



Svenska skeppshypotekskassan

The Swedish National Audit Office (Swedish NAO) has audited Svenska Skeppshypotekskassan (Svenska Skeppshypotek) and its corporate form.

Background and reasons for the audit

Svenska Skeppshypotek was established by the Swedish Government in 1929 to improve opportunities for Swedish shipping companies to obtain long-term credit and contribute to renewal of the merchant fleet. Svenska Skeppshypotek has approximately SEK 2 billion in a reserve fund and lending to shipping companies amounts to nearly SEK 9 billion. Operations are regulated by a law dating from 1980.

Svenska Skeppshypotek is a unique corporate form. It is not a government agency, a limited company nor any other type of association normally occurring within the central government sector. Therefore, the Government cannot govern its operations by means of, for example, articles of association, owner instructions, instructions or appropriation directions. This means that, as a result of Svenska Skeppshypotek's corporate form, it is difficult for the Government to exercise control over the content of the operations.

The overall purpose of this audit is to assess whether Svenska Skeppshypotek has an appropriate corporate form.

The audit comprised the following questions:

- Is the corporate form fit for purpose?
- Does the corporate form allow a satisfactory degree of governance and influence by central government?
- Does the corporate form provide adequate conditions for the operations to be run efficiently?

Audit findings

The purpose of this report is to examine whether Svenska Skeppshypotek has an appropriate corporate form. The overall assessment is that this is not the case, mainly because the corporate form does not give the Government a satisfactory degree of control and governance, and it means that Svenska Skeppshypotek has a number of potential advantages compared to other commercial players in the market. These advantages are firstly that Svenska Skeppshypotek is exempt from income tax. Secondly, Svenska Skeppshypotek does not have to pay dividends to an owner. Thirdly, Svenska Skeppshypotek does not have a yield requirement from an owner.

The corporate form is fit for purpose but not appropriate

There is no identified factor indicating that Svenska Skeppshypotek's corporate form is not a fit-for-purpose solution for its overall purpose, namely, to provide credit to the shipping sector. But the Swedish NAO has not identified any factor that would indicate that Svenska Skeppshypotek's current legal structure is the only fit-for-purpose corporate form for this task.

To some extent, the need for Svenska Skeppshypotek's lending increased in the aftermath of the 2008–2009 financial crisis, since commercial banks' interest in the shipping industry declined significantly after the crisis. Svenska Skeppshypotek has come to have a more important function as a lender to small and medium-sized shipping companies that otherwise have trouble obtaining financing.

Through the Act on Skeppshypotekskassan, the Riksdag has resolved that operations are to be conducted in a separate corporate form with public law status. However, the Riksdag has subsequently decided that the main corporate form within the state should be as a public agency, but that it may sometimes be justified to conduct operations in a form governed by civil law. This particularly applies to operations which are exposed to competition, where the corporate form should be the basic principle. With its unique corporate form, Svenska Skeppshypotek is an oddity within the public sector. There is a risk that it has a competitive advantage over other credit institutions since it is exempt from paying income tax and has no yield and dividend requirements from an owner. This also means that Svenska Skeppshypotek may be in receipt of state aid. The Swedish NAO does not have an opinion as to whether or not this is the case, but notes that the question has been raised several times, and that it is the European Commission that determines cases of state aid. However, no report has been made to the Commission.

Svenska Skeppshypotek is the only mortgage institution (hypotekskassa) remaining within the central government sector. Both Stadshypoteket and Landshypoteket were turned into companies and privatised in the 1990s. The state-owned mortgage institutions were formed during periods of credit regulation and their purpose was to secure long-term lending to prioritised sectors that were deemed to have special needs, in particular, modernisation. As a result of deregulation of the financial markets, the credit restrictions disappeared and thus the original purpose of the state mortgage institutions.

The State lacks satisfactory means of governance and there has been lack of involvement from the Government

The State's governance of Svenska Skeppshypotek is limited by the corporate form. The Government can exercise control by appointing board members and the Riksdag can exercise control by changing the legislation. These two methods of governance have disadvantages, partly because, by tradition, the Government only nominates three of the seven board members, and partly because the statutes contain concepts that can be interpreted differently. In addition, the Swedish NAO considers that central government's involvement in the operations has been poor, despite repeated contact initiatives by Svenska Skeppshypotek. Furthermore, the Government Offices have not had a Ministry official on the board since 2013, and this has limited the transparency of the operations.

The Riksdag has expressed the view that state activities that are open to competition should normally be conducted in the form of a company. If Svenska Skeppshypotek was a state-owned limited company, the Government could utilise the articles of association for the long-term governance of the overall purpose of the company, and owner instructions for the annual governance, including financial goals. This would give the Government better means of governance and require greater involvement in the operations by the Government.

Risk of inefficient operations

The Riksdag has resolved that central government activities must be efficient and have good financial management. Svenska Skeppshypotek is a closed operation. The legislation does not allow distribution of profits or financial contributions to the operations. As a result, unlike state-owned companies, Svenska Skeppshypotek does not pay a dividend to the State. Nor is there a yield requirement from the State. An operation that is conducted with limited transparency, limited governance and with no yield requirement has no external requirements for efficiency. There is therefore a risk that an operation of this kind becomes inefficient and is not economical with its funds. Svenska Skeppshypotek has a large capital base in relation to its lending. This means that the return on capital will be relatively low. With the current capital base, Svenska Skeppshypotek's lending could be more than three times as large and still be within the statutory limits. There may be reasons to have more capital than the law requires, including being able to expand operations when needed or to keep the deposit interest rate low, but to some extent, this over-capitalisation results in an inefficient use of resources. With the current legislation, it is not possible for the State to receive dividends from Svenska Skeppshypotek, and it may therefore be difficult to maintain efficient allocation of resources.

Recommendations

The Swedish NAO's overall assessment is that Svenska Skeppshypotek does not have an appropriate corporate form. The Swedish NAO therefore recommends that the Government:

- reviews the corporate form and takes a definite standpoint on this, where one possibility is a limited liability company.
- orders an inquiry to establish whether Svenska Skeppshypotek is in receipt of state aid.