

Plane Talking

JLT AEROSPACE

OCTOBER 2009

Executive Summary

Careful Capacity from Airlines and Insurers

- The impact of the continuing economic downturn is beginning to have increased repercussions for manufacturers
- The month suffered increased loss frequency but lower severity than we have seen in the year
- Limited personnel changes in the airline insurance market as the busy season approaches
- Insurance capacity also remains stable and relatively confident
- Exposures, premiums and rates have all seen increases this month

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Lead Lines

Martin C Stevens, President- Aerospace, Chartis International

“As we enter the most important time of year for the Airline Insurance Market, it appears that once again the brokers and clients are beginning to rule the roost. Whereas at the beginning of this renewal season there appeared to be a resolve among underwriters to significantly increase rates to a long term sustainable level, it now appears that there is a distinct lack of understanding of basic arithmetic.

Over the last 12 months incurred claims among our airline clients are approaching US\$2.4bn. This is on top of a market loss year in 2008 and a break even year in 2007. So what are we, as a market, doing about it? It is not rocket science to understand that rate increases of the level

we are now seeing, coupled with reduced exposures that airlines are estimating, are going to produce anything but a minimal increase in base premium. We need to be concentrating on premium levels that will sustain long term profitability in this market. We are not currently anywhere close. What has happened to sanity? Obviously the airlines that have had the losses need to pay significantly more, but we cannot get away from the fact that all airlines need to contribute to a higher premium base.

Claims inflation is rampant, one only has to look at the Colgan Air loss in the early part of 2009 to realise that.

(Continued on page 3)



Airline News

Comment

In the light of some poor third quarter results from airlines - some of which have been downgraded by the stock market, the current continuing downturn will soon be having increased repercussions with the airline manufacturers. Airbus are confident they will supply around 480 units this year - much the same as 2008 but warn that due to airlines not having very high yields during the summer and failing to build up reserves for the winter, the result will inevitably be cancellations and deferrals going into 2010.

Although the price of oil is edging up again and will go on rising as the recovery evolves, manufacturers hope that operators with older, less fuel efficient fleets will re-equip with new aircraft thus creating a natural hedge against fuel prices.

Warnings have been issued that as a consequence of recent poor results, airlines might find financing facilities less benign and far more challenging in the months to come.

Although Boeing showed a 13% increase in its commercial aeroplane divisions revenue for the third quarter, costs and charges associated with its delayed 787 (now two years late) and 747-8 programmes pushed it to a US\$1.6 billion loss compared to a US\$695 million profit for the same time last year. Boeing are still hopeful of getting both new products flying by year end.

Start-Ups

- Altra Air, USA, will commence operations between Naples, Miami and Atlanta using Embraer 120 turboprop aircraft.
- Happy Air, Thailand, offers daily flights from Phuket Island to Hatyai and four flights a week from Phuket Island to Langkawi Island using a Saab 340 turboprop aircraft.
- Kyrgyz Pegasus Airlines, Turkey, is to start operations in November 2009 using Boeing 737-800 aircraft. The airline plans to operate international and domestic flights to Bishkek, Istanbul, Dubai, Seoul, Astana and Moscow.
- Servicos Executivos Aereos de Angola (SEAA), Angola, is poised to commence operations shortly using two ERJ-135s and an ERJ-145. The carrier plans to operate scheduled services from Lubango to the capital, Luanda, and destinations including Cabinda, Ondjiva and Saurimo.
- VicFalls Airways, Zimbabwe, is set to commence operations from November 2009. The airline plans to operate routes to Harare, Bulawayo, Victoria Falls, Blantyre, Johannesburg, Lusaka, Maputo and London via Dubai using Boeing 767-300ER and Boeing 737-800 aircraft.

Closures

- Air Burundi has been forced to suspend operations while its single aircraft a Beech 1900C undergoes heavy maintenance. The carrier was unable to obtain a replacement aircraft on lease so as to maintain services.
- Air Dominicana was officially closed down earlier this month due to

disagreements between shareholders. The airline commenced services in June 2008 and operated a single wet leased Boeing 737-300.

