

Plane Talking

JLT AEROSPACE

SEPTEMBER 2010

Executive Summary

Clearing in the clouds

- The airline industry is performing well in Asia and there are signs of confidence in the Middle East
- Airlines in the rest of the world are undergoing mergers and other strategies to ensure their future
- The number of start-ups exceeded closures this month
- Orders are a mixed bag this month with no clear trend emerging
- Airline insurance renewals are typically quiet for September and the increase in exposure and premiums is attributable to one airline and is not considered a market trend
- Hull losses have taken a big hit this month and can only add to the deterioration in results for underwriters

Lead Lines

Andrea Sommerlad, Chief Underwriting Officer - Aviation & Space Treaties, SCOR Global P&C

“ So far this year, the Aviation market has suffered from a high frequency of losses. Whereas the market has not suffered a major catastrophic loss involving large numbers of fatalities that has impacted the aviation reinsurance market. Nevertheless these losses have occurred with enough regularity for a good understanding of the risk to be achieved and managed. Most recently it seems that losses from unprecedented sources have been causing both insurers and their reinsurers the biggest problems.

Two of this year's largest losses have originated from a fire at a warehouse destroying spares and the hangar collapse caused by the weight of snow respectively. These two losses might cause over USD

500m of claims into the market, of which a significant part will be paid by the reinsurance market.

In order for the reinsurance market to continue to support their clients it is increasingly essential that they can demonstrate a full and robust risk assessment of each and every source of risk. Previously risks such as cargo aircrafts and spares, have been "bundled" into insurance buying negotiations perhaps with little real attention to detail and some failure to recognise the cost of the capital needed for such risks.

Further market and regulatory changes will continue to increase pressure on this cost of capital.

Consequently, the market simply cannot

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Airline News

Comment

The International Air Transport Association (IATA) is now upping its predicted profit for airlines in 2010, but this belies the underlying problems still affecting many sectors of the industry. The Asia-Pacific region and especially China is expected to report a profit in excess of USD5 billion, thus bolstering the overall global statistics considerably. The figures are regarded very much as a cyclical upswing and caution remains as to how long it will last.

Financial necessity has resulted in recent mega-mergers such as Delta / Northwest, United / Continental, and the soon to be finalised marriage between British Airways and Iberia. Also just announced at the end of September is the take-over of AirTran Airways by Southwest Airlines, which will create, by far, the largest low-cost operator in the world.

Next year, Chile based LAN and Brazil based TAM, already the two largest airline groups in Latin America are coming together. As a result they will control an unprecedented share of traffic for a geographical sector accounting for over a third of passengers carried in the Latin American region.

Not far away though, an example of the tenuous state of the market manifested itself in late August with the second largest airline in Mexico, Mexicana, ceasing trading. The reasons given by its new owners Nuevo Grupo Aeronautico was due to a serious deterioration of the airline's finances and its inability to reach agreements to ensure its future viability.

Analysts predict that next year remains risky for the airline industry. In the US for example most airlines remain cautious while Virgin America and JetBlue Airways are adding capacity aggressively.

In the Middle East, Emirates has a huge amount of capacity on order and will no doubt be gambling on whether it will be successfully utilised.

Start-Ups

- Air Guinee International, Guinea, plans to launch operations shortly between Conakry and the Senegalese capital, Dakar. Services to other West African capitals are to follow, as is the region's first direct service to China; planned for launch in November. Initial equipment is expected to be a single Airbus A320 aircraft, with plans to later add an Airbus A340 aircraft to the fleet.
- California Pacific Airlines, USA, is planning to launch services late this or early next year, initially linking Carlsbad's McClellan-Palomar Airport with five cities in California, Arizona and Nevada. Planned initial equipment is five Embraer E-170 regional jet aircraft.
- Korongo Airlines, Democratic Republic of the Congo, plans to launch operations early next year with one Boeing 737-300 aircraft and two BAE 146-200 aircraft. Services are expected to be initially between Lubumbashi and Kinshasa.
- Thai Tiger Airways, Thailand, is expected to commence operations in the first quarter of 2011, pending regulatory approvals. The airline has been created as a joint venture by Thai Airways and Tiger Airways and will operate the same low cost model as the other airlines in the Tiger Airways Group. Thai Tiger will operate international and domestic flights out of Suvarnabhumi International Airport, Bangkok, using a fleet of Airbus A320 aircraft. The carrier will offer short-haul, point-to-point services within a 5 hour flying radius.

