



JLT Aerospace



PLANE TALKING

NOVEMBER 2008

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Executive Summary

Perfect Storm Developing?

- The global financial crisis begins to bite airline and related industries.
- Insurance capacity holds firm and may even increase fuelled by the prospect of hardening premium rates.
- Premium rates generally showing modest increases.
- Premium is increasing, although based on estimated exposure growth.
- Losses continue at a level below 2007.
- Reinsurers are holding premium levels firm.

Lead Lines

Martin Stevens, President, AIU Aviation

“ It cannot have escaped anyone's notice that we are entering the worst economic crisis that the world has seen for 75 years. Yet despite IATA forecasts showing that passenger numbers will fall in the short term, insurers appear to be accepting insureds' estimates of continued growth for the coming year without challenge or, more importantly, without establishing minimum premium consideration.

Over fifty non-US airlines renewing in the last quarter of 2008 have presented their underwriting information to the market. Taking the total exposures of these airlines and comparing with last year we see a 6.8% growth in average fleet value, a 2.28% growth in passenger numbers and a 2.14% growth in departures. Do we all believe that the current economic crisis will be over by Christmas? It would certainly appear to be the case, as we all continue to base our income estimates on these exposure numbers.

Whilst the increase in AFV is technically supportable due to the scheduled aircraft deliveries over the next 12 months, we surely should be recognising that an increasing percentage of these aircraft are likely to be restricted to GRO at 30% of the all risks rate. And I cannot begin to understand how the liability forecasts are showing an increase over 2007/8 original estimates - when we all know that actual activity in the past year has been lower than expected, caused not least by the increased fares from fuel surcharges.

No region can expect to be immune from this current crisis. Indeed we have already seen a downturn in traffic in the emerging economies of both India and China and even the Middle East is beginning to feel the effect.

We all understand the need to return the airline insurance sector to profitability - but can it happen if we continue to accept what we are told at face value?



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

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Airline Industry News

With airlines continuing to collapse due to the economic turbulence, and mergers being the only salvation for others, the supply chain for this once voracious industry is at last beginning to show the effects of the ensuing downturn.

Both Airbus and Boeing are now predicting that orders for 2008 could be down by as much as 30% by year end.

Admittedly 2007 was a record breaking year and the momentum could not have gone on for ever. Both suppliers have had their problems. Airbus may fare slightly better overall with a favourable exchange rate and with the A380 on stream (10 delivered so far) and a healthy order backlog. Although the Boeing machinists are back at work after their crippling 2 month strike, having made their point over the issue of outsourcing, production difficulties and delivery delays are proving a major malaise for the company. By trying to produce two new models simultaneously, engineering has been stretched thinly and has resulted in the latest version of the 747 the -8 Freighter's delivery schedule being shifted from late 2009 to the third quarter of 2010. First delivery of the 747-8 Intercontinental, the passenger variant, has dropped from late 2010 to the middle of 2011.

Of far greater concern is the delay to the most important model Boeing have produced in the last 40 years - the 787 Dreamliner. Design, supply and production complications have resulted in an 18 month slip in schedule. Orders for the 787 are now approaching the 1,000 mark, a record for any major airliner product prior to first flight.

Analysts are warning that the industry could be facing the first downturn in which airlines will defer new deliveries simply because they cannot get finance. Consequently, Airbus says it will double the amount of vendor financing on offer to about US\$2.6 billion next year and Boeing Capital anticipates offering up to US\$1 billion in 2009.

