

# Plane Talking

JLT AEROSPACE

JUNE 2010

## Executive Summary

### Optimism abounds - but not for everyone

- Green shoots are appearing in the industry with orders and start-ups outweighing the cancellations and closures. This is starting to show through on renewal exposure forecasts.
- Insurance capacity is still holding firm although growing signs of discontent in certain quarters which may ultimately force withdrawal or downsizing capacity for the class.
- Recent market moves may herald another round of musical chairs, particularly within the underwriting segment before the year is out.
- Premium is growing at a slower rate, however it is being fuelled more by exposure increases than rate increases. The US market appears to be entering a very tight renewal month, where markets have indicated inadequate pricing - will their resolve hold?

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## Lead Lines

Olivier Marre, Senior Vice President Aviation, Alterra Capital Europe

“The first of July renewals clearly show an increased downwards pressure on rates and premiums for Airlines,

Aerospace and General Aviation. Not only do leaders offer competitive deals to clients but attempts to increase verticalisation become more and more systematic. The question we all have in the back of our mind is, does this represent a new trend which is likely to continue or just a momentary correction?

At first glance, it seems completely unexplainable just after :

- three years of consecutive losses for the industry
- an exceptional series of catastrophes both in terms of frequency and severity just 12 months ago
- a beginning of the year which has not

been particularly good in terms of accidents in every class of business including exceptional losses in General Aviation

But in fact, there are clearly identifiable underlying reasons for this phenomenon.

Some of them are indeed conjectural, like the fact that the market charged particularly heavy increases after the large losses in June last year and was then not able to sustain the same pattern during the fourth quarter. This has put “summer” renewal clients at a competitive disadvantage compared to the peers renewing later in the year and can explain a short term change in momentum.

Some others are more structural like the over capacity on offer both in terms of insurers and brokers to an ever reducing number of clients in a (Continued on page 3)



# Airline News

## Comment

Despite the fact that there are many airlines still suffering from the general malaise of the industry, some recent announcements have added to the confusion as to the real health of the business.

It is evident that there is a recovery in traffic, up by nearly six percent in the first four months of the year, but this has not translated into universal improvements for every operator. Some of the biggest carriers in the USA and Europe have cultivated serious losses in recent months and are burdened with debt and staff unrest.

Some predict that there will be a swift return to pre-2008 levels of growth and both Airbus and Boeing have said they will be gearing up to increase output of their most popular models in the next few years.

Without doubt the greatest show of confidence in the future has come not unexpectedly from the Middle East where Emirates recently announced the

huge order for 32 additional Airbus A380s. The Dubai carrier signed the staggering USD11.5 billion firm order at the Berlin Airshow where it had also just taken delivery of their 10th of 58 A380s from an existing order. Emirates suggested that in the future it might well have an appetite for even more.

This A380 order, which is the first for the superjumbo in 2010 and comes after several years of slow sales, has met with scepticism in some quarters as observers query the logic of Airbus's over reliance on one market for A380 sales. Airbus counters that Emirates has one of the best managements in the world and questions other airlines as to whether they have duly considered their own fleet strategy.

This sounds alright for Airbus who desperately need orders for their 500 seater, but for the industry there are questions surrounding how Emirates will fill all these aeroplanes. The simple answer seems to be that they will undercut European rivals by adding

huge numbers of seats on the London to Dubai route pushing down fares as capacity increases.

Emirates fares are already typically 25 to 50 per cent cheaper than those offered by European rivals. The additional capacity offered by the A380s could make it increasingly difficult for older flag carriers such as British Airways to compete on certain routes. Analysts believe that there is a new global aviation order emerging in which traditional flag carriers such as BA will have to concentrate on a few profitable routes, such as London to New York.

Predictions are notoriously dangerous in our industry but some analysts are beginning to envisage a quick upturn in 2011 / 12 and suggest there could even be a shortage of aircraft and also in the personnel to service them. Boeing has confirmed that it will follow Airbus's lead with an increase in its single-aisle production, but analysts continue to warn that rates might be too high.