Closures

- Mexicana, one of the largest airlines in Mexico which includes regional carriers Click and Link ceased operations on August 28 due to a serious deterioration in the company's finances. Mexicana had a fleet of Airbus and Boeing aircraft valued in excess of USD2.5 billion and flew over 12 million passengers annually.

- Russian carrier Zapolyarye suspended operations on the 6th September after running into serious financial problems. The airline operated a fleet of four Tupolev TU-154 aircraft.

Orders

A steady month for some product lines yet quiet for others makes it difficult to see where the market is heading. Boeing announced a new order of four 777-300ER aircraft from Air China to form the backbone of their long-haul fleet. Cathay Pacific finalised their order for six additional 777-300ER aircraft increasing their -300ER fleet to 36 alongside 17 other Boeing 777 models. Cathay also finalised their order for 30 Airbus A350XWB aircraft destined to be the backbone of their mid-size long-haul fleet.

Malaysia Airlines converted two earlier options for Airbus A330-200F freighters to firm orders for operation by its subsidiary MASKargo. MASKargo now have four Airbus A330 freighters on firm order. In the biggest announcement of the month, and the only one from Europe, Lufthansa Group announced it is to order 40 new Airbus aircraft. Of these Lufthansa will itself take 20 narrowbodies and three Airbus A330-300, a further four narrowbodies and five Airbus A330-300 will go to Swiss International Airlines with the remaining eight Airbus A319 going to Germanwings.

In the turboprop market, Caribbean Airlines become a new customer for ATR replacing five DHC8-300 aircraft with nine ATR72-600 aircraft from late 2011. Services will be operated from Trinidad and Tobago as well as on the newly acquired Air Jamaica network. Bombardier announced an order for two Dash 8-Q400 aircraft plus 3 options from Smart Aviation, Egypt, to launch scheduled and charter services. Smart Aviation currently operates a fleet of executive jets throughout the Middle East.

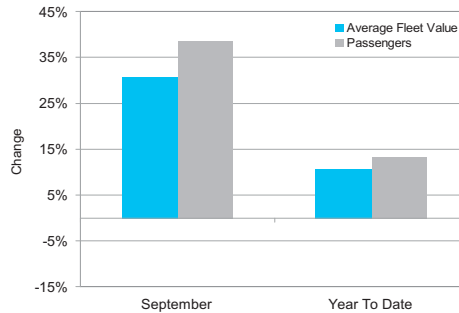
Renewal Analysis

Exposures

September is one of the quietest months in the year for airline renewals with exposure growth continuing the general trend seen so far during 2010. One airline in particular showed massive growth which has pushed up the average for the month.

Year on Year % Exposure Change

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



Source: JLT Database

Premiums*

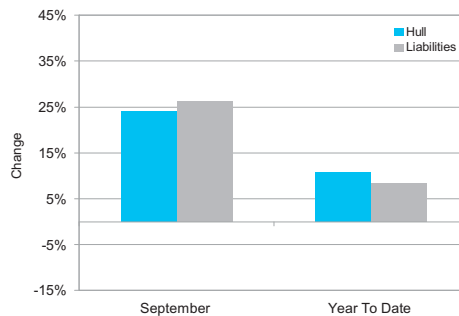
As a result of the increased exposures and a minimal reduction in rating, premiums have risen significantly.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2009	214	298	513
2010	237	323	560
% Change	11%	8%	9%

* Net of brokerage and at lead terms

Year on Year % Premium Change

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



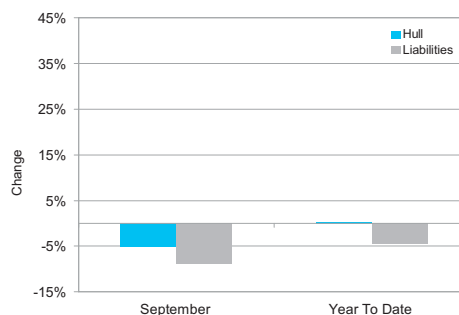
Source: JLT Database

Rates

Exposure growth has acted upon rating and despite some poor loss records, airlines have achieved rate reductions.

