

**COMMERCIAL BANKS IN  
SHIPPING:  
Is their role changing?**

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# **SPECTACULAR GROWTH IN THE SHIPPING MARKETS**

- **Increased importance of some traditional factors**
  - Need for fleet renewal
  - New environmental and safety regulations
- **But also added impetus from new factors**
  - Growth in world economies
  - the effects of Globalisation,
  - Increased demand for seaborne transportation
- **In-flux of money in the shipping industry,**
- **Increased asset prices / market values**
- **Concentration among ship-owners**
- **Shipbuilding Boom**

# **TREMENDOUS CHANGES IN BANKING AND FINANCIAL MARKETS**

- **A 30 years trend: dis-intermediation of commercial banks**
- **Banks under increasing constraints from regulators**
- **But also “macro-scale” de-regulation:**
  - abolition of US Glass-Steagall Act (1999)
  - de-facto fusion of banking and securities markets
- **An era of historically low interest rates (since 2002)**
- **Financial innovation on an unprecedented scale**
- **A new “risk-cuisine”**
- **A new banking business-model**
- **A new balance between borrowers, originators, lenders, investors**

# **AUGUST 2007 :THE MUSIC STOPS!**

- **The US sub-prime crisis... “NINJA lending”!**
- **RMBS =**
- **Sub-prime US mortgage risk disseminated in the market**
- **TOXIC WASTE in the system!**
- **Unexpected but immediate victims: Banks!**
- **For the first time in many years: not only a financial crisis A BANKING CRISIS**
- **Watching liquidity disappear has been truly astonishing!**

# A COMPLETE CHANGE OF CLIMATE

- A huge shock to many treasurers
- Central banks and Banking regulators caught by surprise
- Spectacular U-turn required to avert a collapse of banking market
- drastic measures have limited effect
- Sense of crisis may have receded, but economic outlook has darkened
- Expensive lessons on Financial innovation:
  - Off-loading risk? into capital markets
  - complex modern finance
  - Liquidity risk
  - Central banks helpless
  - Confidence must be restored
  - Securitisation
  - Rating agencies
- Some hard questions

# WHAT ABOUT SHIPPING FINANCE?

- **Ship Finance: a relatively well behaved sector of banking,**
  - **a change in scale:**
    - OWNERS
    - BANKS
  - **New players**
  - **A more competitive environment**
  - **Key issues: capacity, return on equity, risk exposure**
  - **Fundamental principles relatively unchanged in ship-finance**
- **But Shipfinance banks have been affected by the banking crisis**

# **WHERE DO SHIPPING COMMERCIAL BANKS STAND IN TODAY'S TURBULENT CONTEXT?**

- **Shipping is viewed positively by capital markets.... while market is high**
- **But Shipping markets now depends on very healthy growth in the world economy**
- **Shipping Markets now very high, downside risks growing?**
- **Banking : a likely return to the traditional approach**
- **Can capital markets bridge the gap?**
- **Sailing through adverse markets**
- **Support your local Commercial shipping bank!**