

Plane Talking

JLT AEROSPACE

JANUARY 2011

Executive Summary

Broken Resolutions

- The few renewals to date suggest a confirmation of market behaviour witnessed last month
- Accounts with recent meaningful loss experience are likely to suffer harsher treatment at renewal than so called 'clean' renewals
- This can often be partially mitigated by changing risk leader, however such tactics can have undesirable consequences leading to a position of questionable value
- Capacity is under pressure, not necessarily to reduce but to be used in a rational and consistent manner, that is in accordance with agreed plans
- 2011 has not got off to a good start with more than 80 passenger fatalities to date

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Lead Lines

Angus Roberts, Deputy Head of Aviation, Travelers Syndicate 5000

“ In the fourth quarter of 2010 the airline market saw a number of its accepted truths challenged.

One such 'truth' is that timing, historically, has been everything. In the past it has been generally accepted by buyers that renewing in the last quarter was beneficial and as a result, in some cases, airlines have tried to renew as late in the year as possible. At the end of 2010, however, the market's resolve seemed to strengthen over the quarter.

Although airline groups vary in their structures and raisons d'être, during the fourth quarter of 2010 the idea that group placements necessarily deliver savings and financial benefits to all their members was also challenged as insurers focused on underwriting the individual risks.

2010 also challenged the notion that it takes a single catastrophic event to change the

market. The year saw no major event yet there were changes in the market which in the past would normally have been triggered by an individual loss.

Underlying all of this has been changes in the market to the way insurers approach differential pricing. Vertical marketing was pioneered by the airline insurance market and it might now be coming of age. Low rates, the battering from a higher frequency of losses, increasing oversight and regulation have driven insurers to stand by their own views on pricing rather than be influenced by others.

As we move in to a new decade and a market which is changing, those insurers with superior analytical tools will be better placed to provide clients with the longevity, consistency and pricing stability the industry deserves.



Airline News

Comment

Although 2011 is only a few weeks old, there has already been a flurry of aircraft orders to the two major manufacturers. As has been said many times, aircraft orders do not reflect a universal attitude by the global industry and we are still seeing an imbalance between emerging markets and the much older and less dynamic economies of the world.

The recent merger between British Airways and Iberia, making it the third largest airline insurance grouping in Europe after Lufthansa and Air France/KLM will no doubt be a prelude to the way airlines draw up their plans for survival. With oil prices still nudging upwards and the very precarious nature of an industry struggling with too much capacity, a very strict regime on finances will be paramount.

Start-Ups

- Asian Wings, Myanmar, commenced operations after being granted an AOC flight certificate by its local aviation authority. The carrier will operate two ATR72-500 aircraft on domestic flight services. Asian Wings will also provide charter flights and has plans to add international destinations in the coming months.
- La Nueva Aerolinea (LNA), Colombia, is planning to launch services in October. The airline plans to launch with three aircraft operating on six domestic trunk routes connecting its Bogota hub with Barranquilla, Bucaramanga, Cali, Cartagena, Medellin and Santa Marta.
- SKY Aviation, Indonesia, launched airline services on 29 December 2010 linking Surabaya, Banyuwangi and Denpasar. The airline will also operate charter services, which are expected to be flown primarily in support of oil and gas extraction activities in the region. The carrier is currently operating with a single Cessna 208B Grand Caravan, although plans call to introduce

three leased Fokker 50 turboprops into its fleet in the coming months.

- TonleSap Airlines, Cambodia, commenced operations this month from its base at Siem Reap using a leased Boeing 737-300 aircraft. The carrier will fly to Taipei, Angkor Wat, Luang Prabang, and other exotic destinations like Nanning, Shenzhen, Hunzhao in China, Utaphao in Thailand, Hanoi in Vietnam and Luang Prabang in Laos.
- Velvet Sky, South Africa, is planning to launch services linking Durban with Cape Town and Johannesburg from mid-2011. The carrier plans to operate Boeing 737-800 aircraft.
- Vanuatu Airways, Republic of Vanuatu, is planning to launch domestic services mid 2011. The carrier is to have a fleet of two Islander type aircraft. They will be based in Tanna, Port Vila and in Luganville, servicing Torba Province, Maewo, Pentecost, Santo and Longana in East Ambae.

