



# JLT Aerospace



## PLANE TALKING

MARCH 2009

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#### 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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## Executive Summary

### Turbulence Ahead

- Exposures continue to face a decline, with IATA's recent predictions for 2009 forecasting a fall in revenues of 12% and a reduction in passenger numbers of nearly 6%.
- Premium levels are set to increase and this can only be through hardening rates, perhaps tempered only by competition resulting from more than adequate insurance capacity. The very recently agreed Solvency II framework, which is due to become effective within the European Community in 2012, will add further impetus for many insurers to increase premiums in order to meet the requirements of the new capital regime. Inadequate (technical) pricing will cause a sharp decline in capacity available to underwrite airline risk and this in turn could encourage significantly greater pricing instability. With this knowledge and partly due to the same Solvency II pressures, little respite can be expected from the reinsurance markets.
- Losses continue in 2009 and we note that the 12 month rolling hull and liability averages demonstrate that the gradual and consistent declines witnessed during 2008 have now ceased and are starting to rise.
- To summarise, the road ahead appears distinctly "bumpy" for insurance buyers.

## Lead Lines

### Alain Burguiere, Business Group Leader Aviation, Catlin

“ Following 7 continuous years of rate reductions, US\$ 600m of losses accumulated over just the past 90 days, a lack of financial investment return and reduced reinsurance benefits, the April 1 renewals have confirmed the hardening of the market already observed during the last quarter of 2008.

The outlook for the next 12 months is quite similar, showing no signs of softening despite a continuance of overcapacity. How can one explain that?

These challenging times are an impetus for setting up new standards for our industry. Under corporate guidance, insurers are now re-evaluating their models in order to achieve an underwriting gross profit, and that invariably produces rate increases across all classes of business.

Insurers will also manage their portfolio more carefully, fine tuning it with precision and taking more rational decisions with regards to distressed business. They will assess risks in greater detail whilst differentiating clients according to their own merits.

In summary, underwriters are back to the fundamentals of their job!



# Airline Industry News

The International Air Transport Association (IATA) recently announced their revised outlook for the global air transport industry with losses of US\$4.7 billion in 2009. Industry revenues are expected to fall by 12% to US\$467 billion. By comparison, the previous revenue decline after the events of 9/11 saw industry revenues fall by US\$23 billion over the period of 2000 to 2002.

Demand is projected to fall sharply with passenger traffic expected to contract by 5.7% over the year. Revenue implications of this fall will be exaggerated by an even sharper fall in premium traffic. Cargo demand is expected to decline by 13%.

OAG one of the world's leading aviation data businesses suggest that the world's airlines have scheduled 4.9% fewer flights for March compared with the same month last year, with a 3.3% drop in seat capacity. This is the eighth successive month of decline and represents a reduction of more than 122,000 flights and 9.8 million seats year on year. Within the United States this month, domestic airline flight activity has dropped 9.2% overall or 76,164 fewer flights resulting in 6.5 million fewer seats.

Falling fuel prices are helping to curb even larger losses. With an expected fuel price of US\$50 per barrel the industry's fuel bill is expected to drop to 25% of operating costs compared to 32% in 2008 when oil averaged US\$99 per barrel. Combined with lower demand, total expenditure on fuel will fall to US\$116 billion compared to US\$168 billion in 2008. Nevertheless, the relief of lower fuel prices is overshadowed by falling demand and plummeting revenues.

## Start ups

- OneJetOne Airways, Kenya, is planning to commence operations with Airbus A320 aircraft and will be based in Nairobi
- Boliviana de Aviacion (BoA), Bolivia, has been granted all requested domestic route authorities, enabling it to launch commercial operations at any time

## And Closures

- **Sky Air World** of Brisbane, Australia went into voluntary administration on 9th March after GECAS repossessed all five of its aircraft.
- China's **East Star Airlines** was grounded by the Chinese CAA on 14th March after failing to make lease payments to GECAS.

