JLT Aerospace




PLANE TALKING

JUNE 2009

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Executive Summary

No Relief for Airlines or Insurers

- The world economic slowdown continues to impact the airline industry.
- Very minor insurer capacity reductions have no effect to date.
- Premium levels continue to generally harden, mitigated by reducing exposures.
- Reinsurance market intentions offer no relief to primary insurers.
- Business planning for 2010 is well underway with the general need to increase premiums else plans will not be accepted, leading to the potential for some market withdrawals.

Lead Lines

Hans Sandstrom, Head of Underwriting, Aviation, Asia Capital Re

"Fair weather underwriting is over! Since 1975, when I first joined the aviation insurance industry, there have been several "cycles" in the market but I can't recall such a long period of underwriting profits and premium reductions as we saw between 2001 and 2007. Rates were constantly reduced and airlines in general enjoyed lower costs for hull and liability insurance each succeeding year. Since 2001 there has hardly been any claim with a significant number of fatalities involving a wide-body aircraft. Some risk managers have experienced only reductions in prices and some underwriters have only enjoyed profits during their careers and as a consequence there has been a broad willingness to reduce rates.

Airline cycles and aviation insurers' cycles have always had an inverse correlation. When the world economy is booming, airlines experience increased traffic and good earnings. At the same time, insurance capacity usually increases, sending premiums down and underwriters' profits are inevitably squeezed. When the economy is bad, airlines suffer while insurers can often increase their premiums as market capacity disappears and thereby compensate for shrinking investment income.

Since 1975, (and long before that), the world economy has not been more depressed than it is now. The airlines are suffering but this time aviation underwriters are also suffering! Fleet values, falling along with passenger numbers, are having a negative impact on premiums. Investment income has been non-existent, if not negative, and underwriting profits disappeared in 2007 and 2008. If this was not enough, final adjustments for 2008 are expected to hit underwriters hard this year and aviation claims in 2009 are already dramatically higher than in 2008.

So 2009 will mean a hard, uphill struggle back in order to achieve black figures for insurers! A 50% reduction in rates during one period requires a 100% increase just to get us back where we started.

2009 will be a challenging year for airlines and an equally challenging year for underwriters!"

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

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Airline Industry News

Evidence of the continuation of the economic downswing for airlines has emerged in recent weeks with some poor predictions from the world's flag carriers.

Unprecedented moves by airline management to save their carriers from meltdown has included redundancies on both sides of the Atlantic, with British Airways seeking 4,000 job cuts - one in ten of the workforce. The chief executive spelled out the fact that the airline was now in a "fight for survival" having recently posted a record £400 million annual loss.

In the Far East, Singapore Airlines posted a fall in passenger traffic of 23% for May where staff are now being "asked" to submit to compulsory leave. At the same time, Cathay Pacific are reporting a drop in traffic for May of 7% and Japan Airlines has been speaking to various banks and the Japanese government in its efforts to raise US$2 billion. The Japanese flag-carrier is struggling to form a rescue plan and recently announced an annual loss of over US$500 million.

On the Indian sub-continent, most airlines have resorted to pay-cuts or layoffs or both. Labour laws, however, prevent government owned Air India from imposing layoffs or salary cuts and therefore have been forced to resort to delaying US$70 million in salaries for two weeks citing "a challenging economic environment". Air India has now fallen behind newer operators such as Kingfisher and Jet Airways in market share and recorded the lowest passenger load factor of all the carriers with 60%. Overall passenger numbers throughout India were down 11% in May.

In North America, American Airlines is preparing to cut another 1,600 jobs as it prepares to slash capacity by 7.5%, while US Airways seeks to cut 400 flight attendant positions. United Airlines expects unit revenues to drop by up to 19% in the second quarter as yields continue to deteriorate and said it would reduce the number of its flight attendants by 600 because of economic weakness and lower attrition rates. The cuts are in addition to the 1,550 flight attendant jobs eliminated last year.

SkyEurope Airlines, a budget operator from Slovakia, has filed for creditor protection in order to restructure its troubled operations.

