

# Plane Talking

JLT AEROSPACE

OCTOBER 2010

## Executive Summary

### Turning a Corner

- The airline industry appears to be turning a corner as some carriers are expected to show a profit this quarter and traffic is increasing in many regions
- Most regions of the world are represented in the list of start-ups whereas all the closures this month have been in Europe
- Many orders made earlier this year have been confirmed or finalised which is a further indicator of the recovering health of the industry
- Hull losses in October have been relatively low compared with recent months and at least 10 of the 11 fatalities are known to have been crew members
- Exposure growth in the airlines renewing their insurance this month has allowed premiums to be maintained whilst rates have been reduced for most

### In This Issue

|                       |   |
|-----------------------|---|
| Executive Summary     | 1 |
| Airline News          | 2 |
| Insurance Market News | 3 |
| Renewal Analysis      | 3 |
| Loss Analysis         | 4 |

## Lead Lines

Dan Boulwood, Airline Portfolio Manager - QBE Insurance Limited

“It seems fairly evident that for the fourth year running the airline insurance market seems to be heading for a loss. The time is now right for the long overdue need for some managements to offer oversight and intervention in order to control the use of capital at irresponsible levels of return. Of course we have to be realistic and underwrite each risk presented and in certain circumstances, such as with substantial growth, consideration can be given. But underwriters must and should be looking for increased premiums whilst maintaining a disciplined and selective approach to their underwriting. As we approach this last quarter underwriters are faced with competing brokers offering their services at seemingly

uncompetitive prices. Underwriters are therefore expected to pick up the pieces and write business at unrealistic levels with additional commissions to satisfy promises the brokers have made to their client on pricing.

The dynamic nature of the airline business, with numerous bankruptcies, mergers and acquisitions, continue to make it increasingly difficult for most underwriters to write a good spread of risk that provides a realistic opportunity for a "breakeven" gross position, let alone an underwriting profit.

A strategy of continuing to chase premium with fingers crossed has no longevity, nor for some underwriters where the writing of airline business that appears little more

(Continued on page 3)



# Airline News

## Comment

The US airline market has, for a long time, been one of the most troubled sectors in the world, but at last it is reporting a turnaround in its fortunes. The third financial quarter will see a number of major carriers showing a profit. Much of this is due to the addressing of perennial problems that have dogged airlines for so long such as overcapacity and low fares.

Even as travellers return, airlines have been reluctant to add too much new capacity, they are showing discipline by suggesting it will only rise very slightly going into 2011. On top of this, expenses are being controlled whilst ancillary revenues such as fees for checked baggage, priority boarding and pre-assigned seats are helping the bottom line. It is also predicted that things such as free meals in economy class will gradually disappear.

Airline executives have confirmed that the recent consolidations have been essential to their survival and that management is now focusing on returns rather than market share, but warned fellow carriers not to return to their old ways by flooding the market with new seats and planes if and when the economy grows.

Europe has also been depressed over the last few years. Whether the fact that Heathrow had the best September ever is proof of a recovering market, remains questionable. BAA said much of the increase in passenger numbers was down to a bounce back in business travel. Even British Airways has taken on a positive stance as it gradually sorts out its problems. It recently announced it was bringing two of its laid-up Boeing 747s back into service, in order to meet rising demand on the London to New York route. Yet again, the prediction of huge savings is anticipated as it moves towards its merger with Iberia which should provide a launching pad for further acquisitions in the years to come. A note of caution however comes from the International Air Transport Association (IATA) who still predict that European airlines will lose about USD1 billion this year, citing competition from Middle East operators as a major factor. This will probably remain so for years to come.

## Start-Ups

- ANA Wings, Japan, a new subsidiary of All Nippon Airways (ANA) commenced operations on 1st October 2010. ANA Wings consolidates into a new single brand three ANA subsidiaries, Air Nippon Network, Air Next and Air Central. The airline will operate a fleet of Boeing 737-500 and Bombardier DHC-8 aircraft from its main base at New Chitose Airport in Japan.
- Petra Airlines, Jordan, was awarded its Air Operators Certificate on 7th October 2010. The carrier also received the first of its two Airbus A320 aircraft, the second of which is expected to arrive in Amman before the end of this month. The carrier will initially specialise in offering passenger charters and ACMI leasing services, with plans for the operation of low cost scheduled services at a later date.
- Red Jet, Caribbean, is aiming to commence operations by the end of December 2010 subject to licensing approval. The carrier has acquired two McDonnell Douglas MD-82 aircraft, which are expected to arrive next month (November 2010). Initial plans are to fly from Barbados to Guyana, Jamaica and Trinidad & Tobago.
- Sky Regional Airlines, USA, a new subsidiary of Skyservice Business Aviation, will operate flights for Air Canada under a Capacity Purchase Agreement from February 2011. The carrier is expected to lease five Bombardier DHC-8-400Q aircraft for the new operation. Sky Regional Airlines plans to provide up to 15 non-stop flights each way between Toronto and Montreal's Trudeau International Airport.
- Sol del Paraguay, is ready to launch flights upon approval of its aircraft operating certificate. The carrier has received its first of five Fokker 100 aircraft, with the second due to arrive early November, and the remaining three during the first months of 2011. The airline will announce its initial routes once they have been confirmed by Paraguay's civil aviation authority.