## Orders

Order announcements are few and far between this month. Bombardier finally got a firm order from Lufthansa for the C Series aircraft with 30 firm orders and 30 options for delivery from 2014. The first 30 aircraft will be going to

Swiss to replace the 146-RJ100. THY - Turkish Airlines have disclosed they are to buy 5 new Boeing 777-300ER for delivery from October 2010. THY have recently been operating the 777 on lease from Jet Airways of India. At press time, Royal Air Maroc were due to announce the launch of its domestic operation, possibly under the name of Atlas Inter, with 6 newly ordered ATR72-600 turboprops.

## Insurance Market News

Standard and Poor's (S&P) raised its financial strength ratings for Scor to 'A' from 'A-'.

## Airline Insurance

Although premium movements so far this year have generally shown a positive inclination, albeit based on a very insignificant number of renewals, some recent airline incidents have reminded underwriters of the dilemma between maintaining market share and avoiding potential catastrophe exposures.

So far, 2009 underwriting capacity remains strong although there is evidence that there is continued under-utilisation as underwriters pick and choose their way through first quarter renewals.

The big test will be what happens in April when a number of major flag carriers come to the market. There are at least half a dozen renewals each with a fleet valued at over US\$1 billion and significant passenger numbers, so not only will it be interesting to see if capacity goes up or down but how the renewals conclude.

## Cargo Insurance

The transitional stage that we have reached in the airline insurance market has been affecting cargo as much as any class of business. The recent spate of cargo losses, however, has only served to worsen this situation making this class less attractive from an insurer's point of view.

At a total premium of around \$100m annually for the cargo sector, the premium generated by cargo airlines represents only 6% of the market's income but losses have accounted for more than 10% of overall claims.

Insurers have, in light of the above, become even more cautious in their treatment of cargo airline renewals, feeling that in view of its current loss ratio the sector is already under-priced.

## Arrivals and Departures

- Patrick Cove has been appointed as Senior Aviation Underwriter at XL Re Europe
- Phil Stafford and David Wilkie have joined Colemont from Aon
- Greg Boothright and Andy Swan have joined JLT Aerospace, from Aon, as partners

# Renewal Analysis

## Exposures

The few renewals in March show moderate overall fleet and passenger growth. One of the airlines included is a flag carrier, however, with a relatively small fleet value will have an insignificant bearing on the overall market.

## Premiums\*

The premium figure for March shows an increase for the airlines renewing at this time. This increase has been widely predicted and now seems to be the accepted direction in which premiums are moving. Of particular note, in respect of general premium volume for this month, is the fact that one airline that produced substantial premium last year, Air Nostrum of Spain, has been incorporated into the Iberia placement for this year's renewal.

Year to Date (Like for Like)	Hull US\$ M	Liability US\$ M	Total US\$ M
2008	11.97	26.5	38.46
2009	13.91	22.44	36.36
% Change	16%	-15%	-5%

\*Net of brokerage and at lead terms

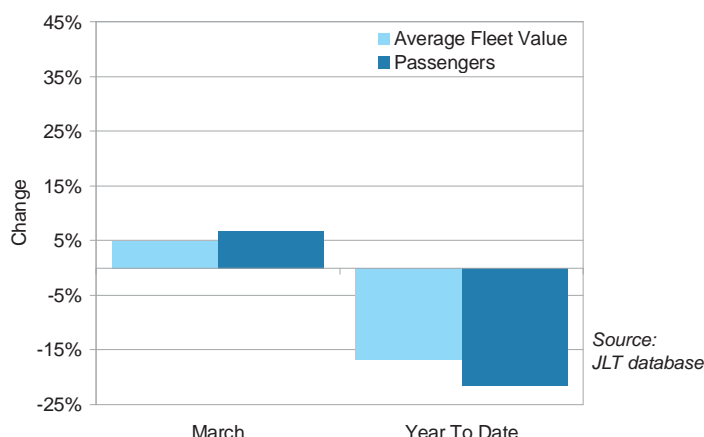
## Rates

The rating difference this month appears biased towards hulls and is due to some loss affected accounts and a shift of premium between hull and liability covers.

