



# JLT Aerospace



## PLANE TALKING

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#### Editorial

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### Comment

#### Fair exchange?

We are now two months into 2007 and naturally the airline insurance market is very quiet. There are few renewals and following the trend of recent years, claims have been limited despite the Adam Air disaster at the very beginning of the year.

Margins have been falling in dollar terms since the peak following the aftermath of 9/11 and rates continue to fall. There is no end in sight here without a dramatic catalyst.

So why?

Much has to do with the pure exchange value of the US dollar.

It is this currency that the aviation market has adopted as its standard. If you deal purely in US dollars then the effect is neutral. Otherwise there is an adverse affect on premiums in that the US dollar is worth less.

However, there is a very positive effect. The value of claims, particularly the biggest of all, 9/11, are almost entirely valued in USD.

So in Euro terms the current outstanding reserved losses for 9/11, of approximately \$3.5 billion, would have been valued at € 4.1 billion in 2001 but now stand at only €2.7 billion. For the insurers underwriting in pounds sterling, the outstanding loss has diminished from £2.5 billion to £1.8 billion. Thus the worst aviation loss in history has diminished in many insurers' books. At the same time the loss remains essentially unpaid.

Provided premiums earned each year continue to outweigh claims, then the financial market features, that so highly influence insurance, will continue to provide an environment where minimal margins today can outweigh the boost that 9/11 gave to insurers' basic income.

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## January Renewals

The number of airlines renewing in January represents one of the quietest periods of the year compared to the magnitude of business produced over the last few months, especially December. Of the half-dozen placings one is of particular note and worth recording in our statistics.

Far Eastern operator and flag carrier Vietnam Airlines continues its long-term plans for growth and yet again has shown increases in its fleet value and revenue passenger exposures. Their fleet is now valued at over US\$2 billion and passenger numbers continue to climb with a projected increase for the next 12 months of 15%. The airline is committed to rapid growth over the next few years and has ambitions to increase its fleet by 50% by 2010. The carrier also aims to greatly expand its network with more destinations in Europe, Asia and its first flights to the USA.

Any comment on premium movements would be meaningless at this stage.

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## February Renewals

Another very quiet month ensues for airline renewals in part due to the movement of at least one operator. Tarom, the flag carrier of Romania, extended its insurance policy by three months to 1<sup>st</sup> May leaving just one participant of any note for February – Mytravel. The UK inclusive tour (IT) airline has a fleet valued at over US\$1.7 billion with 5.5 million passengers carried annually. It was recently announced that it had agreed to a merger with rival Thomas Cook and will create the biggest IT company in Great Britain. The tie-up will eventually involve their insurance placing coming together and this will likely occur later in the year. This combined grouping will have a fleet of 97 aircraft and puts the operation on a similar scale to major rival TUI.

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## Loss Analysis

2007 began on a disappointing note with the mysterious disappearance of a passenger jet over Indonesia with 96 passengers and six crew on board. The **Adam Air** Boeing 737-400 reg PK-KKW was en route from Surabaya to Manado on January 1<sup>st</sup> when radar contact was lost about one hour after departure. The aircraft was flying at 35,000 feet and no distress call was issued. The weather at the time was reported to be stormy with heavy rain and strong

winds.

It took over ten days for fishermen to discover pieces from the aircraft in the sea off the coast of Parepare, a city on the south-west coast of Sulawesi, and radar confirmed wreckage at a depth of 1,500 metres. The aircraft was insured in London for US\$20 million.

An **Aeriantur Airlines** AN-26 reg ER-26068 crashed 1.5 miles short of the runway at Balad, Iraq on the 9<sup>th</sup> while attempting its second approach in foggy conditions. The aircraft was operating a flight from Adana in Turkey and up to 30 people are reported to have been killed. Insured value was US\$200,000.

Also on the 9<sup>th</sup> a Jetstream 31 reg C-FBIP belonging to **Peace Air** of Alberta veered off the runway during a blizzard while landing at Fort St John, BC. The two crew and 10 passengers were not injured in the accident but the aircraft, valued at US\$1,025,000, was substantially damaged and declared a CTL.

A Boeing 737-200 reg PK-RPX belonging to **RPX Airlines** veered off the runway on landing at Kuching, Malaysia on the 13<sup>th</sup> and spun through 180 degrees before coming to rest on a grassy area beside the runway. Severe damage occurred when the main undercarriage collapsed and both engines were torn off. Both wings and flaps also suffered substantial damage. Valued at US\$3 million, the aircraft is a total loss.