## Closures

- Viking Airlines, Sweden, the holiday charter operator ceased trading on 16th October. The company operated from a number of UK airports and had a fleet of leased Boeing 737s.
- Blue Line, Paris, was liquidated by a French court on 6th October. The operator had fallen into financial difficulties earlier in the year and had been trying to find new investors.
- Livingston, Italy, had its operating licence suspended on 8th October after failing to meet European criteria on sustainable business. The airline operated a fleet of six aircraft, Airbus A321s and A330s.
- Star 1 Airlines, Lithuania, is filing for bankruptcy following the detention of its aircraft in Ireland and its subsequent suspension of services. It operated just a single Boeing 737-700 aircraft.

## Orders

This month sees the finalisation of some contracts first announced at Farnborough back in July. Air Lease Corporation (ALC) confirmed orders for 60 Boeing 737-800s being 54 firm and 6 options for delivery through 2017. ALC also confirmed an agreement with Embraer for 15 E190 aircraft from June 2011. Five of the 15 are 'reconfirmable' with an additional five options. Also from Farnborough, Hong Kong Airlines finalised 10 more Airbus A330-200 and converted an existing order for 15 A330 to the new A350-XWB. The A330s are due for delivery from 2012 and the A350s from 2018.

Other orders announced this month come from airlines increasing their existing fleet numbers. Luxair ordered one additional Boeing 737-800; Libyan African Aviation Holdings ordered three further Bombardier CRJ-900s with options for three more for operation by Libyan Airlines; Fuji Dream Airlines ordered one more Embraer E175 plus one option bringing their E jet fleet to 5; British Airways subsidiary BA CityFlyer increased its Embraer E jets firm order to 13 with two E-190 option conversions.

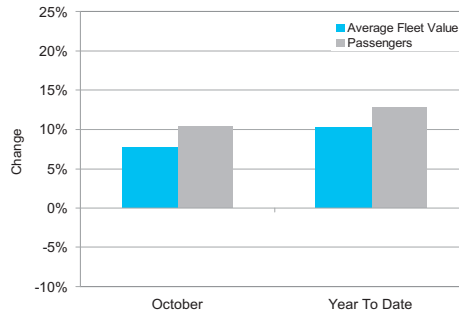
# Renewal Analysis

## Exposures

Overall the pattern of growth in exposures that we have seen so far in 2010 continues throughout the October renewals. There are contractions in exposure on individual accounts but the weight of the growth seen from the larger operators far outstrips this.

### Year on Year % Exposure Change

October / Year to date. Based on latest Information at 27 October 2010



Source: JLT Database

## Premiums\*

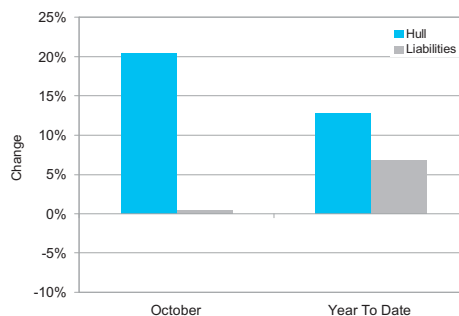
In this month's renewals the exposure growth is, in general, maintaining the premium level at reduced rates, following the pattern we have seen throughout the year. The hull premium has been boosted further this month due to a loss affected account.

| Year to Date<br>(Like for Like) | Hull<br>USDm | Liability<br>USDm | Total<br>USDm |
|---------------------------------|--------------|-------------------|---------------|
| 2009                            | 263          | 354               | 617           |
| 2010                            | 297          | 378               | 674           |
| % Change                        | 13%          | 7%                | 9%            |

\* Net of brokerage and at lead terms

### Year on Year % Premium Change

October / Year to date. Based on latest Information at 27 October 2010



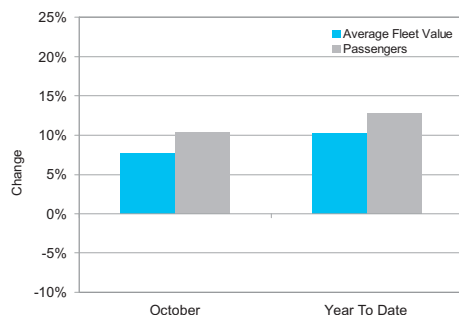
Source: JLT Database

## Rates

The largest airline renewal has seen a hull rate increase resulting from a recent major loss, this has driven the overall rating for the month well into positive territory. Without this the rest of the sample group show a hull rate reduction in line with the liabilities.