- Scanderbeg Air, which operated charter services from New York to Tirana and Pristina using a wet leased Boeing 767-200, suspended operations in early October.
- KD Avia, the Russian airline, had its license invalidated on September 14th and filed for bankruptcy. The airline operated a fleet of 18 Boeing 737-300s and had 10 billion roubles of debt.
- Sky Georgia of Russia has temporarily suspended operations from the 11th October. The airline operated two DC-9s.

Orders

October has been another lean month for the airliner manufacturer's salesmen. The biggest surprise was Trans States Holdings, parent of Trans States Airlines and GoJet Airlines, signing a Letter of Intent for 100 Mitsubishi Regional Jets. This is the first order for the MRJ from an airline outside Japan and a major boost for the project as well as being a wedge in the Embraer and Bombardier dominated regional jet market.

The month's other new order was from Libyan Airlines for 2 ATR-42-500 turboprops. These will be the first ATRs in Libya. Staying with turboprops, Air Niugini signed an order for 2 (DHC-8) - Q400s with a further example on option. Air Niugini already have a fleet of DHC-8-100, Q200 and Q300 aircraft. To complete the round-up, Norwegian Air Shuttle, a low-cost carrier, ordered another 6 Boeing 737-800 giving a total of 48 such aircraft ordered from Boeing and a further 22 taken from leasing companies.

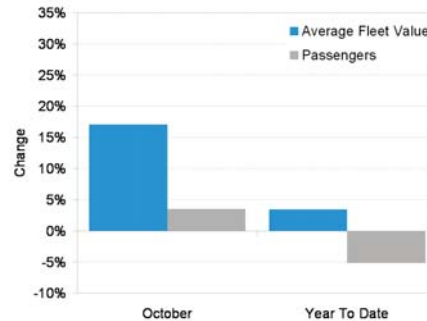
Renewal Analysis

Exposures

The three largest renewals of the month have all shown growth in their fleets and passenger numbers. NACIL (Air India and Indian Airlines), Lion of Indonesia and GOL of Brazil continue to move forward with new aircraft thus providing greater seat capacity and expected passenger numbers.

Year on Year % Exposure Change

October/Year to date. Based on latest Information at 28 October 2009



Source: JLT Database

Premiums*

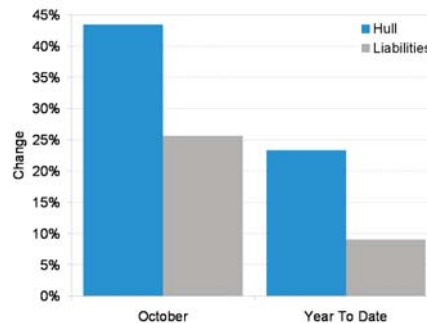
This month's renewals generated an increase in exposures. This coupled with the resolve by underwriters to consolidate premium growth has resulted in a significant increase in premiums.

Year to Date (Like for Like)	Hull US\$M	Liability US\$M	Total US\$M
2008	207	326	533
2009	255	356	611
% Change	23%	9%	15%

* Net of brokerage and at lead terms

Year on Year % Premium Change

October/Year to date. Based on latest Information at 28 October 2009



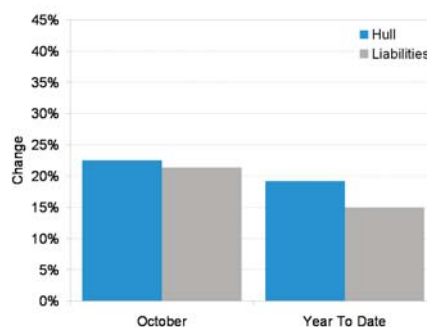
Source: JLT Database

Rates

With about 15 renewals this month there is a picture emerging of further rate increases both for hulls and liabilities at the start of the 4th quarter. The growth presented by the three largest renewals would normally temper their rating treatment, however their recent poor loss records have come into play here and as a result those airlines have experienced rate increases as well as significant exposure growth.