**Air Nostrum** suffered two accidents in consecutive days when one of their Dash-8 300Q aircraft reg BH-DMU landed with its gear up at Barcelona on the 23<sup>rd</sup>, resulting in damage estimated at US\$150,000. The next day one of their CRJ-200ER regional jets reg EC-IBM also on approach to land at Barcelona suffered a problem with the undercarriage mechanism and during the ensuing emergency landing the entire landing gear collapsed causing significant damage. Two passengers were injured in the evacuation. Cost of repairs are estimated at US\$4,000,000.

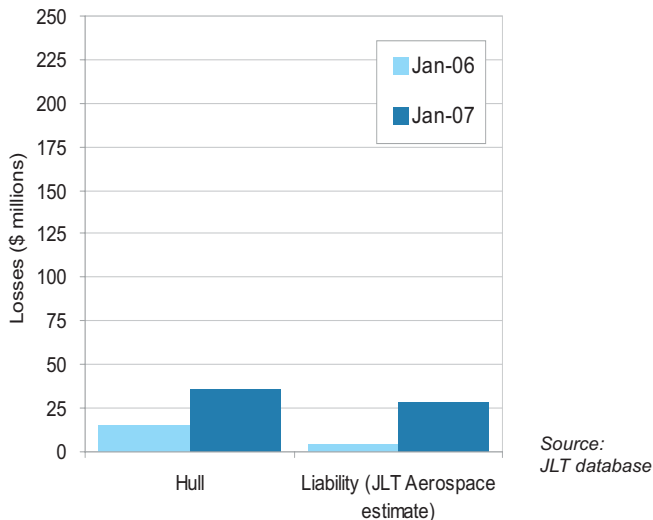
On the 25<sup>th</sup> a **Regional – Air France** Fokker 100 reg F-GMPG crashed during an attempted take off from Pau-Pyrenees airport in southern France. Immediately after lift off the aircraft was unable to gain sufficient height and contacted the runway where it overran, eventually ending up 1,600 feet into rough ground, killing the driver of an airport vehicle. Both main landing gear assemblies were torn off along with damage to both wings. Insured for US\$6,250,000 the aircraft is a constructive total loss.

Also on the 25<sup>th</sup>, a **Mesa Airlines** Canadair Regional Jet CRJ 200LR reg N17337 suffered catastrophic engine failure to the port engine while climbing through 24,000

feet during a flight from Denver to Phoenix. The aircraft returned to Denver and landed safely. Damage is estimated at US\$1,850,000.

Accumulated hull losses for the month total US\$36,480,000 with estimated liabilities of US\$28,850,000 giving a total of US\$65,330,000.

### January Losses



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## Insurance Industry News

We are now entering the sixth year for airline renewals since the biggest ever upset to the insurance cycle created by the cataclysm of 9/11. Underwriters response to this unprecedented upset was swift and punitive in order to address the potential of multi-billion dollar claims. Now that a stable equilibrium has been established and we can look upon the market in terms simply of supply and demand, the obvious question is whether things will revert to what was happening at the turn of the decade.

It would be hard to imagine that insurers will ever allow premiums to fall to such an extent that would jeopardise their integrity and leave investors questioning their involvement in this sector of the insurance industry. Although income has fallen every year since 2002 leaving the smallest gap so far between premiums and claims, the nature of capital providers has changed dramatically, with far bigger individual units providing not just the monetary investment but with a much louder and stronger voice than in years gone by.

It seems unlikely that under the current stable trading conditions much will change in the short term. The main renewal season has come and gone and with it the influence to drive the market in a different direction. Losses continue into February at a sustainable level and an abundance of capacity suggests there is no need at this stage to steer a change of course.

## Arrivals and Departures

Neil McGilchrist, formerly Chairman of Beaumont & Son, is joining the Aerospace team at Barlow, Lyde & Gilbert.

Andy Pickford is moving from Airclaims' London office to join the company's team in Singapore.

Airclaims' Neil Smith has been appointed Regional Director for the Asia Pacific region, being responsible for the offices in Australia, New Zealand and Singapore plus the representative offices in Indonesia and India.

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## Airline Industry News

As we reported last month the aviation airline insurance premium base fell substantially in 2006 on top of the reductions seen since 2002. Conversely, the world's airlines have, over the same number of years, gradually traded through some extremely difficult commercial conditions. They are now emerging into the new-year in an almost financially break-even situation for the first time.

