PlaneTalking

JLT AEROSPACE AUGUST 2009

Executive Summary

In This Issue

Summer Struggles

- The airline industry is still struggling and the increased number of aircraft laid-up is the latest indicator
- The number of start-ups this month appears to be the only hint at some green shoots of recovery
- Airline insurance market capacity remains stable and without any significant changes to ratings
- Recent half-year results for some insurers are pointing towards rate increases for their aviation portfolios
- August has been a quiet month both in terms of renewals and personnel movements but there is an expectation that there will be more change after the summer break

Lead Lines

Oliver Dlugosch, Director Client Markets, Head of Aviation Direct Airlines and Manufacturers, Swiss Re

Not so long ago we spoke about the aviation insurance market having a negative result in the last two years despite the absence of significant losses. Since then, however, the situation has changed dramatically. Data from the Flight Safety Foundation shows that 676 fatalities have been registered in 16 accidents in the first seven months of 2009. This number is significantly above the 10-year average of 417 fatalities in 16 accidents per annum. The tragically high number of aviation-related fatalities seems to indicate an increase in both the loss frequency and the magnitude of losses. If we take a closer look, records also show that most of these losses have occurred in Western world nations, including in Europe. It is also important to recognize the "luck factor" the industry experienced with the famous Hudson River landing in the United States earlier this year.

Large losses, both in frequency and severity as a consequence of increasing passenger awards, are in general not good news for underwriters. But, what about small attritional losses? Unfortunately, there seems to be no relief in sight for the industry due to larger repair costs, use of more expensive aircraft or simply liability-related

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Airline News

Comment

World airlines are reporting further bad news from their second quarter results, in the main, due to the continued malaise of the global economic slowdown. Problems, described variously as passenger concerns over political issues, the H1N1 virus, fuel hedging, losses on derivative assets, and a myriad of other circumstances, have all come together to give a large number of the majors a lot of red ink on their balance sheets.

Not only will manufacturers have to adjust production lines to compensate for the anticipated fall off in orders but there are already signs of large numbers of aircraft being laid up as capacity drops away. Over the last 12 months the growth in the world airliner fleet has almost ground to a halt and currently stands at about 26,900 aircraft including turboprops and Russian equipment. Probably the most significant barometer for the industry's health is the activity of the western built jet fleets which has seen an increase in parked aircraft numbers over the last 12 months of almost 30% or 630 units, bringing the total number of western built jets in store to 2,860. It is now at its highest-ever proportion, 13% of the total overall fleet.

The fractional private jet market lost a large new entrant recently with Jet Republic suspending operations additionally a number of the smaller operators in the sector have gone out of business in recent weeks. Even the industry's dominant player NetJets is finding things very tough at present with a loss of US$250 million in the first quarter and US$349 million in the first six months. Owner Warren Buffett declared that "NetJets owns more planes than is required for its present level of operations and further downsizing will be required unless demand rebounds".

Start-Ups

- Akash Ganga Airlines, India, is a charter airline planning to launch passenger services from Lucknow's Amausi International Airport with two Embraer ERJ-145s. The airline plans to eventually operate scheduled domestic services, aiming at both the business and tourist markets.

- Al Naser Airlines, Iraq, has launched services from Baghdad using two Boeing 737-200 and one Boeing 767-200. Al Nasser's AOC allows it to operate domestic scheduled services, as well as domestic and international passenger, cargo and VIP charters.

- Al Wafeer Airlines, Saudi Arabia, is a Jeddah-based airline which has leased a Boeing 747-400 to operate Umrah and Hajj charter flights.

- AviaNova, Russia, commenced operations on 27th August 2009. The airline offers scheduled flights from Moscow Vnukovo Airport to Sochi, Krasnodar, Rostov-on-Don, Astrakhan, Samara and Naberezhnye Chelny using two Airbus A320s.

- Baltia Airlines, United States, has signed a letter of intent for the purchase of a single Boeing 747-400. The carrier plans to launch non-stop services from New York (JFK) to destinations including St Petersburg, Moscow, Kiev, Minsk, Riga, Tallinn and Vilnius, starting before the end of this year.

- Excelsis Airways, United Kingdom, is a new premium airline planning daily public charter flights services from Durham Tees Valley Airport to London City Airport with Bombardier DHC-8-400Q equipment.

- Viking Hellas Aviation, Greece, is planning to launch services using Fokker 50s for passengers travelling out of Gatwick, Manchester and Bristol in the UK to destinations in Greece, Egypt, the Canary Islands, West Africa and ski destinations in Europe.

- Xingfu Airlines, China, has launched operations using a fleet of three MA60 aircraft. The carrier will operate flights from its base in Xian to Yan'an city in Shaanxi province and Zhengzhou in Henan province.

