



# JLT Aerospace



## PLANE TALKING

DECEMBER 2008

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## Executive Summary

### Waiting and Watching

- IATA predicts another difficult year in 2009, including a 3% drop in passengers.
- Exposures appear to continue growing based on renewals to date, however this is the effect of anticipated deliveries from orders placed previously and are masking the likely near term reality.
- Market uncertainty pervades and external pressures are becoming the key driving factors of behaviour with capital preservation at the core of current strategy.
- Business plans and pricing models at Lloyd's continue to be scrutinised. It is likely that we will see some minor changes at Lloyd's syndicates. There is the possibility of modest new capacity entering the class and with no known major reductions this will ensure that competitive pressures are maintained well into 2009.
- There has been the usual few movers around the market but nothing substantial and it appears that most markets are adopting a "wait and see" stance.
- Premiums are rising modestly, primarily driven by exposure increases rather than rate hikes.
- Losses for the year continue to trail 2007 and despite the recent Continental 737 loss at Denver International, maintain their track below the longer term historical averages.

### 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](mailto:lucy.potter@jltre.com)

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Nigel Weyman, Chairman JLT Aerospace



Perhaps at no other time in the history of aviation insurance have the respective priorities of both clients and insurers been more aligned, the common focus being capital preservation.

The significant uncertainties on a global scale will ensure that 2009 will continue to present major challenges for all but I am confident that our market will endure, emerging from the current turmoil in rude health, although not necessarily completely in its current form.

Notwithstanding, let us jointly hope for another year of below long-term average losses and on behalf of all of us at JLT Aerospace, may I send our readers Season's Greetings and our best wishes for a healthy, prosperous and successful 2009.



# Airline Industry News

All the while politicians and planners argue over the possibility of a third runway at Britain's premier airport, Heathrow, three new runways were opened at major US commercial airports on November 20th. Secretary of Transportation, Mary Peters, flew across the country to open each one in turn. She began with runway 01L/19R at Washington/Dulles International - its fourth, before proceeding to Chicago/O'hare to open runway 09L/27R, its eighth. Finally she went to Seattle/Tacoma for the opening of runway 16R/34L - its third.

The International Air Transport Association (IATA) has issued a bleak set of figures for the industry with a prediction of a US\$2.5 billion loss for 2009. All regions, except the US are expected to report larger losses than in 2008.

Industry revenues are expected to decline to US\$501 billion. This is a fall of US\$35 billion from the US\$536 billion in revenues forecast for 2008. This drop in revenues is the first since the two consecutive years of decline in 2001 and 2002.

Yields will decline by 3% (5.3% when adjusted for exchange rates and inflation).

Passenger traffic is expected to decline by 3% following growth of 2% in 2008. This is the first decline in passenger traffic since the 2.7% drop in 2001.

Cargo traffic is expected to decline by 5% following a drop of 1.5% in 2008. Prior to 2008, the last time that cargo declined was in 2001 when a 6% drop was recorded.

The 2009 oil price is expected to average US\$60 per barrel for a total bill of US\$142 billion. This is US\$32 billion lower than in 2008 when oil averaged US\$100 per barrel.

IATA also updated its forecasts for 2008 to a loss of US\$5 billion. This is a slight improvement from the US\$5.2 billion loss previously predicted in September, and primarily due to the rapid decline in fuel prices.

Special note was made of the continuing contraction of air cargo traffic that started in June 2008, with emphasis on the fact that air cargo comprises 35% of value of goods traded internationally. The 7.9% decline in October seems to be a clear indication that the worst is yet to come - for airlines and the slowing global economy.

## Start ups

- There has been virtually no start-up activity during December except for two separate Chinese cargo operators, Changlong and SF Express, which have been granted "in-principle" approval by the local aviation authority.

## And Closures

- European Aviation, an ad-hoc charter operator from

Bournemouth, entered bankruptcy on the 30th November and called in the receivers. They operated a fleet of four Boeing 737-200s.

