

Seeking & Finding the

RightShip

In a digital world, controlling the physical risks associated with ocean shipping is no longer a subjective task. An increasingly sophisticated and affordable tool at the cutting edge of technology is available for tanker and Drybulk charterers alike.

Finding the right ship has never been this easy. by Joseph Keefe

The prequalification of tonnage, otherwise known as vetting, has come of age. Ship inspection reports on the world's fleet of chemical and LPG tankers can be had from the Chemical Data Institute (CDI). The Oil Companies International Marine Forum (OCIMF) system is known simply as SIRE. That standardized inspection system – based primarily on safety issues – evolved to the point where it arguably became the standard against which all tankers were judged for suitability for hire. For both systems, vetting personnel had to possess minimum qualifications and undergo a certain amount of training before being allowed to inspect tonnage to assess risk.

By the mid-1990's, some charterers and receivers – unsatisfied with rigid vetting protocols that either ignored the commercial aspects of a vessel's suitability or simply did not meet their internal criteria – branched out and cre-

ated their own third party rating systems. These systems, although unsophisticated and largely paper driven at first, also melded the commercial concerns of traders with the safety considerations of risk professionals. The new approach recognized that the safest ship in the world that can't perform on charter is as much of a loser as a substandard, poorly manned and maintained vessel. Culling information from a myriad of sources, far beyond the simple physical vetting itself, it was realized that risk management for oceangoing tonnage could be much more than "vetting." At the forefront of that effort was a company named RightShip.

VETTING GROWS UP

Formed in 2001 as a boutique ship vetting company, aiming to lift standards in dry bulk vetting, RightShip Pty Ltd has since changed the shape of the global vetting scene forever. Started as a

partnership between BHP Billiton and Rio Tinto, RightShip was to provide services to two organizations that wanted to roll out vetting as a company-wide and indeed, a global initiative. Eventually, and responding to outside requests, RightShip began to provide third party services to others.

Speaking from his headquarters in Australia, RightShip CEO Warwick Norman described the RightShip system by saying, "We operate on a different system and understanding of where the tanker vetting has come to – and SIRE has come a long way in the last 40 years. We started as a primarily dry cargo vetting system – there was no SIRE, no industry database from which to tap into. We had to devise a different platform from which to access the silos of information – some of which was untapped, uncoordinated, focusing all of it around a single platform. Using that information, we put together a risk

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algorithm based on those safety parameters to come up with our vetting system.” Cargill came to the party 4 years later. Significantly, RightShip is now owned in equal shares between three organizations, who represent less than 50 percent of RightShip’s vetting activity. Says RightShip CEO Warwick Norman, “We have a healthy spread of third party clients.”

ECONOMY OF SCALE

RightShip offers online evaluations that support business decisions about the charter of ships. For an annual fee, clients get unlimited 24-hour access to the web-based system. Beyond the obvious advantages of a system that incorporates the largest swath of marine data available on the market today, the RightShip platform gives clients the competitive and risk management advantages of an in-house vetting service, without the associated costs.

Speaking to RightShip’s business model, Norman explains, “We bill on a subscription basis, based on historical vetting numbers, built around the client’s particular requirements; vetting criteria, volume of work, etc. For smaller clients, they are using the system, of course, but also tapping into in-house

expertise. So, when we look at a particular company’s prospective vessel, we are also wearing that customer’s hat. We are unique in addition to being a Web-based service, there’s also a human being that comes as a part of that service. The more the client uses the human side, the more that variable comprises of the vetting cost.”

When every business decision ultimately comes down to price, the prohibitive cost of running a standalone, in-house vetting system drives many charterers to look for better value elsewhere. An internal system involves IT costs and the overhead of employing dozens of technical personnel. For smaller mid-size trading houses, the corporate budget can be even tighter. Nevertheless, RightShip’s CEO says that there is more to the decision than just cost alone. Echoing that sentiment, RightShip client and Manager of International Marine Logistics for Huntsman Corporation Amy Hark says, “RightShip was instrumental in helping us to implement a robust and thorough vetting practice, globally, through the use of their web based application which facilitates the process but even more importantly, is supported by experienced Ship Captains reviewing each

vessel.”

In-house data can become stovepiped instead of becoming part of a wider pool of data. Within the RightShip server, a customer has the ability to store information that can be accessed enterprise-wide. Properly genericized, data (using strict protocols) can be shared from a thousand different places, and with a full range of clients. In this way, the charterer fixing just ten ships annually gets virtually the same quality (and breadth) of information available to another client doing 300 times that volume. Warwick Norman insists, “Vetting is an experienced based system, so if you are only doing ten per year, it is going to take a long time to get the kind of data you need to make the proper comparisons.

