



THE NORDIC MARINE INSURANCE STATISTICS (NoMIS) 2017



When the vessel's owner or flag changes

Change of owner

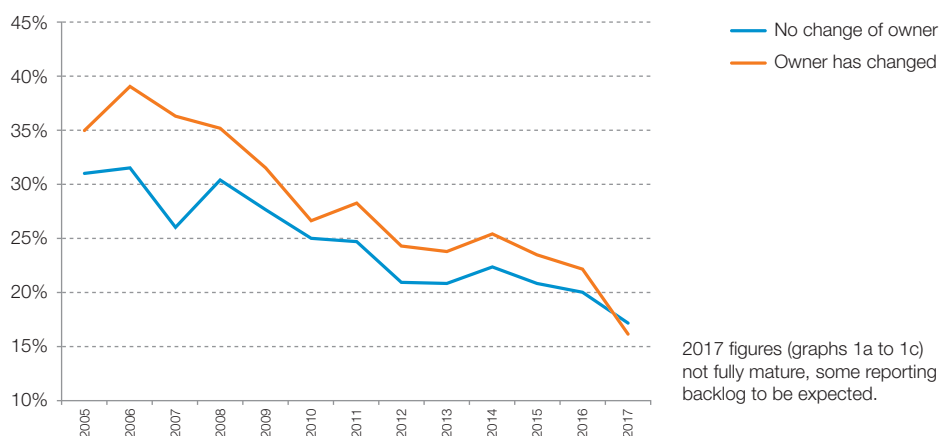
Among insurers, it is a well-known fact that management and company culture have an influence on the claims frequency and cost. On average, each year 6% of the vessels in the Nordic Marine Insurance Statistics (NoMIS) portfolio change owners. In this article we examine what to expect when a vessel changes ownership¹.

In general, vessels with a change in ownership during their lifetime have a higher claims frequency than vessels where the owner has remained the same. One would assume a reduced effect over the timespan the new owner has had the vessel, but this is not the case. There are some variations, but, for instance, for vessels that were taken over by new owners more than ten years ago, the claims frequency remains at a higher level similar to the year in which the change of ownership took place.

The age of a vessel has an impact on the claims frequency, which typically is lower for younger vessels. In addition, the older the vessels, the higher the share of vessels that have acquired a new owner during their lifetime. To minimize this age effect on the statistics, when analysing the claims frequency of vessels with a change in owner against those without, we split the NoMIS portfolio into three different age groups. Graphs 1a, 1b and 1c clearly illustrate that the difference in claims frequency between vessels with a change in owner and those without holds true for all age groups.

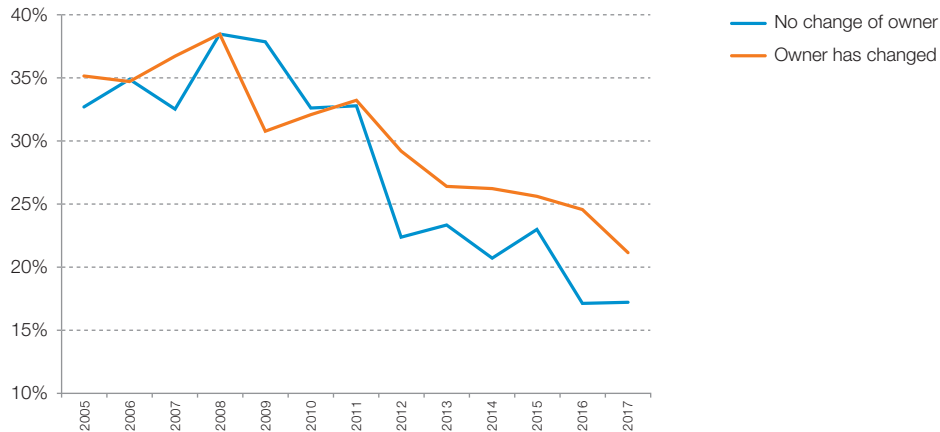
Claims frequency – Owner change versus no owner change, by underwriting year

