



# JLT Aerospace



## PLANE TALKING

MAY 2009

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#### Editorial

If you have any comments or suggestions or you know anyone who would like to be added to our mailing list or your email address changes, please advise by emailing details to: [lucy.potter@jltre.com](mailto:lucy.potter@jltre.com)

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## Executive Summary

### Fighting talk

- The aviation industry fights for survival with continued reduction in passengers (particularly premium paying) and freight.
- Optimism? Still pervades with a rash of start-ups but is offset by a number of closures.
- No sign of any persistent recovery, the real question is have we reached the floor?
- Insurers' resolve holding to increase premium but having to contend with / recognise reducing exposures. Year-to-date 1% premium growth across Hull and Liability. Recently released results reinforce the need for insurers to improve their financial performance.
- Relatively quiet month for losses - a brief respite for insurers and their clients.
- Capacity still holding firm (maybe even set to increase!) signalling general feelings that rates are only heading one way - up. Clearly the famine is still yet to take hold.
- Very broadly spread books, larger geographical distribution networks and more risk retention seem to be the key features of the market today
- The 2010 planning season is now well under way - we wait to see what will this shake out?

## Lead Lines

**Andrea Sommerlad, Chief Underwriting Officer Aviation and Space Treaties, SCOR Global P&C**

“As reinsurers some may feel we are in a privileged position at the top of the "food chain" but we are only too aware of the significant pressures bearing down on our clients, the insurance carriers, and their clients, the insurance buyers.

Despite the low frequency of large aviation losses reaching the reinsurance market in recent years, this has not been accompanied, to the same extent, by a significant relief in reinsurance pricing. Our key driver is the return on capital. Without a return, capital would be withdrawn. Without capital there is no capacity and this would have a knock-on effect as many insurers would struggle to maintain their existing line sizes without reinsurance protection.

Opportunities to service our capital are under pressure and consequently pricing is our only defence. Whilst this might be painful for buyers at the other end of the "food chain", it is ultimately essential that reinsurance pricing discipline remains for the benefit of the whole market.

”

# Airline Industry News

The International Air Transport Association (IATA) has confirmed what the industry must have already known in that April was yet another poor month for airline operators. A number of the major airlines have produced annual losses recently and the chief executive of Virgin Atlantic has suggested that none will make a profit this year. He said reduced passenger numbers, pressure to cut prices and high fuel costs will prevent profitability adding that "These are some of the toughest times any of us can remember". Although Virgin made a profit for the year up to February, it is very cautious about the future.

British Airways has just announced its biggest loss since privatisation of £400 million with a 13% fall in premium travellers.

IATA's prognosis is that April showed a worldwide decline in passenger demand of just over 3% and a drop of over 21% for cargo compared with April 2008. The average passenger load factor stood at 74%. It suggested that traffic gains were at the expense of yields in most regions and preliminary data for May suggests a renewed double digit decline, at least for European airlines.

Freight demand appears to have found a solid floor with a fifth consecutive month at more than 20% below previous year levels.

## Start ups

- AviaNova, Russia, is a new start up carrier which is shortly expected to receive an Airbus A320-200.
- FlyDubai, UAE, is a start-up budget carrier which has taken delivery of its first aircraft. The Boeing 737-800 will be put into operation on 1 June flying to Amman, Beirut, Damascus and Alexandria since the carrier received its air operator's certificate this month.
- FlyLAL Charters, Estonia, is a start-up from the Avia Solutions Group based in Tallinn, the parent of the Lithuanian charter airline of the same name. The new carrier will be using Boeing 737-300s.
- Jet Airways Konnect, India, is a new low cost operation for Jet Airways, India, that offers a no-frills economy class service operating from Chennai, Mumbai and Bengaluru using two Boeing 737-800 and six ATR72-500 aircraft.
- JetAmerica, USA, is a new, Florida-based low cost airline planning to launch regional charter services, at the end of June 2009 using Boeing 737-800 aircraft.
- NordStar, Russia, is a new start-up airline established in the city of Norilsk which plans to fly Boeing 737-800s
- Vision Air International, Pakistan, has launched

passenger and cargo services from its Karachi base to destinations in Afghanistan, Iraq, Jordan, Kuwait and the United Arab Emirates, using a Boeing 737-200

## And Closures

- Air Fiji has stopped operating aircraft because of financial difficulties. It was a domestic carrier with a fleet of Embraer EMB-110s and Harbin Y-12s.
- Air Senegal International is reported to have suspended all operations on the 24th April after the majority shareholder, Royal Air Maroc, withdrew the last of its aircraft. The airline operated a fleet of four Boeing 737-700s and one Bombardier Dash 8. It seems the airline lacks the resources to continue flying.
- Air Sylhet of the United Kingdom ceased trading on the 27th April having been operational for just three weeks and returned its only aircraft- a wet leased Boeing 757 to Gadair European Airlines of Spain.
- Elbrus-Avia a small Russian airline with Yak-42s has had its operating certificate withdrawn effective the 15th April.