Year on Year % Rate Change

October/Year to date. Based on latest Information at 28 October 2009



Source: JLT Database

Insurance Market News

AIG have started underwriting in Singapore recently with Michael Quin Harkin appointed as the underwriter. AIG have potential capacity to write over \$500m for aviation liability. Their new Frankfurt office, staffed by Jens Raeder and Karl Ortmann, has the the same capacity.

Max at Lloyd's have recently started underwriting aviation business.

Travelers Cos. Inc. is exiting the U.S. general aviation market.

Arrivals and Departures

- Antoine Lamy has left Catlin in London and has recently arrived in Singapore as aviation underwriter for Asia Capital Re.
- Duncan Couch, the aviation underwriter for Liberty Mutual in Singapore, has recently moved from Singapore back to London but is expected to continue to develop aviation business for the group in the Asia region.

Lead Lines

(continued from page 1)

The average value of airline hulls is increasing as airlines re-equip and yet we fail to recognise that the cost of repairs is similarly increasing. Are we taking enough of a look at the agreed values of the older aircraft? The answer is NO! Since the global recession market values of certain types of aircraft have fallen significantly and yet very few airlines seem to change agreed values year on year.

So why is it that airline underwriters are, yet again, happy to bury their heads in the sand at this time of year?

We must understand that if we, as underwriters, can't calculate the required levels of premium for profitability, then senior management and capital providers will do it for us. We ought to be in control of our own destiny but we do not appear to be doing a very good job!



Loss Analysis

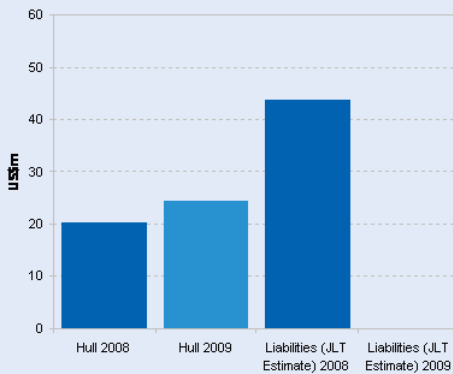
Losses Summary

September

- Hull losses of US\$ 24.55M
- 1 fatality
- Liability loss estimate currently nil

September Losses

All Known Losses Net of deductible

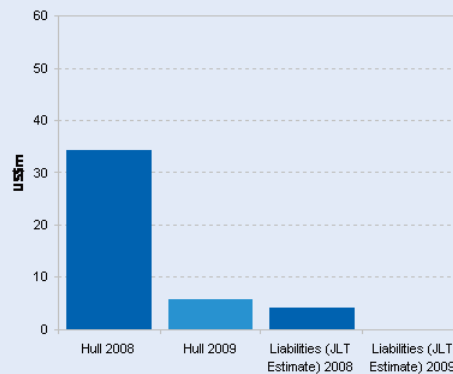


October

- US\$ 5.95 estimated hull losses
- 11 fatalities
- Liability loss estimate currently nil