1a: Vessels aged 5-10 years

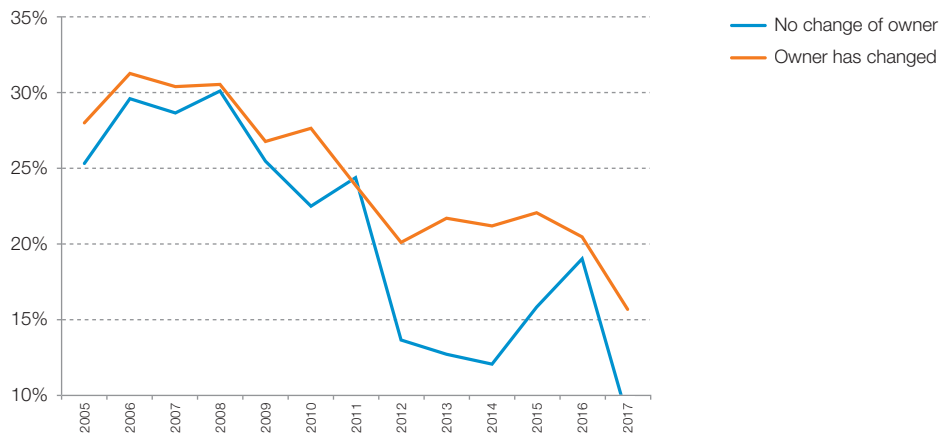


¹ For statistical purposes, the vessel's owner is the 'beneficial owner' as registered by Lloyds List Intelligence, World Fleet update, at the time of exposure of the insurance coverages the reported claims attach to.

Ib: Vessels aged 10-20 years



Ic: Vessels over 20 years old



From the statistics alone, it is difficult to draw any firm conclusions as to why the claims frequency is higher in connection with a change in ownership. As exemplified below, there are probably several possible explanations:

Shipowners have different business models and strategies for their fleet management. Vessels that are built for a life-long purpose might be better designed, built, operated and maintained than vessels that are built or bought on speculation. This hypothesis is supported by the fact that even vessels that changed owner several years ago perform worse than vessels without owner changes. A strategy to replace vessels rather than maintain them might also result in an overrepresentation of poorly maintained vessels among those that have been sold. This hypothesis is supported by the fact that the claims frequency is high both in the years before and after the change of ownership.

Furthermore, the company management, culture and crewing strategy will have an impact on the risk for human errors. The new owner and crew may lack experience with the specific vessel type and design. Upgrades and maintenance in relation to the change of owner might also trigger claims. Ship records are often not passed on to the new owner, leaving the incoming crew and management with very little information of the condition of the ship and machinery. This was highlighted in a position paper by the International Union of Marine Insurance (IUMI) in September 2015 and is considered to be an increased risk for insurance claims. The exposure to risk may also change if the new owner moves the vessel to a different geographic area or trade. Finally, reactivation from warm or cold lay-ups before or at the time of change of ownership may also trigger claims.

Change of flag

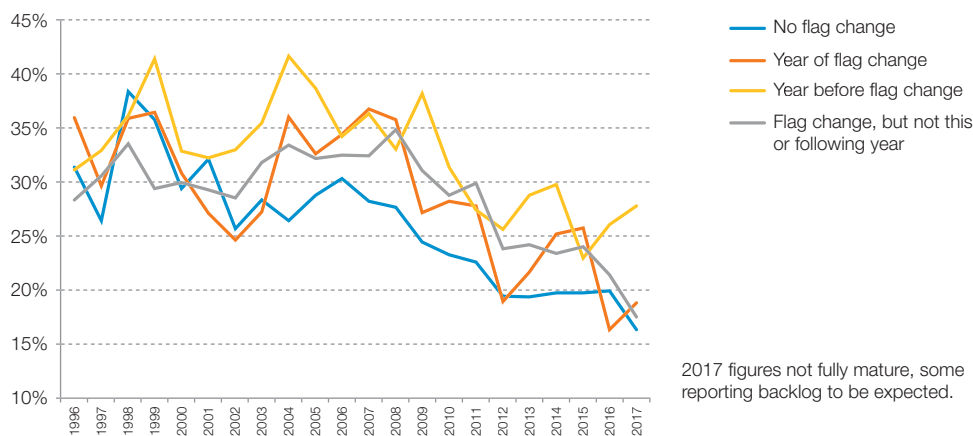
A change of a vessel's flag might from the outside be viewed as merely another named home port in the aft and new colours blowing in the wind. It is still the same steel sailing the oceans.

There are several reasons for a change in flag, including for example:

- A new owner adapting an acquired vessel to the rest of the fleet.
- Regulations and requirements that differ between flag states.
- To be able to employ a desired crew (number of crew members or nationality of the crew).

While the vessel as such is still the same, statistics reveal that vessels with a new flag have higher claims frequency compared to vessels maintaining the same flag². Graph 2 shows that vessels which never change flag in general have a lower claims frequency. It also reveals that the claims frequency in the year prior to the flag change most often is higher than in the year the change occurs. This is consistent for underwriting years 2003 through 2016. Generally, vessels with a flag change show a higher frequency both before and after flag change. A somewhat higher volatility in the years prior to 2003 may be related to a lower number of vessels registered in the NoMIS database on older years.