## Start-Ups

- Air Arabia Egypt, Egypt, performed its inaugural flight to Khartoum on 1 June 2010 using an Airbus A320 aircraft. The new Alexandria-based carrier has identified Khartoum, Kuwait, Amman and Beirut as being among its first destinations.
- CargoBIS, Brazil, plans to launch early next month using Boeing 757 freighter aircraft, it is thought, under the AOC of RICO Linhas Aereas, which recently suspended all regular flights, but continues to offer charters, pending a network restructure.
- Nesma Airlines, Egypt, has been established by the Saudi Arabia-based Nesma family of companies. The carrier looks set to launch services early July 2010 using Airbus A320 aircraft. Scheduled and charter services will link cities in Egypt and Western Europe with destinations in the Middle East, and Saudi Arabia in particular.
- Oxygène Airways/Oxygène Afrique, France, will launch operations from Charles de Gaulle Airport on 10 July

2010, subject to the timely receipt of an AOC. The airline will link Paris with African capitals using leased Boeing 767-300 aircraft.

- Whitejets, Brazil, performed its inaugural flight, between São Paulo and Varadero on 12 June 2010, with its first of three Airbus A310-300 aircraft. The carrier will initially fly only to Caribbean destinations in 2010, but plans to introduce services to the US and Europe in 2011.

## Closures

- Brazilian regional carrier Air Minas has announced that it will suspend operations from the 28th May. The regional airline which operated a fleet of six Embraer 120s announced that due to the current competitive environment, it was now unrealistic to compete with levels of pricing that have now reached a point where it is impossible to match.

## Orders

In addition to Emirates' A380 top-up

order related in Industry News, above, Airbus also announced a Memorandum of Understanding (MOU) for orders from TAM in Brazil for 5 A350-900 widebodies and another 20 of the narrow body A320 family. Finnair signed an MOU for 5 A321, the first Airbus aircraft to be built with the 'sharklet' wingtips to reduce fuelburn and improve range. Germania also signed an MOU for 5 A319. Turkish Airlines increased their order book by one A330-200.

Over in Seattle, Boeing announced an order from Luxair for one 737-800 to add to an existing Boeing 737 fleet of three -700s and one -800.

The regional jet market is quiet again though All Nippon Airways have confirmed their order for 15 Mitsubishi MRJ Regional Jets for delivery between 2013 and 2017.

June of even years is typically quiet for orders as the SBAC show at Farnborough, held in July, is the place to make mid-year announcements. With the Emirates A380 announcement, what do Airbus or Boeing have as a trump card?

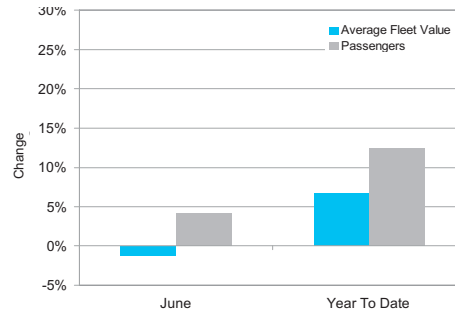
# Renewal Analysis

## Exposures

There is no clear trend presented by the exposure forecasts in June. Some airlines are showing reductions in AFV but this is being offset by others showing growth. EVA air dominates the statistics on passenger exposure with their 10% growth pushing the average up to 4% overall.

### Year on Year % Exposure Change

June / Year to date. Based on latest Information at 25 June 2010



Source: JLT Database

## Premiums\*

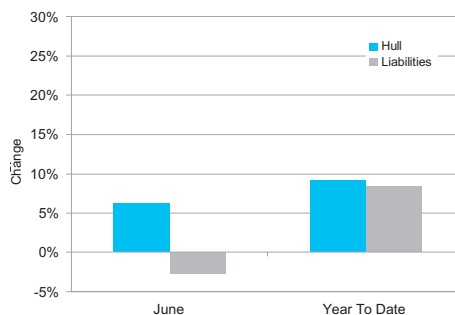
The inclusion of a hull loss AP (additional premium) for one account in June and an adjustment between hull and liability rating on another has pushed up the hull premium whilst suppressing the liability premium for the month.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2009	89	137	226
2010	97	149	246
% Change	9%	8%	9%