Year on Year % Rate Change

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



Source: JLT Database

Insurance Market News

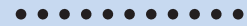
Overall capacity in the aviation market remains strong. Some individual markets are choosing to reduce their participation on certain classes but this is more due to a re-balancing of their particular portfolio than a reduction in market appetite.

Scor has been upgraded by AM Bests from A- to A rating.

Flagstone Re has opened a box at Lloyd's.

Arrivals and Departures

- Amlin has appointed Miles Taffs as head of aviation, a role he will assume on March 30 next year when current head Rod Dampier retires.
- John Wadhams has been appointed senior airline underwriter at Ace.



Lead Lines

(continued from page 1)

afford to suffer losses from risks not being priced for and pricing needs to truly reflect all risks covered. As we all are aware of in the current market environment that means the market needs increases in rates as the business is marginal.



Loss Analysis

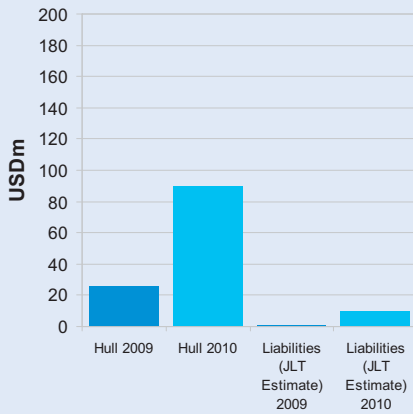
Losses Summary

August

- Hull and spares losses of USD 90.48m
- 88 airline fatalities
- Liability loss estimate USD 10m

August Losses

All Known Losses Net of deductible

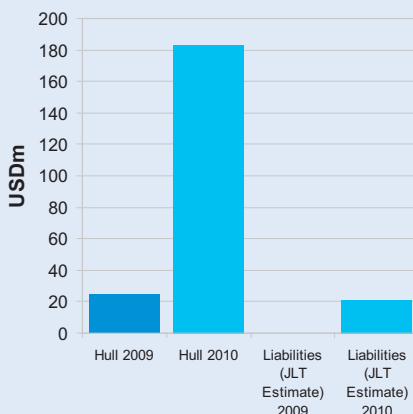


September

- Hull losses USD 183.23m
- 19 airline fatalities
- Liability loss estimate USD 22m

