



JLT Aerospace



PLANE TALKING

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In this issue

Comment	1
February Renewals	2
March Renewals	2
Loss Analysis	2
Insurance Industry News	3
Arrivals and Departures	3
Airline Industry News	4
And finally...	5
Launch Log	6

Editorial

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Comment

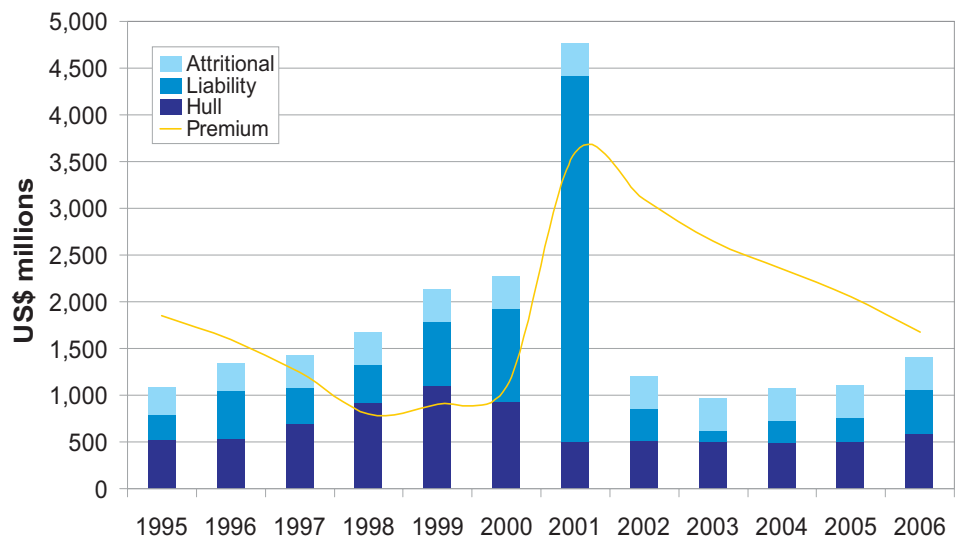
Looking Towards An Uncertain Future

In purely numerical terms we have seen five consecutive profitable years in the airline insurance market. This has produced, for Hull and Liability, a cumulative surplus of around US\$6bn. Add to this the surplus in the Excess Liability War sector, also US\$6bn and all seems very satisfactory if you are an airline underwriter.

Not unsurprisingly we have seen a marked influx of capacity particularly in the past 15 months. This new capacity has naturally put even greater pressure on premium and rates.

Whilst claims have been light they have been rising, gradually but inexorably, for the past four years and at the same time the erosion of the premium base has accelerated.

Total Market Losses and Premium



In the past it has taken years of market “insolvency” - that is where premium levels have consistently been greatly exceeded by major claims - before there was a change in the market cycle.

This year there have been some serious losses but none have yet been of sufficient monetary impact to alter the way insurers conduct their underwriting.

April is the first major multiple renewal month for insurers and “rumours” suggest that rates continue to fall unabated.

It therefore does not take too much imagination to draw the 2007 entries on the chart. A 20% fall in premium and a 10% rise in losses will produce a technical loss even if we add in the predicted premium for liability war risks.

Will this prove sufficient for change to occur or will we need to endure a repeat of the scenario of the 1997 to 2000 years?

[Back to top](#)

February Renewals

There is just one airline that figures in our calculations for this month due to two others moving their renewals forward. Varig has now been extended to March. Taron originally planned to extend its policy to February but now looks likely to move to the beginning of May.

This leaves MyTravel on its own as the only sizeable airline renewing in February and following its recently announced merger with Thomas Cook will probably be included in its new parent’s renewal going forward, which is expected to be in December. The new company will be called the Thomas Cook Group PLC and the merger should be completed by May/June. The announcement came as a surprise to many in the aviation and tourism industry as Mytravel had been widely rumoured to be investigating a tie-up with UK travel company First Choice.

However, for now it remains autonomous with a fleet valued at US\$1.6 billion, down slightly on last year. The projected passenger numbers are also down and should be in the region of five million.

On a par with January, the lack of meaningful renewals means there is nothing to be gauged from airline renewal activity so far this year.

[Back to top](#)

March Renewals

Although there are only four airlines of consideration this month this is substantially more than that seen so far this year. By far the largest will be the VRG programme which includes Varig and Varig Log. Varig the principal air carrier of Brazil has an all Boeing fleet valued at US\$3.8 billion. It is difficult to judge the exposures for the forthcoming renewal as it has been through a period of transition recently. Originally scheduled to be renewed in February it has been extended to the middle of March.

Air Nostrum from Spain is the next biggest with a fleet valued at around US\$1 billion with passenger numbers of 5 million. This is a regional operator with a small fleet of jets and turboprops. The other two are the Thai regional operator Bangkok Airways and flag carrier Iran Air.