\* Net of brokerage and at lead terms

### Year on Year % Premium Change

June / Year to date. Based on latest Information at 25 June 2010



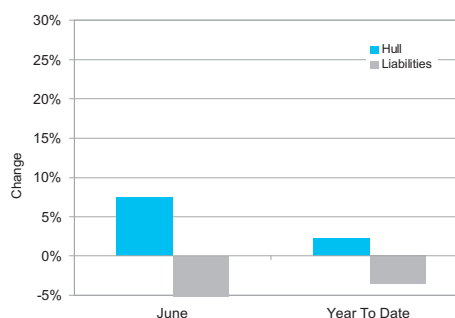
Source: JLT Database

## Rates

The overall trend of small rate reductions continues in June. However, this pattern has been masked to a certain extent by the growth in hull premium on specific accounts as noted above.

### Year on Year % Rate Change

June / Year to date. Based on latest Information at 25 June 2010



Source: JLT Database

## Insurance Market News

Capacity remains strong and in plentiful supply. There have been no significant rating changes amongst the usual aviation markets.

### Arrivals and Departures

- ACE Global Markets (AGM) has appointed Malcolm Brett as product line head of aviation. John Green, former product line head of aviation, will remain with the company as director of aviation.
- Andy Barham, John Cruse, Sean Kelly, Alan May, Bill Smith and Steve Turner have joined JLT Aerospace. In addition, Jonathan Palmer-Brown has joined the JLT Group as a member of the GEC.



## Lead Lines

(continued from page 1)

concentrating world. The extremely soft conditions prevailing in other classes of business can also explain the apparent laxity of underwriters in respect of price levels. Last but not least, the large profits made by legacy underwriters after 9/11 can explain their approach. But the reserves have been drying up for a few years now.

The aviation insurance market needs, like every other market, to demonstrate its ability to generate sustainable profits to those investing larger and larger amounts of capital into it. We are a very small niche activity for the insurance industry and our capital providers will not follow blindly our lack of discipline. Many of the more recent players in the market are still waiting to see a year of profit for the industry. They will not tolerate a collapse in prices even before our industry has been able to demonstrate its ability to charge sufficient level of premiums. That is why it seems unlikely that the July renewals represent an indicator of what to expect for the end of the year. But there is no more difficult exercise than to predict market conditions. Only facts will tell.



# Loss Analysis

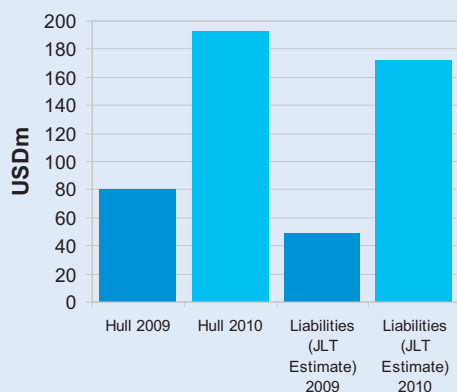
## Losses Summary

### May

- Hull losses of USD192.4m
- 313 fatalities
- Liability loss estimate USD172m

#### May Losses

All Known Losses Net of deductible

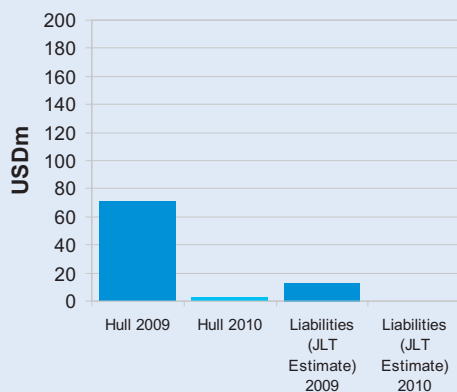


### June

- Hull losses are uncertain but not significant
- Nil airline fatalities
- Liability loss estimate Nil

