

Plane Talking

JLT AEROSPACE

MAY 2010

Executive Summary

Emerging Times

- The current survival strategy from airlines will favour more mega-mergers
- There is some evidence of growth forecast amongst airlines renewing in May but finances are still very tight for most
- Losses in May have been higher than we have experienced in recent months but so far does not appear to have provoked a market change
- With continuing over capacity in the market rates are softer than many would have predicted for 2010

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Lead Lines

Richard Power, Senior Airline Underwriter, Catlin Aerospace

“ Getting back to basics Crew Resource Management (CRM) is not a new topic for cockpit crews and safety officers working for the world's airlines but the recent spate of incidents continues to highlight the fundamental issue of human error and judgement when operating a commercial jet aircraft.

Mitigating human error within the aviation industry has typically been a reactive process. A deviation from airlines standard operating procedures is recorded through the airplanes FDR or QAR and the crew involved are debriefed by the flight safety officer whilst reviewing the incident by means of a computer simulation. This will obviously assist in the reduction of exceedences but will not provide obvious corrective information on the human behaviours that were precursors to the event.

In this context the LOSA program which has been implemented by many major airlines over the last 10 years has moved the crew error identification process from a reactive framework to a proactive one. LOSA enables operators to assess their level of resilience to systemic threats, operational risks and front line personal errors, thus providing a principled, data driven approach to prioritize and implement actions to enhance safety. It improves the flight crew's situational awareness and their recovery rate when an exceptional circumstance occurs.

Technological safety advances have undoubtedly reduced the frequency of losses, however, it is the human factors which continue to be the cause of many accidents. Therefore, it is essential that CRM remains at the forefront of all airlines' safety training programmes, management systems and corporate culture. ”



Airline News

Comment

In the wake of the forthcoming mega-merger between United Airlines and its domestic rival Continental Airlines, industry pundits are now predicting further consolidations in the North American marketplace.

Subject to US Justice Department approval this particular alliance, with about 20% of the American market, will propel the new airline ahead of Delta Airlines which merged with Northwest in October 2008 and at that time became the world's largest commercial carrier.

The new United Airlines will be huge, and will have a combined fleet of nearly 700 jets with another 160 on order, taking hold of about 7% of the international market.

The bottom line of course, and the reason for this connubial partnership is cost savings or the more corporately acceptable word "synergies". These are suggested to be about USD1.2 billion by 2013.

Not so long ago American Airlines was the largest airline globally but because of these mergers has dropped to third spot in terms of overall traffic.

American's new position among its peers comes at a difficult time for the airline with a USD431 million loss for the quarter and an annual deficit of USD1.1 billion. It remains an airline with some of the industry's highest costs as well as labour relation issues and a smaller network of routes than its rivals. Analysts now suggest a merger is inevitable with US Airways remaining as the only option.

In a perverse sort of way, and possibly as a result of never having sought the protection of bankruptcy, American finds itself hobbled with much higher costs than its competitors, most of which have used bankruptcy proceedings to rewrite labour contracts and aircraft leases, terminate pensions and healthcare benefits and restructure their debt.

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Start-Ups

- Air Batumi, Georgia, will commence regular domestic services between the city of Batumi and the capital, Tbilisi on 1st June 2010, using Boeing 737-300 aircraft. Plans call for an expansion of services, primarily to Turkey, but also including destinations in Egypt, Germany, Iran, Kazakhstan and the Ukraine.
- Branson Air Express, USA, operated by ExpressJet Airlines commenced operations on 17 May 2010. The carrier offers flights to and from Branson, to Nashville, Gulfport, Biloxi, Shreveport, Des Moines, Austin, and Houston using an Embraer ERJ-145 aircraft.
- Central Charter Airlines, Czech Republic, is about to launch services from Ostrava's Leos Janacek Airport using a single Boeing 737-300 aircraft. The carrier aims to offer services to other parts of Europe. The first charter flights are scheduled from the beginning of June.
- CityLine Swiss, Switzerland, is poised to commence operations from 2nd June 2010 from Angoulême, in west-central France, to London Gatwick. The carrier will fly to London thrice-weekly operating Boeing MD-83 aircraft.
- FlyOristano, Sardinia, has wet-leased a single Fokker 50 aircraft and is poised to launch commercial services out of Oristano-Fenosu Airport in Central Sardinia shortly. The carrier's initial route will be Oristano-Rome Fiumicino, with services to Brescia also planned.
- Servisair, Angola, commenced operations on 13 May 2010 with a flight between the cities of Luanda and Lubango in the Huíla province. The carrier has a fleet of four McDonnell Douglas MD-82s and two leased Boeing 727s. Servisair expects to extend its operations in the coming months to include destinations such as Cabinda, Menongue, Saurimo, Luena and Ondjiva.