- LTE International Airways of Spain is believed to have collapsed for a second time recently.
- Flightline Ltd., a wet-lease operator of Southend, ceased trading and went into administration on the 3rd December having operated a fleet of nine BAe 146s and three MD80s.
- Okay Airways a budget airline of China, suspended operations on the 6th of December.
- Yeongnam Air of South Korea stopped trading on the 11th December.
- Air Europe Italy is believed to have suspended operations in the first week of December.

## Orders

Few orders have been announced this month with only an undisclosed order for the 787 adding to the widebody ledger.

Narrowbodies have a slight net increase with Uzbekistan Airways signing for a further 4 A320s to make a 10 aircraft fleet. In the opposite direction, Kingfisher Red (Air Deccan) have cancelled 3 of their orders for the A320.

Embraer have fared better this month, booking orders from BA CityFlyer for 6 Emb170 - 76 seats and delivery from 2nd half of 2009 - and 5 Emb190SR with 98 seats. Globalia have ordered 6 additional Emb195s for its Air Europa subsidiary and will be the first operator to utilise the aircraft in a single-class 122 seat layout. One of the original Globalia Emb195 order has been sold prior to delivery to Arkia of Israel.

In the turboprop market, ATR have signed up Vietnam Airlines for a further 6 ATR72-500 for a fleet of 14 such aircraft by 2010.

## Insurance Market News

Standard and Poor's (S&P) have downgraded the financial strength rating of XL Capital Group's key (re)insurer subsidiaries from A+ to A although the rating agency believes that XL has strong liquidity.

## Arrivals and Departures

- James Weigall has been appointed at AIG to look at GA business
- Brian Moore has returned from retirement to take a position at HSBC
- David Reed and Mark Walters have resigned from Marsh

# Renewal Analysis

## Exposures

The largest placement of the year by average fleet value (AFV) is now CAAC (Civil Aviation Administration of China) which also shows the largest growth with a massive AFV increase of over \$6bn (14%). Once again, this is the effect of earlier orders being delivered. In the same way we saw last month, this has affected the figures pushing up the hull exposure growth which is in contrast to the change in passenger exposure which perhaps reflects more closely the current industry conditions.

## Premiums\*

As expected, December, the largest renewal month of the year has crystallised the pattern shown in the latter half of this year with premiums up despite the economic situation and the slowing in exposure growth.

Year to Date (Like for Like)	Hull US\$ M	Liability US\$ M	Total US\$ M
2007	453.08	944.28	1397.35
2008	478.92	987.74	1466.66
% Change	6%	5%	5%

\*Net of brokerage and at lead terms

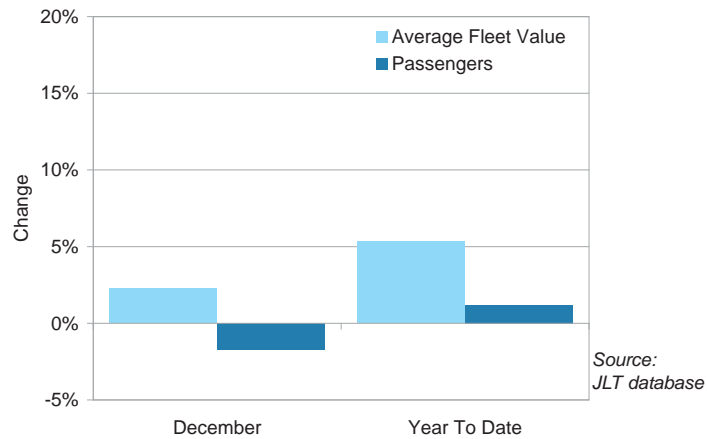
## Rates

Clearly individual accounts are still getting very tailored treatment in the market. Underwriters are maintaining their pressure on loss active accounts whilst allowing quality accounts, that are still showing growth, to maintain premium through exposure growth rather than by increasing the rate. This explains the disparity between hull and liability rate changes shown here.

