



# JLT Aerospace



## PLANE TALKING

FEBRUARY 2009

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## Executive Summary

### Mounting Losses Maintain the Pressure

- The previous intentions for aircraft orders begin to unwind
- Capacity holding firm, but may increase marginally
- Premium still set to grow, by rate increases or by exposure growth
- Losses continue with similar frequency
- Market is likely to enter a period of 'adjustment', forcing up premiums wherever possible but mindful of the serious financial issues facing many buyers.

## Lead Lines

Florian Karner, Global Head of Aviation, Allianz Global Corporate & Specialty AG

“ It seems that every day we pick up the newspaper we read of new and previously unthinkable occurrences in the financial markets. We can stoically look for solutions in lessons of the past but are they really going to provide us with the signposts for our near future? What shall we use for road signs in these unprecedented days? Clearly solutions are vital - and sustainable long term relationships are critical. While we may not be able to rely upon the past as a guide to the future, we cannot miss the opportunities to learn from the woes of many financial institutions.

The main lesson is about risk. It is imperative to understand the level of risk being assumed by us as insurers. It is not an original statement to say that capital providers require proper return on investment. But don't confuse this with profit if you can - it is more urgent than that now. It is our corporate responsibility to nurture the healthy long term relationships that have become the cornerstone of insurance. We understand that not only ours, but also our clients' businesses are being stressed more than ever by the global financial turmoil - but we must remain true to their long term needs. Offering a broad range of products and services - allowing access to coverage where and when required will strengthen business in the long run.

We know that 2009 has already started off with significant loss activity not seen in the past few years and we are ultimately here to pay valid claims when they arise. But it is also our duty to properly assess the risks that we take on behalf of our corporations and capital providers. To accept risk that could jeopardise not only our companies but the livelihood of the clients we have contractually agreed to protect is in no one's interest. The long term sustainability of our clients' chosen insurance companies lies with responsible leadership and responsible risk taking. Perhaps our industry's past is no longer providing us with the clear signposts we have come to expect, but we would be remiss if we didn't learn from the lessons occurring in the financial institutions around us. Balanced, responsible risk taking will ensure that the insurance industry continues to be in a position to protect our clients for the long term, whatever the future holds.



### 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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# Airline Industry News

Civil aircraft manufacturers initially predicted record deliveries for 2009 even surpassing the levels achieved last year. Boeing and Airbus have forecast that they will produce over 900 aircraft between them, an increase of 10% over 2008. This even better the figure of 914 aircraft deliveries achieved in 1999. Even ATR-the turboprop manufacturer is on target to match its record of 62 deliveries in one year.

However, the recent financial turmoil has tempered these plans and the January order-book is now looking a little unstable. It is widely expected that deferrals and outright cancellations will continue into 2009 as airlines focus on weathering the current global turmoil. Providing fuel remains at current prices then airlines may choose to live with older equipment for the time being.

The second tier aircraft manufacturers Embraer and Bombardier also had a good 2008 and are confident about 2009. Embraer, which primarily makes commercial and executive jets, delivered 204 aircraft overall. Bombardier still has a healthy turboprop market in addition to its range of jets and produced over 350 aircraft throughout its considerable range.

The only other significant area offering a range of commercial jet aircraft production is Russia. Last year their aviation industry delivered just seven mainline airliners - half of a government target of only 14 units. None of the three heritage manufacturers - Antonov, Ilyushin and Tupolev lived up to promises and the newcomer Sukhoi Civil Aircraft also disappointed.

The International Air Transport Association (IATA) called on the new Obama Administration in the US to prioritise aviation as a catalyst to stimulate the economy. "Smart investments - not bailouts - in air transport will pay-off with jobs and boost other industries," said Giovanni Bisignani, IATA's Director General and CEO. IATA also urged the Obama Administration to deliver broad policy changes in the areas of security, environment and commercial freedoms.

## Start ups

- BoA, Bolivia, has leased two B737-300s ahead of the planned launch of services.
- Elite Airlines, Greece, is to commence operations soon with a former Clickair A320.
- Brasil Rodeo Aereo, Brazil, hopes to start operations by April using Boeing 737s.
- Kunming Airlines, China, started flying on 15 February with a passenger service linking Kunming city with Changsha and Harbin using Boeing 737s.
- Air Aceh, Indonesia, is acquiring four BAe ATPs for passenger services in northern Sumatra.