Closures

- Ash disruption from the Icelandic volcano is being blamed for the collapse of a new regional airline in Sweden. The start up carrier Flyglinjen was to operate domestic services with wet-leased turboprop aircraft but is now axing its plans.
- Lagos based Bellview Airlines was hoping to resume operations to the UK in May following operating problems but has now conceded that this is now impossible. The airline had a fleet of two Boeing 767s but these have now been re-possessed.
- Ghana International Airlines suspended operations on 29th April and is reported to have been closed by the Ghanaian Government last week. It launched services in October 2005 with a Boeing 757 wet leased from Ryan International.

Orders

In a quiet month for new aircraft orders the highlights come from unexpected quarters. The only announcement from the big two manufacturers is for 2 Boeing 737-800s for RwandAir based in Kigali. On the regional side, Bombardier confirmed a long-standing unannounced order from All Nippon Airways for 5 firm Dash-8-Q400 turboprops and 5 more on option.

The biggest 'order' of the month is from Merkuh Enterprises, an Indonesian mining company, who have placed a Memorandum of Understanding with AVIC of China for 24 Harbin Y-12 turboprops, 6 H425 helicopters and 9 Comac ARJ21 regional jets as well as ships, property and vehicles. Merkuh will pay for these items through sales of coal, nickel and copper to China. The aircraft will be operated by Merkuh companies Dirgantara Air Services and Sabang Merauke Air Charter (SMAC).

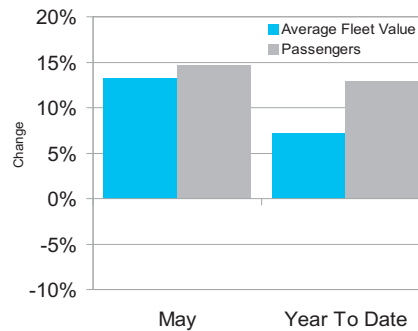
Renewal Analysis

Exposures

May renewals are showing healthy forecast exposure growth. It may be that this is a bounce back to some extent from the harsh capacity cuts made during 2009 in response to the world wide economic situation.

Year on Year % Exposure Change

May / Year to date. Based on latest Information at 28 May 2010



Source: JLT Database

Premiums*

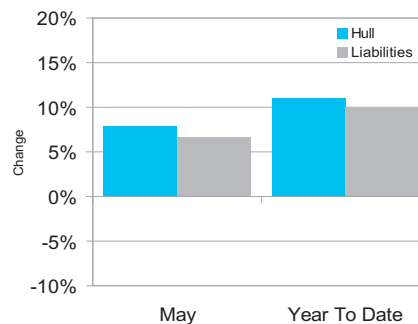
The premium movement is largely a reflection of the growth in average fleet values and number of passenger movements anticipated for the forthcoming year.