### Year on Year % Exposure Change

DECEMBER / YEAR TO DATE

based on Latest Information at 23rd December 2008

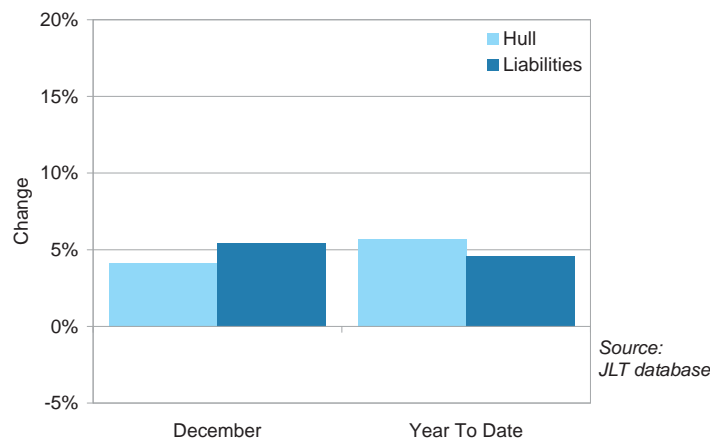


Source: JLT database

### Year on Year % Premium Change

DECEMBER / YEAR TO DATE

based on Latest Information at 23rd December 2008

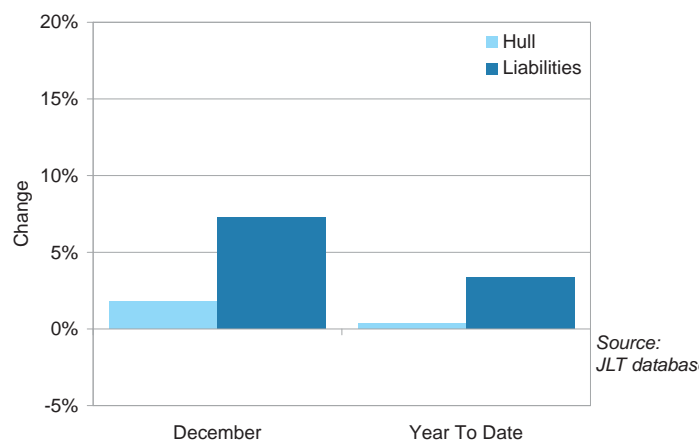


Source: JLT database

### Year on Year % Rate Change

DECEMBER / YEAR TO DATE

based on Latest Information at 23rd December 2008



Source: JLT database

# November Loss Update

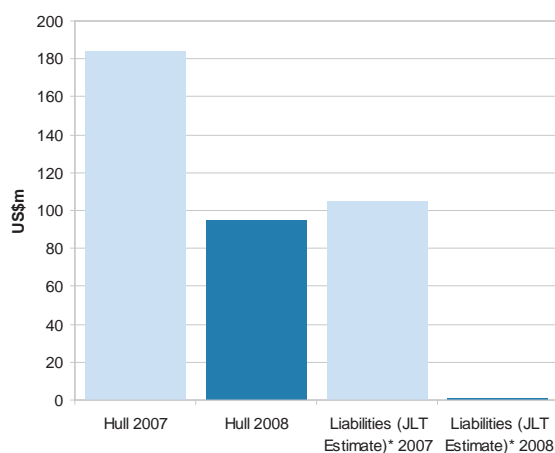
Hull Losses US\$ M	Liability Losses (JLT Estimate) US\$ M	Total US\$ M
94.33	0.50	94.83