October Losses

All Known Losses Net of deductible



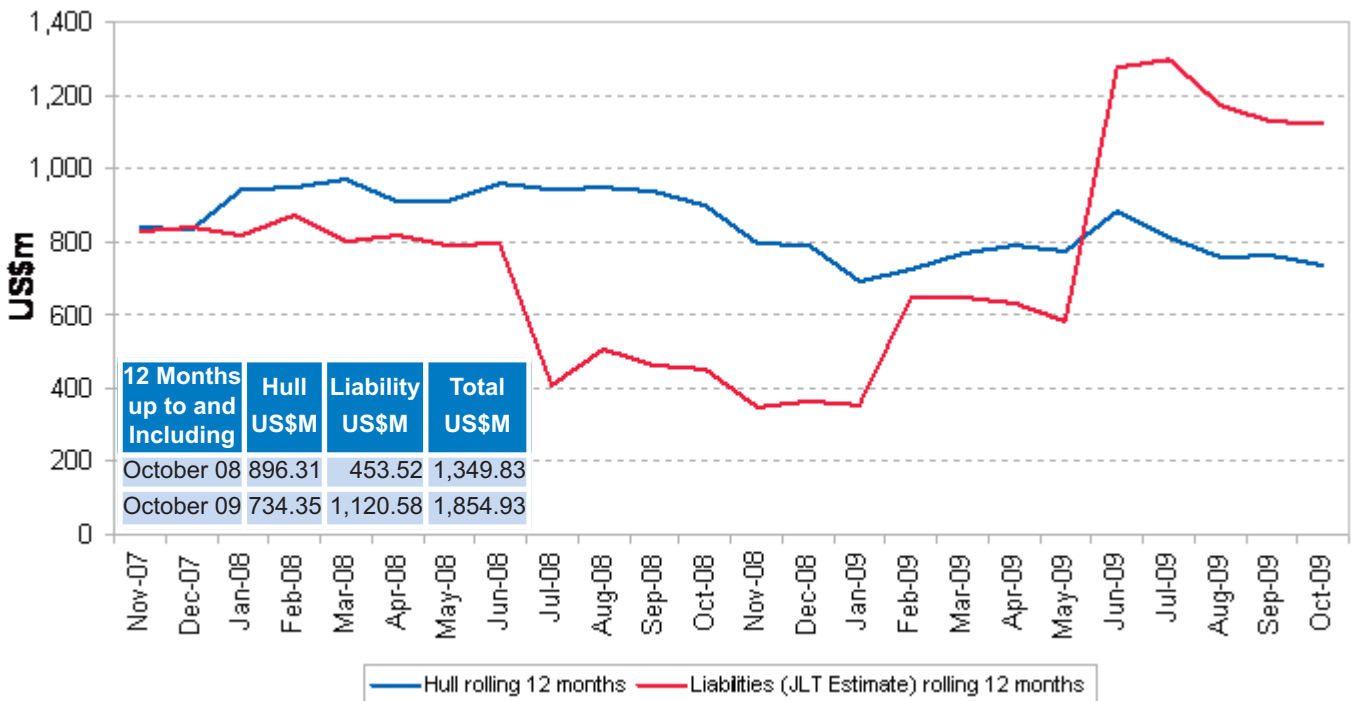
Known Losses in October

2nd	Malaysia Airlines	Boeing 737-400 (9M-MMR)	Malaysia
Whilst parked at Kuching Airport, part of the wing structure or undercarriage gave way resulting in part of the undercarriage punching a hole in the wing.			
15th	Blue Wing Airline	Antonov An-28 (PZ-TST)	Surinam
The aircraft left the runway whilst landing at Kwamelasemutu Airstrip in southern Surinam on a scheduled domestic flight. The aircraft contacted a number of obstacles and three people received serious injuries.			
17th	Victoria Air	Douglas DC-3C (RP-C550)	Philippines
On a domestic freight flight carrying full fuel drums, the crew reported engine problems and attempted a return to the airport at Manila - Ninoy Aquino International. The aircraft failed to reach the airport and crashed into an empty warehouse killing the crew.			
20th	Centurion Air Cargo	Douglas MD-11-F (N701GC)	Uruguay
The aircraft's starboard undercarriage was damaged on landing at Montevideo's Carrasco International Airport at the end of a cargo flight from Miami.			
21st	Azza Transport, Op for Sudan Airways	Boeing 707-330C (ST-AKW)	UAE
On departure from Sharjah on a freight flight to Khartoum, the aircraft failed to gain height and crashed shortly after takeoff with the death of all crew. Reports suggest parts of the aircraft were found on the runway and engine problems had been noted.			
21st	Aer Arann	ATR-72-201 (EI-REH)	UK
The aircraft suffered brake failure whilst taxiing to its parking stand at Manchester International. As a result, the aircraft impacted ground support equipment.			
22nd	Denim Air / Air Nostrum Op for Iberia	Bombardier DHC8-300 (PH-DXB)	Spain
On retraction of the undercarriage after departure from Barcelona's El Prat Airport, the crew received an unsafe undercarriage warning and elected to return to the airport. The nose gear would not extend and the aircraft was landed without nose undercarriage.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to October, 2009

