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INTERVIEW: National Bank of Fujairah discusses challenges, risk management in oil and bunkering sectors

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The following interview arranged by Conference Connection is part of pre-event coverage for the upcoming 12th International Fujairah Bunkering & Fuel Oil Forum (FUJCON 2021), where Manifold Times is an official media partner. Readers can register for the virtual event by clicking on the link [here](#).

Incorporated in 1982, National Bank of Fujairah PJSC (NBF) is a full services corporate bank with strong corporate and commercial banking, treasury and trade finance expertise as well as an expanding suite of personal banking options and Shari'a compliant services.

Manifold Times recently had a chance to interview Neill Robertson-Jones, Head of Corporate Banking, National Bank of Fujairah, UAE who shared with the Singapore bunkering publication his thoughts on challenges, risk management and other issues faced by financial institutions operating in the oil and bunkering sectors.

MT: What are the main challenges in today's risk management and oil storage sectors which banks such as NBF need to be aware in order to successfully operate in; and how has NBF overcome them?

One of the greatest challenges that has clearly surfaced in recent times is the authenticity of trades being financed by banks and whether the pledgor of any associated security actually held legal title over the subject product. A spate of

corporate frauds in this industry and in the region have left banks with sizeable loan losses, resulting in some exiting from the commodity trading sector.

As a result, we have seen that banks increased due diligence, monitoring and checking exponentially as many of these cases have centred on invoices being used to obtain double or multiple financings from banks, obtaining financing for cargo that traders did not actually own, or even did not exist in the first place. Issuance of letters of credit, inventory finance and factoring programmes were exploited through these fraudulent practices.

The oil storage sector was put under the spotlight because products being financed are frequently held in storage as part of the cycle between seller and buyer; and in many cases, this ultimately resulted in competing claims for the same cargo held in storage. In case of defaulting borrowers where the bank's exposure is for oil products stored in terminals, banks have to go through a very lengthy legal process to exercise their legal right to move or sell the cargo held in tanks.

For NBF and other lenders to continue to support the sector, greater transparency and trust is required between trading firms and their lenders. A key enabler in this regard is ensuring that traders provide sufficient visibility over trade transactions, including counterparty and third-party verification; the underlying goods being traded and any receivables due. NBF requires traders to provide information on the end-to-end process and trade cycle when seeking finance for a transaction; while traders should agree not to obtain any other financing related to the same goods without prior written consent from the Bank.

NBF is also exploring a potential solution to the aforementioned issues using a blockchain-based registry of trade finance transactions as a secure central database for the banking industry to access records of trade transactions financed across banks, whereby we could be assured as to whether bills of lading or physical cargo have already been pledged and financed.

MT: It seems certain banks are shying away from the marine fuels sector. As such, what is NBF's view on investments and issuing of credit in the international and local marine fuels business and is it as bad as what other banks believe?

Frequent instances of reported frauds, financial mismanagement and sanction breaches have negatively influenced lenders in the bunker industry. Therefore, some banks have retrenched from the marine fuels sector. The recent rapid increase in crude prices is also adding to the industry's credit problems. These factors have accelerated a lenders' flight to quality, wherein larger commodities traders have largely remained able to take advantage of financing, albeit we have seen the introduction of Covid-19 premiums being added to several 2020 Revolving Credit Facility margins.

NBF remains committed to supporting both international and local customers working in the Fujairah hub, through the financing of investments and provision of banking product and service offerings including but not limited to bunkering, marine fuels, refining and storage infrastructures.

Unlike other banks that have retrenched from the market, and in an aim to support Fujairah's ambitions, NBF has moved from a market risk towards a credit risk approach requiring a better mechanism and expertise for assessing credit risks. Increasingly stringent rules are required on compliance and transparency, while mitigating the financial risks of the trade through issuing credit to bunker suppliers who are engaging with highly reputed intermediaries. Leveraging the latest technological advancements, NBF may promote the use of block chain technology to streamline the documentation processes and resolve transparency issues.

MT: What investments does NBF have in UAE's bunkering sector and overall, how have loans to the UAE and Middle East bunkering sector increased/decreased in the past years and why?

At NBF, we are proud to have provided and continue to provide substantial working capital solutions to many licensed bunker suppliers in Fujairah. Thus, by virtue of NBF's long-standing support to this vital business sector, our customers frequently benefit from seamless payment flows to and from their counterparties who typically are also long-standing NBF customers. You will appreciate we cannot comment on specific customers' activities, suffice it to say that, NBF remains committed to providing further support as and when required to support the continued development of this vital sector, enhancing both Fujairah's justifiable claim to be a top global bunkering hub and facilitating the transition to the provision of cleaner marine fuels.

MT: Has the commodity trading mishaps in 2020 affected the availability of credit for the Middle East bunkering market? If yes, how can you provide examples of how credit has been affected?

Large losses have led banks to withdraw from financing commodities and become much more selective in this space. The credit process particularly around due diligence has been substantially enhanced. We now see more background checks on counterparties, more documentation checks, the use of real time vessel tracker systems to see and review actual vessel movements, checks on the track record of the parties involved, live monitoring of transactions and a greater due diligence.

MT: What measures have NBF introduced to mitigate credit risk exposure to the bunkering sector since 2020?

NBF is taking a more active approach to client exposures and looking at putting in place transaction structures that closely align with the natural transaction flow. NBF has enhanced the processes around due diligence checks, documentation and randomised sampling and counterparty selection to ensure that we have a sounder customer base. There is also more emphasis on transparency around the physical flows and follow ups with the counterparties involved to cross check the transactions.

MT: Out of curiosity, is credit issued by NBF for the country's bunkering sector under sharia law and what are the differences between collection of credit and debt under Muslim law when compared to international law? Especially in the event of late payment or insolvency.

This is a topic that is quite complex and would require a separate discussion to do it justice. In brief, there is no major obstacle to providing commodity finance in general in a sharia compliant fashion, in fact it is one of the areas where Islamic banking is most active. Nevertheless there are differences in the underlying contract structures that add some complexity, which I suspect is the reason you do not see it used as often as it could be. At NBF, we provide both conventional and sharia compliant options in order to meet our customer's preferences.

Note: Neill Robertson-Jones will be speaking at Session 4A: Risk Management & Oil Storage at FUJCON 2021.

Photo credit: National Bank of Fujairah
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