



JLT Aerospace



PLANE TALKING

SEPTEMBER 2008

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Executive Summary

Financial Market Turbulence

- The news is currently dominated by the profound uncertainties and reduced confidence in the global financial markets, the full effects of which are yet to be determined both on the aerospace and insurance industries.
- Waning exposure growth coupled with the growing number of cessations and failures provides the backdrop of a reduction in exposure over the short to medium term.
- Premiums appear to be holding up and there is a growing sentiment that premium levels need to increase, fuelled by the recent years' loss experience and the general increased uncertainty over future prospects. Despite this we have yet to witness any meaningful withdrawal of offered capacity.
- There is a general feeling of being on the brink of something very significant, but we cannot determine whether this should be regarded as "looking over the precipice" or simply anticipation of "exploring the unexplored".
- Until events unfold further it is business as usual.

Lead Lines

Angus Roberts, Aviation Deputy Underwriter, Syndicate 5000, Travelers Syndicate Management Limited

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Whilst overcapacity and loss experience were drivers in reducing rates over the last few years, growth was most often offered in mitigation.

Capacity clearly did increase in the form of several new competitive insurers since 2005 and exerted downward pressure on rates, and a plethora of new technologies, management and operating systems contributed to improved safety.

However, although growth may have kept premium levels up, the increased attrition and frequency in 2006 and 2007, demonstrate that the notion of increased exposure, as a driver of such rate reductions was stretching the laws of probability too far. Furthermore, and with due respect to victims of any of these recent events, a number of them were very nearly significantly more severe for insurers.

The airline industry is another unfortunate victim of the current economic maelstrom, and for many it will mean the return to lower levels of exposure. If Underwriters wish to maintain overall premium levels, then they can neither afford to cement rate reductions achieved on the back of growth which is now evaporating, nor ignore the premium lost through bankruptcies in the industry. That would just compound the problem.

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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

Editorial Team:

Richard Adams

John Boler

Lucy Potter

Andy Poulton

David Sinnett

Airline Industry News

In September, a serious confrontation between union members and management, production at Boeing has now remained frozen for over three weeks. The stoppage has left a number of 787 test aircraft plus 737s, 747s, 767s and 777s languishing at various stages of assembly at three Boeing facilities in Washington.

The strike by the 26,800 member International Association of Machinists and Aerospace Workers centres on the role of outsourcing responsibilities once held by machinists inside Boeing facilities, and the outcome of the battle is likely to have an impact on the company well beyond the troubled early years of the 787 programme.

Despite the fact that workers have rejected Boeing's offer of a new pay deal, its membership emphasises that the key issue was new contractual provisions that could extend the extensive component outsourcing that characterises the 787 programme.

Start ups

Former Skybus Airlines executives are again attempting to re-launch a low-cost, point-to-point carrier. It has a working title of **jetAmerica**. It is thought that it will launch prior to 2010 and is likely to be based in the Ohio area.

Norwind Airlines, Russia, is due to start operations this month with a Boeing 757-200. The airline has been created by one of Russia's largest travel companies and is based at Moscow's Sheremetyevo airport.

And Closures

- Transatlantic carrier **Zoom Airlines** ceased operations on the 28th August. The airline was based in both Ottawa and Gatwick and offered low-cost services.
- **Futura**, the Mallorca based airline stopped flying on the 8th September to assess its financial position and initiated insolvency proceedings.
- The third largest package tour operator in the United Kingdom **XL Leisure Group** which operates 27 aircraft under the XL Airways banner went into administration on the 12th September. All flights were cancelled and their aircraft grounded. XL operated from a number of UK bases to destinations in the Caribbean, the Mediterranean, North Africa and North America.
- **Dalavia** Far East Airways of Russia stopped trading on September 22nd due to economic problems.

IATA has predicted that airline losses will continue to deteriorate this year and forecasts an overall loss in excess of US\$5 billion. This is based on an average crude oil price of US\$113 per barrel. This is more than double the loss it predicted at its annual meeting in June. It also suggested that about 26 airline carriers have suspended or terminated operations this year.

