

Plane Talking

JLT AEROSPACE

APRIL 2010

Executive Summary

Waiting for the Dust to Settle

- The airline industry is still reeling from the unprecedented financial damage incurred when European airspace closed this month
- Stranded passengers may have to wait for 3 weeks before they can be repatriated but the financial recovery will take much longer
- Airline insurance renewals this month have shown some growth in exposure which has increased premiums but kept rate changes in check
- The crash involving the Polish President and other high ranking Polish officials was not a commercial flight and will not directly influence the airline insurance industry

Lead Lines

Alison McKenzie, Solicitor, Gates and Partners

“As all operators into EU airspace are painfully aware, the UK and most of European commercial airspace was effectively closed between 15 and 20 April 2010 following the volcanic eruption in Iceland, leaving passengers and crew stranded around the globe.

As affected passengers are likely to have travel insurance claims rejected under a *force majeure* exclusion, they will look to carriers for compensation for their losses. Amongst other significant financial losses resulting from this disruption (including loss of profits and disruption costs of displaced aircraft and crew), each airline will face a flood of passenger claims (both reasonable and unreasonable) that it will need additional resources just to address, let alone resolve.

It is generally accepted that the Icelandic incident should be regarded as an 'extraordinary circumstance' pursuant to

EC Regulation 261/2004 (*The Regulation*). This does not absolve the airlines from compliance with Article 9 of *The Regulation*, which sets out the welfare obligations an airline has to its customers in the case of long delays or cancellation. It expressly provides that airlines must offer their passengers meals and refreshments, hotel accommodation and access to communication facilities for presumably a "reasonable" period of time. *The Regulation* does not require that every item claimed by the passenger must be reimbursed and there is of course an obligation upon the passenger to mitigate their losses. However, *The Regulation* is silent as to the duration of these obligations and therefore it is difficult to see how an airline can mitigate its losses by say seeking to apply a cap or limit to such claims.

In the absence of a solution to *The Regulation* that is more
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Comment

The recent eruption of the Eyjafjöll volcano in Iceland resulted in unprecedented damage to the aviation industry, the like of which has never been seen in the history of commercial flying.

The six days of enforced disruption resulted in 95,000 flight cancellations affecting 29% of global aviation, 8% of global trade and the stranding of seven million passengers. The cost to airlines in lost revenue is estimated at over USD1.7 billion, with European operators coming off worst, and came just as carriers were beginning to see demand picking up.

IATA estimated that even prior to the grounding the industry would still make a loss of USD2.8 billion in 2010 following losses of USD9.4 billion in 2009, and reckons it will now take up to three years to fully recover, with weaker airlines not making it without government help.

Even without all this, some airlines were still finding the going tough with the continuing battle with costs, over capacity and low yields. Particularly badly hit has been American Airlines who recently posted a first quarter loss of USD500 million.

Airline News

Start-Ups

- Air Cuenca, Ecuador, is poised to launch domestic services using a single Boeing 737-500. The airline plans to initially operate two daily flights from its Cuenca base to the capital Quito and one daily flight to Guayaquil. Air Cuenca has identified plans to add one or two more Boeing 737-500s by the end of 2010, which will be used to add frequencies on its first two routes and launch new domestic services.
- Air Malaika, Sweden, is preparing to launch services from 8th May 2010 from Stockholm Arlanda to Hargeisa, Somalia via Sharm el Sheikh. The carrier will initially operate a single Boeing 767-200.
- Star Airways, Albania, is planning to launch services shortly using two Airbus A320-200 aircraft. The airline has identified several destinations in Italy including Rome, Milan, Venice, Turin, Bologna and Florence. The carrier also indicates plans to fly to London, Istanbul, Dusseldorf and Thessaloniki.

Closures

- Macau's Civil Aviation Authority has revoked the air operator's certificate of Viva Macau after the carrier cancelled a number of flights at the end of March. The low cost airline which operated a fleet of three Boeing 767s was reported to have defaulted on its fuel bills and had been in financial difficulties for some time.
- Flag carrier Air Tanzania had its AOC suspended on 1st March after its only active aircraft a Boeing 737-200 suffered an undercarriage collapse on landing at Mwanza.
- Canadian charter operator Skyservice shut down at the end of March following the appointment of a receiver by the Ontario Court of Justice. It operated a fleet of seven

Airbus A320s and 11 Boeing 757s and blamed changes in the Canadian vacation tour market and its own debt level.