## Orders

May continues where April left off.....The quietness of the aircraft manufacturer's press rooms is broken only by Embraer's announcement of an order for 20 E-190 jets for Austral Lineas Aereas of Argentina. Austral will use their new dual class, 96 seat, aircraft to increase domestic frequencies from the 1st half of 2010 as well as giving the possibility of opening new international markets.

June sees the biennial Paris Air Salon which usually brings a rash of new order announcements. The show this year will be a true indicator of the state of the industry.

## Insurance Market News

Once again, there have been no significant credit rating changes through the month for any of the preferred aviation insurance markets and their capacity remains intact.

## Arrivals and Departures

- Fiona Hodgson is joining Catlin as a senior aerospace claims adjuster on 1 June
- David Adcock is rejoining Ace from XL

# Renewal Analysis

## Exposures

By far the biggest renewal in May is easyJet with a fleet valued in excess of US\$6 billion and passenger numbers approaching 47 million. This has had a major impact on the exposure movement for May due to its size and continued growth.

## Premiums\*

As would be expected, premiums have followed the exposure trend and are entirely influenced by the easyJet movement. Their own premium rose by 7.1%, thus somewhat mitigating changes to the smaller airlines.

Year to Date (Like for Like)	Hull US\$ M	Liability US\$ M	Total US\$ M
2008	54.35	113.87	168.40
2009	61.81	107.85	169.67
% Change	14%	-5%	1%

\*Net of brokerage and at lead terms

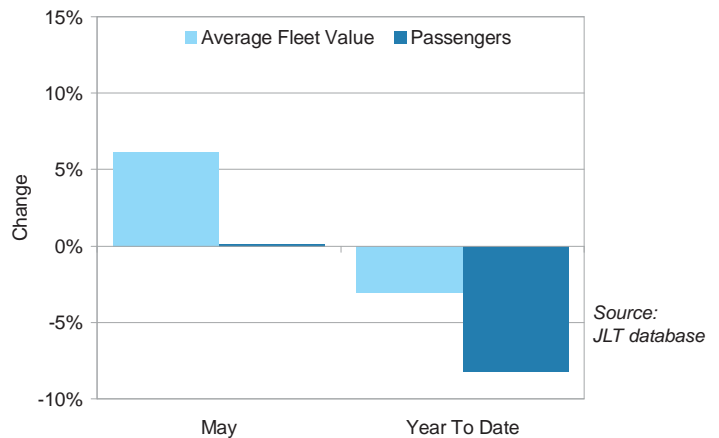
## Rates

It therefore follows that hull and liability rating is being dictated in the same way. A rise in exposures leading to a small rise in rates, giving in turn a subsequent rise overall for May.

### Year on Year % Exposure Change

MAY / YEAR TO DATE

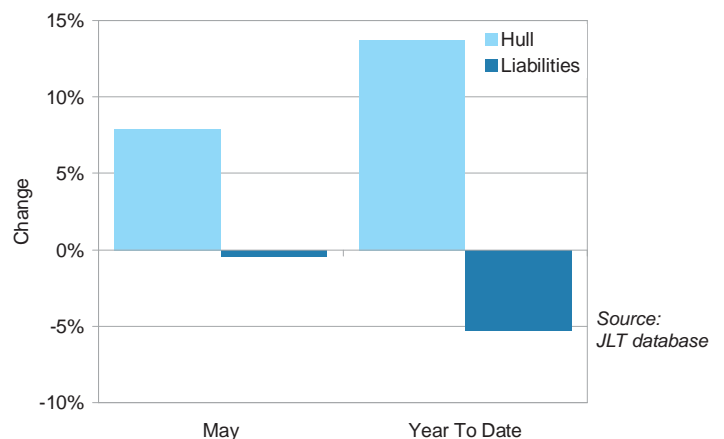
Based on Latest Information at 26th May 2009



### Year on Year % Premium Change

MAY / YEAR TO DATE

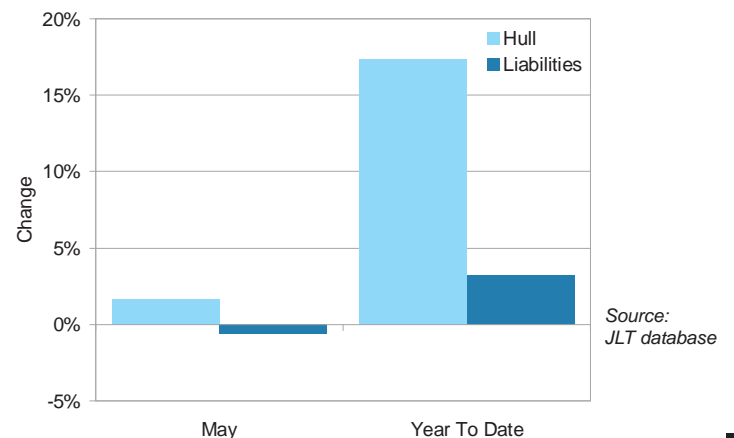
Based on Latest Information at 26th May 2009