*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.*

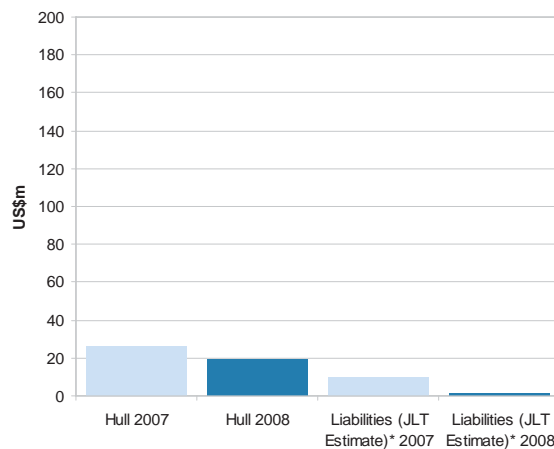
## December Known Losses of Note

14th	Summit Air Charters	Dornier 228-202 (C-FYEV)	Canada	No fatalities	Hull Reserve TBA
On final approach to Cambridge Bay, NU, in night, VFR conditions, the aircraft struck the ground approximately 1.5NM short of the runway threshold and was substantially damaged. Minor injuries were reported to one passenger and one crew member					
14th	Air Wisconsin	Bombardier CRJ-200LR (N407AW)	USA	No fatalities	Hull Reserve TBA
The aircraft landed at Philadelphia International with the port undercarriage retracted substantially damaging the port wing. The undercarriage failed to extend with several attempts made.					
19th	Air Vanuatu	Britten-Norman BN-2A Islander	Vanuatu	No passenger fatalities	Hull Reserve TBA
The aircraft struck mountainous terrain in poor weather conditions. All passengers were airlifted by helicopter off the mountain but the pilot died in the crash.					
20th	Continental Airlines	B737-500 (N18611)	USA	No fatalities	Hull Reserve US\$19.376
The aircraft ran off the runway at Denver International causing the undercarriage and an engine to be ripped off and the fuselage to break in two. All 110 passengers and 5 crew escaped with up to 50 people being taken to hospital, some with critical injuries. Early reports suggest the crew had aborted the take off but had a brake problem.					

**November Losses**  
All known losses net of deductible



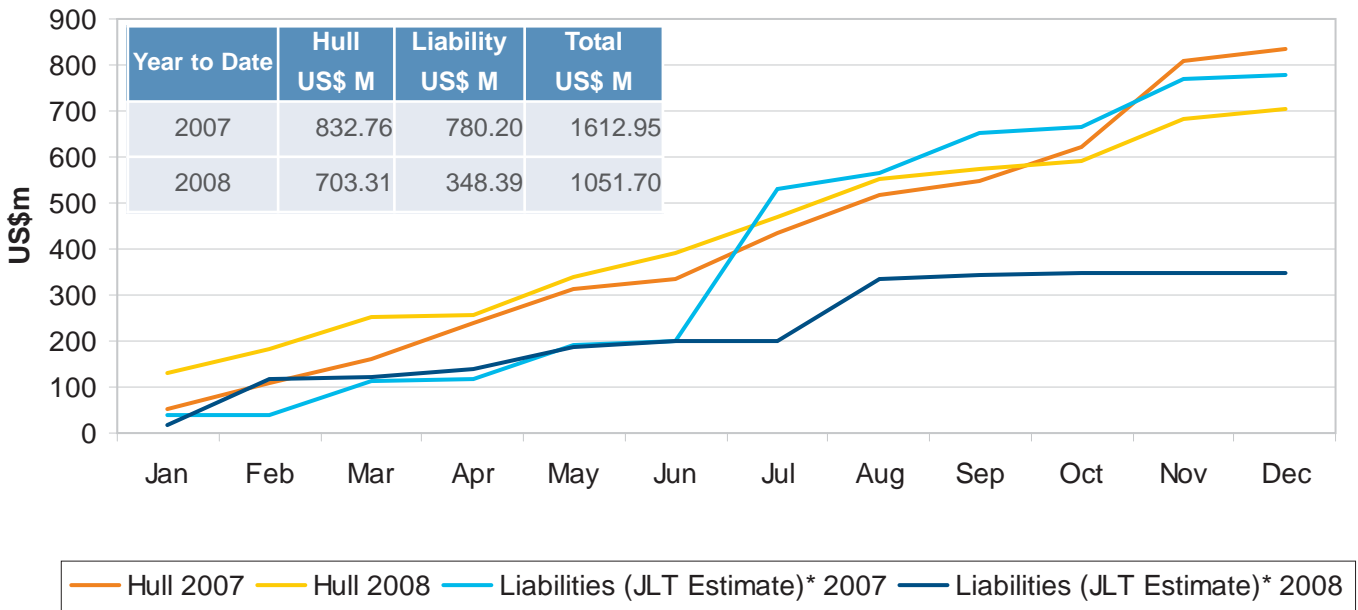
**December Losses**  
All known losses net of deductible