In fact, if it were not for the parlous state of two bankrupt major carriers in the US that required substantial restructuring costs amounting to US\$6 billion then the whole industry would have been in profit. This is regarded as a substantial achievement considering the inflated cost of oil that is expected to have averaged US\$66 a barrel for 2006, increasing the fuel bill for airlines by 23%. It is expected that airlines will make a profit of US\$2.5 billion in 2007.

The underlying trend for this positive orientation is based upon a steady and strong continued improvement in the number of people flying. Conservative estimates now put this figure at around 6,300,000 passengers flying every day and represents an improvement in revenue passenger kilometres over 2005 of 5.9%.

The busiest route in the world was Barcelona to Madrid with the longest being flown by Singapore Airlines with an A340-500 between New York and Singapore with an elapsed time of 18 hours and 40 minutes over a distance of 9,523 miles. The shortest was between Papa Westray and Westray in the Orkney Islands with a flight taking under three minutes. It is operated by Loganair using a Britten-Norman Islander and covers just nine miles.

In direct response to this increased traffic, the two major aircraft manufacturers reported another good year for orders with Boeing steaming ahead of Airbus with 1,044 (1,002 in 2005) against the European rival on 824 (1,111 in 2005). Boeing's success is on the back of strong and

continued appeal for its 737 narrow-body plus the new wide-body 787 Dreamliner due to begin production this year and enter service next May. The revolutionary 787 due to fly in about eight months time has given Boeing its fastest selling twin-aisle aircraft ever with current orders and commitments at 471 from 38 customers. The launch of this aircraft for Boeing is crucially timed and represents a very significant advance in aircraft design with up to 50% of the main structure being made of carbon composite materials, giving savings of as much as 20% in fuel consumption over similar aircraft.

It is estimated that Boeing's overall outstanding order book is valued at US\$114 billion representing a backlog of 2,455 aircraft.

Even the 747 has shown resurgence with both the -400 series (freighter) plus the new -8 (freighter and passenger) providing 72 orders, the strongest performance since 1990.

Airbus, although coming off second best on orders, delivered 36 more aircraft than Boeing in 2006 at 434, and made Airbus the leading commercial jet maker in terms of delivery for the fourth year.

It should console itself with the fact that towards the end of the year, two much needed follow-on orders were received for the troubled A380 from Singapore for an additional nine plus a further six options and another eight from Qantas, bringing the Australian carrier's total order to 20 aircraft. Unfortunately, FedEx and Emirates cancelled their orders for A380 freighters earlier in the year along with deferrals from Virgin and ILFC. Singapore is due to receive its first A380 this October, two years behind schedule. The total jet backlog for commercial customers as at the 1<sup>st</sup> January is at a record 5,484 representing an increase of 1,067 over a year ago. Unlike Boeing, Airbus has an inherent cultural problem that has recently come to a head and shown the marked difference between two specific nations. This is just what Airbus could do without right now, adding to its production problems with the new A380.

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## And finally...

### Not exactly a textbook landing...

Thankfully aircraft ditchings are a fairly rare occurrence, but still something that is briefed as part of a pilot's training. There are established procedures for various aircraft types that have stood the test of time (and water) and which pilots are expected to follow. Thanks to Azlan Yazid, there now appears to be another viable option available to pilots of light aircraft – the 'Don't wait until it stops' approach.

Azlan is a student in Malaysian Airlines' training programme and was recently flying solo in a Diamond DA40 aircraft when it developed engine problems over the sea south of Palau Aman. After making a distress call and reviewing his options, he prepared for a rather unorthodox ditching.

As the aircraft neared the water (and despite the aircraft's forward-opening canopy), Azlan climbed out onto the aircraft's wing and then jumped off just before the aircraft hit the sea.

The lucky young pilot was none the worse for his adventure but we doubt if his novel technique will find its way into the airline's Standard Operational Procedures (SOP) Manual...

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# Launch Log

## February Launches

### February 15

Site: Cape Canaveral

Vehicle: Delta 2-7925

Payload: Themis SC1

Themis SC2

Themis SC3

Themis SC4

Themis SC5

### February 27

Site: Baykonur

Vehicle: Dnepr 1

Payload: TerraSAR-X

### February 28

Site: Kourou

Vehicle: Ariane 5ECA

Payload: Skynet 5A

Insat 4B

### February 28

Site: Cape Canaveral

Vehicle: Atlas 5/551

Payload: NRO L-30R

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