- UK freight operator MK Airlines announced on 9th April that it would be suspending operations due to a lack of adequate resources. MK emerged last year from a period in administration and operated a small fleet of ageing Boeing 747-200s and DC-8 freighters.

Orders

Airbus hog the news this month with three order announcements, largely confirmations of previous MoU (Memorandum of Understanding) announcements. On the last day of last month, Malaysia Airlines ordered 17 Airbus A330 widebodies firming up a previous MoU for 15 A330-300 passenger aircraft plus an additional order for 2 A330-200F freighters for operation by MASKargo. The passenger aircraft are due for delivery starting in the 2nd half of 2011 and the freighters later that year.

Hong Kong Airlines also firmed up a previously announced MoU for 6 A330-200 aircraft to make a total of 23 A330 on order. The carrier also has 30 single aisle A320s on firm order.

Cebu Pacific have ordered a further 7 A320s to bring their order backlog to 22. The Philippine carrier currently operate 21 aircraft of the A320 family.

We are unaware of any announcements of orders from Boeing this month.

Both current regional jet manufacturers announced sales with Bombardier signing a follow on order from Pluna Lineas Aereas Uruguayas for 3 CRJ-900 aircraft plus options on an additional 6 aircraft. This follows an order in 2007 for 7 similar aircraft which have already been delivered. Embraer finalized an order from Austral Lineas Aereas of Argentina for 20 E-190 jets that was first announced in May 2009.

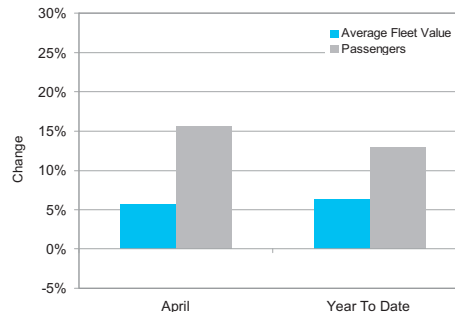
Renewal Analysis

Exposures

Although the majority of accounts in April have shown some growth, the quantum of change here is greatly influenced in that respect by three major accounts: Air Berlin, Hainan and Jet Airways (India). British Airways showed a reduction in average fleet value (AFV) and has been the key account keeping the average hull exposure change for the month in check.

Year on Year % Exposure Change

April/Year to date. Based on latest Information at 28 April 2010



Source: JLT Database

Premiums*

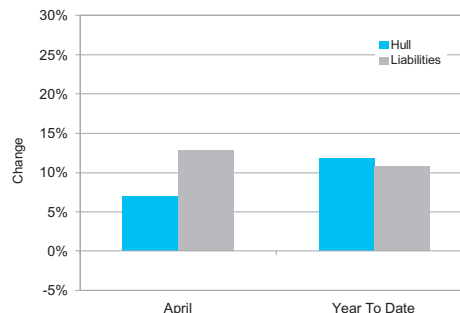
As with the year to date, April's premium change shown here is driven by the large exposure growth in fleet values and passengers which has taken the pressure off rate rises by providing consequential increased income for underwriters.

Year to Date (Like for Like)	Hull USD M	Liability USD M	Total USD M
2009	50	80	130
2010	56	89	145
% Change	12%	11%	11%

* Net of brokerage and at lead terms

Year on Year % Premium Change

April/Year to date. Based on latest Information at 28 April 2010



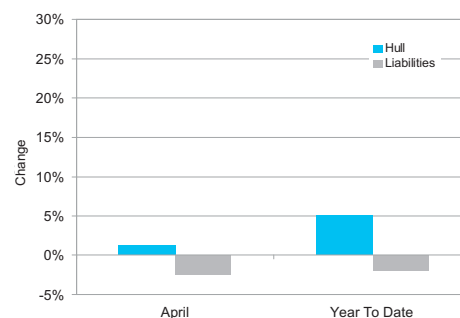
Source: JLT Database

Rates

The estimated growth in passenger forecasts has resulted in an overall rate reduction being allowed on the liability sector. It appears hull premium has also been pushed up along with the liability premium, despite the much smaller exposure growth, resulting in a hull rate increase.