Orders

Not surprisingly, September has been a quiet month for new aircraft orders. Boeing have added 8 further 787s to a previous order of 16 for Gulf Air and 2 737-800s to a current fleet of 4 737s and 2 A310s for Saga Airlines of Turkey. Airbus have a Memorandum of Understanding for 3 A350-1000 for Air Caraibes, 'becoming the European launch customer for the largest version of the A350 XWB' and have a confirmed order from CIT Aerospace for 10 more single-aisle aircraft.

The regional aircraft manufacturers have also been quiet with Embraer booking a single order from Montenegro Airlines and Bombardier taking orders for 2 Q400s from Croatia Airlines and 4 from Austrian to be operated by Austrian Arrows.

Insurance Market News

Recent events in the financial markets have provided the impetus for some reinsurers to talk of general price hardening and undoubtedly insurers' with imminent reinsurance programme renewals are likely to face a difficult round of negotiations. This will also apply pressure to firm primary rates which have been widely expected to rise given the recent loss history and general financial uncertainty.

The financial turmoil has resulted in a number of downgrades of the ratings of some markets. However, we are still yet to see any significant capacity withdrawals from the market.

Arrivals and Departures

- Glacier Insurance announced the appointment of Greg Dawson as senior aviation underwriter.
- David Sears has moved from Malatier to Swiss Re.
- Doug Ogilvy has left Willis to join Colemont.
- Mapfre Empresas is joining the Global Aerospace underwriting pool with effect from 1st January, 2009.
- Beazley Group has acquired Momentum Underwriting Management

Renewal Analysis

Exposures

September has been an extremely quiet month due to the movement of the renewal dates for a number of airlines. Consequently our numbers are based on a few renewals. The Average Fleet Value (AFV) growth shown has been heavily influenced by just one airline - Lion Air, the fast expanding Indonesian carrier, who's fleet value has increased by a massive 42%. Lion's increase in passenger numbers is mitigated by comparable reduction in expected passengers by Pace and Aeromexico.

Premiums*

Premium for September shows little change over last year due to the vary low level of airline renewals which has resulted in minimal impact on premium movement to date.

Year to Date	Hull US\$ M	Liability US\$ M	Total US\$ M
2007	168.97	291.65	460.61
2008	174.49	298.03	472.52
% Change	3%	2%	3%

*Net of brokerage and at lead terms

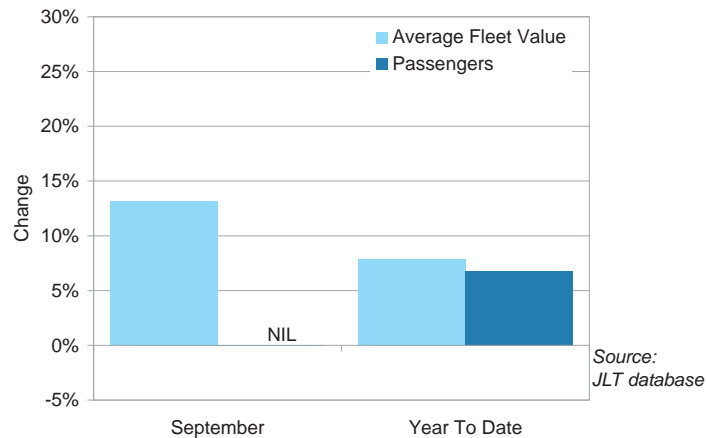
Rates

The overall increased hull exposure, albeit spread over just a few airlines, has provided a moderate rate reduction as would be expected for the disproportionate growth in AFV.

