

## SHIPPING

# SHIPPING RISK SURVEY 2020

The survey revealed that respondents are happier that sound enterprise and business risk management is contributing to the success of their organisations more than they were twelve months ago.

It is important to recognise the fact that this year's survey was conducted in Q3 of 2020 so the impact and effect of COVID-19 needs to be considered when reading this report.

Respondents were asked to rate the extent to which enterprise and business risk management is contributing to the success of their organisation. The average response was 6.9 out of a possible maximum score of 10.0, compared to 6.4 in 2019. The survey was launched in 2015 with a rating of 6.9, which fell to its lowest rating of 5.9 in 2018, and then has risen by 0.5 year on year.

In terms of geographical sentiment, all ratings were up or steady, with the Middle East leading the increase, followed by South America, Asia and Europe. Meanwhile, North America remained steady.

### Risk management contributing to success



6.9  
2020

6.4  
2019

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## WHICH FACTORS POSE THE HIGHEST RISK IN 2020?

Demand trends have overtaken the cost and availability of finance (38% vs 17%) as the factor respondents identified as posing the highest risk to their organisation.

The percentage of respondents picking demand trends as the highest risk has more than doubled (18% to 38%), whilst the percentage of respondents picking the cost and availability of finance has nearly halved (29% to 17%).

Considering other factors, there has been a reduction in risk of competition (11% to 9%) and geopolitics (8% to 2%), whilst other factors such as breaches in health and safety have increased from 6% to 9% this year.

Demand trends was the number one risk factor for owners, advisers and brokers (25%, 23% and 22% respectively). Managers, meanwhile, identified operating costs as the highest risk at 13%. Interestingly, charterers identified three equally prominent factors – competition, cost and availability of finance, and bunker and fuel costs, all at 17%.

Considering geographical areas, demand trends was deemed to pose the highest level of risk in all geographical areas covered by the survey with the exception of Latin America, where cost and availability of finance featured in first place.

## CHANGES TO LEVEL OF RISK OVER NEXT 12 MONTHS

Respondents reported that cost and availability of finance, demand trends, geopolitics and supply chain disruption all have the potential for increased risk. The level of risk posed by most of the factors which impacted their businesses would remain steady over the next 12 months.

### Increased risk

- ▶ Cost and availability of finance
- ▶ Demand trends
- ▶ Geopolitics
- ▶ Supply chain disruption.

### Steady risk

- ▶ Competition
- ▶ Fuel emissions
- ▶ Changes in tax legislation
- ▶ Bunker and fuel costs
- ▶ Operating costs
- ▶ Port congestion
- ▶ Other changes to laws and regulations
- ▶ Breaches in health and safety
- ▶ Supply and retention of shore based personnel
- ▶ Supply and retention of competent crew
- ▶ Supply of tonnage
- ▶ Cyber security in shipping
- ▶ Data protection and privacy
- ▶ Changes to accounting standards
- ▶ Insufficient controls over financial reporting
- ▶ Piracy
- ▶ Damage to reputation
- ▶ Fraud and corruption
- ▶ Going concern
- ▶ Other risks related to COVID-19.

### Less risk

- ▶ While individual respondents did identify some factors that may have less risk over the coming 12 months, on balance all factors are expected to either remain steady or increase.

## HOW IS ENTERPRISE/ BUSINESS RISK MANAGEMENT SUPPORTED BY MANAGEMENT

Confidence that enterprise/business risks are being managed effectively remains high in 2020, having increased slightly from 7.3 in 2018 to 7.4 in 2020.

77% of respondents (up from 67% last year) felt that the senior managers in their organisations had a high degree of involvement in enterprise and business risk management.

## HOW ARE ENTERPRISE AND BUSINESS RISK MANAGED?

Overall, 40% of respondents confirmed that risk was managed by means of discussion without formal documentation, compared to 34% last year. 43% noted that risk was documented by the use of spreadsheets or written reports.

Meanwhile, there was a significant increase in the use of internally-developed software (8% to 13%) to manage enterprise and business risk.

## RISK FACTORS – 2020



## WHAT IS THE LIKELIHOOD OF MATERIAL MIS-STATEMENT?

The inherent likelihood that any given factor considered would result in a material mis-statement in the respondent's period end financial statements fell across the board.

Changes to legislation remains the highest at 3.1 (down from 3.7), along with disclosure of commitments and contingencies (down from 3.5), and going concern, a new factor. The least likely factor for a material mis-statement this year is again vessels in the course of construction – onerous contracts, which fell from 2.8 to 2.1.

## CONCLUSION

After a year in which business confidence has been rocked by the global pandemic, it is unsurprising to see enterprise and business risk management coming to the fore in the maritime sector.

Where shipping industry leaders may once have viewed risk management as a box ticking exercise, COVID-19 has forced them to become more hands on, with our survey showing an increasing number of senior managers becoming more actively involved in day-to-day risk management activities.

Underlying this is greater recognition of the importance of risk management, with an increasing proportion of our survey respondents reporting that the discipline is contributing to the success of their organisations. Whereas in the past awareness of risk may have been conflated with risk aversion, the events of 2020 have shown that identifying risks and planning for mitigations are crucial.

While these are positive developments, there are nevertheless some signs that the industry is still not fully cognisant of the extent of the risks to which it is exposed. Some pockets of complacency do remain.

A particularly worrying aspect of our survey is the high percentage of respondents reporting that while risk discussions are taking place, they are not being formalised or documented. In other words, some in the industry do not yet have a sufficiently well embedded approach to risk management, and they need to do much more to formally identify evidence

and reduce their exposure in practice. This is crucial for the industry so that it preserves its integrity and enhances its attractiveness to risk-conscious investors.

The impact of COVID-19 on the outlook of respondents is also clear from our survey, conducted in the third quarter of 2020, with almost half (47%) saying that the pandemic had altered their views on the risks facing the industry. Among the biggest impacts are the costs and availability of finance, demand trends, operating costs, breaches in health and safety, supply and retention of competent crew and supply chain disruptions.

Our respondents provided further colour on some of the practical challenges they have faced in recent months, including the risk of a COVID-19 outbreak on board ships or in their offices. Beyond that fundamental concern are difficulties encountered in getting standby crews onto ships, and getting crews off ships when they had overstayed their contracts. Others pointed out that the maritime industry in general is still vulnerable to further reductions in global production, falling oil demand, the prospect of heightened trade tensions and changes in trade patterns, which risk decreasing freight rates across vessel classes.

Indeed, demand trends was the top risk identified by our respondents, jumping from 18% last year to 38% this year. The cost and availability of finance, geopolitics and supply chain distribution were also among the risks identified as increasing over the next 12 months.



“ Shipping is a classic risk-and-reward industry. Throughout history, there are examples of those whose appetite for risk have been both rewarded and punished. ”

**MICHAEL SIMMS | PARTNER**  
SHIPPING & TRANSPORT AT BDO

With the pandemic dominating attention, however, significant risks that are only likely to become more important, including cyber threats and environmental performance, may be overlooked.

Shipping is a classic risk-and-reward industry. Throughout history, there are examples of those whose appetite for risk have been both rewarded and punished. However, those who do their due diligence, and who come up with a sound business plan, are the ones best placed to reap the rewards.

## SUPPORTING YOU IN THE NEW REALITY



We want to reassure you that BDO continues to provide the level of service you would expect from us as the Coronavirus (COVID-19) continues to spread. Our offices are temporarily closed and our employees are working from home where they are fully equipped to access all of our systems securely, including taking your calls.

Please speak to your BDO contact for more details or visit our dedicated [Rethink](#) hub.