Closures

- Silver Air of United Arab Emirates suspended operations on 2nd August. The wet leasing specialist plans to resume services later in the year under a new business plan.

- HD Air the all cargo carrier based in Oxfordshire, England announced on 14th July that its AOC was being suspended until 24th September. The airline operated a fleet of six Short SD-360s.

Orders

The only new airliner orders to be announced so far this month have come from Bombardier for 5 DHC-8-Q400 turboprops with options for a further 5. However, the airline have requested their identity to remain undisclosed at present.

In a shuffle of orders, Egyptair have changed an order for 2 Boeing 777 aircraft to 8 Boeing 737-800s. The airline currently has 7 737-800s in operation with a further 5 due later this year.

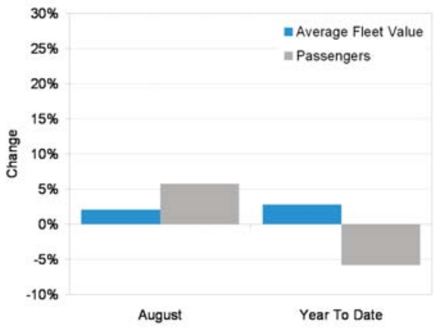
Renewal Analysis

Exposures

This month is very quiet for airline renewals and, as a result of just one operator showing a 37% increase in passenger numbers, the results for August are showing a departure from the year-to-date trend.

Year on Year % Exposure Change

August/Year to date. Based on latest Information at 25 August 2009



Source: JLT Database

Premiums*

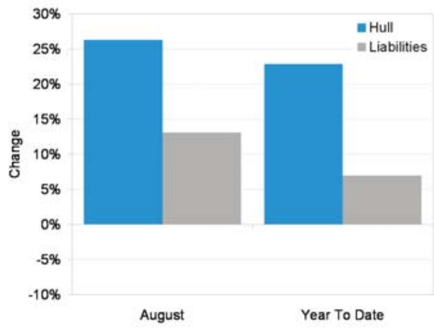
For various reasons a number of airlines no longer renew in August, for example, AirAsia, Gemini Air Cargo, Thomas Cook and XL Airways. The absence of these carriers substantially changes the level of premiums generated. The largest airline remaining, by far, is Monarch with a fleet valued at over US$1.5B and set to fly over 6 million passengers annually.

Year to Date (Like for Like)	Hull US$M	Liability US$M	Total US$M
2008	151.93	264.31	415.24
2009	185.38	283.63	468.02
% Change	23%	7%	13%

* Net of brokerage and at lead terms

Year on Year % Premium Change

August/Year to date. Based on latest Information at 25 August 2009



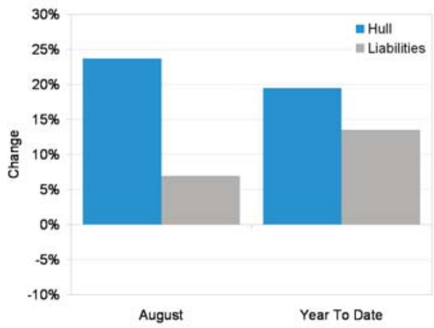
Source: JLT Database

Rates

The trend for the year to date is now strongly influenced by the rate increases seen since the major losses in June. On the whole the renewals seen at the end of July and in August are continuing this trend.

Year on Year % Rate Change

August/Year to date. Based on latest Information at 25 August 2009



Source: JLT Database

Insurance Market News

Arrivals and Departures

- Peter Bilsby, previously at XL, will be joining Talbot on 3rd September
- Chris G Clark, a former Deputy Chairman of Willis Aviation, will be joining JLT Aerospace as a Partner
- Justin Jia has joined the Chicago office of JLT Aerospace where he will be focused on developing Chinese business

Lead Lines

(continued from page 1)

issues. Add the macroeconomic ingredient to the mix – with most insurance companies having difficulties on the asset management side and increasingly evaporating investment returns -and it's back to the underwriters to generate a technical underwriting profit. Taking all these factors into account, it seems apparent that rates will go up, and that every insured airline - those with a clean loss record and those with a tragic loss record - will be expected to foot the bill for this raise. This is just the basic insurance principle of "many paying for the losses of a few".