Closures

- Fly Kumba, Zimbabwe, was forced to stop trading due to operational challenges less than one year after its launch. It returned to lessors its only aircraft, a Boeing 737-500.
- Moscow Airlines (previously known as Atlant-Soyuz) ceased all services on the 17th January due to financial difficulties. The airline operated a fleet of Boeing 737-300s and 800s.
- Region-Avia, Russia, suspended all operations in late January in order to restructure and obtain funding. The carrier operated a fleet of four Embraer 120 aircraft.
- Vildander Airlines, Norway, finally succumbed to operating difficulties on 17th January. It served a number of domestic airports with wet leased Jetstream and ATR aircraft.

Orders

Orders kick off the new year in an optimistic mood...

Boeing signed up American Airlines as a customer for the 777-300ER with an order for 2 aircraft. This is the first order from a US carrier for the -300ER model. Alaska Airlines increased its order book for the 737 by 15, being 13 -900ERs, a new model for Alaska, and 2 -800s.

Leasing company, CIT, ordered 38 737s and purchase rights for 7 more. The firm orders are 15 -900ERs and 23 -800s.

Airbus set a couple of noteworthy milestones in January - Virgin America's order for 60 A320s brought total orders for Airbus to over 10,000 aircraft. The order from Virgin also marked the launch of the A320neo model with half of the order being for this model. India's low cost carrier, Indigo, signed a memorandum of understanding for 180 A320s of which 150 will be the new A320neo model. This is shown as the largest single firm order number for large jets in commercial aircraft history.

Adding to the Airbus order book were easyJet with a contract for a further 15 A320 to bring their total Airbus fleet to 242 aircraft. Leasing company, GECAS, ordered 12 A330-300 bringing their total of this type to 32 aircraft. Thomas Cook ordered 12 A321 and Asiana ordered 6 A380 with deliveries due from 2014 for use on key routes to Europe and the USA.

Bombardier booked an order for 4 CRJ-700 from Skywest Inc for operation under the Delta connection banner and Embraer confirmed a sale of 10 E-190 jets to CDB Leasing Co of China for operation by China Southern from the 2nd half of 2011. Lastly, Mexico's Interjet signed a contract with SuperJet International for 15 Sukhoi SuperJet 100s in 98 seat configuration for delivery from 2nd half 2012. A further 5 options are also included. Orders for the SuperJet 100 now total 170.

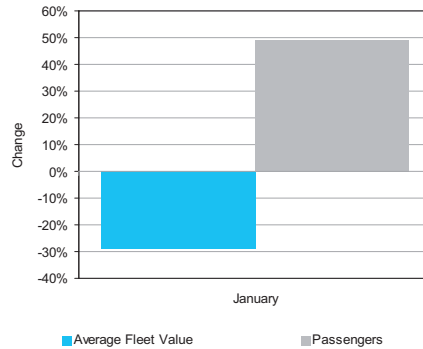
Renewal Analysis

Exposures

Following the busiest month of the year by far, January has just a handful of renewals. Due to such a small number and their relative insignificant sizes, any movement in AFV and passenger numbers is meaningless.

Year on Year % Exposure Change

January / Year to date. Based on latest Information at 24 January 2011



Source: JLT Database

Premiums*

The premium movement seen is mainly due to one small airline renewal.

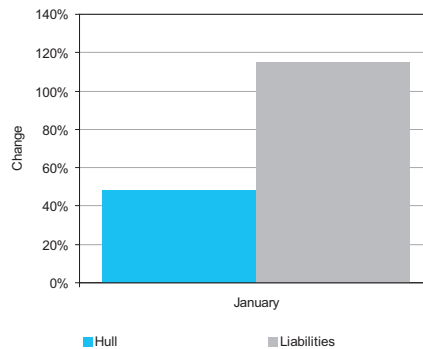
However this airline is not a major operator and therefore carries no great influence for the month.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2009	3.27	3.04	6.31
2010	4.84	6.53	11.4
% Change	48%	115%	80%

* Net of brokerage and at lead terms

Year on Year % Premium Change

January / Year to date. Based on latest Information at 24 January 2011



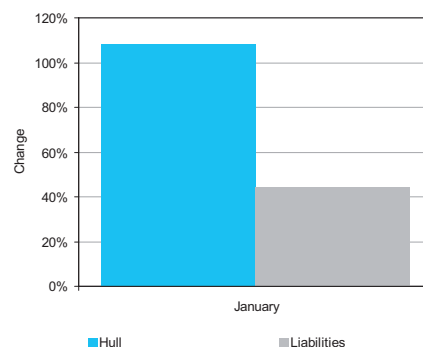
Source: JLT Database

Rates

Again the rate change reflects one airline with a poor loss record which has therefore swung the rating movement dramatically.