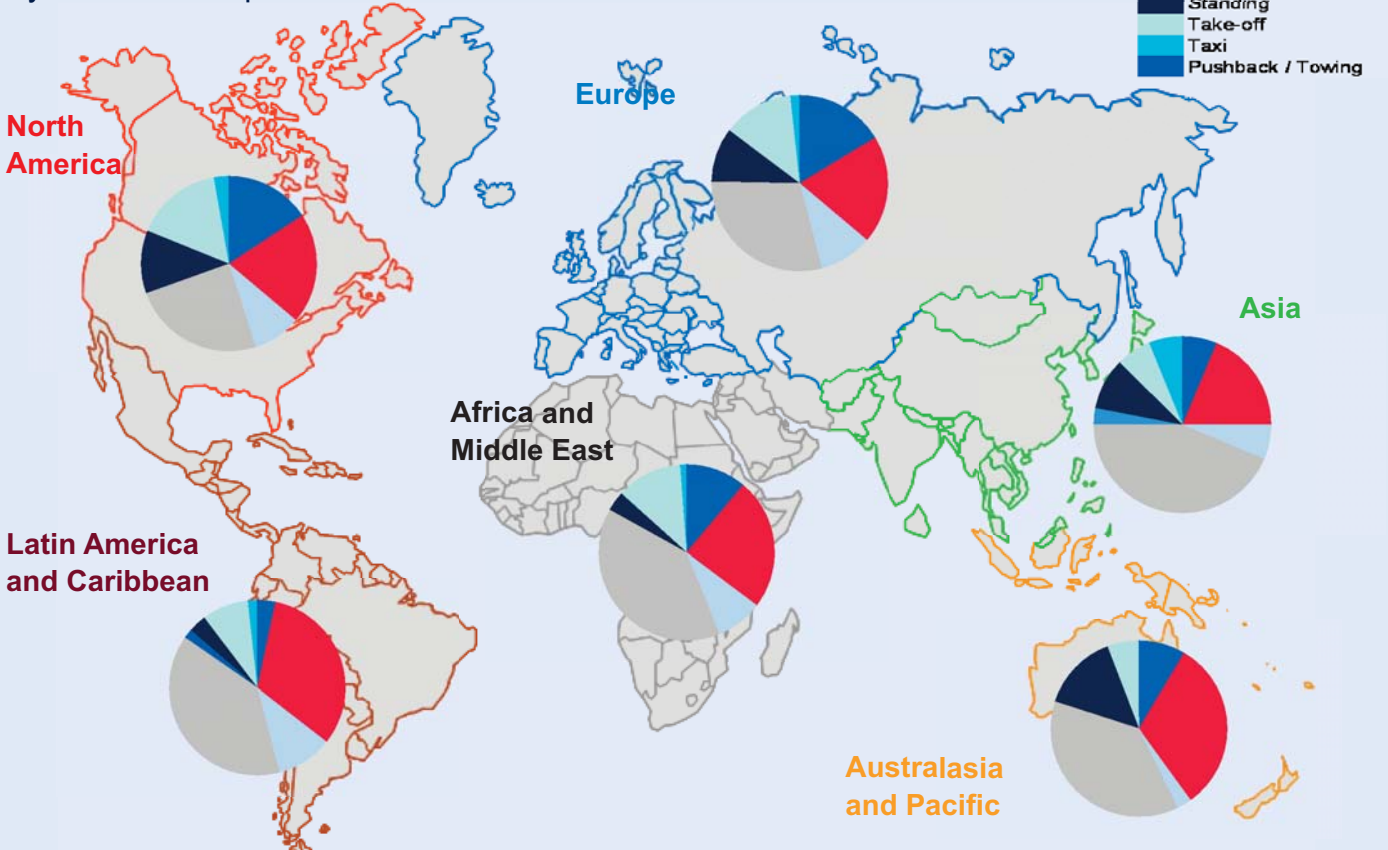


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Regional Chart

Losses by Phase of Flight, 2004 - 2008

By Domicile of Operator



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