[Back to top](#)

Loss Analysis

Out of the 16 incidents recorded in our statistics, 13 of them were aircraft either struck by airport vehicles of some sort or overruns that resulted in relatively minor damage. The rest were also ground related incidents of varying proportions, the first occurring on the 4th when a DC8-71F belonging to Tampa Colombia Airlines reg HK-4277 had the right main gear partially collapse on landing at Miami International Airport. Damage is estimated at US\$2,750,000.

A Shuttle America Embraer 170 regional jet reg N862RW while landing at Cleveland International on the 18th overran the end of the runway and travelled through deep snow before coming to rest against the perimeter fence. There were no injuries reported but repairs will cost US\$2,000,000.

Adam Air of Indonesia suffered its second serious accident this year when a B737-300 reg PK-KKV made a very heavy landing at Surabaya Airport on the 21st causing the fuselage to break behind the wing. There were no injuries to the 148 passengers but the aircraft valued at US\$14,000,000 is irreparable.

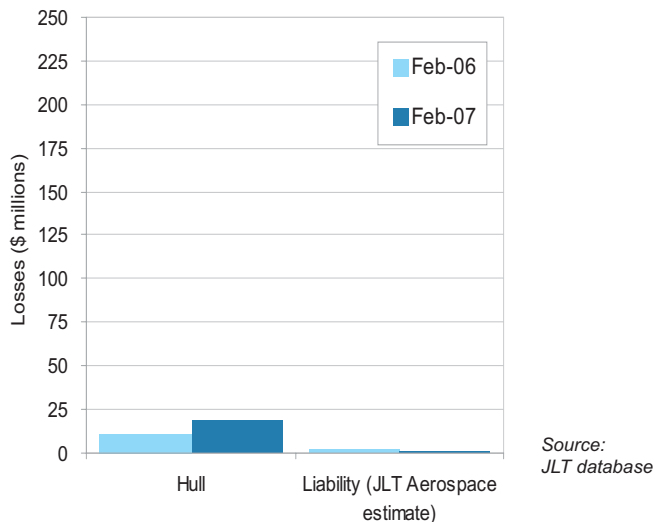
Although not included in our stats because it is an executive aircraft, the loss of a Clear Sky Holdings Canadair CL-600 reg N168CK at Moscow-Vnukovo Airport on the 13th will cost the General Aviation market

US\$20,500,000. The aircraft crashed on take off, lost its wings and flipped onto its back coming to rest in the snow. The three crew survived the crash that happened in poor visibility and with temperatures well below zero.

Fortunately there were no fatalities to passengers on commercial aircraft during February and the number of serious incidents was relatively low. Hull losses for the month amount to US\$18,750,000 plus US\$850,000 for liabilities.

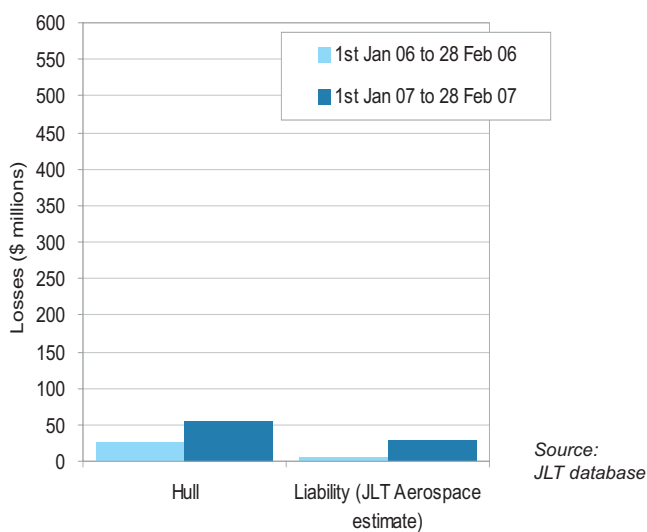
[Back to top](#)

February Losses



[Back to top](#)

Major Airline Losses for Year to Date



[Back to top](#)

Insurance Industry News

With another very quiet month for airline renewals concluded and a relatively small number of operators programmes coming to the market so far this year, the evidence provided by this albeit inconsequential quantity of information suggests that the trends as seen throughout 2006 continue into 2007.

Assumptions in the airline insurance environment are often proved to be wrong and statements such as “assuming claims continue at the present level” could be tempting providence.

Whatever level of sagacity the market holds at present, it has to be commercially realistic and be aware of the blindingly clear scenario that is approaching. By the end of December we will be looking at a sector of the aerospace insurance industry that at best will be just about breaking even.

[Back to top](#)

Arrivals and Departures

Tony Garrett has resigned as Aviation Claims Manager at St Paul and will be joining AON after Easter. Mark Walden is taking over his role.

[Back to top](#)

Airline Industry News

EU – US “Open Skies” Deal Finally Becomes a Result

One of the most drawn out and passionate deals affecting European and North American airline operators has finally been endorsed. This agreement has gone through amid criticism and accusations of caving in to US pressure and that Britain has been forced to make the best of a bad job.

The “Open Skies” deal eases restrictions on travel between Europe and the US and supporters say it will boost competition between airlines and lead to lower fares. Under the newly agreed plan, any EU based airline will be allowed to fly from any city within the EU to any city in the US and vice-versa.