- Air Ethiopia, Ethiopia, plans to commence scheduled passenger services, air ambulance, cargo and private charter services from Addis Ababa using a Beech 1900.

## And Closures

- Dominican Civil Aviation Institute has ordered **Caribair** to suspend operations due to alleged "operational irregularities".
- **Nordic Airways** of Sweden was forced to stop flying on the 24th January as a result of the Swedish regulator withdrawing its AOC.
- **MacAir** a Queensland based regional airline has been placed into voluntary administration on the 2nd February. The airline operated a fleet of Fairchild Metros and Saab 340s.

## Orders

The end of January and early February has seen the first major cancellations of aircraft orders in this current market decline. Whether the companies cancelling over-stretched themselves anyway or whether this is the start of a trend has yet to be seen. The hardest hit is the 787 with new leasing company LCAL cancelling 16 of 21 aircraft ordered. LCAL blames the cancellations on the market conditions and the postponement of originally anticipated revenue streams from its leasing activities. Additionally, Russian airline S7 cancelled its total order for 15 Boeing 787 aircraft. S7 is now looking to lease the aircraft and at an earlier date than its own order would allow. Other cancellations this month are America West (3 A318s), Kingfisher (4 A321s) and Aerventure, a leasing company, (2 A319s & 3 A320s).

On the positive side, orders have been placed by Southwest for 5 more 737-700s, Alaska for 1 more 737, Ryanair for a further 13 737-800s, Turkish Airlines (THY) for 4 A321s and Korean Air for a further 2 A380s.

## Production

As a result of market conditions, Airbus have revised their production rates effective from October 09. The A320 family will be produced at 34 per month down from 36 and the A330/A340 will stay at the current level of 8.5 per month rather than increase as previously planned.

## Insurance Market News

Standard and Poor's (S&P) lowered its financial strength ratings for Swiss Re to 'A+' from 'AA-'. Meanwhile, the S&P rating for Axis was raised from A to A+.

## Arrivals and Departures

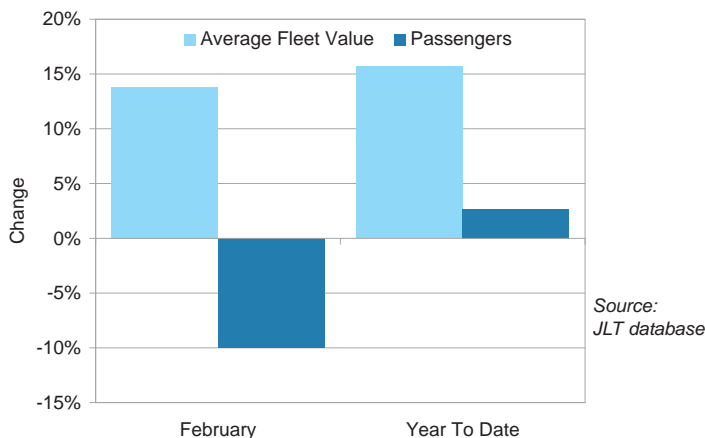
- Giles Wilkinson has left Willis
- Frank Alessi has joined UIB from Willis
- Mark Hiller has left XL Re and will be joining Atrium Syndicate 609 in Lloyds

# Renewal Analysis

## Exposures

The somewhat conflicting change in exposure between hull values and passenger numbers is driven by just one airline which has changed its structure for 2009. This airline is increasing its forecast for AFVs despite expecting a huge reduction in passengers.

**Year on Year % Exposure Change**  
 FEBRUARY / YEAR TO DATE  
 based on Latest Information at 24th February 2009



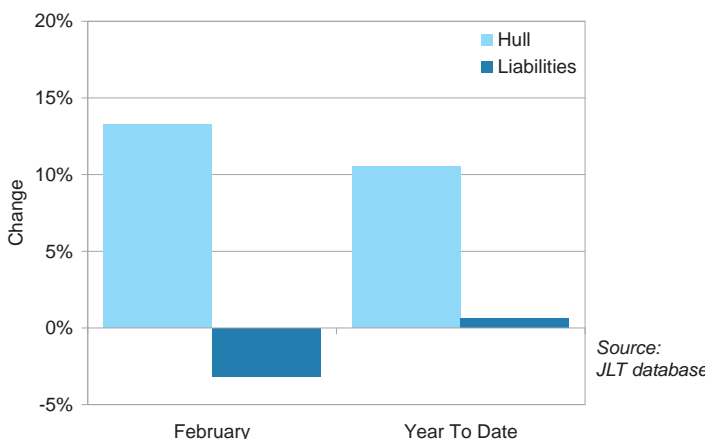
## Premiums\*

As was the pattern at the same time last year, there is a dearth of airlines renewing in February. These airlines are so small that the like for like comparisons are of no significance in respect of market trends or sentiment.

