

# Plane Talking

JLT AEROSPACE

APRIL 2011

## Executive Summary

### Windshear or CFIT?

This month saw a number of larger airline renewals coming to market, generally forecasting healthy growth in fleet values and passenger numbers. Whilst this growth brings encouraging signs for all sectors of the industry, the resultant growth in premiums to the insurance market that might be expected is yet to be seen. Indeed if anything the growth has only served to help dampen the rate of continued softening in market rates.

More than adequate capacity prevails in most cases despite some significant realignment of offered capacity by a number of insurers and this serves to illustrate the continued attraction of the class to investors. The recent release of Lloyd's results showed that aviation was the most improved business class in 2010 over 2009 and enjoyed a marginal underwriting profit (and before taking into account prior year reserve releases). The effect of these results together with the portfolio diversity aviation brings (i.e. not aggregating with other catastrophe risk classes) appears to swing favour away from the at best, modest underwriting profits on offer, and very significant catastrophic loss potential.

Reinsurers have also been sympathetic to the plight of their clients, the insurers, and have given some relief in the shape of recent renewal terms.

Major loss frequency appears benign to date in comparison to prior years however the smaller "attritional" claims continue unabated and are showing signs of becoming increasingly costly. Despite the relatively good record for recent major losses, it is however sobering to reflect on some of the recent aviation loss events; tsunami, tornado, hail, manufacturers hulls, crash landing on a highway, A380 ground collision, passenger jet fuselage failure and think of how much worse any one of these might have been.

Many insurers are busy diversifying away from major risk airline business in favour of other aviation classes. The direct impact of these actions are beginning to be felt, however ultimately they will probably impact the sustainability of aviation insurance as a class, with the consequent inevitable result.

A perfect storm continues to gather, but which element will actually tip the balance is still anyone's guess – this is not a market for the feint hearted.

### In This Issue

Executive Summary	1
Lead Lines	2
Renewal Analysis	3
Loss Analysis	4
Insurance Market News	5
Airline Market News	6

### Editor's note

“ Thank you to everyone who took the time to complete our online reader survey. Over the coming months we will look to incorporate some of the suggestions provided. ”



# Lead Lines

“ **New Technology - Should we be afraid?**  
‘Should we be afraid?’

These were the words spoken recently by the senior engineer of a major airline when finding out the newest addition of aircraft to his company’s fleet would be built using the latest composite technology. He was expressing a concern about the potential difficulty of dealing with the ‘unknowns’.

It’s an interesting question, one which could of course be asked by many in the aviation industry including the Insurance Market.

In trying to answer his question, let’s look at a little history. Civil jet aviation - which really started in the era of the Boeing B707/De Havilland Comet - has seen some significant step changes in design and technology. In 1969 the B747-100 ‘Jumbo’ brought size and the first big fan engines – at the time kicking out a whopping 45,000 pounds of thrust which many in the industry thought would tear the wings off! As a young apprentice with BOAC (the forerunner of British Airways) I was privileged to see this giant of an aircraft enter service.

Later in 1976, we had Concorde plying the air giving us for the first time, supersonic technology for passenger use. In the mid 1980s Airbus brought us the A320 with ‘fly by wire’ technology with the conventional pilot’s control column being replaced by a (joy) stick controller, as well as an all glass cockpit. In 2007, we saw Airbus bring into service the A380, the first true full double deck configuration aircraft. There are though, many more new innovations we could talk about.

However, we now appear to be on the brink of another big change. Boeing with the B787 due to enter service this year and Airbus with the A350 entering service in 2013, are both embarking on the bold and confident step of constructing new aircraft with an ever greater usage of composites, such as carbon fibre reinforced plastics - much of which is used to make up major parts of the structures including the fuselage, empennage and wings.

Going back to the engineer’s question, there is no doubt new technology brings new challenges, but this really should be viewed in the same light as the previous ground breaking developments which have formed part of the civil aviation industry we now know.

As an engineer, I am very familiar with the process of what happens when a new ‘type’ of aircraft enters service. Feedback from operations and maintenance, in service experience and a host of other data is constantly collated, analysed and developed to improve the product. This is a continual process.

