HANJIN

are we ready for the next one?

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NAU

Outline

- 5 Parts
- How did the Hanjin Insolvency happen?
- Did it happen earlier?
- Why does it happen?
- Can we avoid / manage insolvencies?
- Case Study

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INSOLVENCY

State of being unable to pay monies owed on time

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Cash Flow Insolvency

- AKA “actual insolvency”
- When a person/company has enough assets to pay what is owed, but does not have the appropriate form of payment
- Could generally be resolved by negotiations

Balance Sheet Insolvency

- AKA “technical insolvency”
- When a person/company does not have enough assets to pay all of their debts
- Negotiation to see whether creditors will accept a smaller portion of their dues to stave of insolvency

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- 2008-2009: Financial Crisis – Container Industry Lost US$ 15 Billion (Hanjin US$ 1.1 Billion in 2009)
- 2010: Eurozone Crisis – Prevented a rebound in trade between Asia – Europe
  China Slowdown
- 2011: Reduced Global Demand
- 2015: Container Ship Fleet record 20 million TEU's
  Asia Europe Rates hit record low (Asia- NE @ US$205/TEU & Asia Med @ US$195/TEU)

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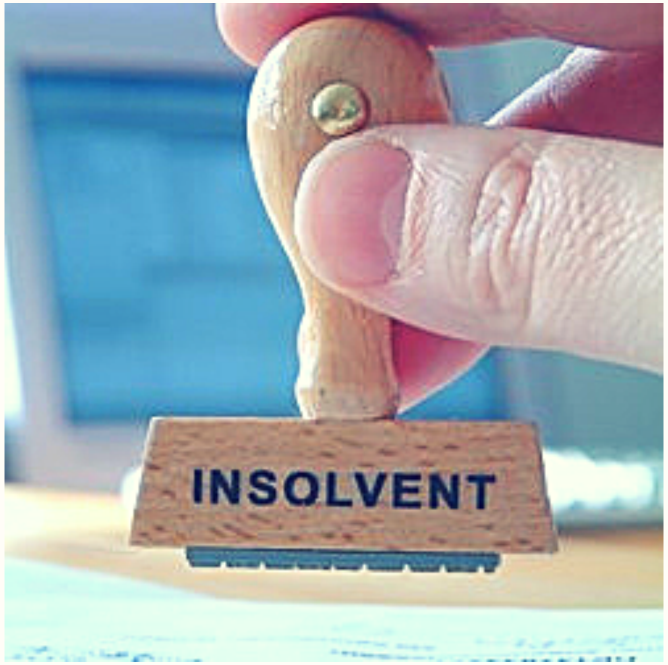
HANJIN

- 2016- Transpacific spot rates hit record low of US$728/TEU – Hanjin accounted for 7% of trade
- Spring contract season – dropped below US$750/FEU for West Coast & US$1500/FEU to East Coast
- 22 April 16 – Hanjin hands over control to its largest creditor – Korean Development Bank
- 06 June16 – Hanjin starts negotiations with Owners for lower charter rates
- 26 June 16 – Rumours of missed payments to suppliers
- 29 Aug 16 – Creditor Support Fades
- 31 Aug 16 – Hanjin files for receivership in South Korean Court

Source: JOC

Did it happen earlier?

US Lines
Cho Yang Lines
Dongama
Hainan POS
And others….



Why does this happen?

- Demand / Supply Conundrum: Prediction - Container demand growth 2.2 times the GDP Growth at 4% from 2000-2008.
- Actual multiplier 1.1 times the Avg GDP Growth of 2.9 %

- Free Market – no barrier for entry
- Big is beautiful
- Marketing – Loss leader to fill up ships
- Follow the herd
- Technology

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Interests of various parties

- Cargo (Exporters, Importers, Traders)
- Carriers (VOCC's, Operators & NVOCC's)
- Vessel Owners
- Equipment Owners (Lessors and Lessees)
- Ports & Terminals
- Suppliers (Bunker Suppliers, etc)

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Can we avoid Insolvencies?

- All container lines are struggling
- Altman Z Score
- Conferences
- Closed loop? Is it possible in this connected world

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Manage Insolvencies?

- Market Intelligence
- KYC
- Risk Mapping

  Known Knowns

  Known Unknowns

  Unknown Unknowns
- Appropriate Cover

  incl Contingency Cover?

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Case Study

- Herbilan’s foray into Container Operations
- 3 vessels chartered to start service in Sep 2015
- HERBILAN GLORY, HERBILAN FAITH & HERBILAN SUCCESS
- Route – Ygn / Cbo / Maa & Vzg with Cbo acting as T/s hub for cargo emanating from other ports
- Ygn – exports mainly of Pulses (Dal) and Timber and imports being Food stuff, Cement, Steel & Pharmaceuticals.
- Trade sector has Imbalanced container trade

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Case Study

- Competition leads to Revenues below costs
- Owners unpaid TC hire by Vessel Operators (Herbilan)
- Owners held lien of containers with cargo for payment of outstandings
- Our initial involvement - Claims Consultants for Container Operator with containers on board on two Herbilan vessels
- Our focus is on “HERBILAN SUCCESS”
- 7 Container Operators loaded 335 containers (330 TEU’s and 5 FEU’s)
- Notified by clients on 29 Jan 2016.
- Initiated immediate communication with Vessel Operator to ascertain their intentions

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Case Study

- Initiated communication with other container operators to ascertain their position
- Owners Insured with a FD&D Club whom we fortunately assist – communication established with Owners on 23rd Feb 2016
- Enquired by Owners whether we could be engaged jointly by both Owners and Container Operators to resolve this matter
- Our clients agreed and we advised all parties of our joint engagement i.e. Owners and Operator
- Substantial payment of port charges (PDA) required to discharge the containers

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Case Study

- Review of contractual position to find a solution
- Owners advised to excercise lien on sub-freights & which they exercised
- Intention – use sub-freights to make payment of PDA of Myanmar Port Authority to discharge containers
- Engaged earlier Operators agents for Owners direct account
- Issues

  Operators concerned that if freight amounts insufficient, Owners will not berth vessel

  Cargo mainly Sugar and value of cargo would drop if delay continued

  Vessel outside anchorage for quite some time and running short of supplies / bunkers

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Case Study

- Open communication with all parties
- Sought payment of outstanding freight of containers on board (if payment had not been made)
- Cajole/Negotiate/Discuss with all operators / Owners so that all are on the same page
- Collected outstanding freight from majority of the Container Operators so as to fund the PDA
- Vessel berthed 07 March 16 and discharged containers and sailed 09 March 16

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Conclusion

- Insolvencies will happen
- When and where – unknown
- Must be prepared by conducting KYC, Risk Mapping
- Appropriate cover
- When it happens, deal with it and use help if necessary
- Opportunities for Insurers and Service Providers

thank you!

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