### Year on Year % Exposure Change

MARCH / YEAR TO DATE

Based on Latest Information at 30th March 2009

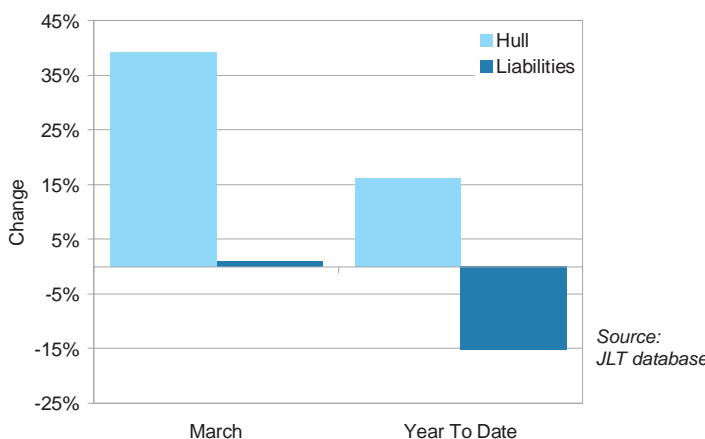


Source: JLT database

### Year on Year % Premium Change

MARCH / YEAR TO DATE

Based on Latest Information at 30th March 2009

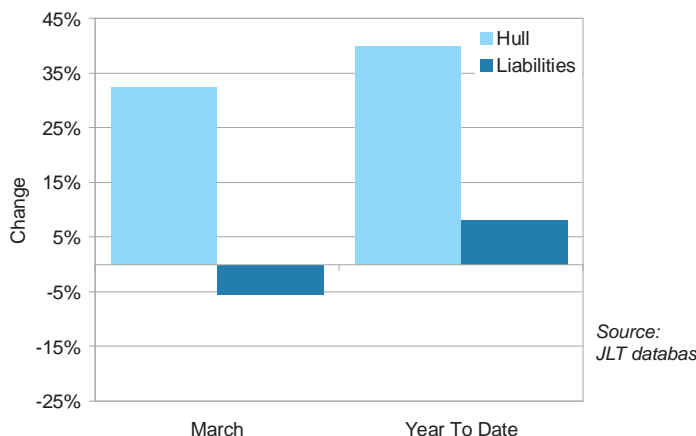


Source: JLT database

### Year on Year % Rate Change

MARCH / YEAR TO DATE

Based on Latest Information at 30th March 2009



Source: JLT database

# Losses Summary

	Hull Losses US\$M #	Fatalities #	Liability Losses (JLT Estimate) US\$M	Total US\$M
<b>February</b>	<b>84.02</b>	<b>87</b>	<b>352.00</b>	<b>436.02</b>
<b>March</b>	<b>98.31</b>	<b>13</b>	<b>TBA</b>	<b>98.31</b>

NB The JLT liability estimates are provided merely as a guide

# Based on latest known information

## March Known Losses of Note

9th	Lion Air	Douglas MD90-30 (PK-LIL)	Indonesia
On landing at Jakarta in poor weather, the aircraft skidded on the runway completing a 180 degree turn before the main undercarriage collapsed. The aircraft came to rest in soft earth.			

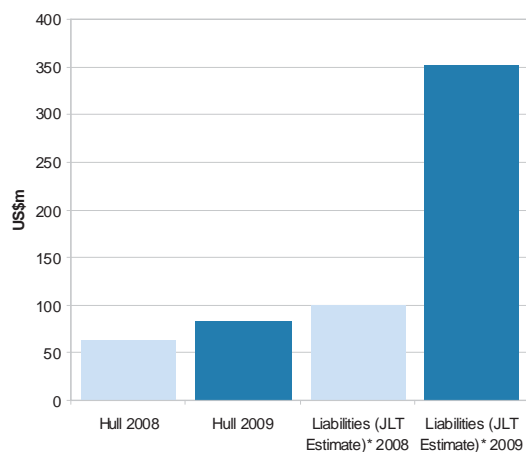
9th	Aerolift	Ilyushin IL-76T (S9-SAB)	Uganda
Shortly after takeoff from Entebbe, the aircraft crashed into Lake Victoria. The aircraft was reported to be on a flight for the African Mission to Somalia.			