#### June Losses

All Known Losses Net of deductible



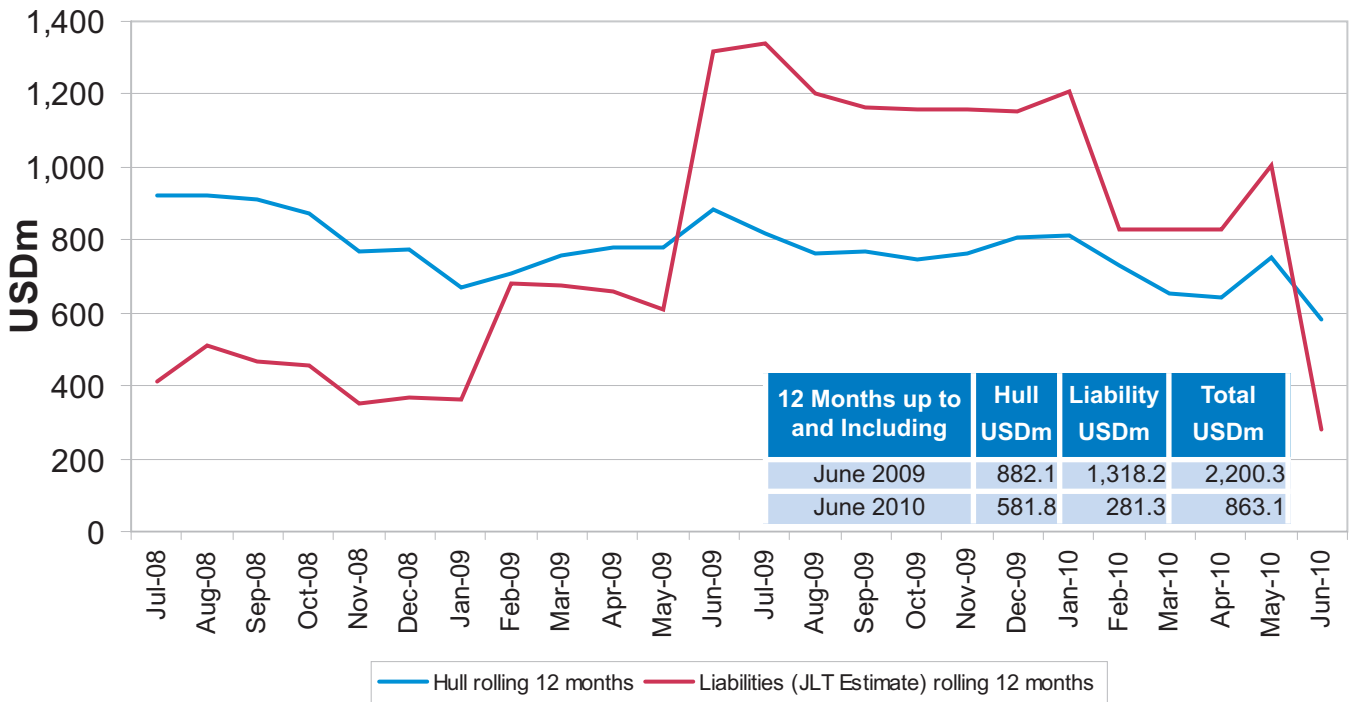
## Known Losses in June

3rd	National Airlines (leased from Transafrik)	Lockheed L100-30 Hercules (S9-BAT)	Afghanistan
In an apparent heavy landing at Sharana Air Base, the aircraft came to rest beside the runway with the undercarriage pushed up into the wheel wells and a propeller separated from the engine.			
16th	Trans States Airlines	Embraer 145LR (N857HK)	Canada
On landing at Ottawa on a flight from Washington DC, the aircraft failed to stop, overrunning the runway and causing the nose undercarriage to collapse.			
21st	Hewa Bora Airways	Douglas MD-82 (9Q-COQ)	PDR Congo
The aircraft had a tyre blow out on takeoff from Kinshasa causing damage to the aircraft. On return to the airfield, the nose undercarriage could not be lowered and the aircraft departed the runway coming to rest on soft ground.			