But, let's pause for a moment and take a step back from the bad news for all clients, underwriters, brokers. The insurance market currently offers sufficient capacity, albeit at a certain price level, unique limit terms and scope of coverage. Most people think the products offered are often too commoditized and/or an unnecessary expense. However, these products can be easily tailored to include tomorrow's risks which are currently not covered, including weather risks, extra expense, business interruption and other potential dangers. ”

Loss Analysis

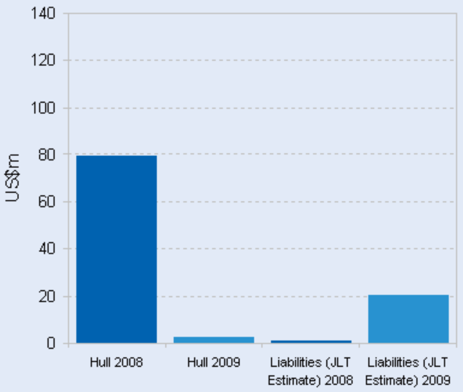
Losses Summary

July

- Hull losses exceeded US$3.09M
- 186 fatalities
- US$20.8M estimated liability loss

July Losses

All Known Losses Net of deductible

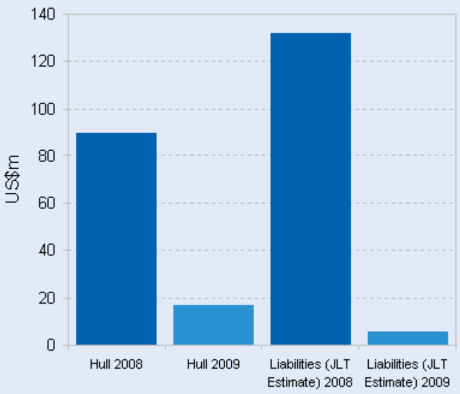


August

- US$17.18M estimated hull losses
- 29 fatalities
- Liability loss estimate US$6.25M

August Losses

All Known Losses Net of deductible



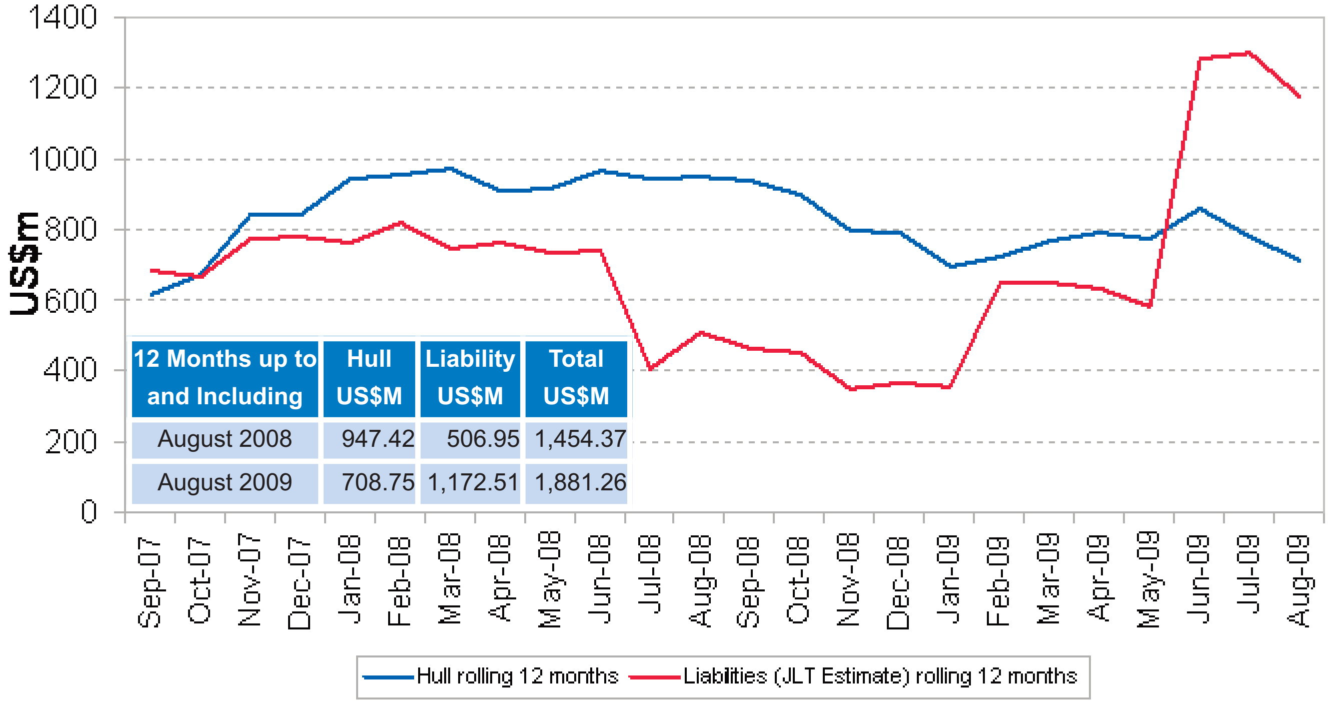
Known Losses in August

2nd	Merpati Nusantara	Bombardier DHC-6-300 (PK-NVC)	Indonesia
The aircraft flew into a hillside between Jayapura and Oksibil in poor weather killing all 15 on board.			
4th	Bangkok Airways	ATR72-212 (HS-PGL)	Thailand
On landing at Koh Samui, shortly after a storm and still with a wet runway and wind gusts, the aircraft left the runway and struck a disused control tower killing one pilot and causing a number of injuries to those in the cabin.			
11th	Airlines PNG	Bombardier DHC-6-300 (P2-MCB)	Papua New Guinea
The aircraft flew into a hillside near Kokoda after aborting the first landing attempt. The weather was reported poor with low clouds. All 13 on board perished.			
13th	Air Nippon	Boeing 737-800 (JA56AN)	Japan
On landing at Tokyo - Haneda, the aircraft's tail struck the runway causing significant damage to the fuselage.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to August, 2009