20th	Emirates	Airbus A340-541 (A6-ERG)	Australia
On departure from Melbourne, reports suggest the aircraft ran off the end of the runway before getting airborne during which the aircraft's tail struck the runway and the undercarriage struck airport antennas. The flight was aborted and, after dumping fuel, the aircraft landed back at Melbourne.			

23rd	Federal Express	Douglas MD11-F (N526FE)	Japan
On landing in very windy conditions at Tokyo - Narita, the aircraft bounced on first contact with the runway then struck the runway a second time nose first before rolling to one side which broke the wing and caused a fire. The aircraft came to rest inverted and was burnt out.			

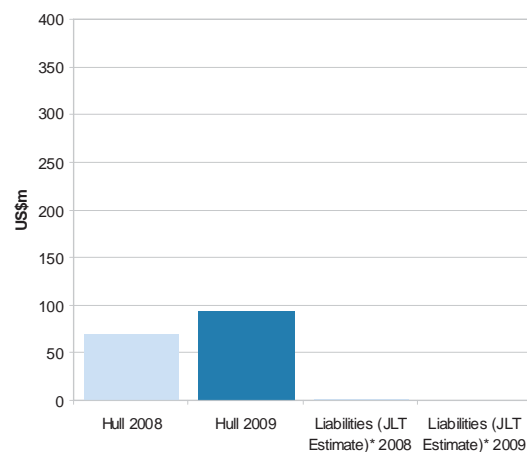
## February Losses

All Known Losses Net of Deductible



## March Losses

All Known Losses Net of Deductible

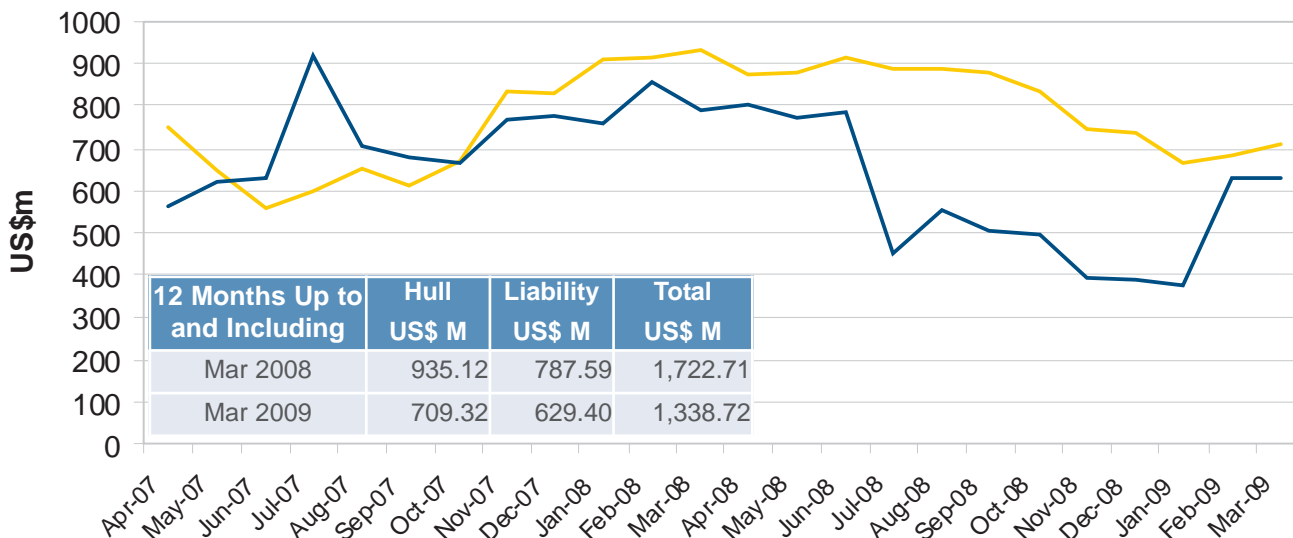


\* The JLT liability estimates are provided merely as a guide

# Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to March, 2009

All Known Losses Shown Net of Deductible



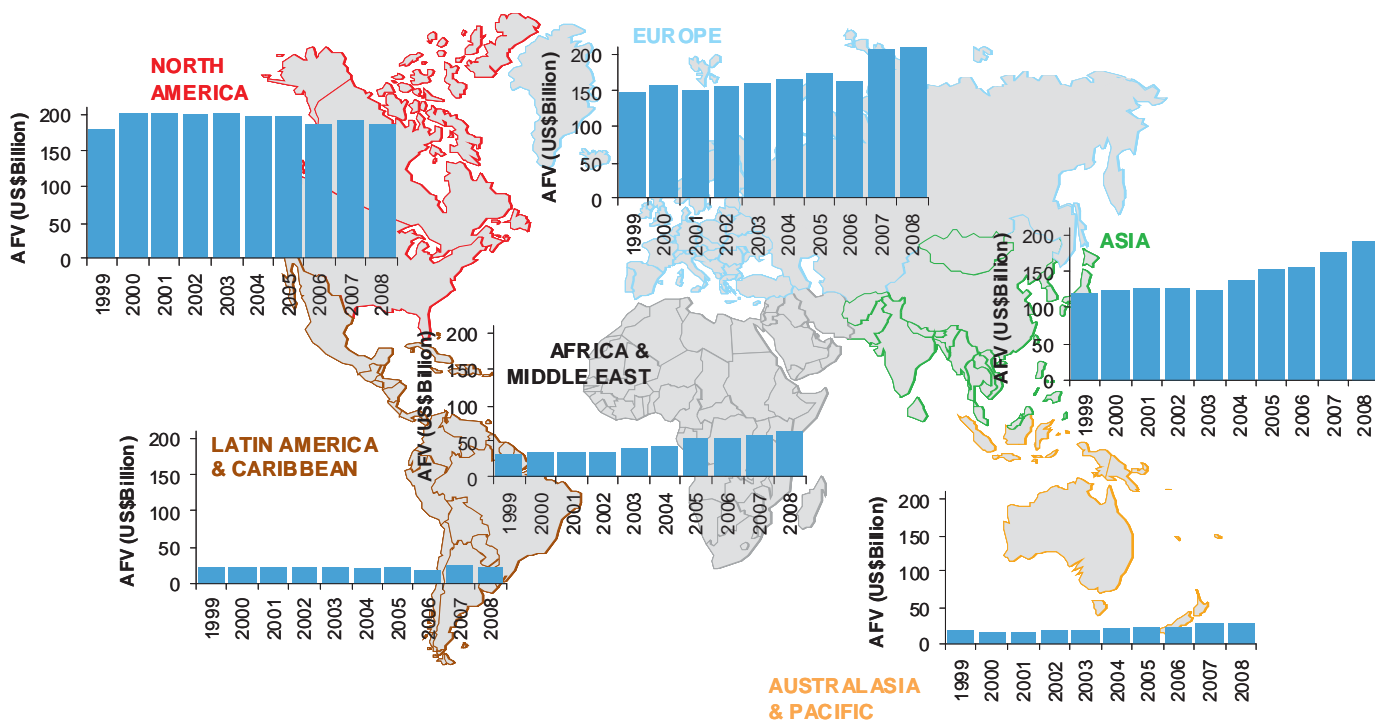
— Hull rolling 12 months — Liabilities (JLT Estimate)\* rolling 12 months

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

## Regional Trends

Average Fleet Value - Total Over the last 10 years (1999 - 2008)

By Region of Operator Domicile



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