

Commentaries

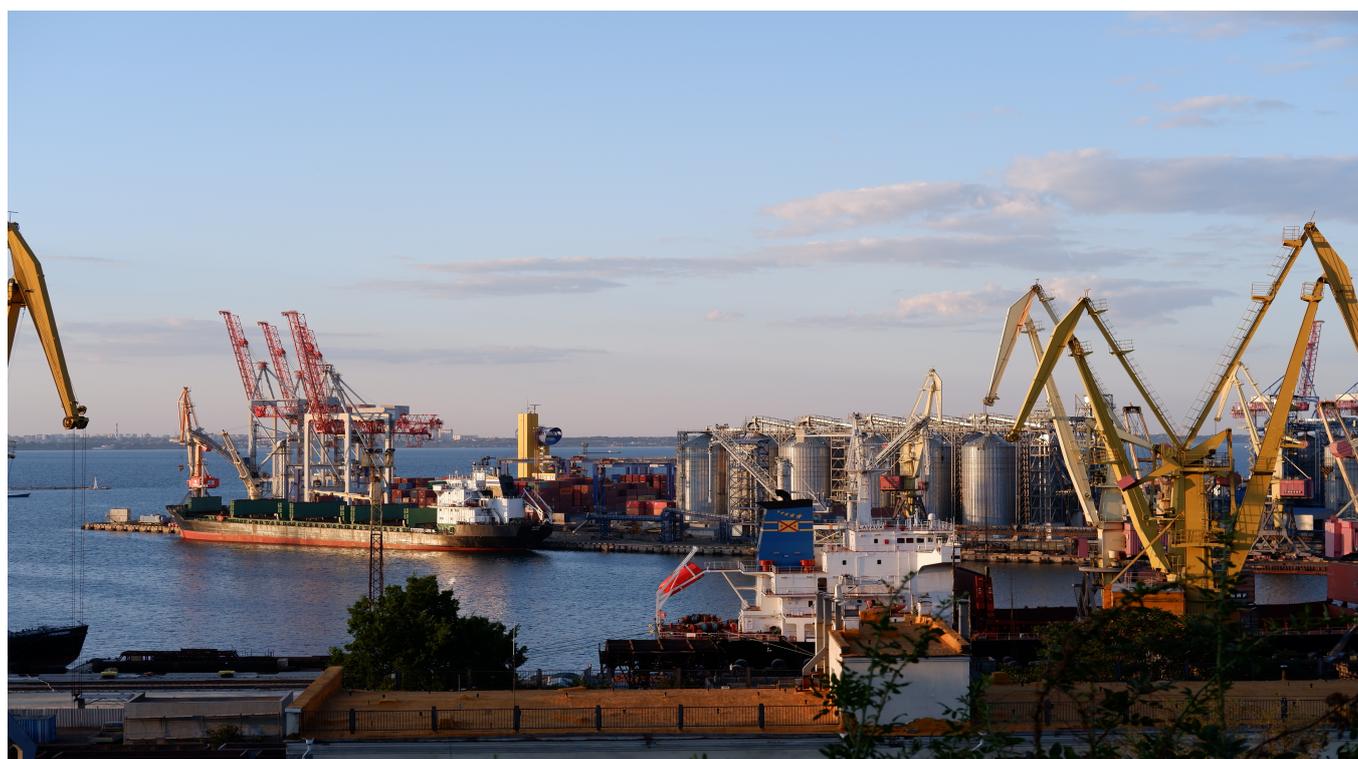
Shipbrokers: dealmaking channels on their way to extinction?

Armando Veras Sepúlveda

Arguably the most stereotyped participant in most industries, views about their necessity and helpfulness are oftentimes visceral, and understandably so. The participant alluded to is none other than the broker, and the maritime industry is no exception to what the previous sentence conjectures.

Definition. A shipbroker may be defined as an intermediary who facilitates transactions in respect

of either merchant vessels or water transport agreements. The mediative character and the transaction-oriented nature of shipbrokers' mission are probably the visible attributes that prompt questions about their necessity and helpfulness, especially in an age of inexpensive, instant, and portable telecommunications. Brokerage is an unnecessary transaction cost, or so the (perhaps flawed) logic goes.



