



JLT Aerospace



PLANE TALKING

AUGUST 2008

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Executive Summary

- As the financial climate continues to tighten, mergers and alliances are an inevitable consequence.
- A flurry of start-up activity has been off-set by some operations ceasing.
- After a busy time at the Farnborough Air Show in July, orders for new aircraft in August have been few and far between.
- A heavy month for losses but it will take some time for the final analysis and costs to be evaluated.
- A very quiet month in the airline insurance market with little change this month in terms of capacity and personnel.
- A small number of airlines have renewed their insurances but none have been large enough to perceive a change in underwriter's attitude or to buck any of the trends seen so far this year although this will change if losses continue.

Lead Lines

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

“ Despite the absence of significant catastrophic losses, the airline insurance market had a negative result in 2007. The first two quarters of 2008 showed a loss level very similar to last year with even an upward trend due to passenger settlement awards increasing in certain parts of the world. This is exacerbated by the weak US Dollar which is driving attritional loss levels upwards in many non US countries due to payments being made in local currencies. While more and more recent renewals show premium and rate increases, a further rate strengthening will be required to bring the market back to a healthy level. This coincides with aviation customers facing a "perfect economic storm" through record high fuel prices, consolidation, layoffs, deferred deliveries of aircraft and enormous cost pressure. In this difficult environment, insurance is the most cost-effective form of balance sheet protection.

Based on this situation Swiss Re believes that aviation insurance buyers or risk managers should have a holistic approach regarding the risks their company is facing and not just purely concentrate on the price of the "standard" insurance policies. There are many more risk factors which are not currently covered by insurance e.g. business interruption caused by pandemic diseases in Asia or elsewhere, airport terminal closures (e.g Paris CDG 2004) or airport problems (Terminal 5 LHR 2008), unusual weather events at certain hubs (JFK 2007), carbon emissions (Emission Trading Scheme in 2012), commodity based risks (record fuel prices 2008) etc. just to name a few. I am convinced that it will be more and more the core task of Aviation risk managers to find appropriate solutions to such risks.

”

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

Following the news that British Airways (BA) will form a merger with Iberia, it was announced that a further alliance would take place between the UK operator and the largest airline in the world American Airlines.

Plans are being drawn up to create a partnership that will enable both parties to share route networks, pricing, sales, marketing and purchasing power. BA, American and Iberia will file for anti-trust immunity from the US department of Transportation for a joint agreement on flights between North America and Europe.

They will expand their codeshare arrangements on flights within and beyond the EU and USA significantly increasing the number of destination choices that the airlines can offer customers.

Regulators have demanded that BA and American give up London Heathrow landing slots in exchange for permission to combine operations.

Losses

Investigators are still trying to establish the precise cause(s) of the crash of the Spanair MD-82 at Madrid on 20th August. 153 people are known to have been killed making it the deadliest air accident in Spain since a Colombian airline's Boeing 747 crashed in Madrid in 1983 killing 181 people.

Legal Matters

The Ninth Circuit Court of Appeals has recently affirmed the decision of the US District Court for the Northern District of California dismissing the litigation concerning air carrier's alleged failure to warn passengers of the risk of developing Deep Vein Thrombosis (DVT) on international flights.

In a recent case involving an American Airline the Ninth Circuit held that failure to warn about the risk of DVT despite requests for warnings from various public agencies does not qualify as an "event" or an "accident" under article 17 of the Warsaw Convention.

In rejecting the plaintiffs' arguments, the Ninth Circuit held that generalised requests by public agencies are quite different from particularised requests by individual passengers for assistance. The Court found that not every passenger injury is an unexpected "event" simply because airlines have declared that avoidable injury to passengers is a priority, and confirmed that air carriers have no duty to warn passengers of the risk of developing DVT.