Year on Year % Exposure Change

SEPTEMBER / YEAR TO DATE

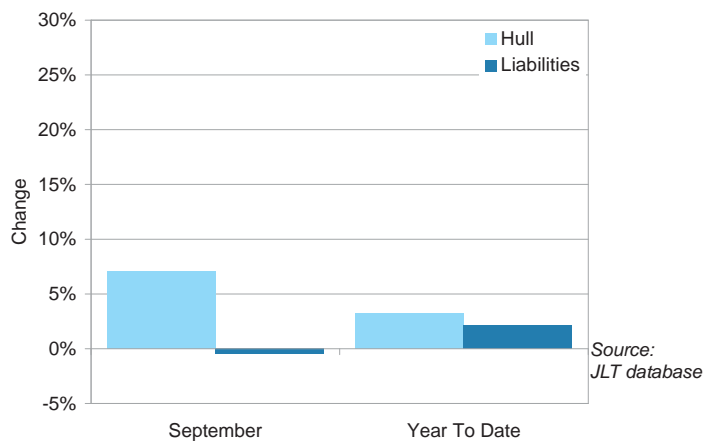
based on Latest Information at 24th September 2008



Year on Year % Premium Change

SEPTEMBER / YEAR TO DATE

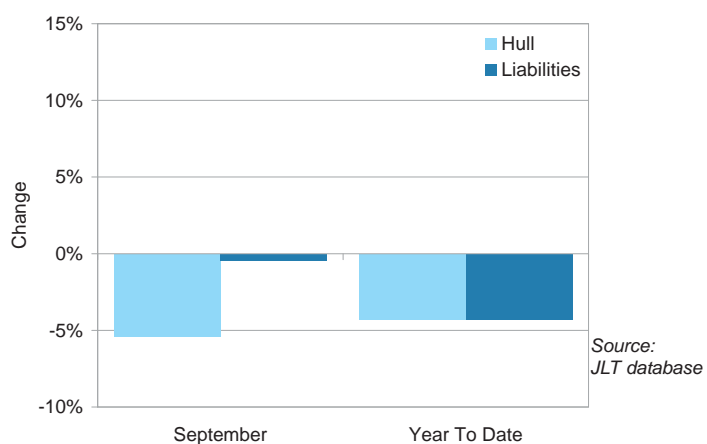
based on Latest Information at 24th September 2008



Year on Year % Rate Change

SEPTEMBER / YEAR TO DATE

based on Latest Information at 24th September 2008



August Loss Update

Hull Losses US\$ M	Liability Losses (JLT Estimate) US\$	Total US\$
20.31	306.90	327.21

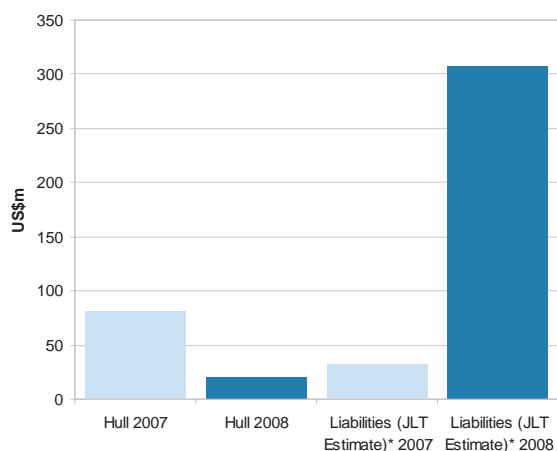
NB The JLT liability estimates are based on our assessment of what we feel is an approximate forecast of what passenger and/or third party reserves might be. These are merely provided as a guide.