Start ups

- Turkuaz Airlines, Turkey, a charter airline which has taken delivery of its first aircraft, an Airbus A320
- Airkosova, Kosovo, has launched operations using a McDonnell-Douglas MD-82
- Flysur, Spain, has begun domestic services from Cordoba Airport, serving Barcelona, Bilbao and Vigo with a single ATR42
- Star Airlines, Macedonia, have started up a freight carrier which is to specialise in Chinese services and wet-lease operations with a Boeing 747-200F
- Sun Air, Sudan, has launched services using a single Boeing 737-200 and a 737-400
- Mid Air Tchad, Chad, is a new carrier thought to have been created by the former AMW Tchad, operating a single leased Boeing 707-320C
- Air Congo, Congo, is a Kinshasa based start-up airline which has taken delivery of an AVIC I MA60

And Closures

- FlySur, a regional airline in Spain ceased operations on the 20th October only 45 days after its launch
- LagunAir also of Spain stopped flying on October 9th due to a fall in demand
- Inter Ekspres Hava Airlines of Turkey which operated a fleet of three A321's ceased trading on 11th November
- Alma De Mexico, a regional operator in Guadalajara suspended operations on the 8th November and filed for bankruptcy
- Avolar Aerolineas S.A. a low cost Boeing 737 operator was grounded by the Mexican government on the 28th October due to its financial instability

Orders

Although numbers are down on last year, orders for new aircraft continue. Boeing announced Uzbekistan Airways had ordered 4 more 767-300ERs and confirmed Ryanair as the operator from an undisclosed order for 10 737s placed last month. A couple of 737s and a 747 for Boeing Business Jets make up the total.

Airbus announced orders for 10 additional A320s for Air Arabia to add to the 34 ordered last year. BOC Aviation, the subsidiary of Bank of China, placed an order for 20 A320s making a total of 98 single-aisle aircraft ordered from Airbus. Grupo Marsans confirmed an order for a total of 61 Airbus aircraft including 4 A380s and 10 A350s to be operated by its subsidiary or related airlines.

As we head towards the end of the year we have Boeing slightly ahead in the narrow-body sales league but Airbus comfortably ahead for widebodies.

In the regional aircraft market, Bombardier shot past the 1,000 DHC8 orders mark.

Insurance Market News

AIG have welcomed the changes to the structure of the loan they have received from the Federal Reserve bank. In short the length of the term of the loan has been extended while the cost of the loan has been reduced. For more details please see our website www.jltgroup.com/market-update/.

Arrivals and Departures

- Mike Bannon has moved from AIG to Global Aviation Underwriting Management
- Benfield Facultative Aviation team has moved to Cooper Gay
- Peter Bilsby has been appointed head of Global Aerospace at Talbot. He joins with Rod Mearing and others from XL.

Renewal Analysis

Exposures

Fleet values continue to rise mainly due to airlines re-equipping with fuel-efficient aircraft from orders made some time before the height of the recent economic turmoil, as is the case with the largest renewal of the month, the Gulf Consortium. This renewal alone showed fleet growth of over \$4 billion and passenger numbers expected to rise by over 5 million. Overall the Average Fleet Values (AFVs) for the airlines in our summary increased by 11%. Passenger numbers, which are a more liquid forecast number, have slowed much quicker and are showing only a 1% increase.

Premiums*

The level of premiums achieved during November have been driven by the exposure growth once again. Those airlines who have received rate reductions have not just maintained premium levels but increased their overall premium paid to underwriters.

Year to Date	Hull US\$ M	Liability US\$ M	Total US\$ M
2007	282.51	480.10	762.61
2008	303.38	498.88	802.26
% Change	7%	4%	5%

*Net of brokerage and at lead terms

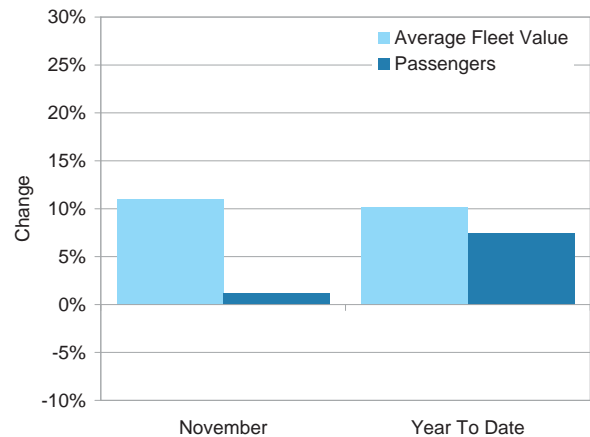
Rates

Despite the relatively modest rate changes shown in the graph for November it is clear that the final quarter is seeing a marked change in rating stance. Indeed it is the two airlines with the largest exposure growths, TUI and Gulf Consortium, that are dragging this average rate change down. Looking at Hull rates for example, these are the only two major airlines for which we have recorded a rate reduction in November. If we were to exclude these airlines we would see rate increases of 13% and 7% for Hull and Liabilities respectively. This pattern seems even more important given the relatively low level of claims recorded to date in 2008.