Start ups

- Airgo, Greece, has announced its intention to start freight services from Greece to Turkey, Bulgaria, Cyprus, Romania and the Balkan states.
- Danube Wings, Slovakia, is planning to use an ATR 72-200 to provide passenger services to the domestic and neighbouring country markets.
- Paraguaya Lineas Aereas, Paraguay, is preparing to launch passenger services in September using a B737-200.
- Eastar, Korea, is intending to position itself as a domestic low cost carrier, expanding to international routes to China and Japan in 2010 using B737s.
- Mekong Air, Vietnam, wants to start a domestic service using 90-seater Bombardier aircraft but there is some doubt whether the Vietnamese Civil Aviation Authority (CAAV) will be allowed to grant them a licence.

And Closures

- Tradewinds Airlines Inc., the freight operator of North Carolina, entered Chapter 11 bankruptcy protection on July 28th.
- Gemini Air Cargo, following its recent entry into Chapter 11, has finally decided to stop trading as from 12th August.

Orders

Airbus recently celebrated the 1,000th order for its A330 wide bodied aircraft and becomes the second product in the Airbus range to achieve this status. Their single -aisle family exceeded this figure in 1994.

This is the fourth widebody to see sales reach the magic figure with Boeing already achieving this with the 747, 767 and 777.

Insurance Market News

Unsurprisingly, the market has been relatively quiet through the summer and there has been little or no change to airline market capacity availability. However, one market, Abu Dhabi National Insurance Company (ADNIC) has achieved a Standard and Poor's insurance rating of A-.

Meanwhile on the broking front, Aon has confirmed its intention to acquire Benfield and to integrate the Benfield business with its existing reinsurance operations (Aon Re Global) and operate the new division globally under the brand Aon Benfield Re.

Renewal Analysis

Exposures

Exposure growth in August has largely been down to just one major airline - AirAsia with an average fleet value increase of 64% and an increase in forecast passenger numbers of 12%. This somewhat bucks the trend in recent months in which we had seen a distinct slowing in exposure growth. Nevertheless, the overall trend still shows that exposure growth is slowing. However, we expect to see further fleet growth in some areas, particularly the Middle East and Far East where airlines will be receiving aircraft that have been on order for some years.

Premiums

The combination of small rate increases and flatter exposures has resulted in a modest rise in overall airline premiums. This now seems to be emerging as the pattern for 2008. However, added pressure from some high profile losses will harden underwriters' stance to rating, particularly of any accounts with recent losses, and might well push the premium up in the final quarter.

Year to Date	Hull US\$ M	Liability US\$ M	Total US\$ M
2007	155.85	271.22	427.07
2008	160.45	276.51	436.97
% Change	3%	2%	2%

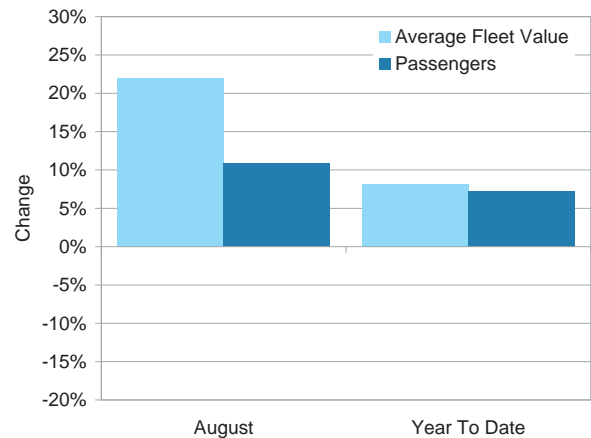
Rates

August has been a quiet month so far with only 8 renewals included in the statistics, as such it has had little effect on the rate changes for the year to date. Nevertheless, the significant average fleet value growth experienced by AirAsia which is driven by their purchase of new aircraft has pushed their rate down significantly and has had some impact on the year to date figures to bringing the overall hull rate change in line with the liabilities rate.