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

# Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to June, 2010

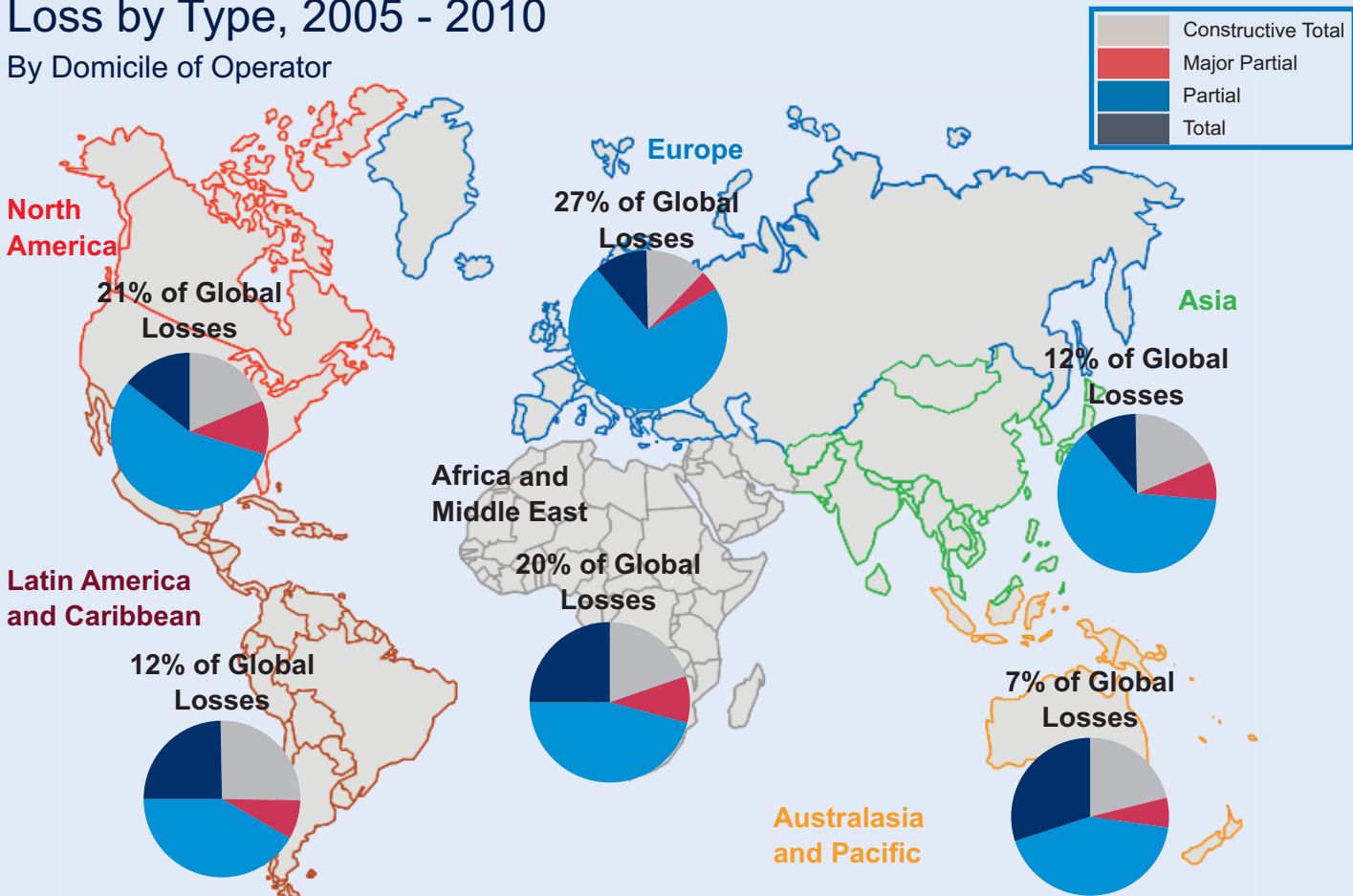


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## Regional Chart

Loss by Type, 2005 - 2010

By Domicile of Operator



# PlaneTalking

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