Year on Year % Rate Change

April/Year to date. Based on latest Information at 28 April 2010



Source: JLT Database

Insurance Market News

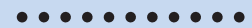
Capacity remains plentiful with few changes in risk appetite, ratings or personnel to report.

Oman Insurance Company has improved its rating from Standard and Poor's and is now BBB+.

Ortac Underwriting Agency will recommence General Aviation underwriting with effect from early May, partnering with Amlin via their Lloyd's Syndicate.

Arrivals and Departures

- David Slevin has moved from Faraday to Hiscox
- Ian Keegan has resigned from Faraday



Lead Lines

(continued from page 1)

operator friendly, airlines should be turning their minds to how they may better manage, and protect themselves against, the risk of future disruptions, beyond simply refining and continuously improving internal business disruption policies. For example, what insurance protection would airlines be willing and able to purchase to cover themselves against the significant losses that result from such catastrophic events? Insurance products of this nature have already been contemplated, and in some cases produced, for example post SARS to respond to pandemic related disruptions. Unfortunately, such insurance products have not been embraced by airlines, arguably due to the premiums not being commercially viable. There are those in the Market who are working on an insurance product that is commercially acceptable to the airline industry. Whilst this may involve insurers and airlines alike thinking outside the square to develop products that might involve, for example, co-insurance with the airline, a commercial product of this nature is worth consideration and investment of time now. One thing is certain - the aviation industry will continue to face new and unanticipated challenges such as the volcanic ash disruption and it needs to find a more sustainable approach to surviving these losses than currently available.



Loss Analysis

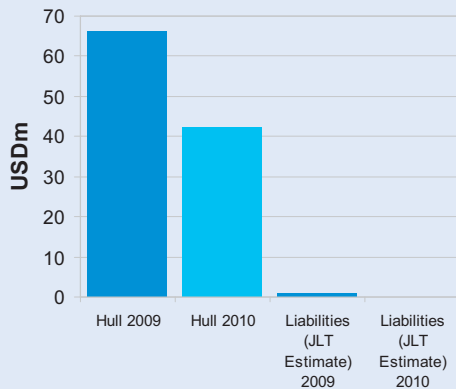
Losses Summary

March

- Hull losses of USD 42.13M
- 2 fatalities
- Liability loss estimate nil

March Losses

All Known Losses Net of deductible

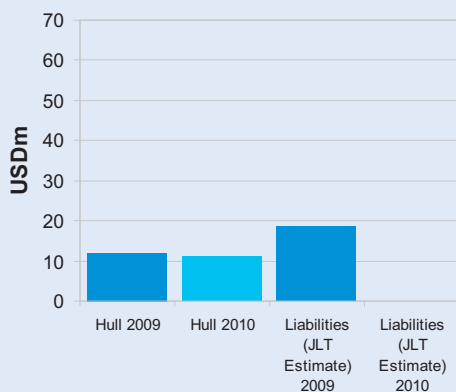


April

- Hull losses are estimated at USD 11.15M
- 9 airline fatalities
- Liability estimate currently negligible