Year on Year % Exposure Change

AUGUST / YEAR TO DATE

based on Latest Information at 27th August 2008

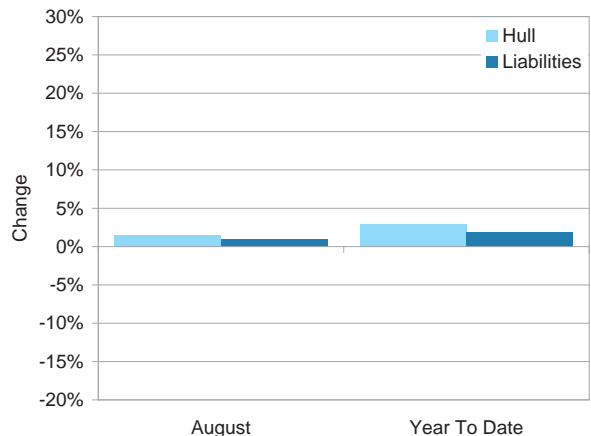


Source:
JLT database

Year on Year % Premium Change

AUGUST / YEAR TO DATE

based on Latest Information at 27th August 2008

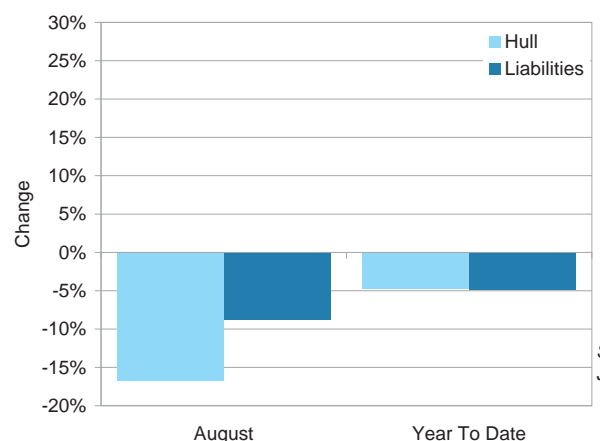


Source:
JLT database

Year on Year % Rate Change

AUGUST / YEAR TO DATE

based on Latest Information at 27th August 2008



Source:
JLT database

July Loss Update

Hull Losses US\$	Liability Losses (JLT Estimate) US\$	Total US\$
16,700,000	1,450,000	18,150,000

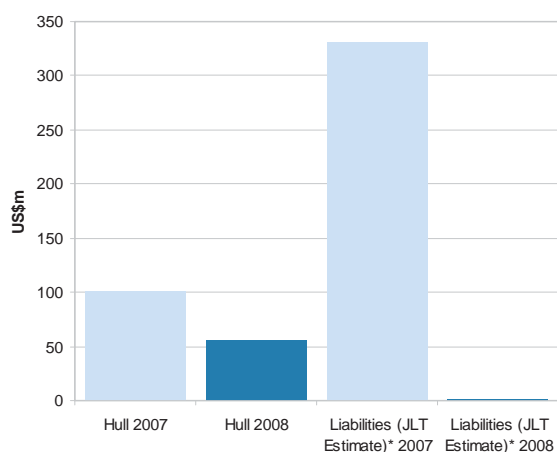
NB The JLT liability estimates are based on our assessment of what we feel is an approximate forecast of what passenger and/or third party reserves might be. These are merely provided as a guide.

August Known Losses of Note

3rd	ANA (All Nippon Airways)	B747-400 (JA8955)	Thailand	No injuries or fatalities	Reserve US\$3,000,000
Fire broke out in the cargo hold whilst the aircraft was undergoing maintenance					
13th	Fly540	F.27-500 (5Y-BVF)	Somalia	No passengers involved	Reserve US\$1,800,000
Struck a communications tower whilst landing in poor weather conditions					
20th	Spanair	MD-82 (EC-HFP)	Spain	148 Passengers killed	Hull Reserve US\$9,000,000
Failed to climb on take-off and crashed into a ravine					
23rd	AIRES	DHC-8-300 (TBA)	Colombia	No injuries or fatalities	Value TBA
Starboard main undercarriage collapsed on landing					
24th	Itek Air	737-200 (EX-009)	Kyrgyzstan	68 Fatalities amongst passengers and crew	Value TBA
Shortly after take-off, the crew advised engine failure. The aircraft crashed shortly afterwards					
24th	Air Dolomiti	ATR72-500 (I-ADLM)	Germany	No injuries or fatalities	Value TBA
Fire broke out in the port undercarriage whilst taxiing for departure.					