September Known Losses of Note

1st	Air Tahoma	Convair 580 (N587X)	USA	No passengers involved	
Crashed whilst returning to the airfield at Columbus-Rickenbacker International Airport following reported technical problems.					
1st	Air Serv International	Beech 1900 C (ZS-OLD)	Congo	15 Passengers killed	Reserve US\$1,750,000
Operating a humanitarian flight, the aircraft crashed into a wooded hill on approach to Bukavu in poor weather.					
13th	MASWings	DHC-6 Twin Otter (9M-MDN)	Malaysia	No fatalities	Hull Reserve TBA
Veered off the runway on landing at Ba Kelalan, striking a small building. Damage unknown.					
14th	Aeroflot Nord	737-500 (VP-BKO)	Russia	82 Passengers killed	Hull Reserve US\$12,000,000
The aircraft crashed on a railway line near Perm, reportedly, after a 'go-around' and, seemingly, with the crew losing spatial orientation.					
22nd	ICARO	F28-4000 (HC-CDT)	Ecuador	No fatalities	Hull Reserve US\$1,500,000
The aircraft ran off the runway at Quito on take-off, down a slope, coming to rest through the airport perimeter fence. The aircraft has been declared a CTL.					

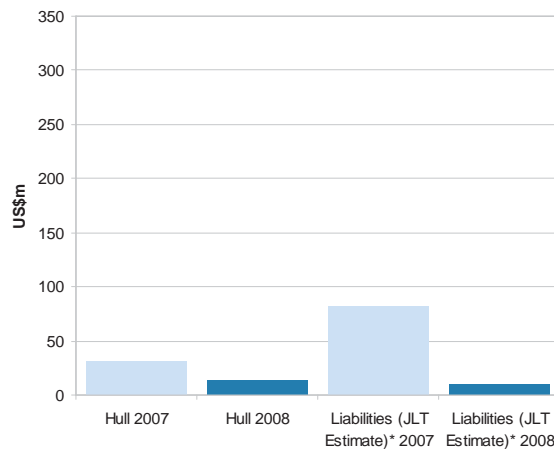
August Losses

All known losses net of deductible



September Losses

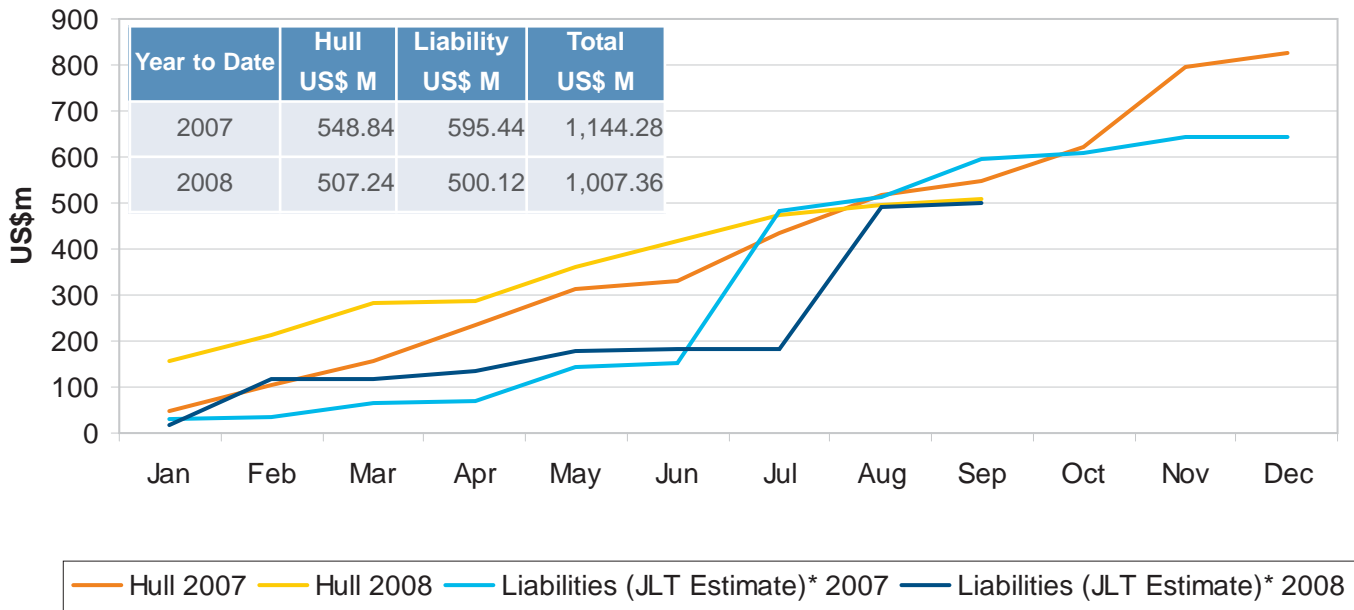
All known losses net of deductible



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Cumulative Airline Loss Figures Year To Date