Year to Date (Like for Like)	Hull USD M	Liability USD M	Total USD M
2009	63	102	165
2010	70	113	182
% Change	11%	10%	10%

* Net of brokerage and at lead terms

Year on Year % Premium Change

May / Year to date. Based on latest Information at 28 May 2010



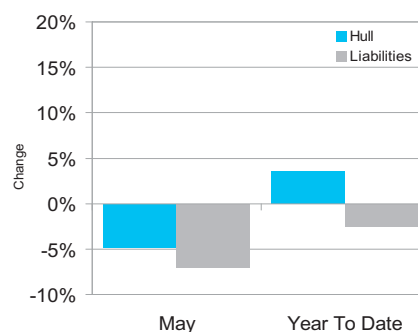
Source: JLT Database

Rates

Rates are a lot softer than many expected (indeed hoped) in 2010. May, with a good number of renewals to analyse, clearly shows that underwriters are focussed on maintaining/growing premium and are prepared to accept minor rate reductions on renewals which present exposure growth.

Year on Year % Rate Change

May / Year to date. Based on latest Information at 28 May 2010

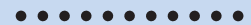


Source: JLT Database

Insurance Market News

Alterra Insurance Ltd is the new name for Max Insurance Europe Ltd, in addition Max Re Europe has changed its name to Alterra Reinsurance Europe Ltd, following the amalgamation of Max Capital Group Ltd and Harbor Point Ltd.

Torus has announced that it is acquiring Glacier Insurance AG, a subsidiary of the Glacier Group. Richard Etridge, Chief Executive of Glacier Insurance, will join the Torus management team, becoming Chief Operating Officer for Continental Europe as well as Global Head of Aviation.



Comment

(continued from page 2)

If it had contracts similar to Delta and Continental, its expenses would be USD600 million lower each year.

British Airways is pushing ahead with an arrangement with European rival Iberia and this will in turn create, after Air France/KLM and Lufthansa, three huge operating groups within Europe.

With continued poor financials from so many major operators and flag carriers it seems inevitable that survival rests with this pooling of resources and ultimately fewer competing units in the present harsh financial environment.

Loss Analysis

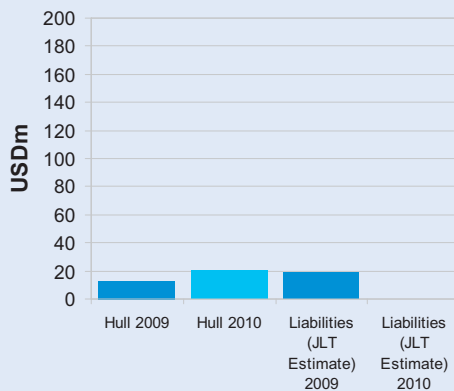
Losses Summary

April

- Hull losses of USD 20.15m
- 9 fatalities
- Liability loss estimate nil

April Losses

All Known Losses Net of deductible

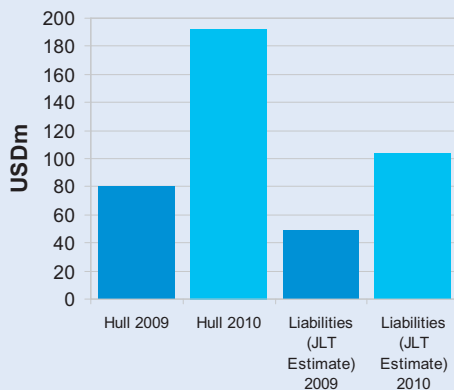


May

- Hull losses are estimated at USD 192.43m
- 313 airline fatalities
- Liability loss estimated at USD 103.45m