QUALITY EVOLVING

A typical vetting report takes the form of a 1 to 5 “star” rating system. Three or more tables, each with multiple criteria, are used with points given for various benchmarks. As one of the world’s largest users of port state control data, RightShip can rate a vessel based on company, operator, high risk flag, third party bloc, age, Class Society, P&I Club and a myriad of other variables. The

information system is continually updated – weekly and daily – to capture new sources and automatically update that which they already possessed. RightShip personnel don't necessarily have to go out looking for it. The hard part is ensuring information coming in is accurate and correcting the data, if need be. Norman cautions, "This comes with responsibility. The system is dealing with a lot of variables."

The quest to improve the process is aptly demonstrated in the increasingly sophisticated nature of the RightShip algorithm. A new feature of the software allows technical personnel to rate a vessel by using filters to compare

owner to owner, flag to flag, to its representative class of ship, classification society, type of service and the vessel to the entire fleet within its owner pool. Norman explains, "This allows us to drill down to sort out the problem against what you are trying to use the vessel for and, more importantly, the client's risk tolerance."

THE HUMAN ELEMENT

The RightShip vetting method effectively eliminates the chance of a 4:30 Friday afternoon decision being different from the Monday decision. Norman explains, "By applying data in a uniform standard as opposed to a subjective

human interpretation, the client can make a commercial decision based on that systematic approach." That's not to say that there isn't room for analysis within each piece of RightShip vetting advice. There is.

Lots of 2-star vessels get approved. For example, a vessel otherwise having an excellent rating except for a port state deficiency might end up with a "2" but that deficiency might not disqualify the vessel. Norman explains further, "To a certain extent, vetting involves changing behavior; the carrot and the stick. Downgrading the vessel until it repairs the deficiency incentivizes the owner to do better." On the other hand, it may have to go through a manual vetting process, each and every time. He adds, "That can delay a vessel from getting approved and that delay comes with risk for all parties."

Norman runs a pragmatic shop. That savvy runs the full gamut of avoiding blanket decisions based on stovepiped data. "That discussion usually revolves

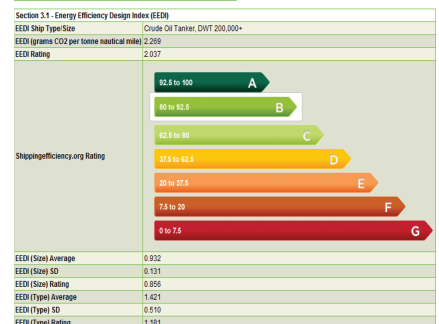
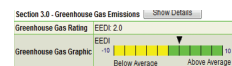
Section 1: Calculated Risk Profile

Code: LR = Low Risk; LMR = Low Medium Risk; MR = Medium Risk; MHR = Medium High Risk; HR = High Risk

Parameter	HR	MHR	MR	LMR	LR	ACTUAL
Yard Risk				■		0.25
Flag Risk			■			0.20
Flags Registered	■					5.00
Class Changes	■					3.00
Class Risk					■	0.14
Owner Risk	■					6.00
Manager Risk	■					8.00
Parent Risk	■					7.00
Owner Fleet Risk				■		1.00
Ownership Risk				■		1.00 / 19
Casualties Risk			■			1.00
Casualties by Age Risk	■					1.00 / 14
Casualty Timing Risk					■	1.00
Column Counts	6	0	2	3	2	
Multiplier	2	4	6	8	10	
Points Scored	12	0	12	24	20	68
Total Calculated Score						68

Section 2: Rating Adjustments

Adjustment Allocation	Points [+/-]
Class Society Adjustment	0
Age Adjustment	-5
Small Ship Adjustment	0
Flag Adjustment	-5
Preferred Supplier Adjustment	0
Audited Company Adjustment	0
Total Adjustments	-10



around age – the old adage of an older vessel can't be a good ship.” Not necessarily, insists the RightShip CEO. “A vessel, operated properly and maintained to a high standard over its lifetime can be characterized as a good risk. The owner can't change the fact that the ship was involved in casualties or detained in the past, or has had three name, flag & class changes, etc. What he can demonstrate is current performance.” Finally, the software can be configured to produce flags that say, “Vessel Needs Senior Management Approval.” Another charterer might say “we don't period vessels from a company which has a deficiency rate greater than 3 or something similar.” “These sorts of caveats are very common,” says Norman.