September Losses

All Known Losses Net of deductible



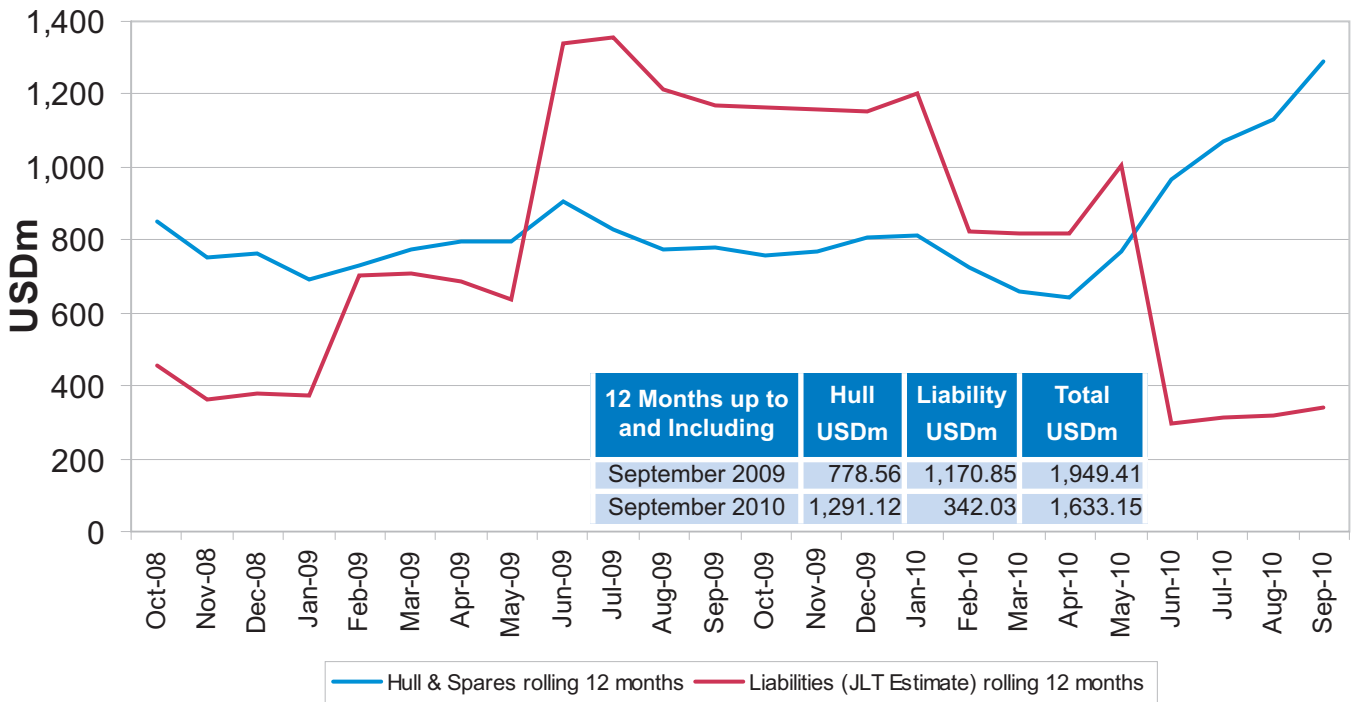
Known Losses in September

3rd	United Parcel Service	Boeing 747-400F (N571UP)	Dubai
Shortly after takeoff from Dubai, the crew reported an onboard fire. A return to Dubai was initiated but with visibility impaired due to smoke, the aircraft passed the airport and crashed into a new building construction area. There were two fatalities both of whom were crew members.			
7th	Alrosa Mirny Air Enterprise	Tupolev Tu-154M (RA-85864)	Russia
The aircraft suffered equipment failures whilst departing Polyarny and was force landed on a short and disused runway at Izhma with little damage or injury though the aircraft overran the runway.			
13th	Conviasa	ATR42-300 (YV1010)	Venezuela
The aircraft crashed whilst attempting to make an emergency landing at Puerto Ordaz following reported control problems. Reports suggest 17 people perished with 34 surviving with various degrees of injuries.			
15th	Wideroe	Bombardier DHC8-100 (LN-WIF)	Norway
Arriving at Sandnessjoen - Stokka Airport, the aircraft was caught by a gust of wind resulting in a heavy landing which caused the starboard undercarriage to collapse.			
24th	Wind Jet	Airbus A319-100 (EI-EDM)	Italy
Landing at Palermo on a flight from Rome, the aircraft encountered wind shear and struck the ground hard some 400 meters short of the runway. Major damage was suffered including the removal of the main undercarriage and parts of the airport equipment being struck by the aircraft. Fortunately, no major injuries occurred. Reports suggest a possible CTL.			
25th	Atlantic Southeast Airlines	Bombardier CRJ-900ER (N133EV)	USA
On approach to Westchester County Airport, the crew had problems in lowering the undercarriage and diverted to New York - JFK. The aircraft was landed with the starboard undercarriage retracted.			

The JLT liability estimates are provided merely as a guide.