Year to Date (Like for Like)	Hull US\$ M	Liability US\$ M	Total US\$ M
2008	2.81	4.50	7.31
2009	3.11	4.53	7.63
% Change	11%	1%	4%

\*Net of brokerage and at lead terms

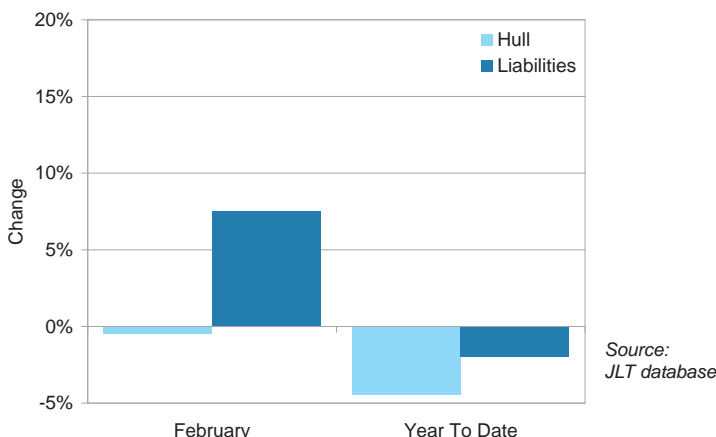
**Year on Year % Premium Change**  
 FEBRUARY / YEAR TO DATE  
 based on Latest Information at 24th February 2009



## Rates

The strange pattern of exposure growth has filtered through to the rates and as usual there is little that can be gleaned from the rating changes presented on such a tiny sample of the global picture..

**Year on Year % Rate Change**  
 FEBRUARY / YEAR TO DATE  
 based on Latest Information at 24th February 2009



# January Loss Update

Hull Losses US\$ M	Liability Losses (JLT Estimate) US\$ M	Total US\$ M
59.32	15.70	75.02

NB The JLT liability estimates are provided merely as a guide.

## February Known Losses of Note

7th	Manaus Aero Taxi	Embraer Emb-110P1 (PT-SEA)	Brazil	22 Passengers & 2 crew killed	Hull Reserve TBA
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Reportedly, an engine failure forced the crew to attempt a landing at an abandoned airfield. The aircraft struck trees and crashed in the Manacapuro River. Of the 26 passengers on board this 19 seater, 9 were said to be babies.

12th	Colgan Air operating for Continental Airlines	DHC-8-402Q (N200WQ)	USA	44 Passengers, 4 crew and 1 on the ground killed	Hull Reserve US\$19M
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On approach to Buffalo, NY, the aircraft crashed on a house about 5 miles from the runway. Reports suggest the weather was poor with strong winds and freezing rain/snow which may have been the main causal factor.

13th	BA Cityflyer	BAe146-RJ100 (G-BXAR)	UK	No fatalities	Hull Reserve TBA
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On landing at London City Airport, the nose undercarriage broke and the aircraft came to a stop on its forward fuselage.

16th	Saga Airlines/Air Algerie	B737-400 (TC-SGD)	Algeria	No fatalities	Hull Reserve TBA
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On landing at Ain Menas, the aircraft failed to stop and overran the runway by more than 300 meters. Damage was caused to the undercarriage. The aircraft was operated by Saga Airlines of Turkey for Air Algerie.

19th	AtlasJet Airlines	A320-232 (TC-OGJ)	Turkey	No fatalities	Hull Reserve TBA
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Whilst being pushed back at Istanbul Airport, the towbar broke and the aircraft rolled back into a lamp post causing substantial damage to tailplane and tail cone. Early reports suggest a possible CTL.