Meanwhile, with oil prices rising again and recently hitting US$70 a barrel, the International Air Transport Association (IATA), forever watching over the wellbeing of the airline industry, has amended its forecast for 2009 to an overall market loss of US$9 billion, almost double its March estimate of US$4.7 billion.

Boeing has postponed the maiden flight of the 787 Dreamliner for the fifth time after deciding to reinforce an area within the side of the body of the aircraft where it meets the wing. Boeing says that the reinforcement need was identified during the recent regularly scheduled tests on the full-scale static test airframe. The 787 first flight - which was due to take place before the end of June - will be rescheduled along with the first delivery, currently due in the first quarter of 2010, following the final determination of the required modification and testing plan.

Start ups

- Cambodia Angkor, Indonesia, is expected to launch services on the 1st September 2009, from Siem Reap to Sihanoukville and other regional destinations, including Bangkok.
- Elite Air, Dubai, commenced operations linking Abu Dhabi with Düsseldorf and Berlin on the 15th June 2009. The services are flown using two 112-seat Airbus A320s.
- Illes Balears Airways, Spain, plans to operate from the Canary Islands later this year using Boeing 737-300s.
- Joy Air, China, plans to launch services this month from Xi'an on a regional network in west China. The fleet will initially comprise of MA60s.
- Maclink Airlines, Australia, plans to start operations later this year offering regional flights using two Saab 340 aircraft.
- Neptune Air, Malaysia, has now launched services with a single Boeing 737-200C.
- Principle Airlines, Chile, is set to initiate scheduled operations from Santiago to Antofagasta and Iquique this month, using Boeing 737-200 aircraft.
- Scanderbeg Air, Albania, has launched a weekly direct service between Tirana International Airport, Albania and New York JFK using a Boeing 767-200.
- Tailwind Airlines, Turkey, has begun operating a range of charter flights from Istanbul, Antalya and Izmir to the Netherlands, Italy, Iran and Israel using Boeing 737-400s.

And Closures

- Indonesian carrier, Linus Airways, stopped operating in May due to financial reasons. At this stage it intends to retain its two BAe 146-200s while it seeks new investors.
- Magnicharters of Mexico was grounded by the Mexican authorities in early June after concerns were raised regarding maintenance issues of some aircraft. Magnicharters is one of Mexico's largest charter airlines operating Boeing 737-200s and 300s.

Orders

As expected, the Air Salon at Paris has produced a flurry of order announcements with rumours of more in the pipeline.

Airbus have been the main beneficiary with firm orders for 58 aircraft being Qatar Airways for 24 single-aisled aircraft, Vietnam Airlines for 16 A321s, Air Asia X for 10 A350-900s and smaller numbers from Cebu Pacific, Aigle Azur and Zest Air, a new Airbus operator.

Memorandum of Understanding for future Airbus orders were received from WizzAir, Paramount Airways, Turkish Airlines and Vietnam Airlines for a total of 69 aircraft.

Since Paris, Airbus have announced an order from Virgin for 6 A330-300, a new type for this carrier. Virgin are also to lease 4 further aircraft of the same model from AerCAP.

Boeing's announcements during the month have been limited to 8 new 737-800 aircraft for American Airlines and 2 737-800 for a new customer MC Aviation Partners, (MCAP), a subsidiary of Mitsubishi Corp, for lease to Skymark Airlines of Japan. MCAP already own 60 aircraft worth more than $2Billion and manage 60 others.

Of the smaller manufacturers, Cessna announced an order from Susi Air of Indonesia for a further 30 Grand Caravans to add to their current fleet of 10 operating scheduled and charter passenger and cargo services throughout the country. Embraer received a further order for 7 E-190 aircraft from KLM Cityhopper.

Nigerian operator Afrijet Airlines has agreed to purchase 4 ATR72-500s. Afrijet currently operate 2 "ageing" Fairchild 27s and 2 Douglas MD-80s. Also from ATR was an announcement that Air Nostrum of Spain is taking 10 ATR72-600s with a further 10 options which pushed ATR above the 1,000 sales mark.

