PlaneTalking

JLT AEROSPACE

JANUARY 2010

Executive Summary

Continuing Cold Comfort

- The airline industry continues to struggle with the financial climate which has no respite in sight
- Insurance capacity remains poised to snap up any opportunity whilst beginning to re-apparaise strategy for 2010
- Insurance market show few signs of any real change other than perhaps yet more capacity to begin to seek business
- January losses off to a start with with 92 fatalities and a mixed bag of shunts, landing and gear collapse incidents
- Premiums have been maintained and there is an intent to increase wherever possible

In This Issue

Lead Lines

David Slevin, Aviation Team Leader, Faraday

“Another miserable year for aviation insurers and airlines has ended. Almost inevitably, given the rating levels, most insurers lost money, some a lot of money and a few made a modest profit. Our client base has suffered a similar fate, with many airlines planning to completely overhaul their business models and focus in 2010.

2009 saw airline insurers losses of around USD2.5bn against estimated premium levels of USD1.7bn. With the last few years now showing losses and 2009 a 147% loss ratio, and a much higher “combined” ratio after expenses and reinsurance, the airline insurance market has many issues to address in the forthcoming years.

The “verticalisation” of the business has continued apace. 2009 has highlighted that although the leader has significant additional costs he may not always achieve preferential pricing to the following market.

2009 saw airline rates rise on average by 15%, partly driven by larger rate increases on loss making accounts. On the negative side there is now a realisation that average incurred claims per person for a US citizen could be as much as USD7M per person, based on the losses that occurred in 2009. This has risen from around USD2M per person, 10 years ago.

Many insurers would like their management to believe they should “stay in the game” as rates are rising but there again so are liability awards, hull values, reinsurance and capital costs.

The long term

(Continued on page 3)

Airline News

Comment

The recent bankruptcy of Japan Airlines with debts of USD25 billion has prompted a huge restructuring programme with a reduction in workforce, cutting out unprofitable routes, and renewing its aircraft fleet by retiring its 37 Boeing 747-400s.

US regional operator Mesa Air Group which provides feeder services to code-share partners Delta, United and US Airways recently filed for bankruptcy protection and will park 52 aircraft and offload another 25. Chairman Michael Lotz summed up the airline's predicament by saying " We are faced with an untenable financial situation resulting primarily from continued obligations on aircraft excess to current requirements", and added that "we need to reduce and rationalise the fleet to eliminate significant costs associated with retaining, maintaining and storing the excess aircraft". It appears that Mesa is a victim of the rapidly changing regional airline marketplace in the USA.

Air New Zealand has been named airline of the year by Air Transport World Magazine for its "superb commitment to safety and operational excellence." In other categories, Sydney-based Regional Express was named Regional Airline of the Year. Honeywell Aerospace and Rockwell Collins were selected for the Aviation Technology Achievement Award to recognize their advanced cockpit weather radars. Latvia-based airBaltic won the Phoenix Award, for airlines that have gone through a life-changing transformation. Florida based AirTran Airways received the Airline Market Leadership Award.

Start-Ups

- Business Air, Thailand, has launched regular charter services between Bangkok and Seoul Incheon, using a single Boeing 767-200 aircraft.
- Congo Express, Democratic Republic of Congo, will commence operations from 1 February 2010, between the cities of Kinshasa, Lubumbashi and Mbuji-Mayi in the Democratic Republic of Congo. Initial equipment is a Bombardier CRJ200 aircraft.
- Eurex Cargo, Georgia, is poised to commence operations using a Boeing 747-200F aircraft. The carrier plans to fly out of China through Hong Kong to Europe and Africa on both a scheduled and charter basis.
- PacificFlier, Palau, is to commence operations using an Airbus A310-300 aircraft. The carrier will offer services from The Republic of Palau to Manila, The Philippines, Guam, and Brisbane, Australia.
- Viking Hellas Airlines, Greece, will launch scheduled services from Athens to Manchester and Iraq (Erbil, Sulaimaniyah and Baghdad) on 1 February 2010 using Boeing B737-300 and Boeing 737-800 aircraft. The carrier has plans to add one MD83 and two Airbus A320 aircraft to its fleet and to operate charter flights from Greece to destinations throughout Northern Europe, the Mediterranean, North Africa and the Middle East in the coming months.

Closures

- Air Comet, Spain, which flies between Spain and several Latin American countries ceased operations on 21st December after a British judge ordered its fleet of leased aircraft impounded. Air Comet is owned by the Marsans group and was forced to close due to financial problems which prevented them from making lease payments on their aircraft.
- Blue Wings, Germany, has suspended operations as from 13th January after the country's civil aviation regulator withdrew its licence. The authority cited a lack of financial resources for grounding the airline. Blue Wings operated a fleet of 10 A320s and had another 5 on order.
- PB Air, Thailand, which suspended operations last November but planned to resume services with two leased Saab 340 turboprops, finally ceased to be a business on 21st December.