Year on Year % Rate Change

January / Year to date. Based on latest Information at 24 January 2011



Source: JLT Database

Insurance Market News

AM Best has given a strong ratings debut to the new Zurich-based reinsurance arm of Lloyd's and international (re)insurer Catlin Group, Catlin Re, secured a financial strength rating of A (Excellent) and an issuer credit rating (ICR) of "A".

Catlin Re will underwrite European property and specialty business, as well as a portfolio of global trade credit surety and political reinsurance.

Arrivals and Departures

- Daniel Martin is moving from Willis to Aon, where he will be working on the Africa and Middle East team.
- Russell Mason and Simon Henessey will be underwriting a General Aviation account on behalf of LEAD Aviation Ltd. They were both recently class underwriters at Mitsui Sumitomo Insurance.
- Following a major restructuring of their US Underwriting unit, Global Aerospace, has promoted Jeffrey Bruno to the position of Chief Underwriting Officer. Mr. Bruno will have executive responsibility for all General Aviation, Airline, Product Liability and Workers' Compensation business underwritten by Global Aerospace in the US. As a further result of the restructuring Global has also appointed Kenneth Mount and Marilena Sharpell as Executive Underwriting Officers, they will report directly to Mr. Bruno.

In addition Global also announced the retirement of Mr. Brian McBride, Executive Vice President of Major Risks.

Loss Analysis

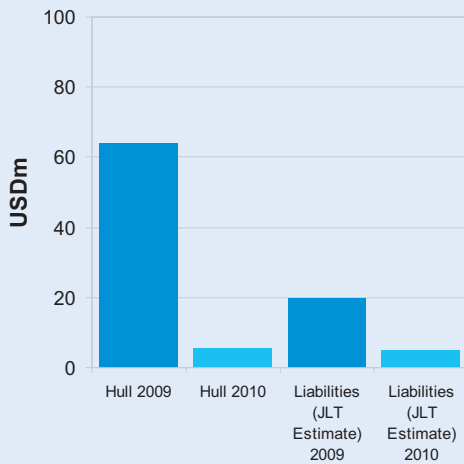
Losses Summary

December

- Hull and spares losses of USD5.45m
- 24 airline fatalities
- Liability loss estimate of USD5.00m

December Losses

All Known Losses Net of deductible

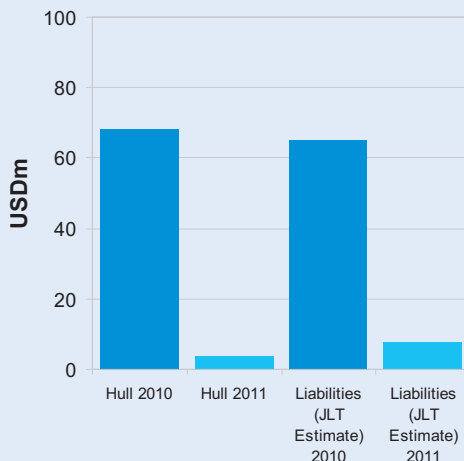


January

- Hull losses USD3.70m
- 81 airline fatalities
- Liability loss estimate of USD7.80m