Year on Year % Exposure Change

NOVEMBER / YEAR TO DATE

based on Latest Information at 25th November 2008

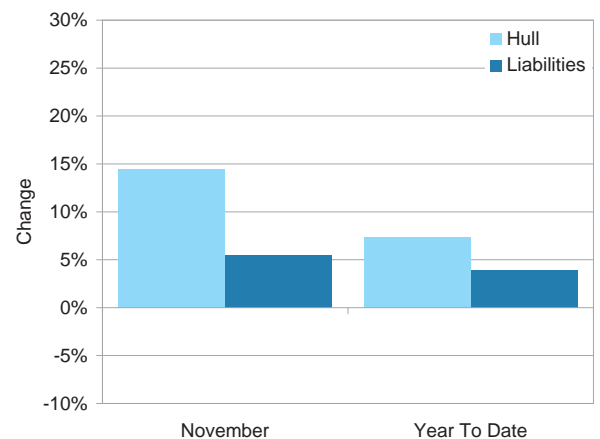


Source:
JLT database

Year on Year % Premium Change

NOVEMBER / YEAR TO DATE

based on Latest Information at 25th November 2008

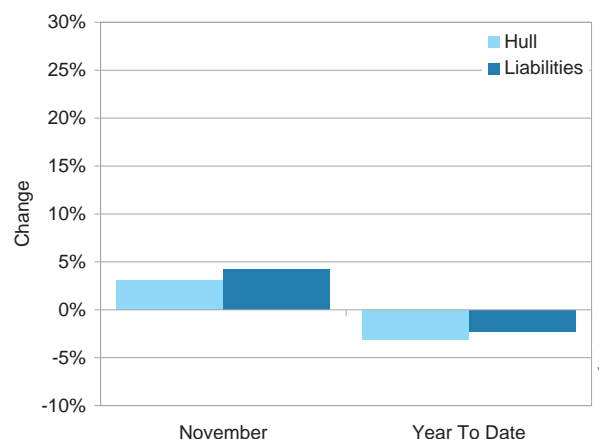


Source:
JLT database

Year on Year % Rate Change

NOVEMBER / YEAR TO DATE

based on Latest Information at 25th November 2008



Source:
JLT database

October Loss Update

Hull Losses US\$ M	Liability Losses (JLT Estimate) US\$ M	Total US\$ M
17.25	4.35	21.60

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.

November Known Losses of Note

1st	Arctic Transportation Services	CASA 212 (N437RA)	USA	No fatalities	Hull Reserve TBA
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On final approach, an engine failed to respond to controls and an off-field landing was made

6th	Express Air	Dornier 328 (PK-TXL)	Indonesia	No fatalities	CTL US\$4M
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The aircraft undershot the runway at Fak Fak, damaging the port undercarriage and causing a drift off the runway where the port wing and engine were damaged.

10th	Ryanair	Boeing 737-800 (EI-DYG)	Italy	No fatalities	CTL US\$45M
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At approximately 200 feet on approach to Rome - Ciampino, the aircraft struck a large flock of starlings causing one engine to flame-out. The crew elected to go-around and the 2nd engine then quit. The aircraft subsequently landed hard, striking the rear fuselage and damaging the port undercarriage and wing.