2: Claims frequency by status of flag change, by underwriting year



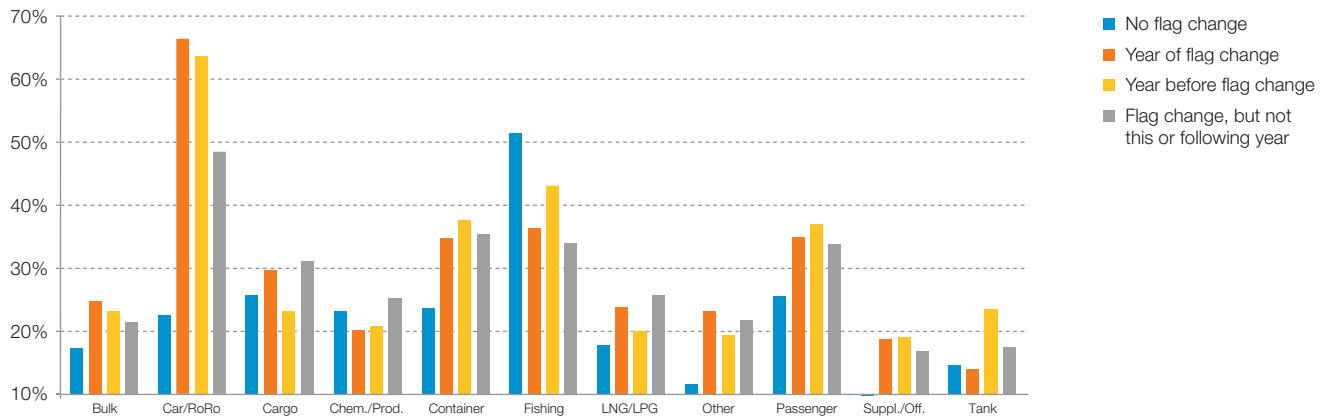
2017 figures not fully mature, some reporting backlog to be expected.

The increase in claims frequency is true for almost all vessel types and age groups. The only type of vessels with an opposite pattern is fishing vessels, for which a change in flag is quite uncommon. Two exceptions from the other groups are chemical/product vessels and tank vessels. These have a lower frequency in the year the flag changed compared to the vessels that never changed flag.

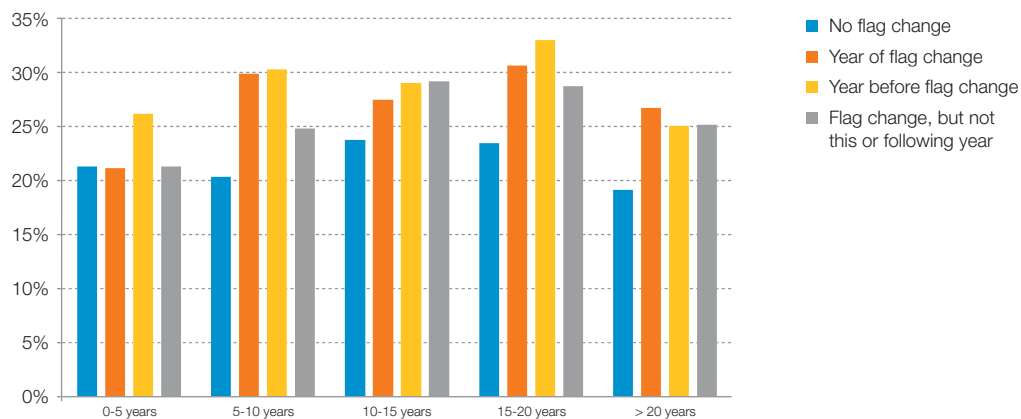
From an age perspective, only the newest vessels show no increase in claims frequency after a change of flag.

² According to Clause 3-8 of the Nordic Marine Insurance Plan, a change of management or flag is regarded as an alteration of risk, giving the insurer the right to cancel the insurance.

3: Claims frequency by vessel type and status of flag change, underwriting years 2008-2017



4: Claims frequency by age group and status of flag change, underwriting years 2008-2017



Since the hull and other basic properties of the vessel do not change with a change of flag, it is safe to conclude that the reason for the increased claims frequency lies with the management of the vessel. This brings us back to the same discussion as with a change in ownership, although a change in flag is not necessarily triggered only by a change in ownership. The statistics show an increase in claims frequency both among vessels that change flag as well as ownership, and among those only changing flag.

It is important to note that the increased claims frequency relates to a change in flag as such, not to the properties of a specific flag. This implies that the increase in risk is not due to a difference in flag state rules (for instance, manning) since vessels already trading under the same flag show a lower claims frequency.