



JLT Aerospace



PLANE TALKING

JUNE 2008

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Executive Summary

- Financial pressures continue to mount across the industry with the US carriers reportedly suffering significantly from the impact of the rising fuel costs.
- Despite a number of failures and curtailments, demand continues to grow, particularly in the Middle East and Asia regions.
- No meaningful changes to capacity although Lloyd's agents are currently under the spotlight by the Franchise Performance Directorate.

Recent renewals:

- Slower growth in exposures, is this a trend or simply reflective of individual circumstances?
- Slight premium growth but below Year To Date (YTD) average.
- Premium rates show modest softening but again below YTD averages.
- Negotiations reportedly more protracted and concluding very close to inception.

In summary, the market is becoming more firm than soft and signs suggest this trend will continue.

Lead Lines

Richard Etridge

CUO, Glacier Re

“ **Impact of high fuel prices on our customers?** At Glacier we have grave concerns of the effect high fuel prices will have on the airline industry. In 2008 the industry has already been notified of a number of airline bankruptcies and I am sure others will be adjusting their flight route plan to survive. The impact or knock on effect to the insurance industry is dramatic as airline rates are already below burn and earned premiums inadequate to pay expected annual losses. If the Insurance Industry is to expect further return premiums or bad debts occur we are facing a further catastrophe in earnings.

I believe the insurance industry should look to the traditional reinsurers, for example, by applying Minimum and Deposit premiums. In marginal times it would be so much easier to have the base premium agreed.

Philosophically, I am a strong believer that one adheres to the same rules within business as one's personal life. So when my car insurer says no payment no coverage, I am still astonished that within the airline industry we are so flexible with settlement dates. Given the hard times ahead created by high fuel prices I believe our industry should have greater awareness of premium settlement, and in a high tech world processing time is no excuse.



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

The impact of the current record high fuel prices is reportedly having a far bigger impact on the US legacy carriers than similar sized operators in the rest of the world.

The financial crisis, which is now what the current situation is being described as, is held to be as serious as the problems following 9/11 and although it has some way to go, could result in as much as a 20% reduction in domestic capacity over the next year.

American, United, Continental and Northwest have all planned to remove their older jets which include DC9s, MD80s, B737 classics and some 300 and 500 series, plus some older 757s and 747s.

Fuel efficiency is now very much the order of the day because of a lack of investment in new aircraft over the last few years due to financial restraints and for being in or near to bankruptcy. The North American carriers will feel the burden of high fuel costs more keenly than operators with younger fleets with the seven largest airlines reporting an overall loss for the first quarter of US\$1.3 billion. Many have also reported losses for the second quarter as well.

United Airlines predicted that at current fuel prices the carrier's projected 2008 fuel bill would be US\$9.5 billion, up US\$3.5 billion from 2007. The International Air Transport Association (IATA), the main lobby group for big US airlines said recently the portion of a ticket needed to pay for fuel is nearly 40%, compared with 15% in 2000.

IATA also issued its dire predictions and suggested that if oil stayed at US\$135 a barrel the airline industries global losses would rise to over US\$6 billion. For every dollar increase in the crude oil price, carriers globally face an increase in costs of US\$1.6 billion. It is estimated therefore that in the next 12 months the industry could face US\$99 billion of extra costs from oil and as the director general of IATA recently pointed out 24 airlines have already collapsed into bankruptcy in the last six months.

Beating this gloomy trend however was Emirates who posted a record rise in profits for the year ending 31st March at US\$1.37 billion, an increase of 62%. Passenger numbers were up by almost four million and admitted that their success was due to their position in Dubai, which is at the centre of the new Silk Road between East and West.

Start ups

There has been more start-up activity in June than in previous months and nearly all activity has followed a clear pattern. 3 out of 4 start ups were in the Asia-Pacific region and only one was going to attempt international services and that was only planned to be on one route. The newly planned airlines are nearly all in areas where there is

little existing competition.

And Closures

- Silverjet the all premium Luton based transatlantic carrier ceased operations on the 30th May having failed to attract new financing from a prospective Middle East source.

Orders

June has seen new orders for Airbus from Air Astana, 6 A320s; Air One, 12 A350 plus 12 options and 12 A330 plus 8 options and a Middle East client for two A318 Elites.

Air One's expansion now takes the A350 order book to 59 firm aircraft.

Amongst Boeing's orders are 3 737-900ERs for Romania's Blue Air, two 737-800s for Biman Bangladesh, One more 777 for Korean Air and a further 737 for Boeing Business Jets.

Boeing's order book now totals 457 for 2008 whilst Airbus is ahead on 502 for the year.