13th	British Gulf International	Antonov An-12 (S9-SAO)	Afghanistan	1 passenger & 6 crew killed (Cargo aircraft)	Hull Reserve TBA
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Shortly after take off from Al Asad Air Base, Fallujah, the crew reported a technical problem which caused the aircraft to crash

16th	Skywest Airlines	DHC-8-311 (N326EN)	USA	No fatalities	Hull Reserve TBA
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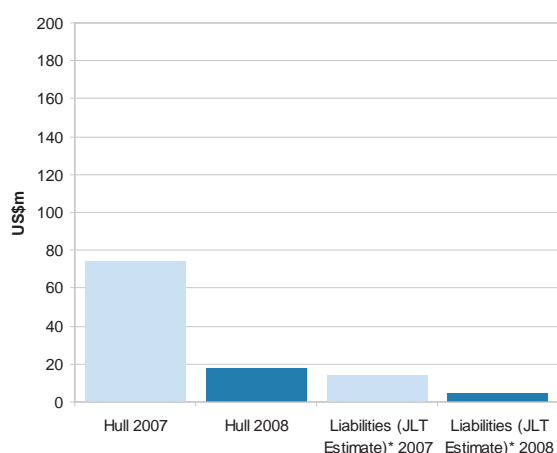
The nose gear of the aircraft failed to extend fully resulting in the aircraft landing on main gear only and causing damage to the nose area

27th	XL Airways (Germany)	Airbus A320-200 (D-AXLA)	France	No passenger fatalities	Hull Reserve TBA
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The aircraft crashed into the sea on approach to Perpignan. The aircraft was on a test flight prior to departure back to the aircraft owners at the end of a lease by XL Airways (Germany).