Not long after Concorde entered service, one of the relatively new fleet was taken out of service with a fuselage puncture close to an entry door. There was certainly some scratching of heads as engineers wondered if the patch repair completed on the skin would be ok for travelling at twice the speed of sound; it was fine, and of course the military had been carrying out such repairs on fighters for many years with the technology they were using.

I strongly believe that new technology is good for our industry and should be looked upon in a positive way. New technology has had and continues to have a significant input by making aviation safer e.g. auto-land, ground proximity warning, terminal collision avoidance to name a few.

What does appear to be significantly different as we look to the next generation of aircraft are the demands on designers to satisfy environmental targets, including re-cycling of materials, passenger comfort/welfare and the approach to maintenance where there is less waste. For the next generation, being an air passenger will not simply be about getting from A to B, but will include additional consideration such as; What is the impact of me flying on those around me? What technology is there to help me and my family be comfortable? What is my carbon footprint etc.?

(Continued on page 6)



## Paul Clark,

Airclaims - Group Director,  
Claims

### Biography

Aviation Experience: 40 years

Paul Clark is the Group Director of Claims at Airclaims and is responsible for the effective control and operation of the Claims Group survey activities.

Paul joined Airclaims in 1987 as an aviation surveyor and was soon promoted to Senior Surveyor and Regional Director. In 1998, Paul became Principal Surveyor taking his current role as Group Director, Claims in 2009.

Paul served his apprenticeship at BOAC (the forerunner of British Airways) and subsequently joined the airline in aircraft engine maintenance and overhaul. He then moved to long haul aircraft line maintenance, where he gained his engineer’s licenses, progressing to supervisory and management positions, before leaving to join Airclaims.

# Renewal Analysis

## Exposures

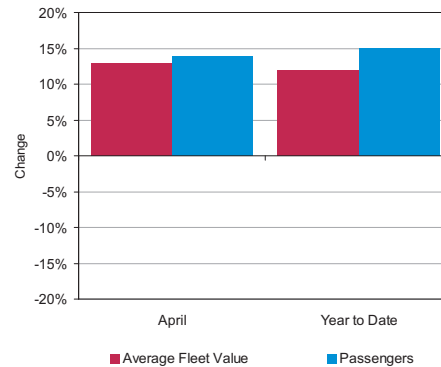
April, the first significant renewal month of the year is showing some very strong increased numbers.

Exposure growth is very high with four of the largest renewals, including Hainan and the new BA/Iberia tie up, showing over 25% AFV growth and over 10% growth in passenger numbers.

The growth in passenger numbers for the month has been boosted further by SpiceJet and Corendon which have experienced over 100% increases.

### Year on Year % Exposure Change

April / Year to date. Based on latest Information at 26 April 2011



Source: JLT Database

## Premiums\*

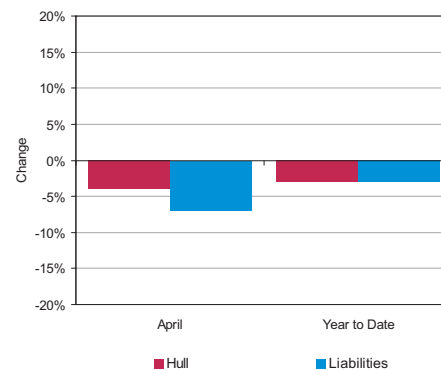
Premium is down but only marginally as the growth in exposures allows greater reductions whilst maintaining modest changes in premium.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2010	53.4	98.0	151.4
2011	52.6	95.1	146.8
% Change	- 3%	- 3%	- 3%

\* Net of brokerage and at lead terms

### Year on Year % Premium Change

April / Year to date. Based on latest Information at 26 April 2011



Source: JLT Database

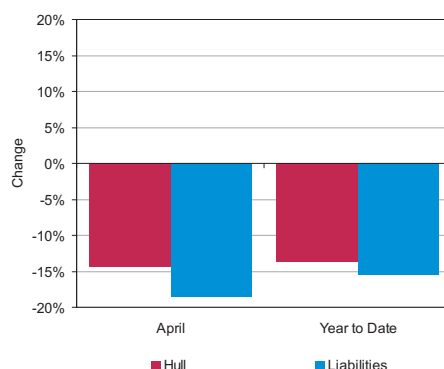
## Rates

All other factors being equal one would expect to see rate reductions following the growth in exposure and the increase in buying power provided by the tie up of BA and Iberia but those factors alone do not account for the rate reduction shown here.