May Losses

All Known Losses Net of deductible



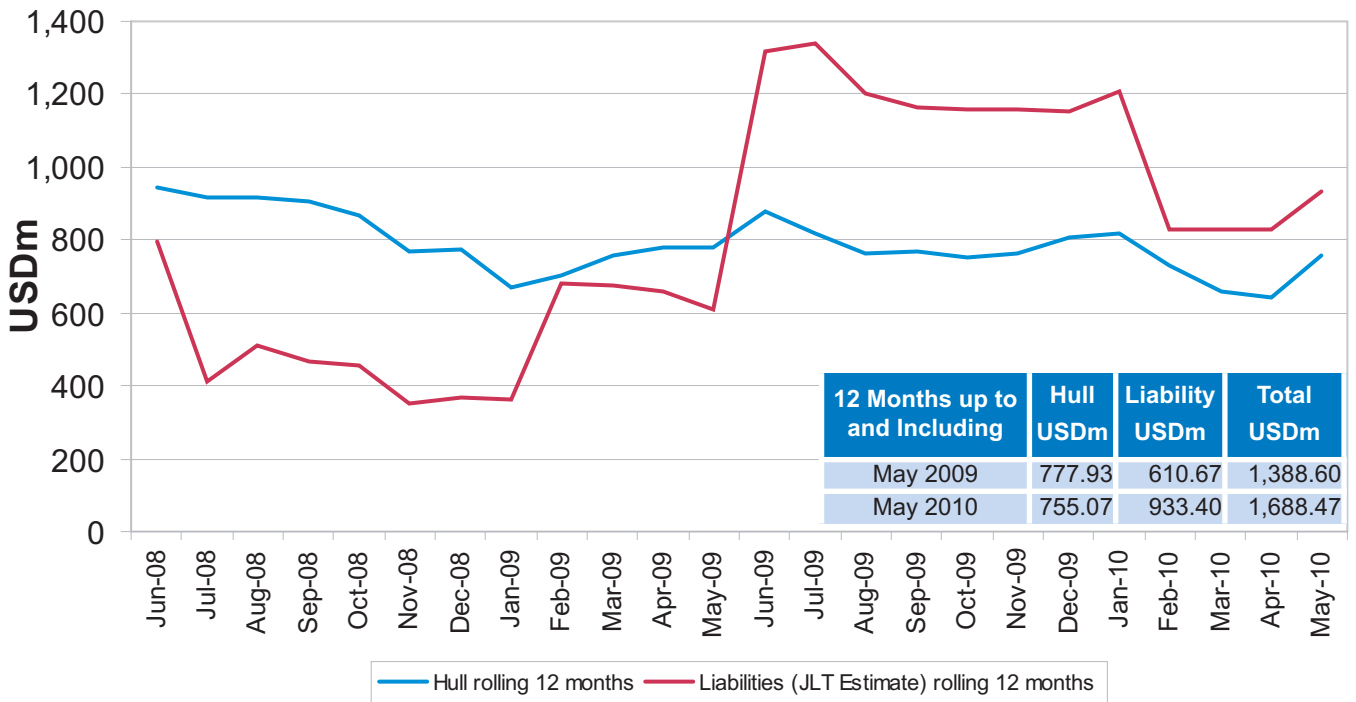
Known Losses in May

5th	SATENA	Embraer 145LR (HK-4536/FAC1173)	Colombia
Landing in wet conditions at Mitu International at the end of a scheduled domestic flight, the aircraft overran the runway coming to rest on soft earth. No major injuries occurred though the aircraft was declared a CTL.			
12th	Afriqiyah Airways	Airbus A330-200 (5A-ONG)	Libya
The aircraft crashed short, and to one side, of the runway at Tripoli following a flight from Johannesburg. Of the 105 souls on board, only one survived.			
15th	Blue Wing Airlines	Antonov An-28 (PZ-TSV)	Surinam
Shortly after takeoff from Godo Holo airstrip, near Pokisi, the aircraft encountered bad weather and crashed into dense jungle killing the six passengers and two crew.			
17th	Pamir Airways	Antonov An-24B (YA-PIS)	Afghanistan
The aircraft crashed in the Salang Pass, en route Kunduz to Kabul, in poor weather. There were no survivors amongst the 38 passengers and 5 crew.			
22nd	Air India Express	Boeing 737-800 (VT-AXV)	India
On arrival from Dubai with migrant workers and families, the aircraft ran off the end of the runway at Mangalore into a ravine where it was consumed by fire. 158 of the 166 passengers and crew were killed.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to May, 2010