January Losses

All Known Losses Net of deductible



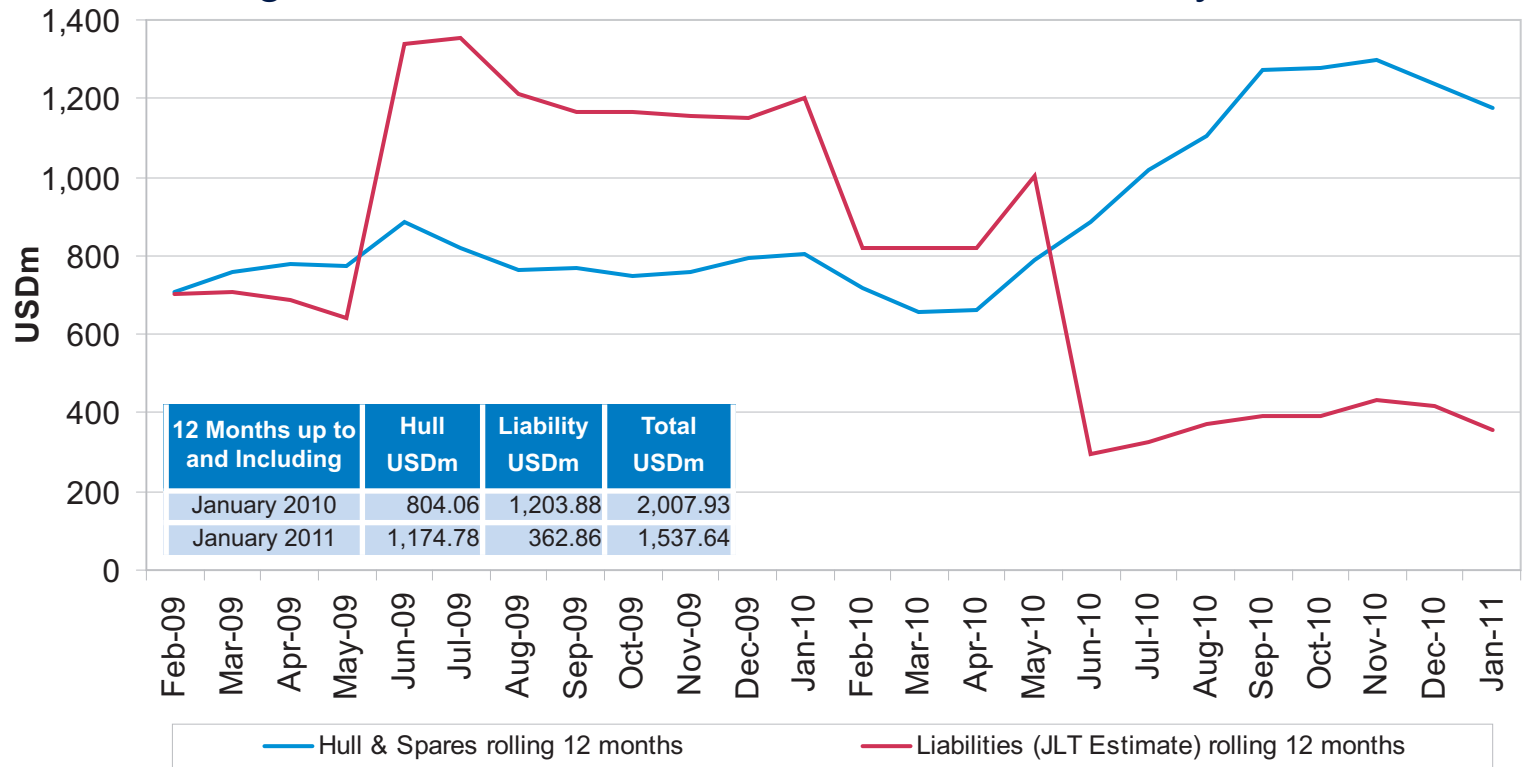
Known Losses in January

Date	Airline	Aircraft Model (Registration)	Country
1st	Kolavia	Tupolev Tu-154B (RA-85588)	Russia
<p>Prior to commencement of taxi on departure from Surgut International, a fire broke out in the rear cabin close to the right engine. Fire quickly consumed the centre section of the aircraft. Of the 116 passengers and 8 crew, 3 passengers suffered fatal injuries.</p>			
9th	Iran Air	Boeing 727-200 (EP-IRP)	Iran
<p>The aircraft crashed near Uromiyeh airport after making an approach to the airport in very poor weather conditions. A missed approach procedure was carried out but the aircraft impacted on farmland. 78 people of the 94 passengers and 11 crew lost their lives.</p>			
10th	Africa Air Charter	Boeing 737-200 (ZS-SGX)	South Africa
<p>Taxiing for departure at Hoedspruit Airbase in darkness, the crew missed a turn onto a taxiway. They then tried to turn the aircraft by use of reverse thrust but the aircraft ran backwards down an embankment and into the bush.</p>			
11th	AirAsia	Airbus A320-200 (9M-AHH)	Malaysia
<p>Landing in heavy rain at Kuching, the aircraft skidded off the runway causing the nose undercarriage to collapse and possible damage to the engines.</p>			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to January, 2011