Roles and objectives. Confidants, sources of sector-wide guidance, igniters of mercantile initiative, market reconnaissance scouts, judicious filters of actionable information, promoters, supply-demand matchmakers, agents of price discovery, balancers of bargaining power asymmetries, dealmakers, contractual execution monitors, custodians of commercial relationships, dispute preventers and, if things become litigious, witnesses – the roles a shipbroker may assume are manifold. Notwithstanding the wide spectrum of functions, they perform in pursuit of their principals' interests, brokers' perpetual objectives can be reduced plausibly to just one: mutually satisfactory commercial agreements. This numerical imbalance between functions and objectives, paired with the norm that shipbrokers' remuneration is contingent on the complete or partial fulfilment of the brokered agreement, leads many to oversimplify the value brokers bring to the table down to just intermediary dealmaking.

Having defined shipbrokers and outlined the functions they perform and the outcomes they procure, a key question arises:

What makes a good shipbroker? From competitive broking firms' perspective, it is straightforward and quantifiable: the best shipbrokers are the rainmakers; in other words, those who, consistently, best enable the firm to maximise its commission revenue. By contrast, from clients' vantage point, the best shipbrokers are those who best perform what they are requested or expected to perform. Granted, that is marvellously vague. However, what this signifies is that the criteria may be predominantly 'qualitative', criteria which varies meaningfully in function of any given client's modus operandi, in-house resources, relevant market segment, seniority,

experience, personality, cultural traits, enquiry at hand, and its sense of urgency, amongst other variables. Despite the discrepant criteria by which broking houses and clients evaluate individual shipbrokers, there is a compelling overlap of brokers who are simultaneously held in high opinion by employers and clients alike, which leads to the proposition that shipbrokers who command the trust of a critical mass of desirable customers tend to be the same cohort who generate superior commission revenue to their firms.

Misalignment of incentives and conflicts of interest. Notwithstanding, broking firms' commercial imperative may oftentimes be misaligned or, possibly, at diametrical odds with client principals' best interests. Specifically, shipbroking houses' bottom lines may benefit from transactional celerity and volume at the expense of prudent thoroughness, incentive dynamic which tempts unscrupulous practitioners to resort to alarmist tactics for railroading impressionable clients into swift deals. In broking (mal)practice, an even more pernicious instance of disloyal, self-seeking exploitation of information asymmetries may consist in sacrificing the bargaining position of a trusting client on the altar of another—usually larger and more renowned—customer. These scenarios may well belong to the realm of what is known in economics as “the principal-agent problem”.

Disintermediation. Reports of shipbroking's looming extinction are greatly exaggerated, at least in the foreseeable future. Each wave of technological advancement in telecommunications sparked disproportionate expectations of disintermediation. Developments suggest that previously prohibitive costs for storing, processing, and telecommunicating transactional data were not what kept shipbrokers

Commentaries

in demand for they represent far more than merely a dealmaking channel. Though, advancements in artificial intelligence (AI) and natural language processing represent a different breed of technological leap, one which might exert transformative effects on shipbrokers' professional practice like never before, yet a far cry from rendering human judgement irrelevant. AI may usher in an era where shipbroking firms are as relevant as ever and more capable of delivering bespoke services with drastically lower headcount, which would result in a more diverse marketplace and a level playing field. Disintermediation and automation prospects are most ominous in segments with maximum levels of contractual standardisation, high market concentration, and limited operational variability: the simpler and the more predictable the transaction, the lesser the need for an intermediary. By contrast, in maritime segments where many risk- and price-altering variables are subject to contractual negotiation and operational optimisation, counterparties will likely keep demanding the services of shipbrokers who—more than being mere negotiation channels—enhance their clients' thought and decision-making processes.

Fertile fields for academic research certainly lie in the area where information economics and organisational economics intersect: contract theory, agency theory, transaction cost theory, information asymmetry, principal-agent problem, moral hazard, signalling, screening and other actionable theoretical contributions germinated out of such intersection. Using said contributions as elements for constructing a lens with which to examine some of the misalignments and conflicts broached in the present article may yield practical insights that could promote enhanced market practices.



Armando Veras Sepúlveda
armando@alfavictorsierra.com

Chartered Shipbroker and Director at Alfa Victor Sierra Limited (London), member company to The Baltic Exchange. Fellow of The Institute of Chartered Shipbrokers. Guest Lecturer on Shipbroking Practice and Merchant Vessel Sale & Purchase at Universitat Politècnica de Catalunya's Barcelona Faculty of Nautical Studies. Member to The Grain and Feed Trade Association (London).