All known airline losses net of deductible

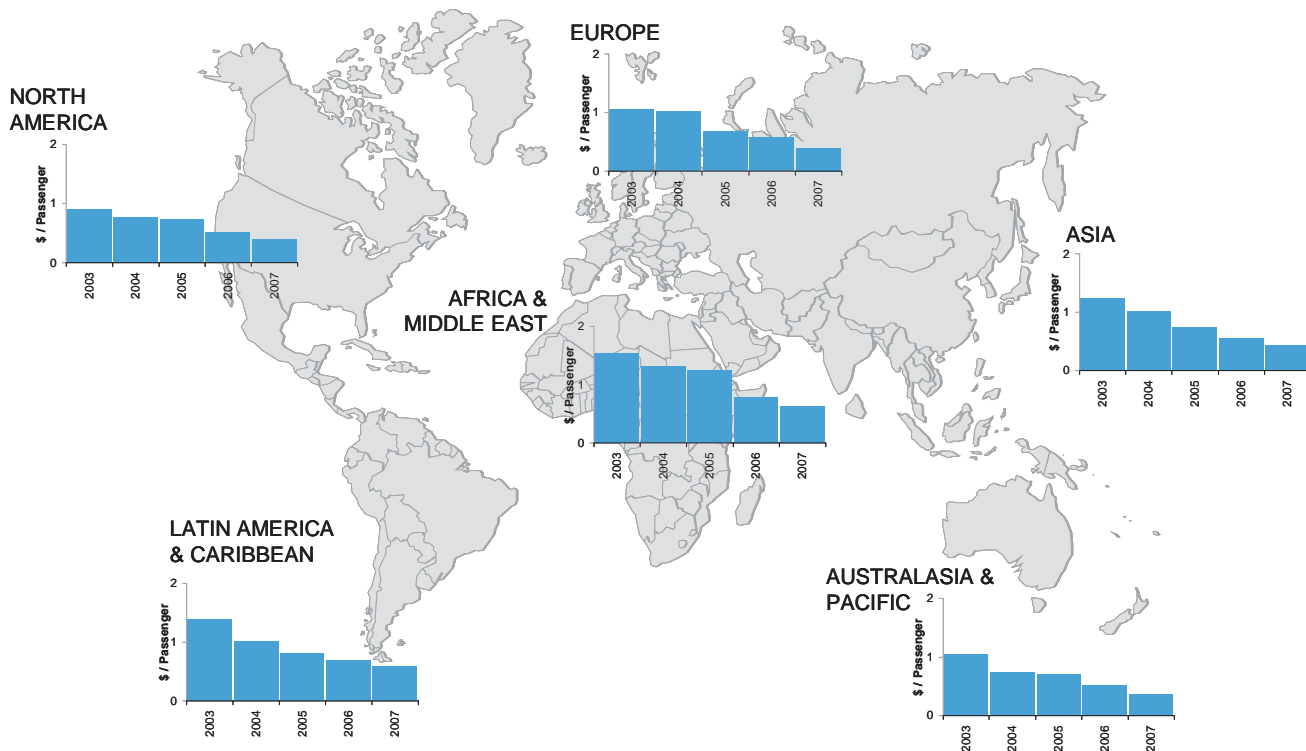


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Regional Trends

Regional Breakdown of Type of Passenger Rate (US\$ per passenger) - Last 5 years

By Region of Operator Domicile



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