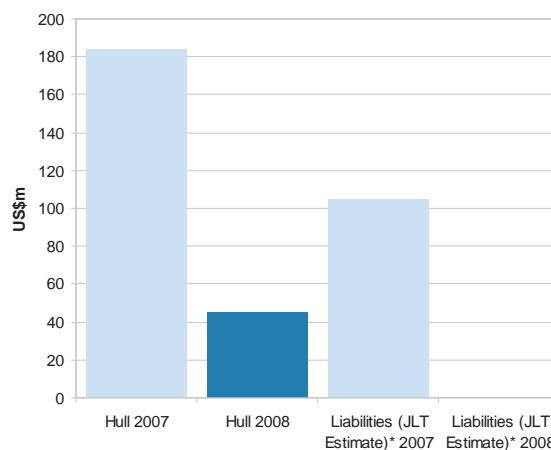
October Losses

All known losses net of deductible



November Losses

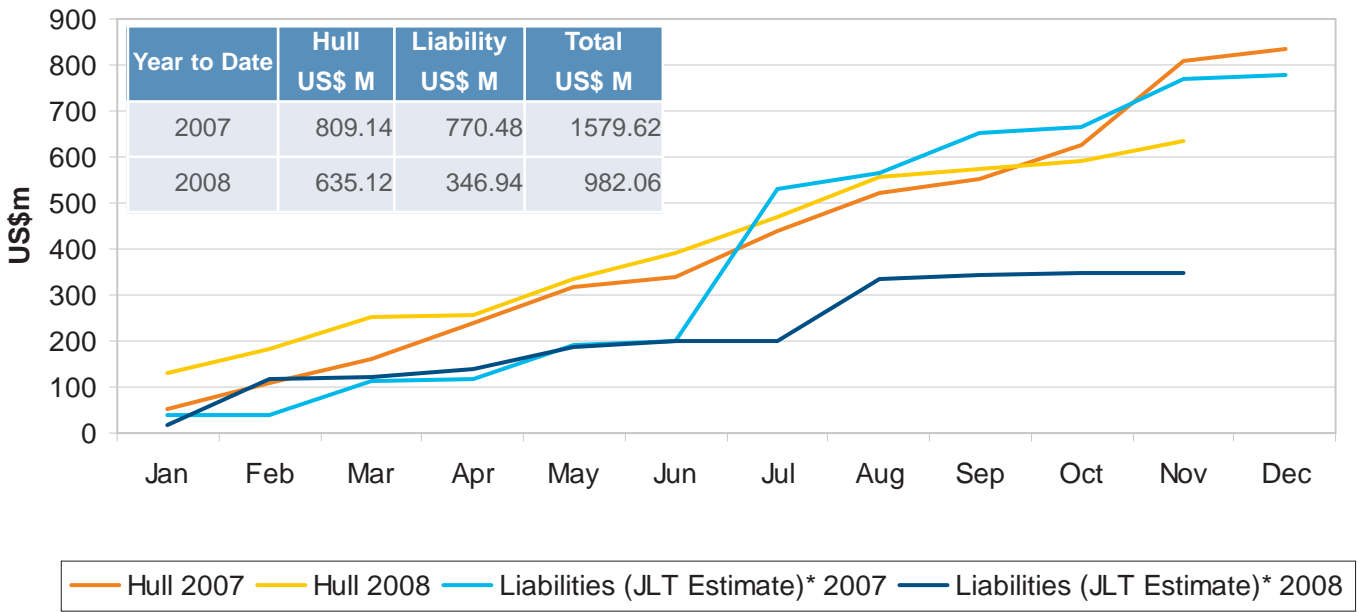
All known losses net of deductible



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Cumulative Airline Loss Figures Year To Date

All known airline losses net of deductible

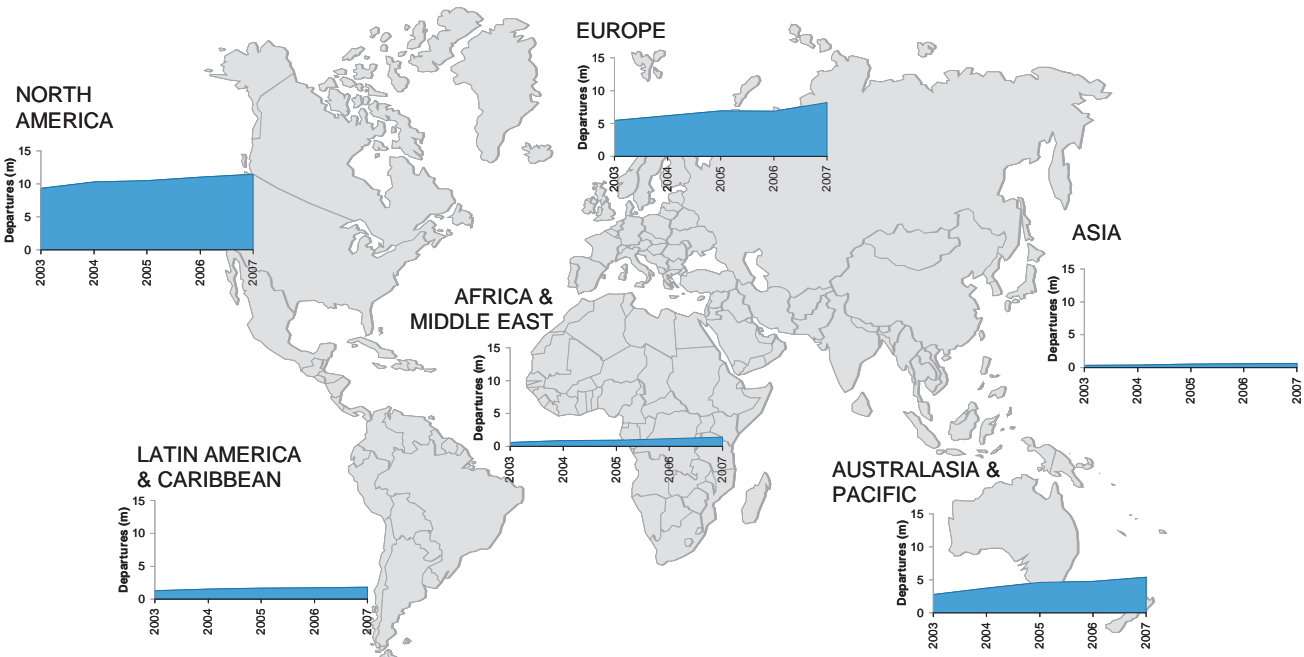


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Regional Trends

Regional Breakdown of Scheduled Passenger Departures - Last 5 years

By Region of Operator Domicile



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