to minimise, is that insureds complain that not all their buyers are always covered. It is impossible to guarantee that every buyer will be covered for every requested limit. At the beginning of the policy it has to be admitted that suppliers themselves don't know exactly who they are going to sell to during the year or for how much.

Imagine if you went to a car insurer and said you wanted to insure a fleet of cars but did not know yet which ones you wanted to insure or for how much? All an insurer would be able to do would be to

give you a general price on the basis of the previous year and wait to advise you of the level of coverage as and when new cars were purchased.

## Flexible

It is the same with marine credit insurance, and normally insurers will agree to all reasonable limit requests. However, each insurance company has a different approach to limit setting and some can be far more accommodating and flexible than others. If a Supplier likes to work at what one might term, the sharper end of the shipping industry, then it is important to find an insurer that will provide adequate coverage in this area.

At Bunker Insure, our aim is to avoid disappointment. In short, companies that do not have a large number of their requested limits agreed have been insured with an inappropriate insurer. As an example of the difficulty in agreeing limits, many insurance companies are used to seeing extensive financial information which is available about most land-based companies. As we know, this is frequently impossible to provide within the shipping sector and while there are insurers who pay lip service to understanding that

Regarding the actual assessment of a limit, each new limit request has to be assessed. Unfortunately it is too expensive to buy new up-to-date reports from the credit reporting companies each time and, in any case, no insurer would just rely on a report alone. So therefore we must work with insurers to vet buyers and the only way that we can be certain of providing a policy that will work for the benefit of our client is if we vet the major Buyers even before the Policy is accepted, which explains why it can be a time consuming process to gain a quote in comparison with all other insurances.

## Time Consuming

The third peculiarity about insuring bunker companies, is that unlike car, house or even shipping insurance, there are no standard terms and conditions of coverage and each insurance company has their own wording. In addition, they operate their policies and pay claims in a different ways.

As they say: 'You pay your money and you take your choice'. Having said that, there are some insurers that understand bunkering risk better than others and as an insurance intermediary it is our job to find the most appropriate one for your business. Although we always try, and are obliged to find the cheapest possible price, we are always conscious that some insurers are completely inappropriate for some companies.

One example of this is that in certain markets, extended payment terms or the ability to allow a client to pay late is crucial but there are insurers who would never pay a claim if payment terms were not strictly adhered to. In such circumstances we would advise the client in the direction of an insurer who we felt the most confident that they would accept the way in which the client ran his business.

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financial information is generally unavailable, in practice still have difficulty believing that no financial information is available at all and therefore have great difficulty agreeing limits.

The best advice would be to steer clear of insurers even hinting that they want access to financial information, unless a client knows in advance that the 'financials' are always available. There are also some credit insurers who may occasionally decide, having agreed a limit, to then withdraw that limit. Indeed in the past, some less scrupulous insurers have actually withdrawn all their limits in a time of crisis. Most insurers would never seek to act like this and there are some who would not be allowed to according to their rules. We therefore take care over the Companies we recommend to work with when arranging cover.

## Political Risk

A further issue is political risk, which, in the early days of credit insurance, was considered the main risk of any overseas sale (by political risk, we mean the risk of non-payment due to government embargo or non transference of funds due to government restriction).

However restricted these risks are, most insurers still see the political risk as a major aspect of coverage and have difficulty divorcing this from the 'main' risk. The upshot is that all insurers still insist upon certain limit restrictions in certain countries.

Despite this, most insurers try to be as reasonable as they can about political risk and although there are some insurers who can provide some cover without applying political risk, it is very rare and most have restrictions of one kind or another.



Graham Watts: Founder of Bunker Insure

Lastly, it is important to dispel bunker industry urban myth - that there are a large number of insurance companies available to provide credit insurance to bunker companies and that these are all fighting to underwrite this business.

Sadly, this is far from the truth and the number of companies is restricted to about seven, with those involved far more concentrated on insuring the larger companies.

It is a risky business but it can be underwritten successfully with care and it has been proven to secure successfully against catastrophic losses.

As intermediaries, Bunker Insure takes a great deal of care to make sure that the terms are right for each individual client. After all, there is no point in spending a great deal of money on a product only to find that there are clauses in the fine print disallowing the one bad debt you needed cover for because it falls outside of the terms.

### No Obligation

Insurance companies have no obligation to point out any deficiencies in their wordings whilst brokers have duty of care to their client and must point out any potential difficulties and can negotiate and change the terms if necessary.

Key factors dictating costs of insurance include; the type of buyers the applicant mainly supplies, turnover of the applicant and their loss record.

Prices are generally set out as a rate percentage on the overall turnover of the applicant and then adjusted at year end on actual turnover multiplied by the rate (although some insurers will offer a flat price). It should therefore be possible to buy a level of cover with good coverage and a strong insurer and rates can vary from as little as 8 cents per tonne (and lower in certain circumstances) up to 30 cents a tonne. Special arrangements can be made to reduce prices by sharing more of the risk with the insurer.

Bunker insurance, as I coined the phrase in setting up the world's first bunker scheme in 1995, is a potentially

important part of the bunker industry in ensuring reliability and growth and I anticipate that it will continue to be important in the year's to come.

We therefore pride ourselves on our knowledge of the bunker business and of marine credit insurance generally and offer our clients a caring, considerate service. ■

*Educated at Emanuel School Graham began working at Lloyds of London as a trainee broker in 1975. Eventually becoming a senior broker, he concentrated on placing Marine and Energy business; working on North Sea Platform construction and operation risks as well as the Channel Tunnel construction and a large number of Shipping accounts - particularly in Greece, Germany and South America. In 1995 he negotiated and set up the world's first Bunker Insurance scheme with Trade Indemnity until finally establishing Bunker Insure in 1998*

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