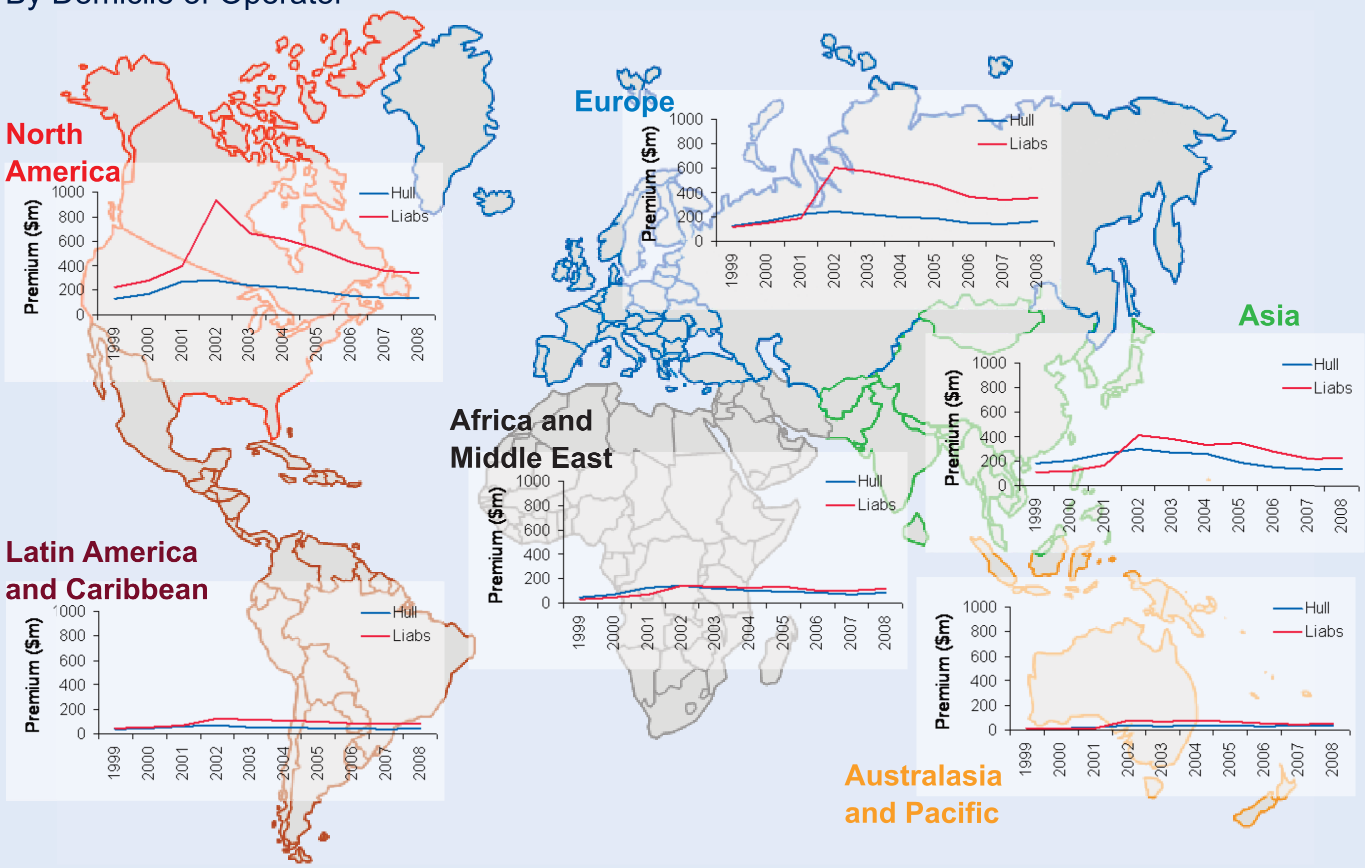
12 Months up to and Including	Hull US$M	Liability US$M	Total US$M
August 2008	947.42	506.95	1,454.37
August 2009	708.75	1,172.51	1,881.26

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

Regional Chart

Hull vs Liability Premium, 1999 - 2008

By Domicile of Operator



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Editorial

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