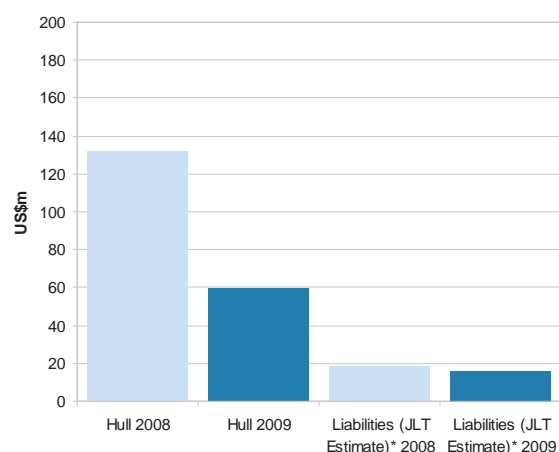
20th	Aerolift	An-12 (S9-SVN)	Egypt	5 crew killed	Hull Reserve TBA
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On takeoff from Luxor the aircraft suffered an engine fire. The aircraft failed to gain altitude and crashed outside the airport perimeter.

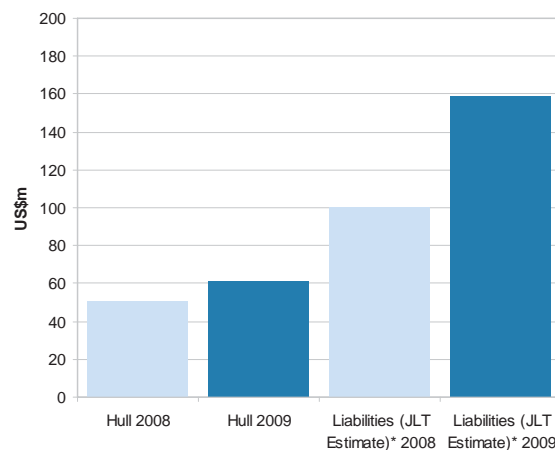
25th	THY Turkish Airlines	B737-800 (TC-JGE)	Netherlands	Fatalities unknown at time of going to press	Hull Reserve US\$41.8
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The aircraft impacted fields short of the runway at Schiphol with the fuselage breaking into 3 pieces.

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



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

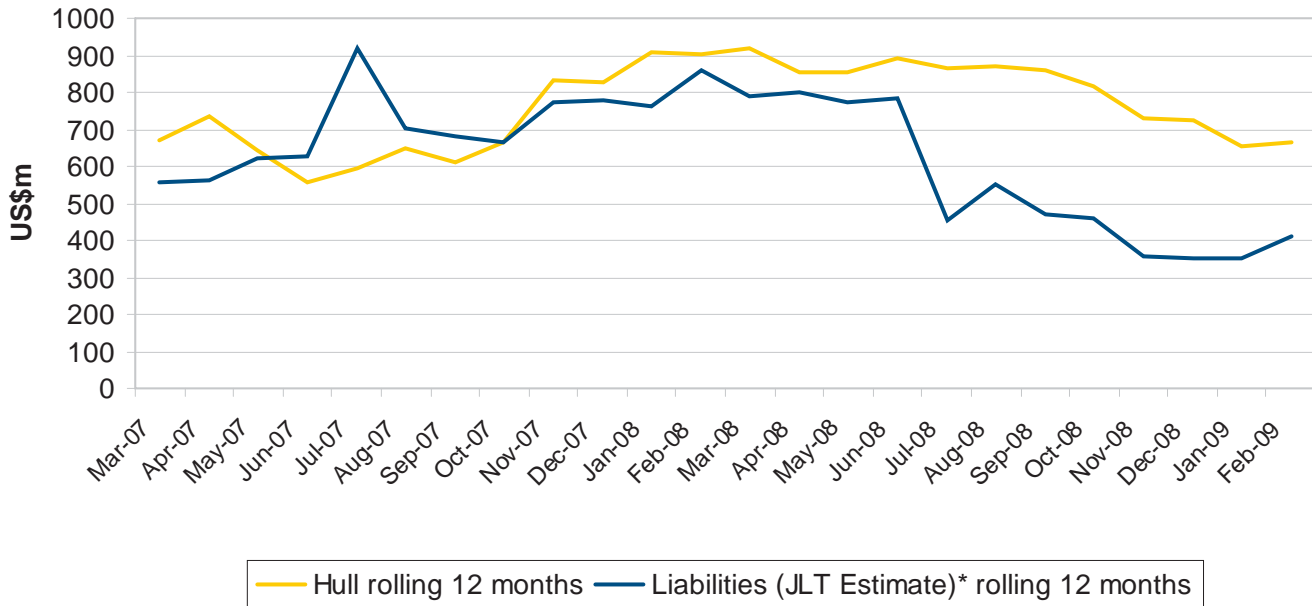


\* The JLT liability estimates are provided merely as a guide.

### Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to February, 2009

All known airline losses net of deductible



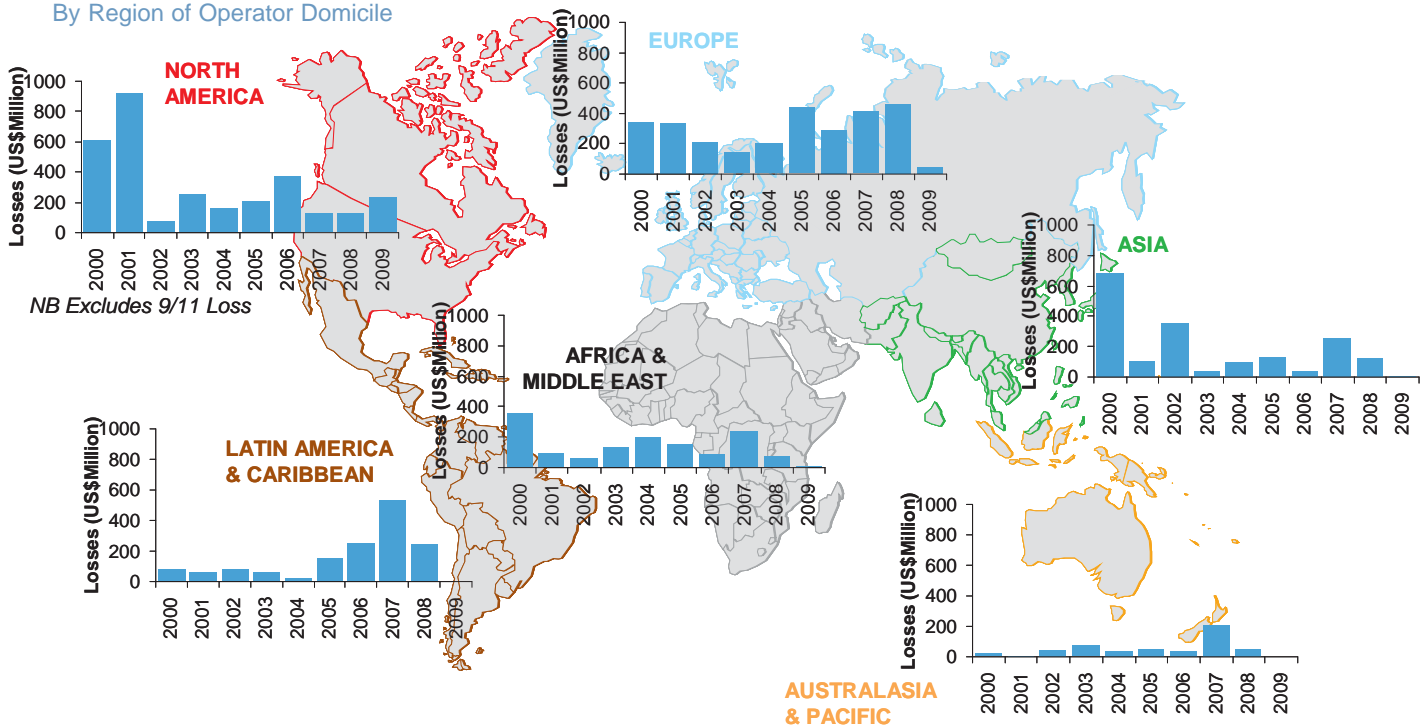
12 Months up to and Including	Hull US\$ M	Liability US\$ M	Total US\$ M
Feb 2008	903.08	859.03	1762.11
Feb 2009	664.52	408.35	1031.10

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

### Regional Trends

Regional Losses - Total over last 10 years (2000 - 09)

By Region of Operator Domicile



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