Embraer have announced orders from TRIP Linhas Aereas for 5 E-175 with 10 further options and 2 E-190 for the Brazilian Government. Bombardier have options exercised for 3 Q400 aircraft from All Nippon and have announced an order for 4 CRJ700 from an operator who does not wish to be identified at this time. Total orders for the Bombardier CRJ family now amount to 1,667 aircraft where as Embraer have booked orders for some 916 of the 145-family and 851 170/190-family aircraft.

In production news, Airbus have started shipping the first sub-assemblies of the A320 to the Chinese assembly line in Tianjin. First A320 assembly in China is due to start in August for a delivery in the first half of next year. The sub assemblies are being brought together in Hamburg for onward shipping in a commercial container ship.

Insurance Market News

As can be seen from our summary details, June continues the growth trend in both fleet values and expected passenger numbers which has been seen throughout the first half of the year. Admittedly there have not been a huge number of major airline renewals, but from the evidence of the 70 odd airlines we have seen so far, the response to these increases in exposures by underwriters has been much firmer than during 2007 or indeed at almost any time during the last six years.

Arrivals and Departures

- Doris Poepplein is leaving ACE to join Glacier Re in Switzerland, where she will be working in the Speciality Reinsurance team

Renewal Analysis

Exposures

Average Fleet Values are still showing growth yet this has slowed in comparison to previous months with only a 10% increase for June in comparison with 17% for the year to date. Forecasts of passenger numbers on this month's renewals are showing very little growth with a small increase of only 2% as opposed to the increase seen so far this year of 17%.

Premiums

Again the Average Fleet Value increase has provided premium growth for hulls but the smaller growth in passenger numbers combined with the continued marginal reduction in rates has led, for the first time this year, to an overall fall in liability premium for the month of June at -4%.

Year to Date	Hull US\$ M	Liability US\$ M	Total US\$ M
2007	73.49	135.82	209.31
2008	78.93	144.41	223.34
% Change	7%	6%	7%

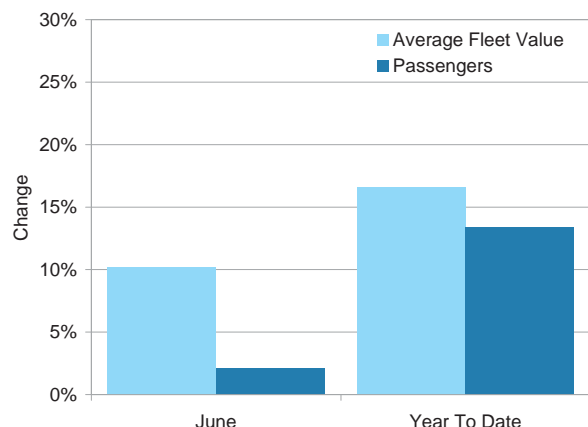
Rates

Having seen a varied collection of renewals in June including Ethiopian Airlines, Mexicana, EVA Air, Aegean Airlines and Uzbekistan there has been virtually no premium change in the month. This, however, clearly does not reflect further softening in the market and when looking at the average rates we can see that this month's renewals are close to that seen so far this year. The picture at the midpoint of the year, suggests that rating levels are far more solid than they were at this time last year.

Year on Year % Exposure Change

JUNE / YEAR TO DATE

based on Latest Information at 25th June 2008

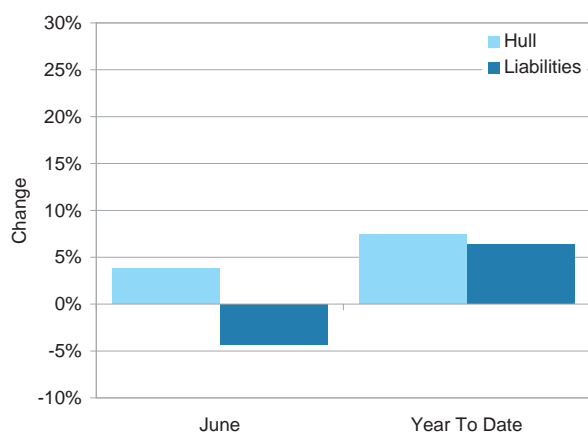


Source:
JLT database

Year on Year % Premium Change

JUNE / YEAR TO DATE

based on Latest Information at 25th June 2008

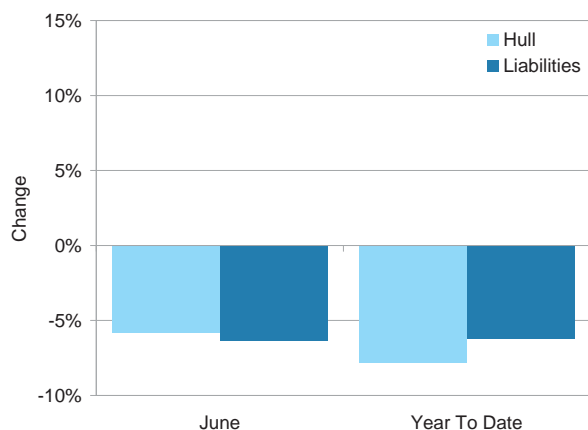


Source:
JLT database

Year on Year % Rate Change

JUNE / YEAR TO DATE

based on Latest Information at 25th June 2008



Source:
JLT database

May Loss Update

Hull Losses US\$ M	Liability Losses (JLT Estimate) US\$	Total US\$
60.50	43.30	103.80