Despite underwriters apparent resolve and the theoretical reduction of capacity from reduced line sizes by some markets the rates movements seen in 2011, more significantly in April, are negative. Indeed just one major airline renewal in April shows an overall rate increase, and that is on the back of a loss in the previous year.

### Year on Year % Rate Change

April / Year to date. Based on latest Information at 26 April 2011



Source: JLT Database

## Comment

April is the first month in the year where there is a meaningful representation of large operators and flag carriers coming to the market.

With renewal dates spread throughout the month April contributes more premium than the whole of the preceding three months combined.

Out of the 18 airline renewals included in our analysis this month, the largest by far is the British Airways placement which this year includes Iberia and its ancillary operators, following the merger between the two earlier in the year.

The combined operation is known as The International Aviation Group, with a fleet valued in excess of USD29 billion and is estimated to fly over 112 million passengers annually.

Other airlines renewing in April include flag carriers such as Air Mauritius, Air Madagascar and Aerolineas Argentinas, although despite their significance as a national carrier, they simply do not compare in sheer size to Air Berlin, Germany's second largest airline and Hainan Airlines of China.

## Forthcoming Airline Renewals

May provides the market with another month of substantial premium and includes renewals from operators that have moved their renewals forward from previous policy periods.

In the table below we list a selection of the larger May renewals due to take place.

One of the first and biggest largest renewals of the month is the budget airline easyJet which has moved broker from Marsh to JLT in 2011.

Other major operators renewing in May include the Virgin Group and Air Asia.

In addition the relatively small flag carriers Royal Brunei and Tarom both also renew.

Airline	Renewal Date	Expiring AFV USDm
easyJet	1st May	6,600
Air Transat	1st May	674
Royal Brunei	1st May	634
TAROM	1st May	522
Transaero	1st May	1,650
Virgin Atlantic	14th May	5,300
Virgin Blue	14th May	4,300
Virgin America	14th May	1,500
Air Asia	15th May	4,300
Ryan International	15th May	326

# Loss Analysis

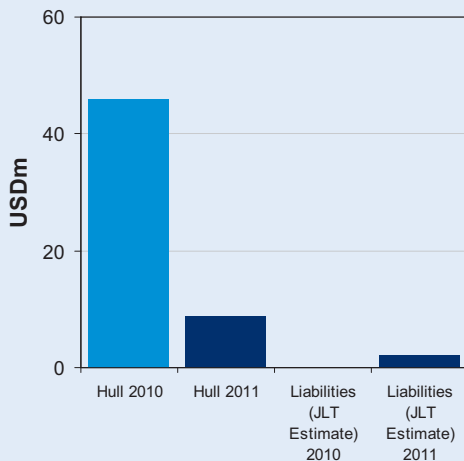
## Airline Loss Summary

### March

- Hull and spares losses of USD8.75m
- 23 airline fatalities
- Liability loss estimate of USD2.00m

#### March Losses

All Known Airline Losses Net of deductible

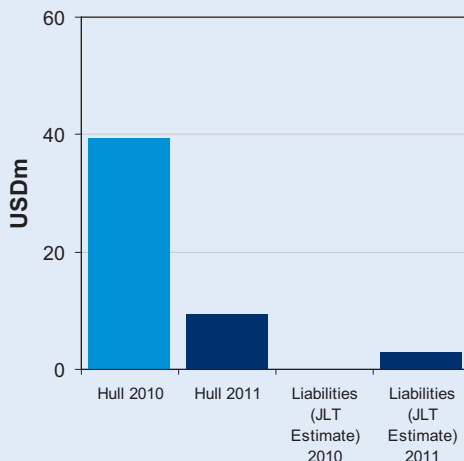


### April

- Hull losses USD9.50m
- 32 airline fatalities
- Liability loss estimate of USD3.00m