ONE SIZE DOES NOT FIT ALL

Increasingly, it is not just charterers

who are interested in vetting evaluations. For RightShip, a number of terminal and “receiver” clients have come into the fold. Because some customers have specific mooring requirements, suitability to terminal considerations for incoming tonnage is an important factor. And, just because the terminal isn't chartering the vessel doesn't mean that they don't share in at least some if not all of the risk associated with that vessel's port call. A vetting service designed for terminal operators is long overdue and RightShip has stepped into the breach to provide a customized platform for just that purpose.

RightShip vets dry bulk, petroleum, gas and liner ships worldwide for a myriad of clients. That's not to say there isn't competition. Warwick Norman knows it. “We think we have a pretty good system. The oil majors have some good systems, too. I do think we have

the best third party system. Our early goal of creating the best possible vetting system continues today unrelenting with substantial capital rollover into the equipment.” As risk changes, so too does the RightShip system.

Norman continues, “Vetting was formerly focused on detentions and now we're looking at individual deficiencies. We see what we call community risk or industry expectations shifting significantly over time. Therefore, your vetting system must be able to reflect that change.”

For all its technology, algorithms and ease of use, the RightShip vetting system can be boiled down to a simple common denominator: Warwick Norman insists, “We want the client to have a good commercial result from the vessel it does charter.” In other words, it all comes down to finding the Right Ship.

Ahead of the Curve

Green Ratings

Like every other aspect of the RightShip system, the groundbreaking environmental risk rating incorporates a raft of variables. The shipowner and the vessel itself can be rewarded for performance where it has gone beyond what is required by the regulations. For example, Section 5 of the rating system awards ten points of credit for a vessel certified to ISO 14001. Similar incentives await those affiliated with Green Marine in the Great Lakes, certification to class environmental standards, the presence of a ship's energy management plan and other similar protocols.

Standalone at the moment, the module allows RightShip – for those who want it – to provide a tool that can benchmark environmental performance including but not limited to identifying hazardous materials on board before recycling. For shipowners, it is a good news/bad news proposition. For those ships involved with a Marpol deficiency / oily-water separation violation prosecution, the Green rating won't look so good. While encouraging poor performers to improve, the RightShip approach goes even further. Norman says, “We've developed a rating system where charterers and owners are going to start having to look at and reduce their emissions along the lines of corporate requirements. For example, a charterer might charter one “dirty” vessel but then have to make up for it on the next three so that the overall average is within compliance. So, while you might be looking at individual vessels, the target for a charter or owner might be an overall ten percent reduction in emissions over time.”

Section 4: Calculated Environment Risk Profile						
Code: LR = Low Risk; LMR = Low Medium Risk; MR = Medium Risk; MHR = Medium High Risk; HR = High Risk						
Parameter	HR	MHR	LMR	LR	ACTUAL	
Yard Environment Risk	■				8.00	
Flag Environment Risk	■				1.74	
Class Environment Risk				■	0.37	
Marpol I (Oil)	■				7.00	
Marpol II (Noxious Liquid Substances in Bulk)				■	0.00	
Marpol III (Harmful Substances in Package Form)				■	0.00	
Marpol IV (Sewage)		■			3.00	
Marpol V (Garbage)				■	0.00	
Marpol VI (Air Pollution)				■	1.00	
Column Counts	3	1	0	1	4	
Multiplier	1	2	3	4	5	
Points Scored	3	2	0	4	20	29
Total Calculated Score						29
Section 5 - Environmental Rating Adjustments						
Adjustment Allocation	Points [+/-]					
Vessel owner certified to environment standard 14001	10					
Vessel certified to environment standard 14001	0					
Vessel is affiliated to industry environment group	0					
Vessel is certified to Class environment standard	0					
Vessel is SERS (ship emergency response system) compliant	0					
Vessel maintains inventory of hazardous materials	0					
Vessel has Green Award	10					
Vessel has SEEMP or TEEMP	0					
Total Adjustments						20
Section 6 - Environmental rating Other Factors						
	Yes	No				
Marpol I (Oil)	■					
Marpol II (Noxious Liquid Substances in Bulk)		■				
Marpol III (Harmful Substances in Package Form)		■				
Marpol IV (Sewage)	■					
Marpol V (Garbage)		■				
Marpol VI (Air Pollution)		■				
Marpol Detentions Worldwide (past 6 months) >= 1		■				
Last Dry Insp with Open Marpol Deficiencies		■				
Enviro Casualties Under Review		■				
Class Suspension / Withdrawal for Enviro reasons		■				
Tanker/OBO (Except Gas Carriers) Non Double Hull (18F)		■				
Environmental Incident Reported		■				
Oily Water Separator violation prosecution		■				
Total Other Enviro Factors = YES						2