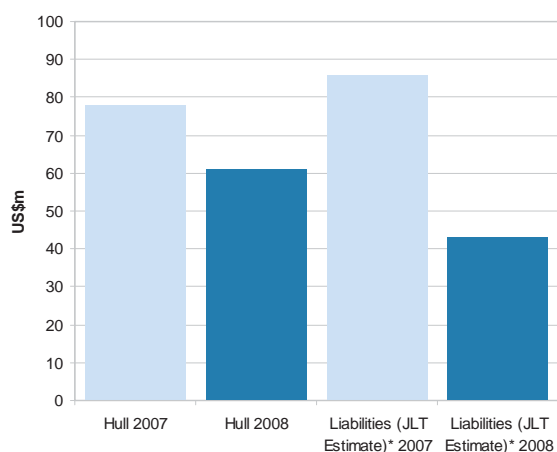
NB The JLT liability estimates are based on our assessment of what we feel is an approximate forecast of what passenger and/or third party reserves might be. These are merely provided as a guide.

June Known Losses of Note

10th	Sudan Airways	A310-300 (ST-ATN)	Sudan	29 passengers killed	Valued US\$16,000,000
The aircraft overran the runway on landing at Khartoum International Airport during poor weather, causing the right main undercarriage to collapse. Due to a leaking fuel line a fire erupted and quickly engulfed the aircraft. Of the 203 passengers and 11 crew on board, 29 passengers and one crewmember died.					
15th	China Flying Dragon Airways	Harbin Y-12 (B-3841)	China	3 crew killed	Value TBA
During survey operations in Inner Mongolia the aircraft hit a hill killing three crewmembers and severely injuring one other.					
15th	Lufthansa	A340-300 (D-AIGY)	Germany	No injuries	Reserve TBA
A highloading vehicle struck the number 4 engine causing considerable damage.					
16th	Wiggins Airways	DHC-6-100 (N656WA)	USA	1 fatality	Valued US\$550,000
Soon after take off from Hyannis, the aircraft rolled to the left and crashed onto the end of the runway killing the pilot, the only person on board.					
18th	Comair	B737-200 (ZS-OKD)	South Africa	No injuries	Reserve TBA
During the landing run in rainy conditions at Johannesburg the aircraft left the runway where the left hand engine struck the ground.					
20th	UTair	TU134 (Reg tba)	Russia	No injuries	Reserve TBA
Following engine problems during a flight to Moscow the aircraft returned to Kaliningrad where the aircraft left the runway and briefly caught fire.					