#### April Losses

All Known Airline Losses Net of deductible



## Airline Loss Summary

1st	Southwest Airlines	Boeing 737-300 (N632SW)	USA
En-route between Phoenix and Sacramento, the 15 year old aircraft suffered suspected fatigue failure to a fuselage skin panel, resulting in a hole of about five feet long by one foot wide in its cabin roof. The aircraft landed safely and the only injuries that occurred were minor ones. 81 similar aircraft were removed from Southwest service until inspections could be completed and the FAA issued an Airworthiness Directive.			
1st	Fugro Airborne Surveys	CASA 212-200 (C-FDKM)	Canada
On approach to Saskatoon, the aircraft suffered engine problems. When it became clear the aircraft would not make the runway the crew were forced to make an emergency landing, attempting to put the aircraft down on a local street. The aircraft crash landed into a concrete wall on the side of the road, about 10 metres away from a residential area and across the street from a supermarket. One fatality occurred from the 3 occupants onboard.			
2nd	Gulfstream Aerospace	Gulfstream G650 (N652GD)	USA
The aircraft crashed whilst undergoing a manufacturer takeoff performance test at Roswell International Air Center, NM. The aircraft had just become airborne when the right wingtip struck the runway, it's landing gear collapsed sending the plane skidding. The aircraft burst into flames and came to rest yards short of an air traffic control tower. Two test pilots and two test engineers perished in the accident. It is believed the hull value is USD65m.			
4th	Georgian Airways	Bombardier CRJ-100 (4L-GAE)	DR Congo
The aircraft was operating on behalf of the United Nations Organisation, flying from Kisangani to Kinshasa. On landing at Kinshasa in torrential rain, thunderstorms and low visibility, the aircraft missed the runway, and broke up into several parts upon ground contact. Only one occupant, from the 29 passengers and 4 crew onboard, survived.			
4th	TAROM	Boeing 737-300 (YR-BGD)	Romania
Departing Bucharest for Madrid and climbing through FL300 the crew decided to return to Bucharest due to reports of unusual noises during takeoff rotation leading the crew to suspect a tailstrike. The aircraft landed safely about 35 minutes after departure and is reported to have sustained substantial damage.			
11th	Comair & Air France	Bombardier CRJ-700 & Airbus A380 (N641CA) & (F-HPJD)	USA
While taxiing toward takeoff in darkness at New York's JFK airport, the A380's wingtip struck the stationary CRJ's tailfin swinging the latter aircraft through about 90 degrees. No injuries were reported on either plane and the extent of damage has yet to be established.			
16th	Petropavlovsk-Kamchatsky Aviation Enterprise	Yakovlev Yak-40 (RA-88241)	Russia
The aircraft had diverted to Ust-Kamchatka due to poor weather conditions in Ossora. After some time on the ground the crew decided to return to Petropavlovsk but during the takeoff run, the aircraft overran the runway coming to a stop about 300 meters past the runway end supported by left and nose gear and right hand wing. Russia's Emergency Ministry reported that the passengers on board were "frightened but uninjured".			

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

# Insurance Market News

- The recording and transcript from the JLT Specialty 6 April Natural Catastrophe audio briefing is now available.

The content includes:

- A view from Japan about the 1st April reinsurance treaty renewals and the manufacturing and supply chain outlook
- An update on the insurance market conditions and our experience from the 31st March renewal season
- Advice to those organisations that are preparing for insurance renewals in the coming months
- An insight into the some of the claims complexities, particularly contingent business interruption, and some claims management lessons from past losses.

The podcast lasts for 50 minutes and is hosted by Mark Drummond-Brady, International Chairman for Risk and Insurance, JLT Group plc, alongside a panel of experts from across JLT.

For further information on this topic and to receive the access link please contact us at: [publications@jltre.com](mailto:publications@jltre.com)

- Lloyd's aviation business was the most improved class in 2010, recording an underwriting profit of GBP115m, its largest surplus for many years and up from GBP10m in 2009.