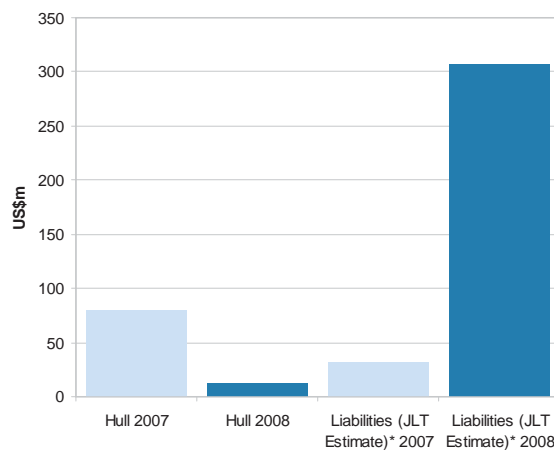
July Losses

All known losses net of deductible



August Losses

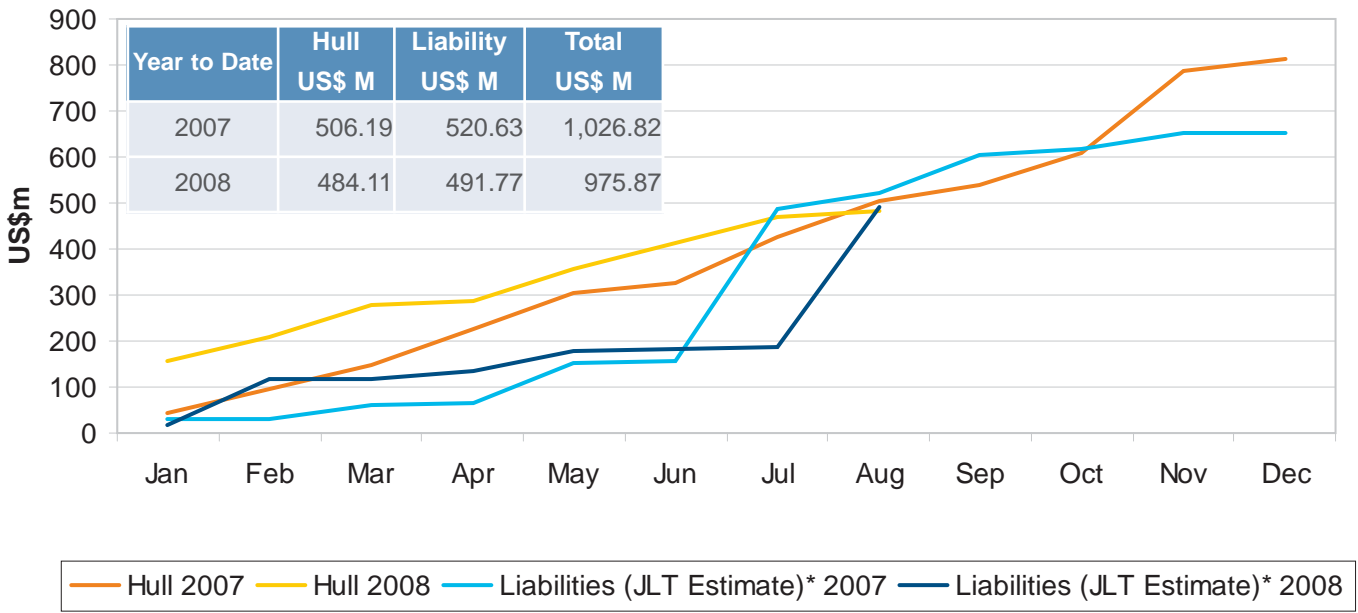
All known losses net of deductible



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Cumulative Airline Loss Figures Year To Date