### Year on Year % Rate Change

MAY / YEAR TO DATE

Based on Latest Information at 26th May 2009



# Losses Summary

	Hull Losses US\$M #	Fatalities #	Total US\$M
<b>April</b>	<b>18.55</b>	<b>13</b>	<b>18.55</b>
<b>May</b>	<b>4.00</b>	<b>1</b>	<b>4.00</b>

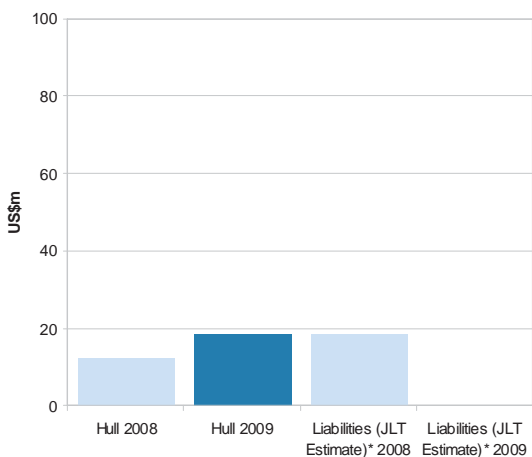
# Based on latest known information

## May Known Losses of Note

4th	Northwest Airlines	Airbus A320-211 (N311US)	USA
The aircraft landed heavily at Denver, CO, causing the tail to strike the runway.			
6th	World Airways	Douglas DC10-30 (N139WA)	USA
On a flight from Leipzig, Germany, to Baltimore, MD, with 168 passengers, the aircraft reportedly burst a nose gear tyre on touchdown. Later investigation found substantial damage to the undercarriage and associated equipment.			
8th	Saudi Arabian Airlines	Douglas MD90-30 (HZ-APW)	Saudi Arabia
The aircraft was turned off the runway, after landing at Riyadh, onto a high speed turn-off at too high a speed causing a skid and the port undercarriage to collapse. Later reports suggest a possible broken wing.			
12th	Southwest Airlines	Boeing 737-300 (N371SW)	USA
On landing at Houston - Hobby Int'l, the aircraft suffered a tyre burst causing an undercarriage fire.			