Premiums in Lloyd's ever expanding aviation portfolio have grown by 63.6% in the last five years, according to the Society's annual results. Gross written premium rose from GBP393m in 2006 to GBP642m in 2010, with 2010 seeing a 16.5% rise over 2009.

Lloyd's accident year combined ratio was an impressively low 74.9%, although this was boosted by prior-year reserve releases of 24.5 points. Without this, the accident year combined ratio would have been 99.4 percent. This figure of 99.4% accounts for the first profitable year for its aviation underwriting segment (discounting reserve releases) since 2006.

- Lloyd's of London expects its newly licensed Chinese direct insurance operation to be writing business by the third quarter of this year.

The direct licence was granted by the Chinese authorities in May last year. Lloyd's has since been working with the Market and the Chinese authorities to ensure its direct operation can comply with the relevant regulations in China.

The direct licence gives Lloyd's the ability to write marine, aviation and transport across China. In addition to other classes of business across China with a premium above USD40,000.

- Kiln, the international insurance and reinsurance underwriting group, has issued a letter of intent to merge two of its syndicates 807 and 510 with effect from 1 January 2012, creating a single Lloyd's syndicate with capacity of GBP1.06bn.

Kiln's largest syndicate, 510 has capacity of GBP920m for the 2011 year of account and Syndicate 807 has capacity of GBP140.6m.

The merger, which is subject to approval from Names and regulators, will create the second largest syndicate in Lloyd's and would become one of only three with a stamp capacity in excess of GBP1bn. Only Catlin Syndicate 2003, which has capacity of GBP1.44bn, is authorised to write more business.

- AM Best has assigned a financial strength rating of A (Excellent) and issuer credit rating of 'a' to Samsung Fire & Marine Insurance Company of Europe (SFME).

SFME is a new UK subsidiary of Samsung Fire & Marine Insurance and was authorised by the UK Financial Services Authority on 29 March to write general insurance business.

- AM Best has withdrawn its financial strength rating of A (Excellent) and has assigned an NR-4 (Not rated company request) on Lloyd's insurer Hardy Underwriting Syndicate 382 at the company's request.

## Arrivals and Departures

- Samsung Fire & Marine Insurance Company of Europe (SFME) has announced the appointment of Tim Carroll as non-executive chairman.
- Airclaims has announced the appointment of two additional Surveyors/Project Managers to their Risk and Asset Management team based in London.

Phil Spurr joins Airclaims from TNT Airways and Mark Rogers joins from British Midland International.

- Allianz Global Corporate & Specialty (AGCS) has announced the appointment of John Pontin as Market Management Head for Global Aviation.

Mr Pontin joins AGCS from Euler Hermes. Mr Pontin will be based in New York and will assume responsibility for coordinating broker relationship management and will work extensively with the AGCS Aviation leadership and underwriting teams.

- Tony Ambrose is leaving QBE Aerospace to head up the Swiss Re Aerospace division in London.
- Lloyd's of London has confirmed that John Nelson will become chairman of the insurance market in October 2011 replacing Lord Levene who has been chairman for the past nine years.

- Gates and Partners have announced the opening of its new office in Dubai (pending regulatory formalities) and the recruitment of two new partners.

Jim Edmunds and Anthony Frances join Gates and Partners from the Dubai office of Clyde and Co.

- Brendan Warner has left Swiss Re Australia and is joining Kiln Group's Singapore office.

# Airline Market News

- The Association of European Airlines (AEA) has welcomed the European Commission's (EC) recent announcement on the need for a review of controversial Regulation 261/2004, relating to air passenger rights.

Since its introduction, the legislation has been thoroughly tested by numerous extraordinary events, such as the Icelandic volcanic ash crisis and snow disruption last year.

These events heavily impacted airline operations and led to thousands of flights being delayed or cancelled over extended periods of time, and as a result airlines were forced to pay out millions in compensation.

Many airlines have publicly complained about the enforced payments, and some have since added a levy to their flights in order to help cover the costs incurred.