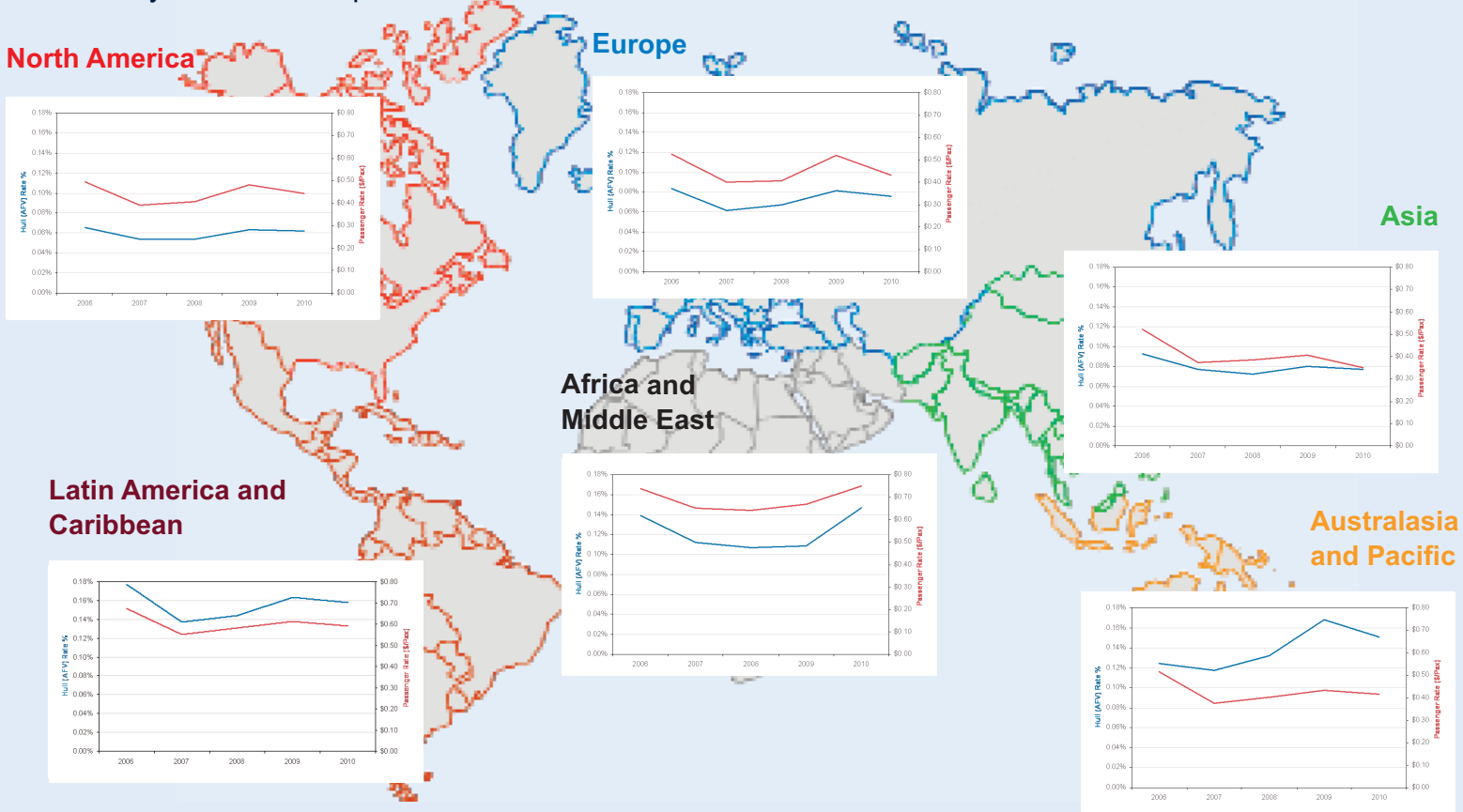


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Regional Chart

Rates - Hull versus Liability - Average last 5 years

By Domicile of Operator



North America

Europe

Asia

Africa and Middle East

Latin America and Caribbean

Australasia and Pacific

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