### Year on Year % Rate Change

October / Year to date. Based on latest Information at 27 October 2010



Source: JLT Database

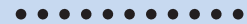
## Insurance Market News

Lloyd's specialist insurer Argo International Syndicate 1200, a subsidiary of Argo Group International, is to begin underwriting general aviation insurance with Richard Bayman appointed as class underwriter.

AM Best has affirmed the financial strength rating of A+ of Munich Re and its subsidiaries.

S&P has affirmed its rating for Swiss Re at A+ and revised the outlook to positive.

Some Lloyd's syndicates have been trimming their line sizes, however, overall capacity remains fairly stable and there have been no major additions or withdrawals from the market.



## Lead Lines

(continued from page 1)

than a gamble, and not even a calculated one at that!

Be warned it is not sustainable for the vast majority to continue writing business at unrealistic levels ... if we are not very careful as we go into 2011, our airline clients might well face a rapidly shrinking capacity followed by the inevitable knee jerk rate increases.



# Loss Analysis

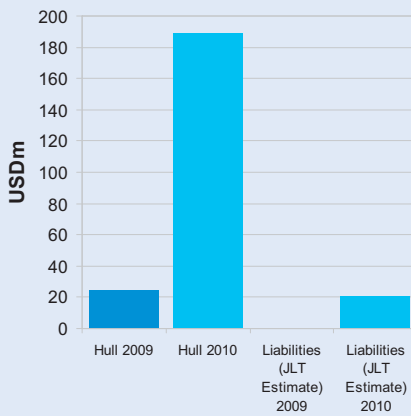
## Losses Summary

### September

- Hull and spares losses of USD 188.63m
- 19 airline fatalities
- Liability loss estimate USD 21m