The European Commission's announcement this month states that it will launch a public consultation with a view to addressing issues such as, liability in extraordinary circumstances, compensation thresholds and proportionality, and shared risk across the supply chain. Any proposals on revisions will be presented in 2012.

The AEA, which brings together 36 European airlines, announced that it supports the EC in its drive to review these areas and believes these guidelines could reduce confusion among passengers and airlines alike.

- Financial results for low-cost carriers in 2010 show that the sector enjoyed a strong bounce back in revenues, growing nearly a fifth over the same period in 2009.

Figures released show revenues among 36 no-frills and hybrid carriers grew 19% to USD58.7 billion. Only two carriers saw their revenues fall in local currency.

Total passenger numbers across low-cost carriers in 2010 jumped 15.7% to 639.6 million, while

passenger load factor grew nearly three points to 79.7%.

Profits also took a turn for the better during 2010 with operating profits from nearly 30 low-cost carriers more than doubling to reach USD4.2 billion over the previous year.

## Airline Start-ups

- Asia Majestic Airlines, Thailand, is planning to launch services in the coming months to five destinations in China, Singapore and Japan. The carrier is aiming to acquire a fleet of upto 12 Boeing 777-200 and 737-800 aircraft.
- Leon Air, Africa, believed to be part owned by Arik Air, plans to commence operations this summer using two wet leased B737-800 aircraft.
- Mais Linhas Aéreas, Brazil, is reported to have received two leased Fokker 100 aircraft and is expected to launch services from Salvador shortly. Initial routes are believed to include Belo Horizonte, Porto Seguro and Sao Paulo.
- Nica Air, Nicaragua, will commence operations this summer using Boeing 737-300 aircraft. The carrier plans to begin operations in either June or July with initial routes to Mexico City, Havana and Caracas.
- Nordic Global Airlines, Finland, plans to commence cargo operations shortly using a single MD-11 freighter. The company has plans to lease an additional wide-body freighter aircraft within the first year of operations.

## Airline Closures

- There are no reported closures this month.

## Lead Lines

(Continued from page 2)

But let's not assume all the major new developments within aviation will come through Europe and the USA. New manufacturing bases, global design and industrial alliances are already well established. Russia's new Sukhoi Superjet 100 - which will be seeking EASA approval this year - is being built with the Western market in mind and with input from global aircraft manufacturers. Add to this various projects for civil aircraft construction in China and other large economies, and we have a great amount of change to look forward to.

It is an interesting time in aviation, and Airclaims has taken an active role by both researching and informing the market of many of these developments. We started presenting with the A380 some years ago, and are now doing the rounds with the B787. This will be followed with the A350 and Sukhoi 100. We will be continuing to provide support and education in this regard.

So getting back to our engineer's question 'should we be afraid?' My response to him is a resounding no. The aviation industry has lived and thrived through constant change and has embraced new developments and turned them into part of our regular daily lives, and this will continue to be the case with new technology. Will there be any setbacks? Possibly yes, but that has not stopped development before and neither will it in the future.

”

# 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.

## Contact Us

### Subscriptions

[publications@jltre.com](mailto:publications@jltre.com)

### Editorial Team

Brad Hills

Tel: +44 (0) 207 466 1434

[brad.hills@jltre.com](mailto:brad.hills@jltre.com)

Victor Fryer

Tel: +44 (0) 207 466 6818

[victor.fryer@jltre.com](mailto:victor.fryer@jltre.com)

### Business Contacts

Nigel Weyman

Tel: +44 (0) 207 466 1448

[nigel\\_veyman@jltgroup.com](mailto:nigel_veyman@jltgroup.com)

Bill Smith

Tel: +44 (0) 207 466 6654

[bill\\_smith@jltgroup.com](mailto:bill_smith@jltgroup.com)

### Let us know what you think

JLT is always looking to improve the services and information we provide to our readers.

We value your opinion and welcome your feedback on our Plane Talking publication.

Should you have any feedback please contact us at [publications@jltre.com](mailto:publications@jltre.com)