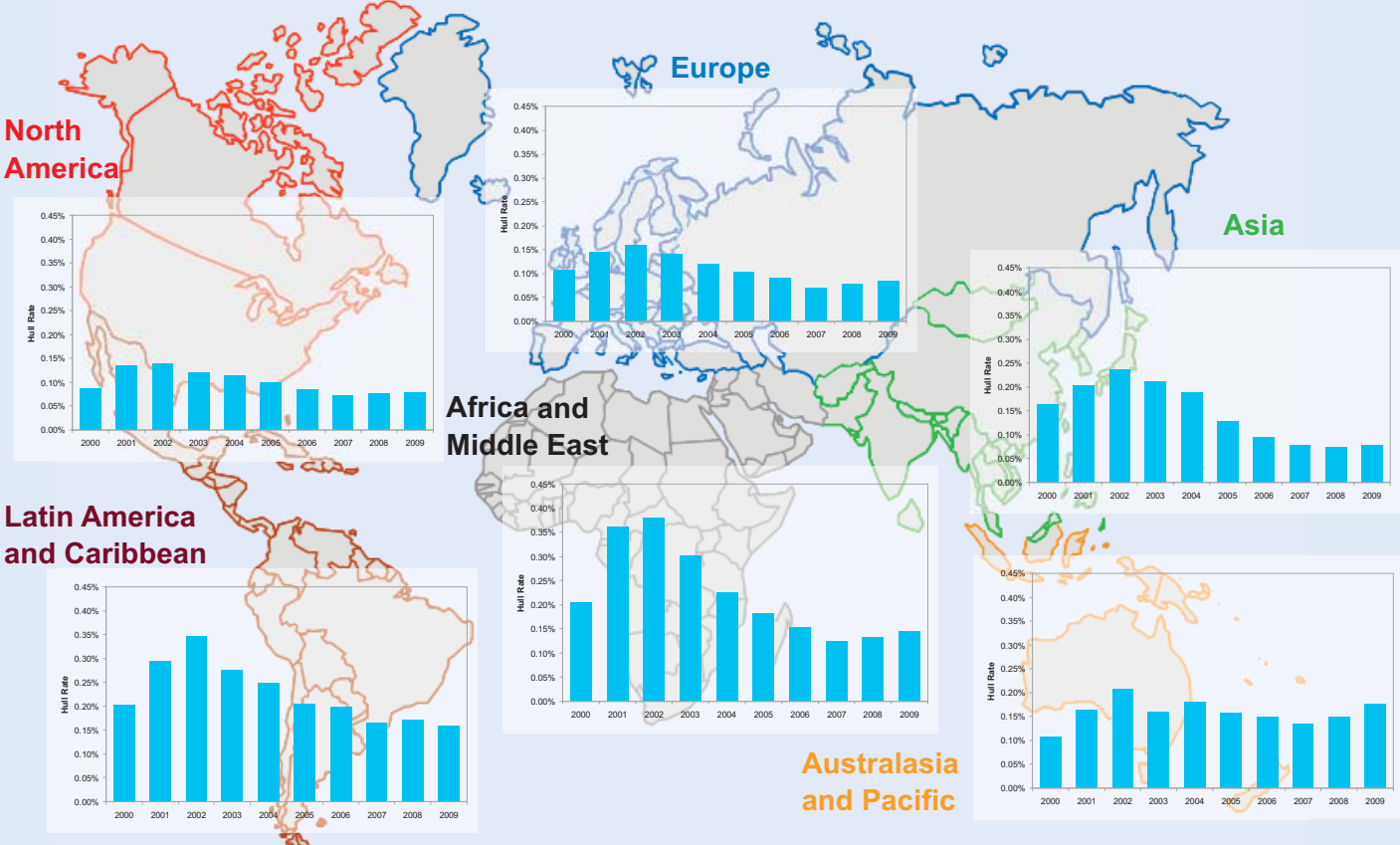


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Regional Chart

Hull rate over last 10 years, 2000 - 2009

By Domicile of Operator



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Richard Adams

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David Sinnett