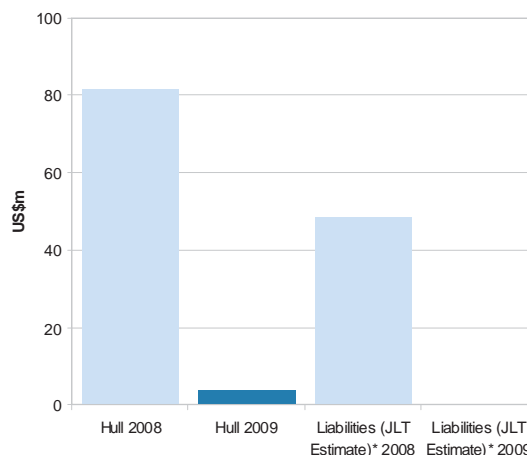
### April Losses

All Known Losses Net of Deductible



### May Losses

All Known Losses Net of Deductible

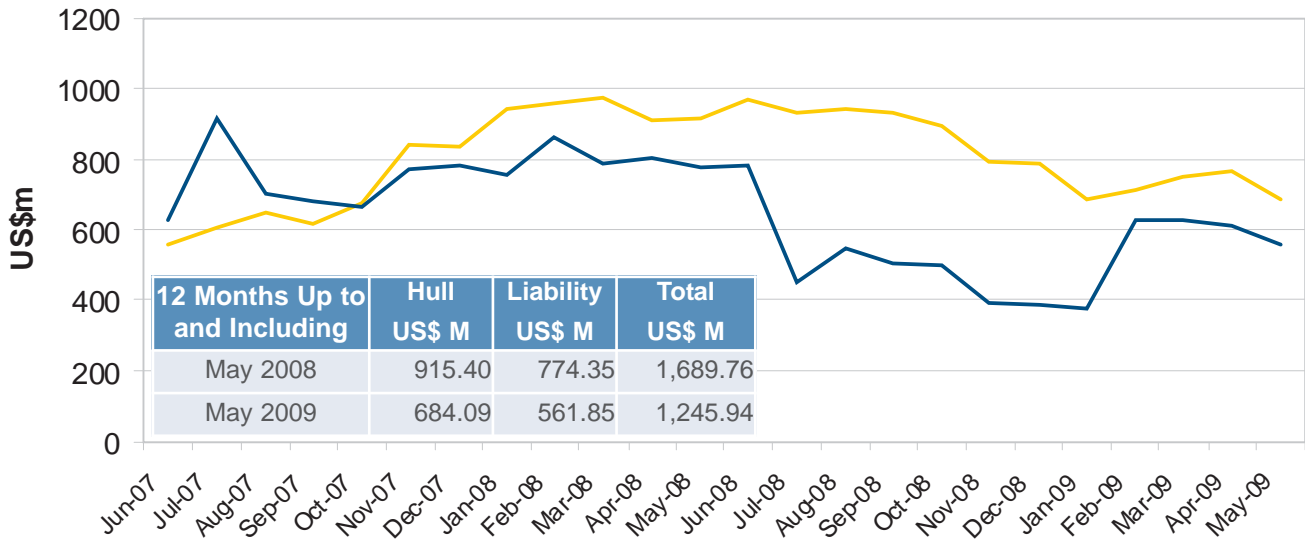


\* The JLT liability estimates are provided merely as a guide

# Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to May, 2009

All Known Losses Shown Net of Deductible



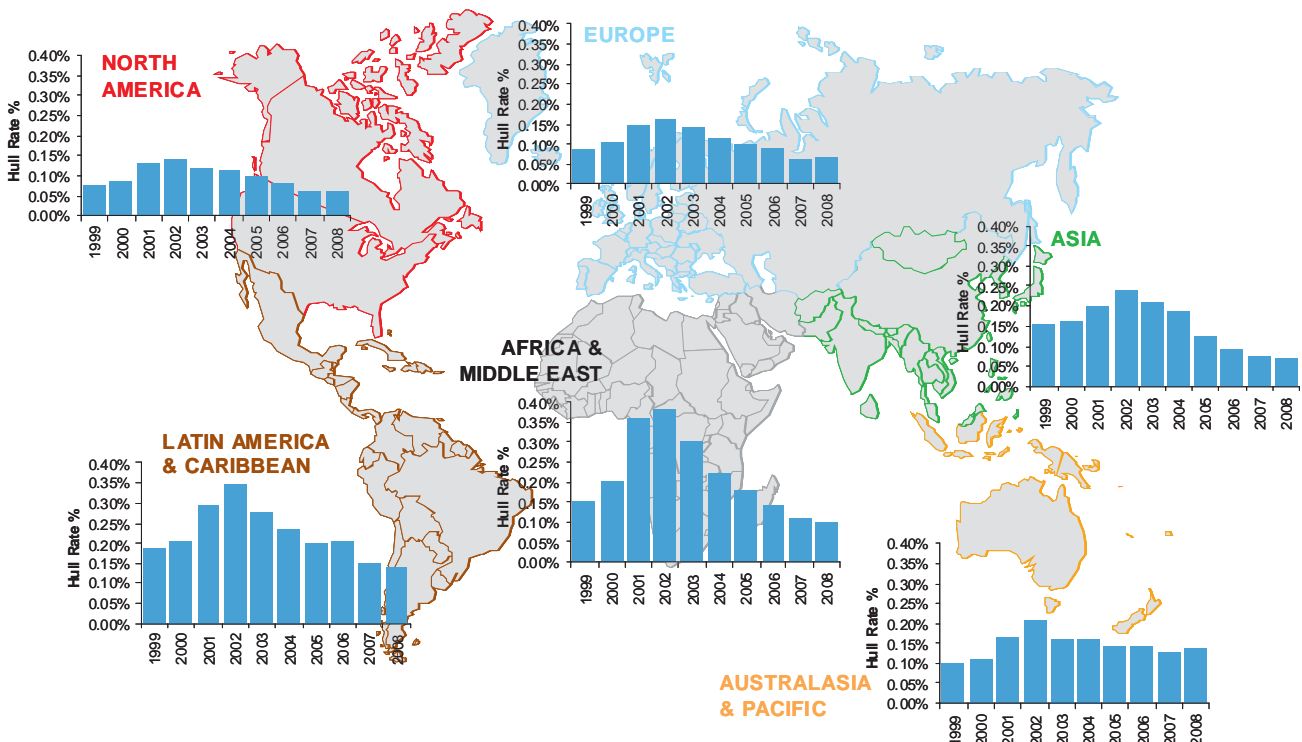
— Hull rolling 12 months — Liabilities (JLT Estimate)\* rolling 12 months

\* The JLT liability estimates are provided merely as a guide

## Regional Trends

Hull Rates for the last 10 years (1999 - 2008)

By Region of Operator Domicile



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