The complaint is that while US carriers will get free access to European airports, EU carriers will not be allowed the same rights on domestic routes within the US. Among the effects of the deal would be an increase in the number of airlines using London’s busy Heathrow Airport. This is going to be intensely felt by British Airways, Virgin, American Airlines and United, the only airlines at present allowed to fly routes between the US and Heathrow.

Another consequence inevitably will be a spate of acquisitions and mergers. Already there is talk of Virgin and BMI coming together and Ryanair has already made a bid for Aer Lingus. Lufthansa has been rumoured to be interested in Alitalia. Iberia remains vulnerable, with B.A. which already owns 10%, a possible suitor.

B.A. in particular hopes that open skies will be extended in three years time to allow European companies to own American carriers, as at present they are limited to 25% of voting shares. This could finally trigger the long awaited merger with American Airlines.

The perpetual jostling that has to persist in order for survival and prosperity in the airline industry therefore continues and as “open skies” will soon change the fate of some operators, it will be interesting to see how two of the biggest airlines in North America will fare when they emerge from bankruptcy protection.

Delta and Northwest will soon return to “business as usual” but minus billions in debt and other obligations shed courtesy of spectacular unilateral powers gained when they went into bankruptcy protection on the same day in September 2005. This is much to the chagrin of other airlines especially American who has never sought this

protection, but of some consolation to European competition is the prospect that these courts might not be here when the next downturn occurs.

The global picture shows that while North America actually produced a reduction in fleet size in 2006, the strongest growth was in the Middle East and Latin America where earlier fleet investments have paid dividends in passenger growth. Asia has yet to catch up and although it has a large number of aircraft on order some of these won’t materialise for years to come.

Asian Boom Stunted

A note of caution comes from a continent that has seen an explosion of growth and optimism recently but has suddenly woken up to some stark realities. Airlines in India are deep in the red suggesting that closures, mergers and acquisitions are inevitable. It is expected that Indian air carriers will post a loss of US\$500 million this year and another in 2008 exacerbated by limited infrastructure and a shortage of skilled labour. Although there is great potential, trips per capita remain low although economic growth is high but because pricing remains low, this has led to a huge loss for airlines.

The merger of the two state owned airlines, Air India and Indian Airlines should happen by the end of March and is bound to prompt further consolidation.

And the Manufacturers...

Among all this redress and rectification the stalwart supply chain continues unabated. Boeing recently suggested that they might not keep up the pace as seen in 2005 and 2006, but that despite the vagaries of the world economies, there is a significant fleet of aircraft reaching retirement age. Currently there are well over 2,500 of them over 20 years old and over the next 10 years or so the number will grow to about 7,500.

Boeing imply that with current and imminent models it has got it just about right with their capacity ranging from 150 to 450 seats. Airbus, despite its problems with the A380 and its recent announcement that it is cutting 10,000 jobs still remains competitive with Boeing in some areas, especially with its A320 series.

This particular aircraft has now reached the 5,000 mark with deliveries, orders and options, making it the fastest

selling aeroplane of all time. When the A320-200 proved to have a 9% per trip lower fuel-burn than the 737-400 and to be able to fly over 3,000 nm with 150 passengers in a two-class configuration, that is 500nm longer than the 737-400, then Boeing had to respond. This they did with various derivatives of the 737, the 600/700/800/900 series quickly restored their market share.

The need for significantly lower operating costs than the current generation and the competition between Airbus and Boeing keeps everybody on their toes and with a multi-billion dollar market just in the narrow-body sector alone, both manufacturers can't afford to stand still even on their best selling products.

[Back to top](#)

And finally...

Sometimes serious situations require lateral thinking...

Worried about global warming? Well so is 83 year old ex-Canadian Defense Minister Paul Hellyer – and he thinks he knows the answer. In a recent interview published in the Ottawa Citizen, he said that governments around the world should stop hoarding their secret alien technologies and use them to stem global warming.

"I would like to see what (alien) technology there might be that could eliminate the burning of fossil fuels within a generation ... that could be a way to save our planet," Hellyer told the paper. He also said that "We need to persuade governments to come clean on what they know. Some of us suspect they know quite a lot, and it might be enough to save our planet if applied quickly enough."

So, if sometime in the future you find that your frequent flyer miles give you the chance to teleport to the holiday destination of your dreams (or nightmares) – you read it here first.

[Back to top](#)

Launch Log

March Launches

March 9

Site: Cape Canaveral

Vehicle: Atlas 5/401

Payload: ASTRO
NextSat/CSC
STP-1
CFE
FalconSat 3
MidStar 1
MEPS1-4A?
MEPS1-4B?

March 11

Site: Kourou

Vehicle: Ariane 5ECA

Payload: Skynet 5A
Insat 4B

March 21

Site: Kwajalein

Vehicle: Falcon 1

Payload: DemoSat

March 21

Site: Vandenberg

Vehicle: Minotaur 2

Payload: [SBX Target]

[Back to top](#)

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