The high cost of paying seafarers – Are there alternatives?

Did you know that over $6 billion in hard currency is delivered to the global merchant fleet on an annual basis?

Stuart Ostrow, President of ShipMoney, a global maritime financial services company, shared these "startling" figures during a presentation at the recent Crew Connect Conference in Manila.

Mr Ostrow further noted that shipping companies are deploying "idle capital" by delivering large amounts of cash regularly to their vessels.

For example – looking at a fleet of 50 vessels with 20 crew members per vessel, on the basis that $500 per month onboard is used in cash advance for crew and $15,000 for ship operations, some $15 million in cash would be delivered to the fleet. In this example, the company could be incurring $450,000 in direct costs just to send cash to their vessels – assuming the average cost of 3% for cash-to-Master.

Mr Ostrow went on to pose this rhetorical question to the audience: "What if there was a solution to cut that cash in half by using alternative payment methods? That's $225,000 in direct cost savings by simply delaying the delivery of cash from every two months to every three months, and cutting the amount of cash for each delivery by 25%. And this does factor in the return of the idle capital back to the balance sheet.

"If we look at the recent BIMCO study of how many ships exist in the merchant market, we're looking at approximately 69,000 vessels. If we go back to the example of 50 vessels, it's about $25,000 in cash per ship which equates to approximately $1.7 billion cash onboard the global merchant fleet at any one point in time. If that cash is replenished four times a year, that's $6.8bn dollars in cash that is sent to the fleet on an annual basis. It's a truly startling number."

And that only represents one component of the cost to pay seafarers.

Mr Ostrow also highlighted wire costs, since virtually all crew members are paid via a wire sent to a bank account in combination with some amount of cash onboard. During the presentation he cited a recent World Bank study of remittance costs. He revealed the global average is 5.7% with banks being the most expensive service providers with an average cost of over 11%. Costs being defined for this study include transaction fees, foreign exchange, and transit costs. Surprisingly, the least expensive option identified in the study are prepaid cards.

Taking the same example of 50 ships with 20 crew members and an average wire transaction fee of $7.50, Mr Ostrow said that the wire fees for this company would approach $90,000 annually.

And most notably, this does not factor in the costs incurred by the seafarers when US Dollars are remitted to an account denominated in local currency. This is the "hidden cost" incurred by seafarers since they do not have any visibility as to what the exchange rates are, he added. ●

Streamlining commercial operations key to keeping the industry afloat

There are many factors impacting the turbulent nature of the industry, however the primary, undisputed factor is overcapacity which has ultimately led to marginal charter rates - supply and demand in its simplest form.*

Given the overall state of the industry, 'costs' seems to be the word on everyone's mind along with operational efficiencies. When operating margins are close to or below zero, every dollar matters.

If we cast our minds back to 2007, companies were less concerned about line item expenses further down on their income statements. As consolidation and cutbacks made a huge impact on 2016, it wasn't all doom and gloom. There were opportunities for third-party financial service companies to enter the market and offer unique programmes, providing alternatives to traditional banking relationships and cash-to-Master service providers.

The financial pressures on OPEX are driving interest in crew payment and welfare programs that can save companies money. When asked the simple question, 'how much does it cost to pay your crew including both hard and soft costs?' Many companies don't really know.

They may know that their wire fees are $15 or $20 and their cash-to-Master costs are 3%, but this does not reflect administrative costs of managing crew bank beneficiaries or manual re-conciliations between systems.

Imagine a fleet of 50 vessels with 20 crew members per vessel, on the basis that $500 per month on board is used in cash advance for crew and $15,000 for ship operations, some $15 mill in cash would be delivered to the fleet. In this example, the company could be incurring $450,000 in direct costs just to send cash to their vessels – assuming the average cost of 3% for cash-to-Master.

There is no simple answer to eliminating costs, but what if there was a solution to cut that cash in half by using alternative payment methods? That's a saving of $225,000 just by simply delaying the delivery of cash from every two months to every three months, and cutting the amount of cash for each delivery by 25%.

However, as many seasoned industry professionals know, change does not happen overnight, especially in the shipping industry. But as companies are being forced to look to tighten their belts, including how crew members are paid and how much it costs to pay them, the old saying 'Adapt or Die' couldn't be more apt.

As a general rule across the industry, wages are paid by a combination of allotments sent to the home-country bank account along with on board cash advances. Setting aside the required minimum allotments to the Philippines, there is no set standard in the industry regarding how much cash can be drawn on board versus how much is sent home.

There are really two costs associated with on board cash: the cost to have cash physically delivered to the vessel; and capital costs of having idle cash sitting on ships. This is dead capital on a balance sheet, so any reduction in the cash-to-Master costs and the amount on board is a direct benefit to the bottom line.

The one segment of the industry that has made significant headway is the cruise line industry, which has made a dramatic shift from paying crew members in cash to specialised prepaid card programmes that were developed for the cruise market. The adoption of these programmes is pervasive in that market with several operators gaining prominence. A widespread move towards this system of payment is within reach.

There are significant differences between how crew are paid in cruise sector versus the commercial market. While crew may come from the same parts of the world, the manner in which they are paid in the commercial market requires a very different solution.

Plastic-card-based programmes require complicated and expensive logistics. What worked as a solution in the cruise market may not work in the commercial sector. There is no 'one size fits all'.

As we look forward to the year ahead, my aim is to help educate the market by getting HR and crewing executives to take a hard look at how they are paying their crew today, evaluate what their real costs are, and to explore alternative solutions that can reduce costs and provide operational efficiencies while offering crew members new benefits.

*This article was written by By Stuart Ostrow, President ShipMoney. TO

Stuart Ostrow

Stuart Ostrow has been a leading figure in maritime payment solutions since 2006 and includes, amongst his professional achievements, the change in payment systems for crew in the cruise line industry.

Today he is President of ShipMoney, a global maritime financial services company, offering products for owners, managers and crew which includes a prepaid Visa payroll card that provides an alternative for crew receiving wages in cash or wired home; and a prepaid Visa purchasing card that provides an alternative way for Masters to pay for provisions, emergency repairs and other ship expenses.