Air Nostrum has also been revealed as a previously undisclosed customer for the Bombardier CRJ-1000 single-aisle jet. Air Nostrum now has 35 aircraft of this model on order. Bombardier have also announced that MIG Aviation 3 Limited, a subsidiary of Marfin Investment Group, have ordered 8 (DHC8)-Q400 turboprops with an additional 8 options for operation by Pantheon Airways under the brand name Olympic Air.

Finally, the new Russian airliner, the Sukhoi SSJ-100 is gaining ground with LoIs from Malev for 30 aircraft, Gadair European Airlines (planning Madrid to Bahrain) for 2 and Avialeasing PIFK for 24.

A busier month than recent and the surprise is the Virgin A330 order. To replace the 747, A340 or a sweetener for cancelling an as yet undelivered aircraft?

Insurance Market News

The recent crash of the Airbus A330 airliner off the coast of Brazil, with the loss of 228 passengers, has provoked awareness in the underwriting community as to what action must now be taken to safeguard their ongoing profitability.

Paid and outstanding losses for 2009 from airline hulls, passenger and third party liabilities are widely thought to be exceeding expected premiums for the year which augurs badly for underwriters.

Liability settlements, both from this loss and the Colgan Air crash in Buffalo, New York in February that killed 45 US citizens, will be the biggest challenge for the industry in years.

The US accident settlements could prove to be less complicated in legal terms than the Airbus A330 loss as the Colgan loss happened on US soil to US passengers. Accidents over international waters, where over 30 different nationalities are involved, with uncertainty surrounding the exact causes of the catastrophe must present adjusters, lawyers and underwriters with a tortuous route through the paths of litigation.

Events

The Aircraft Builders Council, Inc. has launched the schedule for its conference to be held 20-22 September this year. It is an informational forum on the most recent developments in the aviation and aerospace industry and products liability.

Arrivals and Departures

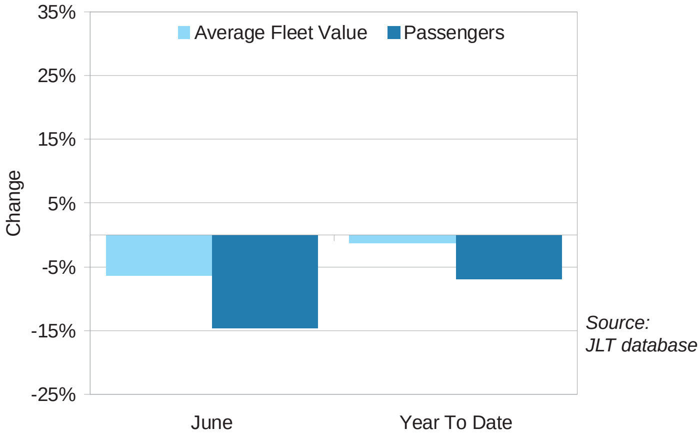
- Mark Stanley is leaving Global Aerospace Underwriting Managers to join Catlin
- John Larkins is leaving Ace to join XL
- Airclaims are expanding their technical expertise in Australia with 4 new team members

Renewal Analysis

Exposures

Hull and liability exposures are down for this month's renewals, with the emphasis on the decrease in passenger numbers. Reductions in anticipated fleet values are still very small overall to date. It is likely these will decline further as 2009 progresses.

Year on Year
% Exposure Change
JUNE / YEAR TO DATE
Based on Latest Information at 26th June 2009



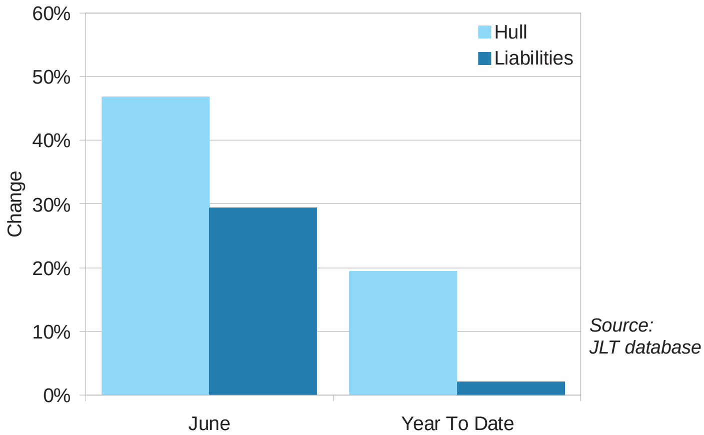
Premiums*

The resolve to increase premiums is clear from the June renewals and these have pulled the year to date hull increase to nearly 20% over expiring. Liability premium increases are being largely offset by the reduced passenger number forecasts.