April Losses

All Known Losses Net of deductible



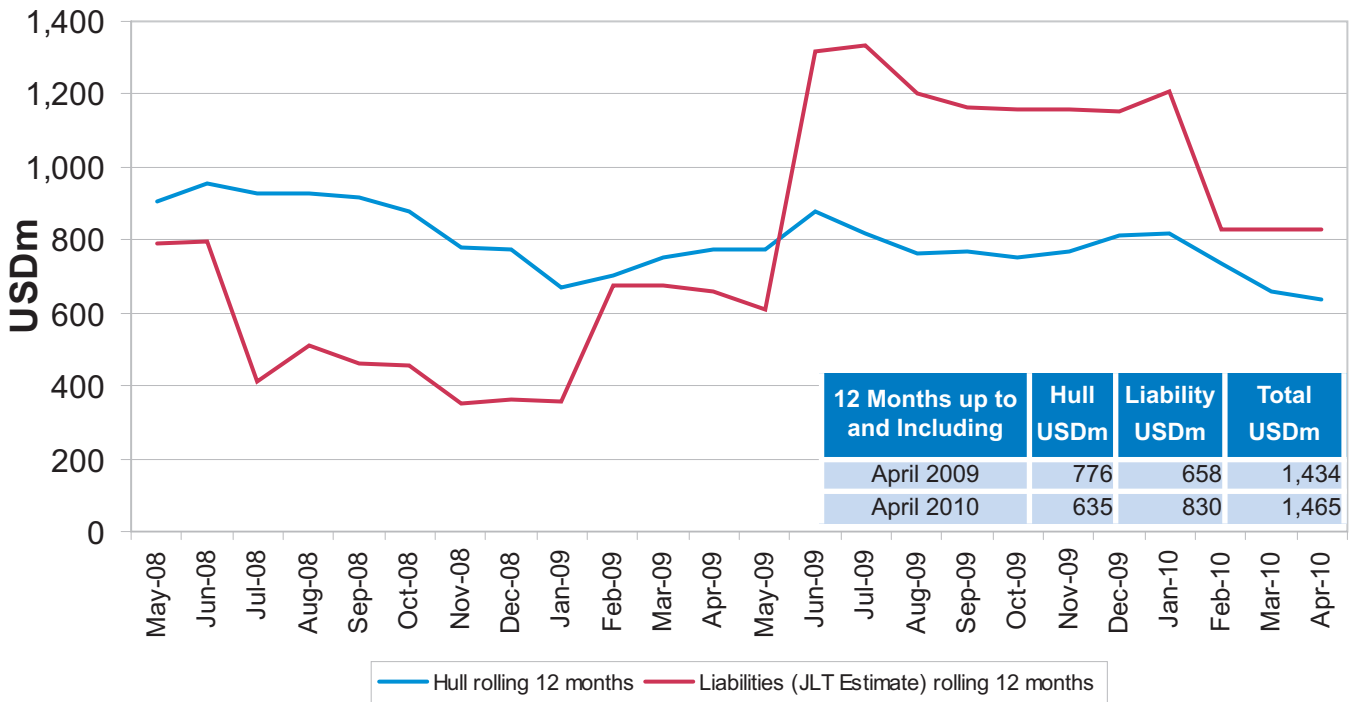
Known Losses in April

2nd	Egypt Air	Airbus A330-200 (SU-GCI)	Egypt
Taxiing to the runway at Cairo at the start of a domestic scheduled passenger service, the crew took a taxiway unsuitable for the aircraft type and the aircraft struck two lighting poles with the wingtips.			
10th	Polish Air Force	Tupolev Tu-154M (101)	Russia
The aircraft was operating a government flight carrying the Polish President and many high ranking officials to a commemorative service in Katyn. On approach to Smolensk Air Base in fog and with no radar coverage, the aircraft descended too low and crashed with the loss of all on board.			
12th	Kenn Borek Air	DHC-6-300 Twin Otter (C-GKBC)	Canada
Taking off on an ice runway at Melville Island, Ice Cap, NT, the aircraft failed to get airborne, overrunning the runway and coming to rest on rough ground.			
13th	AeroUnion	Airbus A300-200F (XA-TUE)	Mexico
On final approach to Monterrey in heavy rain, a freight flight from Mexico City came down on a highway killing the five crew on board and one person on the highway.			
17th	South African Express	Bombardier CRJ-200 (ZS-NMM)	Namibia
The aircraft's nose undercarriage failed to deploy on approach to Windhoek resulting in a landing without nose gear.			
21st	ATMA - Atyra Airport & Transport (Ops for Pacific EastAir Cargo or InterIsland Airlines on a UPS flight)	Antonov An-12BP (UP-AN216)	Philippines
On approach to Angeles International Airport, performing a non-scheduled freight flight, the aircraft lost height and crashed in fields about 30km from the airport. Initial reports suggest the aircraft was on fire prior to the crash. Three of the six crew survived by parachuting from the plane.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to April, 2010