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to September, 2010

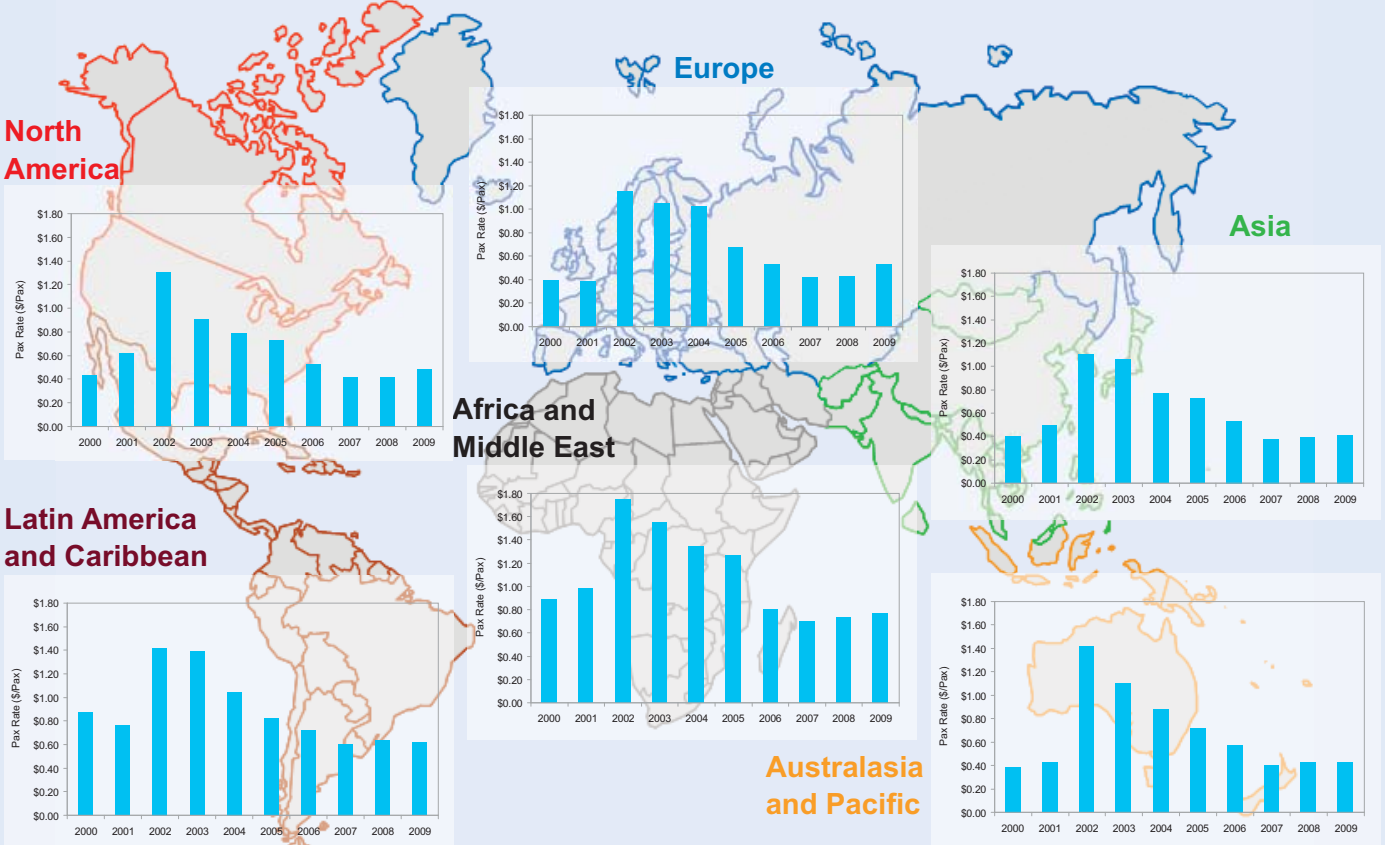


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Regional Chart

Rates - Liability Rates 10 years

By Domicile of Operator



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