Year to Date (Like for Like)	Hull US$ M	Liability US$ M	Total US$ M
2008	69.23	137.71	206.94
2009	82.65	140.65	223.30
% Change	19%	2%	7.91%

*Net of brokerage and at lead terms

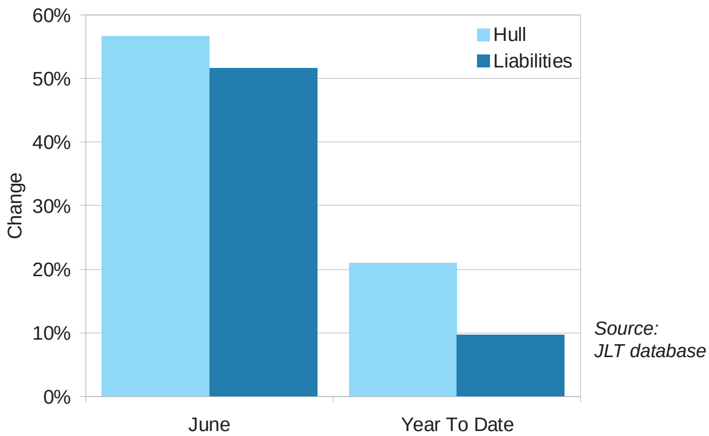
Year on Year
% Premium Change
JUNE / YEAR TO DATE
Based on Latest Information at 26th June 2009



Rates

Rates are often simply the method to achieve desired premiums but average rate increases for the June renewals appear to be growing higher than many earlier in the year. However it is worth noting that the figures shown for June include Kingfisher Airlines which has received an exceptional renewal, without which the renewal rate change for June would be 22% for hull and 12% for liabilities.

Year on Year
% Rate Change
JUNE / YEAR TO DATE
Based on Latest Information at 26th June 2009



Losses Summary

	Hull Losses US$M #	Fatalities #
May	45.46	4
June	103.32	228

 # Based on latest known information

June Known Losses of Note

1st	Air France	Airbus A330-203 (F-GZCP)	Atlantic Ocean

En-route Rio de Janeiro to Paris and outside the range of radar, the aircraft "disappeared". Some six days later, parts from the aircraft were found floating in the Atlantic.

2nd	Maldivian Air Taxi	Bombardier DHC6-200 (8Q-MAG)	Maldives

The aircraft (a floatplane) was performing a low level photographic flight when a wing caught the surface of the water causing the aircraft to crash into the sea and break up.

6th	Myanma Airways	Fokker F28-4000 (XY-ADW)	Myanmar

On landing at Sittwe, the aircraft ran off the end of the runway coming to rest on soft ground minus its undercarriage. The aircraft had sustained substantial damage to its starboard wing in the overrun due to a collision with a number of trees.

11th	Atlantic Southeast Airlines	Bombardier CRJ-200ER (N857AS)	USA

Landing at Atlanta - Hartsfield, the crew could not deploy the port main undercarriage and the aircraft subsequently struck the runway with the port wing.