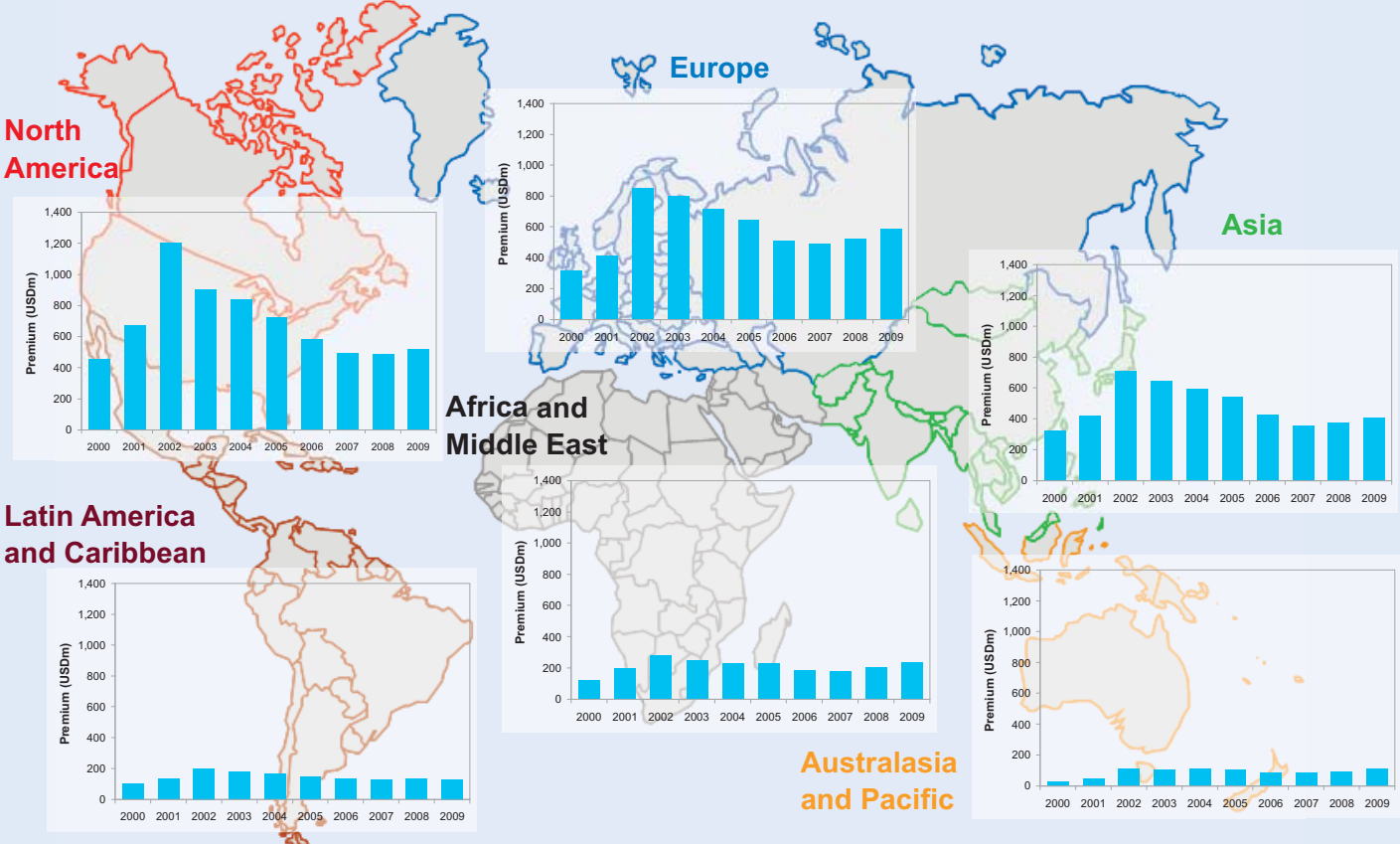


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Regional Chart

Premium over last 10 years, 2000 - 2009

By Domicile of Operator



PlaneTalking

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