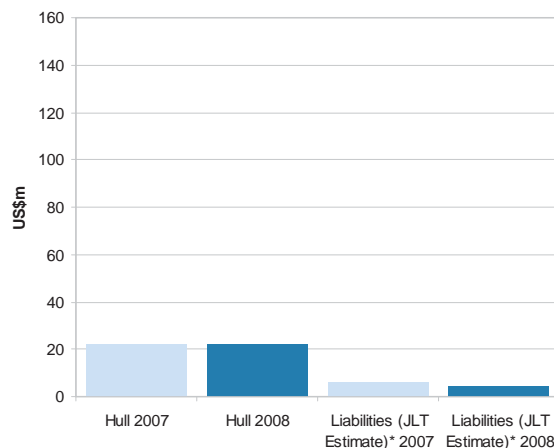
May Losses

All known losses net of deductible



June Losses

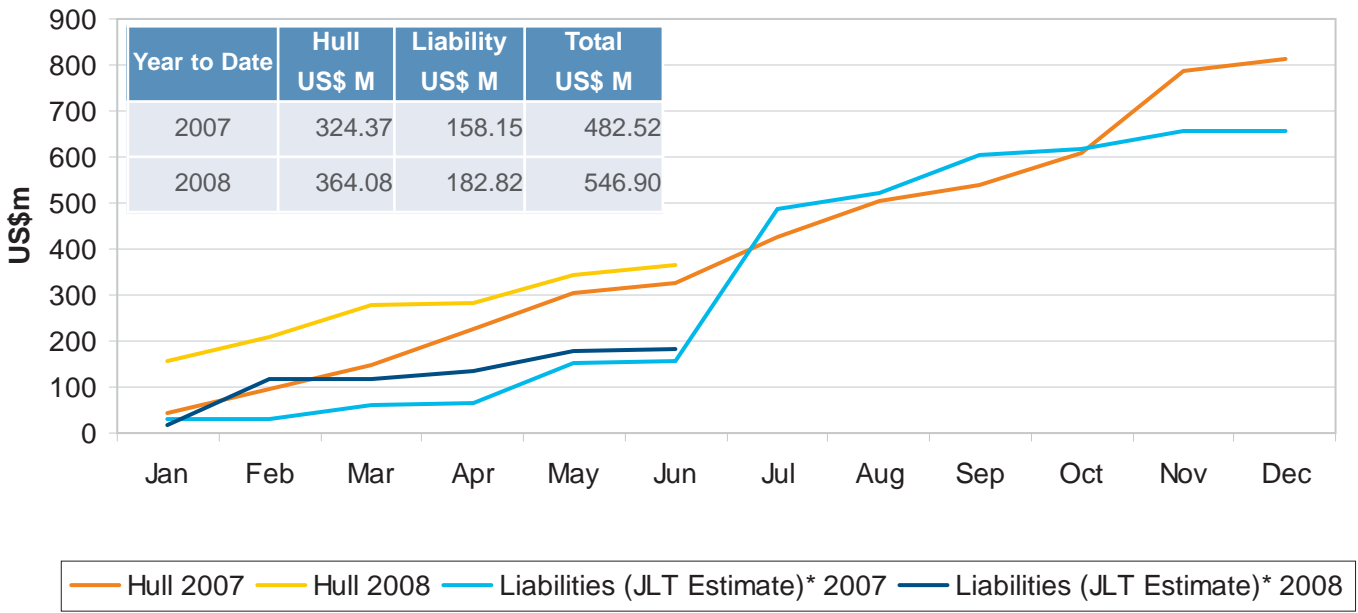
All known losses net of deductible



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Cumulative Airline Loss Figures Year To Date

All known airline losses net of deductible

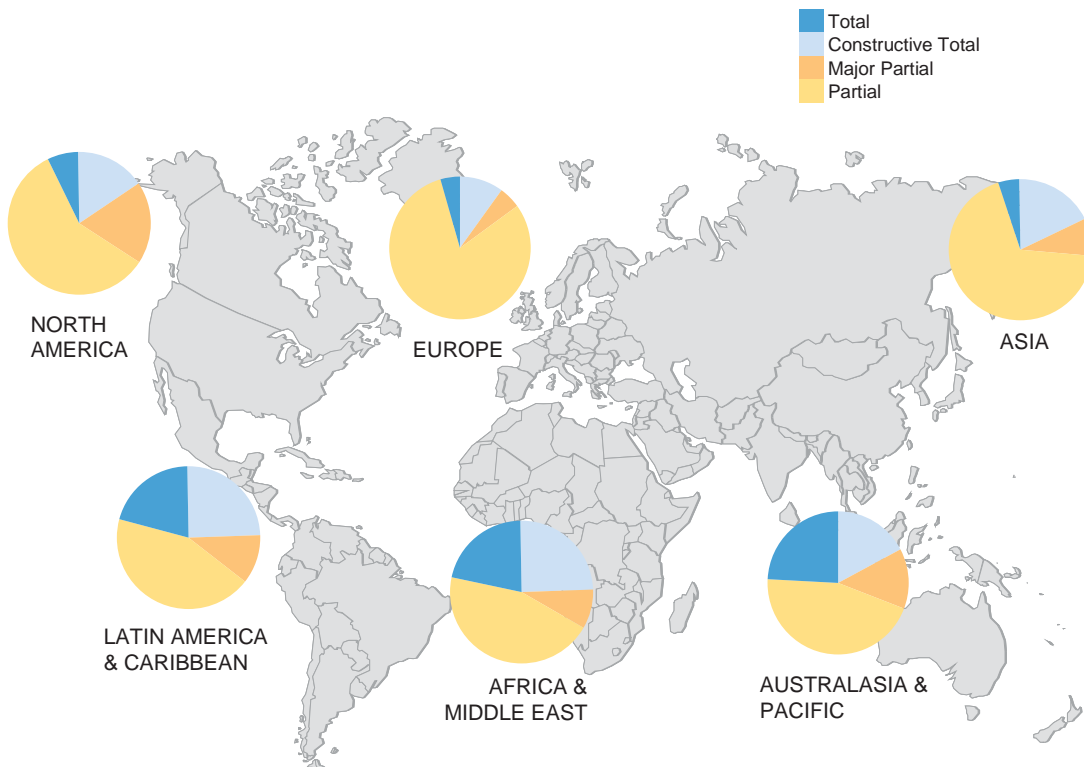


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Regional Trends

Regional Breakdown of Type of Loss for Western Airliners - Last 5 years

By Region of Operator Domicile



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