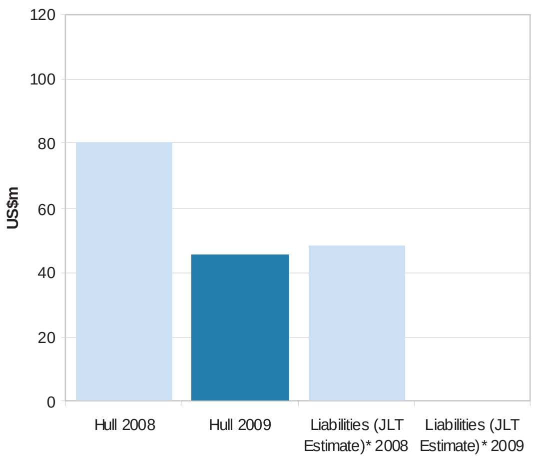
14th	Xpress Air	Dornier 328-100 (PK-TXN)	Indonesia

Landing at Tanah Merah, the aircraft veered off the runway with the starboard propeller striking an embankment and subsequently seperating from the aircraft. Video shows a dog crossing the runway ahead of the aircraft which may have made the pilot brake or swerve to avoid the animal.

Breaking News 30/06/2009:
A Yemenia A310-300, registration 7O-ADJ, with over 140 passengers and 11 crew on board disappeared from radar on approach to Moroni, Comoros, from Sana'a, Yemen. Debris from the airliner has been reported in the Indian Ocean.

