

Nordisk slips into the red as dispute numbers fall

Norwegian freight, demurrage and defence club hit by outbreak of harmony

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A notable downturn in the number of shipping and offshore energy disputes drove the Nordisk Skibsrederforening freight, demurrage and defence (FD&D) insurance club into the red last year.

Despite an increase in the number of vessels covered, the Oslo-based mutual was instructed on 2,156 new cases last year, 6.3% fewer than in 2015.

The reduction — described as “striking” by Nordisk’s shipowner board, chaired by Hans Peter Jebesen of the Kristian Gerhard Jebsen group — is attributed mainly to the dry bulk freight market reaching greater equilibrium and the large number of offshore vessels being laid up.

STILL IN A STRONG POSITION

The result was a loss of NOK 8.6m (\$1m) but against a background of profitable earlier years that boosted reserves, and Nordisk’s financial position is judged to remain strong.

The club anticipated 2016 would end in loss, with TradeWinds reporting this expectation five months ago.

The Nordisk-insured fleet grew by 28 last year to 2,679 vessels of 75 million gross tons.

Growth of the entry at 1.1% was down on previous years as a result of members reducing their chartered-in tonnage, ship sales and delayed delivery of newbuildings.

The number of newbuildings covered while under construction was also down by 43.

Against the background of a growing insured fleet, the number of disputes referred to Nordisk

is, relatively speaking, at the lowest level for five years

According to Nordisk’s annual report, the explanation lies in the state of shipping markets and the composition of the club’s insured fleet.

Bulk carriers account for 28% of the fleet, followed by offshore vessels (25%).

There is a somewhat improved dry cargo market, with pressures that led to disputes in previous years consequently eased. Nordisk also suggests that it is the early phase of difficult markets that mainly leads to an upturn in disputes.

“Although the market challenges have continued in 2016, the market forces most likely fought their worst battles in 2015 and have, thereafter, found a position of greater equilibrium. It appears that the costliest economic imbalances in contracts between charterers and owners have been levelled out,” the board noted.

The benchmark Brent crude spot price has doubled since early



HANS PETER JEBESEN: Chairman of Nordisk’s shipowner board, which describes the fall in the number of cases last year as ‘striking’
Photo: Dagens Næringsliv

2016 but Nordisk observes that with a large portion of the offshore fleet in layup, fewer disputes and cases could be expected.

“In light of the current market conditions, the board believes that the appetite for conflict and

engaging in legal disputes has come down off a peak, and that the association will most likely see a more normalised caseload for a period, as witnessed in 2016,” the board said.

The directors are, however, hopeful that the business environment is improving.

“The first small signs of an appetite to reinvest in shipping are nonetheless visible, possibly driven more by the attractive asset values of existing ships than by expectations of fundamental improvements in market conditions,” the annual report noted.

The total cost of cases originating in 2015 made it the costliest year in Nordisk’s long history. The problem was not one or more very expensive disputes but a large number of moderately expensive cases.

For 2016, the number of new disputes was down, with the total

cost of cases projected to be back to more normal levels.

Premium income and other revenues ran to NOK 121.55m through 2016, marginally down on the previous year.

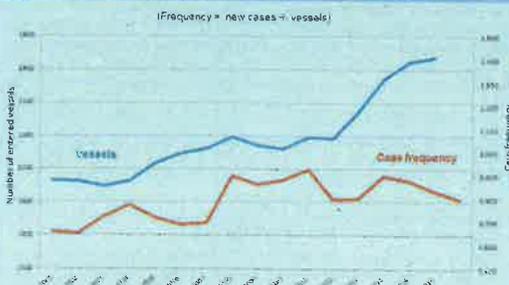
But operating expenses rose to NOK 132.6m, a NOK 10.2m increase on the previous year. More than 60% of its costs are staff-related.

Nordisk has equity of NOK 56m but there is also a Bermuda-based offshoot, the Northern Shipowners’ Defence Club, that lifts the combined retained earnings and equity to NOK 249m.

Nordisk also has reinsurance from the Lloyd’s of London market, providing up to NOK 100m of cover for particularly expensive individual cases.

The annual report says the club remains confident about the outlook for 2017, with reserves sufficient to cover “rainy days” such as those seen recently.

CASE FREQUENCY FALLS DESPITE RISING VESSEL NUMBERS



LAST YEAR WAS MOST CHALLENGING FOR CLUB'S OFFSHORE MEMBERS

Managing director Karl Even Rygh says 2016 proved to be another challenging year for Nordisk.

“The market situation has created a litigious business environment, with the result that our assistance is often required in disputes that would otherwise have been resolved amicably,” he said.

Nordisk describes last year as the most challenging yet for its offshore members as more long-term contracts entered into in the good times expired, and more support vessels and rigs were laid up.

There were a limited number of new contracts, and then only at rates that

were not sustainable in the long term.

The year in the offshore sector was marked by restructuring deals, extensive renegotiations of loan agreements, early termination cases and consolidation in the support vessel market.

Nordisk’s annual report cautions that bareboat redeliveries remain a recurrent source of disputes.

The club assisted several members in 2016 over disputes arising from the condition of vessels on redelivery from charters.

It notes that fair wear and tear of a vessel over the charter term is a typical issue that is heavily fact-dependent.

The annual report also cautions that option deals — which it characterises as an agreement to agree — should be approached warily.

Rygh says Nordisk’s strong in-house legal team helped hold costs down at a time when the club is helping members by not imposing a general increase for three years.

“We aim to be cost-conscious, but not to the detriment of members deserving support to fight valid claims,” he added.

Nordisk employs 23 lawyers and differs from its main rival, the UK Defence Club, in being not only a freight, demurrage and defence insurer but handling many cases

in-house and offering law firm-type services and consultancy that goes beyond defence insurance. By contrast, the UK Defence Club acts mainly as a claims manager, engaging external law firms to handle litigation.

Nordisk opened an outpost in Singapore a decade ago and this is continuing to see increased activity. New cases handled by the Singapore operation broke the 500 mark for the first time, a 35% increase on 2015.

Some 22% of Nordisk members are based outside the Nordic region, with the figure rising steadily as more continental European and Asian owners join.