All known airline losses net of deductible

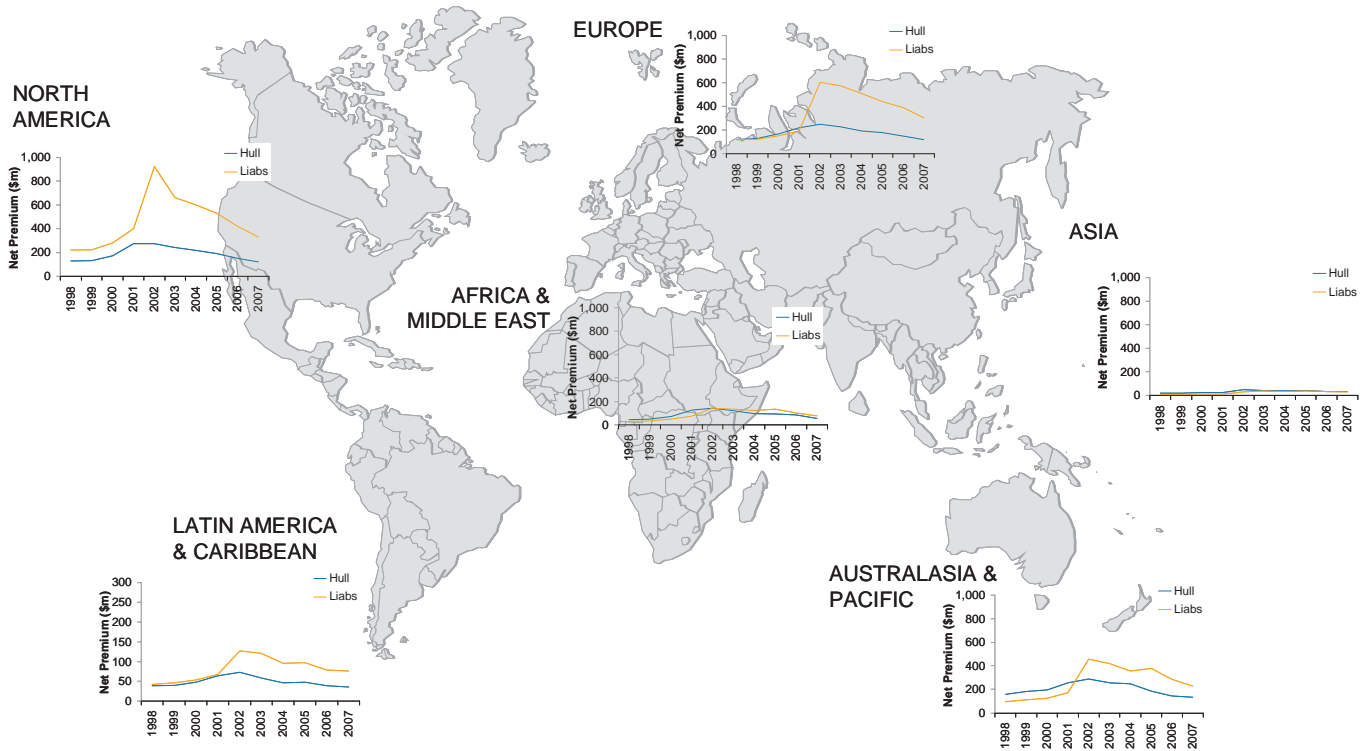


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Regional Trends

Regional Breakdown of Net Hull versus Net Liability Premiums - Last 10 years

By Region of Operator Domicile



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