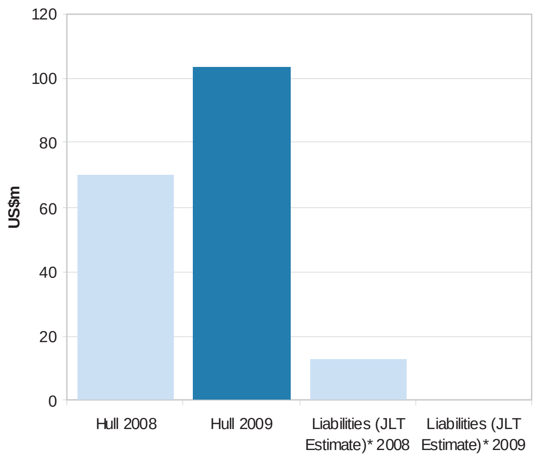
May Losses

All Known Losses Net of Deductible



June Losses

All Known Losses Net of Deductible

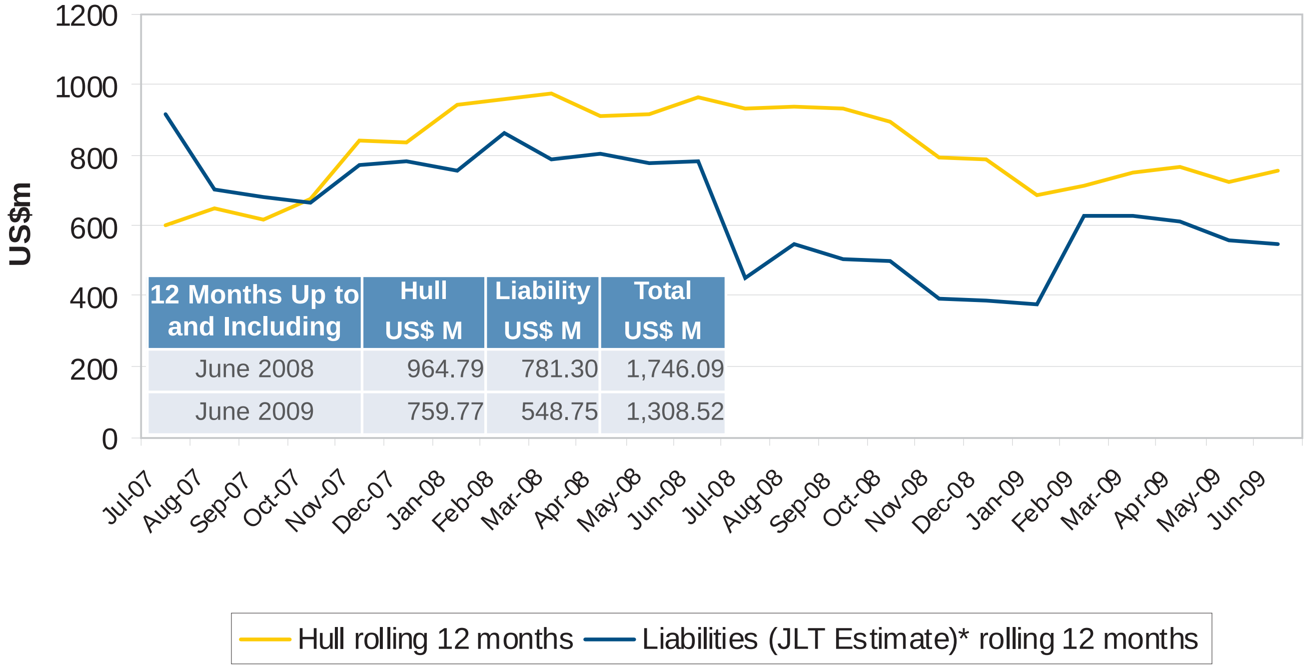


** The JLT liability estimates are provided merely as a guide. The A330 loss on 1 June 2009 is still under investigation and no assessment has been made for the liability reserve. Therefore, no estimate has been included in our loss figures for June.*

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to June, 2009

All Known Losses Shown Net of Deductible



12 Months Up to and Including	Hull US$ M	Liability US$ M	Total US$ M
June 2008	964.79	781.30	1,746.09
June 2009	759.77	548.75	1,308.52

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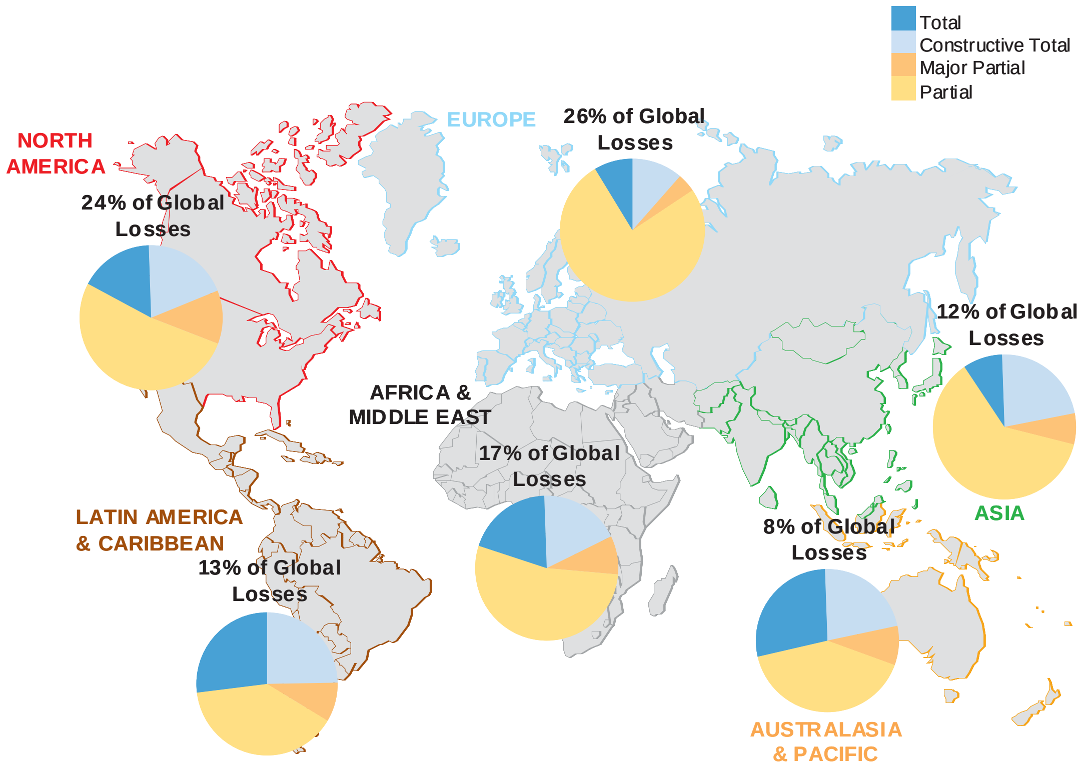
Regional Trends

Losses by type - 5 year average (2004 - 2009)

By Region of Operator Domicile



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