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## Cumulative Airline Loss Figures Year To Date

All known airline losses net of deductible

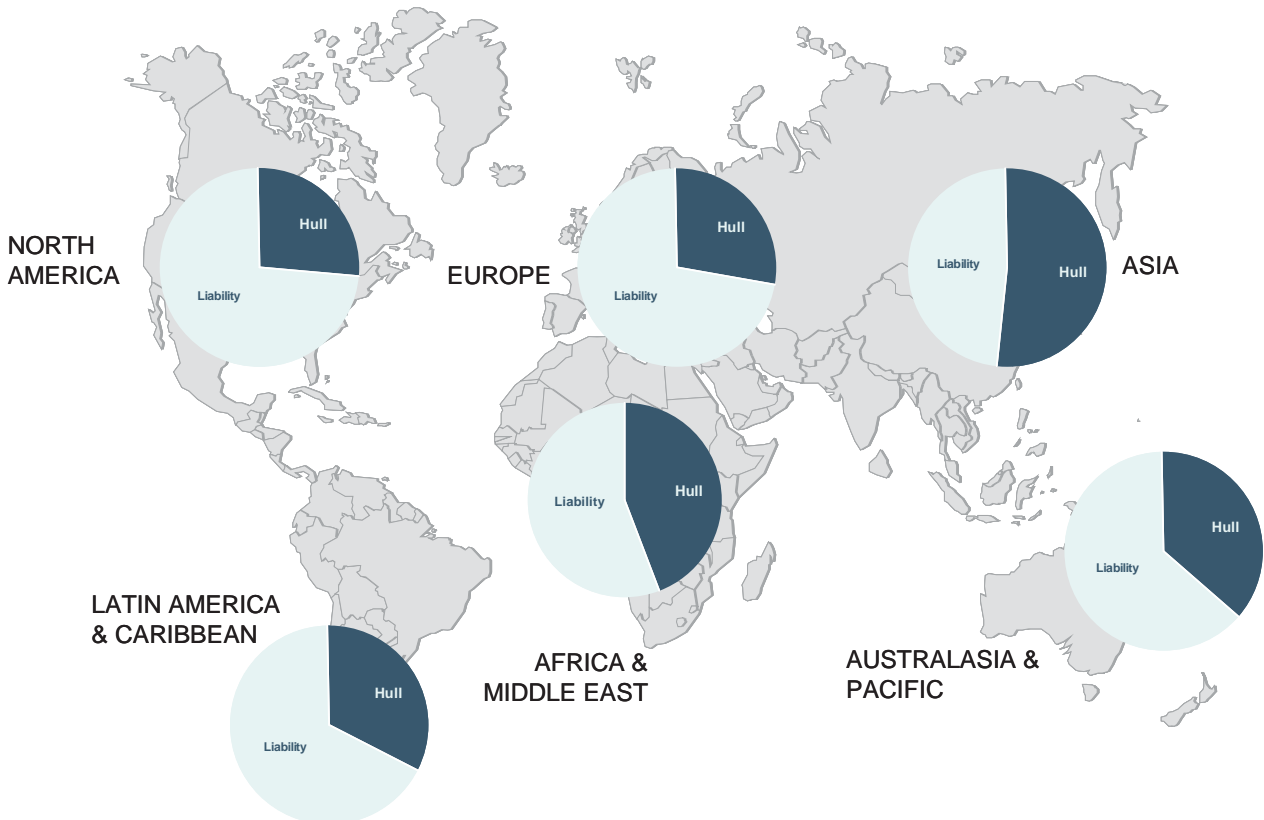


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### Regional Trends

#### Regional Split of Hull versus Liability Premium - Average over last 5 years (2003 - 07)

By Region of Operator Domicile



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