#### September Losses

All Known Losses Net of deductible

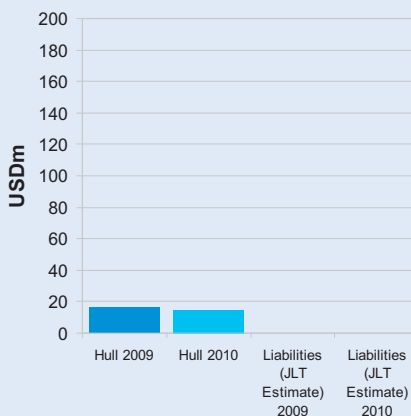


### October

- Hull losses USD 15m
- 11 airline fatalities
- Liability loss estimate nil

#### October Losses

All Known Losses Net of deductible



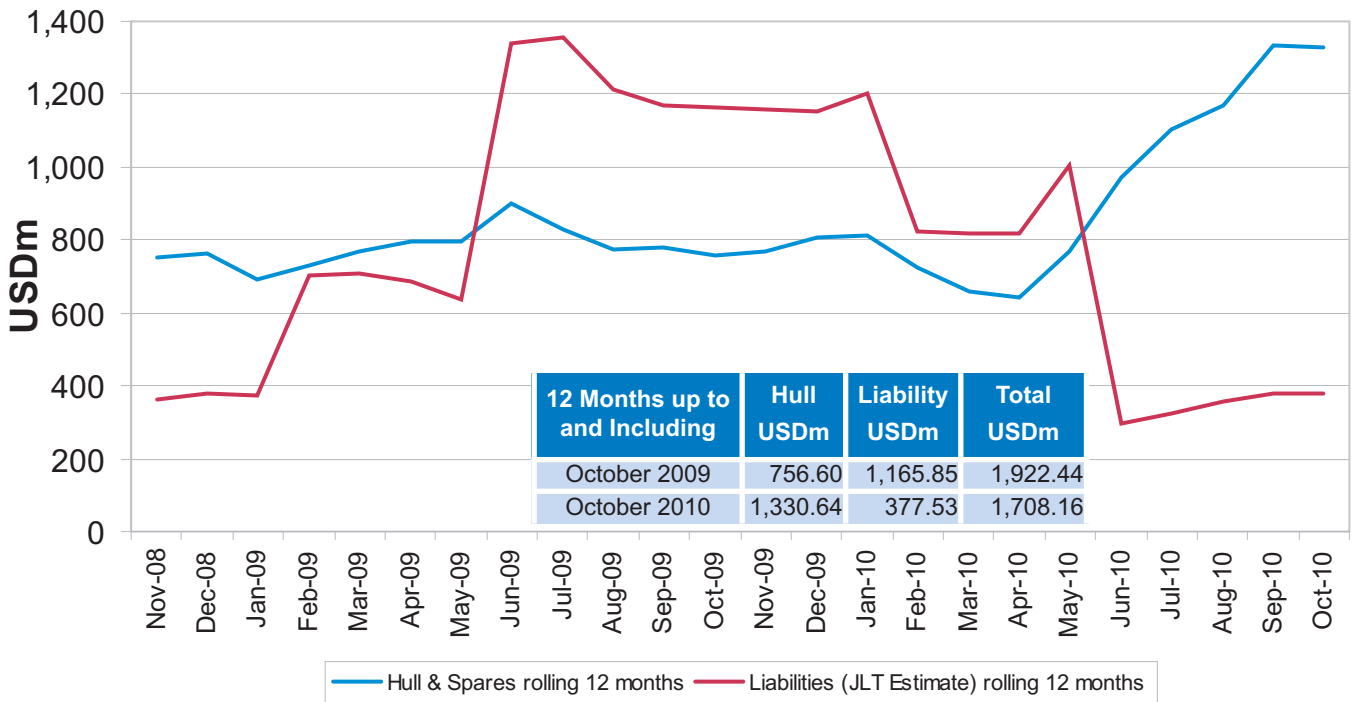
## Known Losses in October

|  |                               |                                       |             |
|--|-------------------------------|---------------------------------------|-------------|
| 3rd  | Thompson Airways              | Boeing 767-300ER<br>(G-OOBK)          | UK          |
| The aircraft suffered a heavy landing at Bristol airport resulting in creasing to the upper fuselage skin. This is the second such incident with this particular aircraft, the first occurring whilst it was in service with Vietnam Airlines in 2000. |                               |                                       |             |
| 12th   | Sita Air                      | Dornier 228-202K<br>(9N-AHB)          | Nepal       |
| Following a landing on the short, hillside, airstrip at Lukla, the aircraft struck a wall causing damage to the nose of the aircraft. Reportedly, the brakes failed on landing. No injuries were reported.   |                               |                                       |             |
| 12th   | Transafrik/National Air Cargo | Lockheed L100-30 Hercules<br>(5X-TUC) | Afghanistan |
| On a domestic cargo flight, carrying NATO supplies, from Bagram Air Base to Kabul, the aircraft struck mountainous terrain resulting in the loss of all eight crew members. The aircraft was operated by Transafrik on behalf of National Air Cargo.   |                               |                                       |             |
| 15th   | V Australia                   | Boeing 777-300ER<br>(VH-VPD)          | USA         |
| The aircraft was being pushed out of a hangar to the flightline at Los Angeles when the port wing contacted the hangar door frame damaging the wing.   |                               |                                       |             |
| 21st   | Tracep                        | Let L-410UVP<br>(9Q-CUA)              | Congo       |
| Reports suggest an engine failure shortly after departure from Bukavu resulting in a collision with hilly terrain. The two crew members of the domestic cargo flight perished in the accident.   |                               |                                       |             |
| 25th   | Kenn Borek Air                | Beech King Air 100<br>(C-FRKB)        | Canada      |
| The aircraft crashed on approach to Kirby Lake Airstrip, Alberta at the end of a domestic passenger flight. One of the 10 occupants was fatally injured.   |                               |                                       |             |

The JLT liability estimates are provided merely as a guide.

# Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to October, 2010

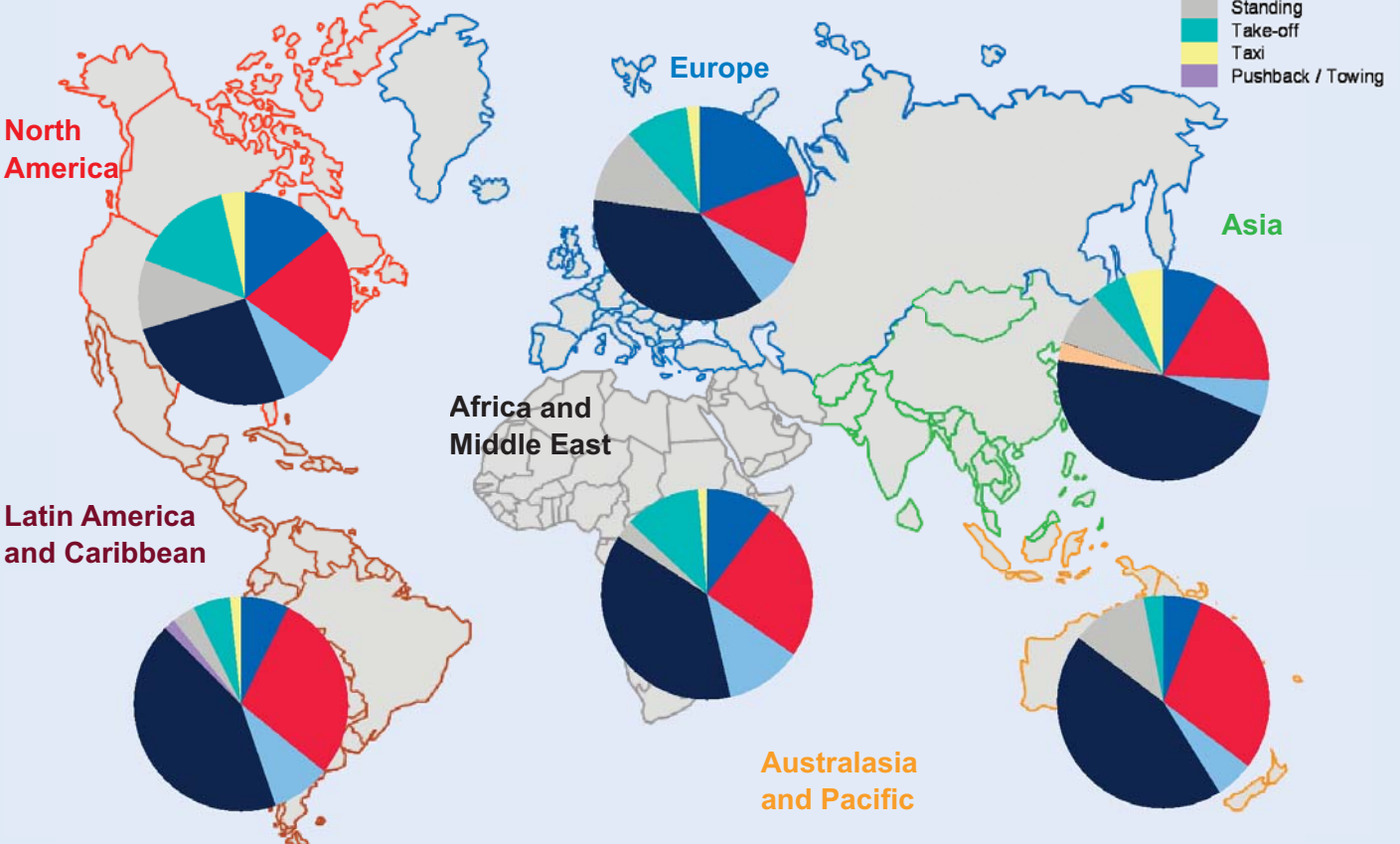


The JLT liability estimates are provided merely as a guide.

# Regional Chart

Total Losses - Phase of Flight - Average last 5 years

By Domicile of Operator



# PlaneTalking

This publication is compiled and published for the benefit of certain clients for whom companies within the Jardine Lloyd Thompson Group act as agent or consultant. It is intended only to highlight general issues relating to the subject matter which may be of interest and does not necessarily deal with every important topic nor cover every aspect of the topics with which it deals. It is not designed to provide specific advice on the subject matter.

Views and opinions expressed in this publication are those of JLT Aerospace unless otherwise stated.

Whilst every effort has been made to ensure the accuracy of the content of this publication, neither JLT Aerospace nor any other company within the Jardine Lloyd Thompson Group accepts responsibility for any error, omission or deficiency in its content. If you intend to take any action or make any decision on the basis of the content of this publication, you should first seek specific professional advice and verify its content.

This document is protected by copyright law. Unauthorised reproduction, copying and distribution of this document or any part of it may result in civil and criminal penalties and will be prosecuted to the maximum extent permitted under law.



## Editorial

If you have any comments or suggestions or changes to your email address, or you know anyone who would like to be added to our mailing list, please advise by emailing details to [publications@jltre.com](mailto:publications@jltre.com)

## Editorial team

Richard Adams

John Boler

Victor Fryer

Lucy Ginty

Brad Hills

Andy Poulton

David Sinnett