Orders

In a quiet start to the new year, Airbus have announced a number of confirmations of earlier announcements. The first of these is Virgin Atlantic's confirmation of 10 A330-300s being 6 direct from Airbus and 4 to be leased from Aercap. For the analysts, this deal was finalised on the 30th December but announced in January. Yemenia firmed their earlier announcement for 10 A320 family aircraft to replace their existing fleet of narrowbody and widebody aircraft as well as allowing some expansion in regional services.

Boeing and Ethiopian Airlines announced on the 22nd, an order for 10 737-800 to add to the airlines current fleet of 737-700s and pre-owned 737-800s.

Embraer have announced a preliminary agreement to supply Gulf Air with 2 Embraer 170s through operating leases. The 67 seat jets would be delivered in the first quarter of 2010.

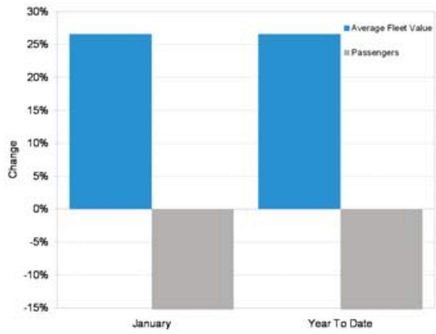
Renewal Analysis

Exposures

As in previous years, January is a very quiet month for airline renewals and those coming to market are very small in fleet size. It therefore follows that just one airline can distort exposure figures giving growth in its fleet valuation and a reduction in expected passenger enplanements.

Year on Year % Exposure Change

December/Year to date. Based on latest Information at 23 January 2010



Source: JLT Database

Premiums*

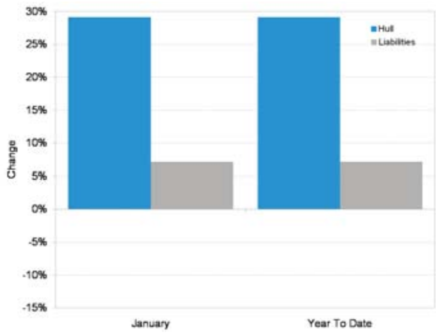
No reliable pattern or conclusion can be drawn from this tiny sample set. Nevertheless, the premium change shown here is perhaps more representative than the distorted picure shown below for rate change. Hull premium has been pushed up by AFV growth and overall liability premium staying roughly static on largely reduced exposures.

Year to Date (Like for Like)	Hull US$M	Liability US$M	Total US$M
2009	2.9	3.6	6.5
2010	3.7	3.8	7.5
% Change	29%	7%	17%

* Net of brokerage and at lead terms

Year on Year % Premium Change

December/Year to date. Based on latest Information at 23 January 2010



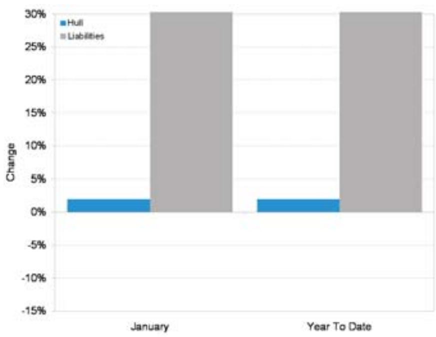
Source: JLT Database

Rates

The changes in exposure, as mentioned above, have had a knock-on effect distorting the rate change due to the inclusion of lower rated equipment and the reduction of passenger numbers.

Year on Year % Rate Change

December/Year to date. Based on latest Information at 23 January 2010



Source: JLT Database

Insurance Market News

XL insurance have opened an aviation branch office, hiring two underwriters, in San Francisco.

AGCS (Allianz Global Corporate and Specialty) have opened an office in Dubai to expand their Middle East and North Africa operations. Aviation will be one of various classes of business offered.

There have been no significant rating changes from Standard and Poor's or AM Best's for any of the major aviation markets in January.

Arrivals and Departures

- Edward Dawson and Matthew Bowers have left Marsh to set up new aviation practice at Alec Finch Limited

Lead Lines

(continued from page 1)

effect of everyone "staying in the game", and accumulating losses, could lead to an avalanche of exiting capacity, and potentially a huge (over) correction in rates. This scenario should be avoided at all costs.

In the short term 2010 is expected to see continuing overcapacity but against a backdrop of underwriters trying to achieve better pricing.

2010 may finally see a return to profit driven principles and objectives, at the expense of market share and the perceived kudos derived from leading risks. ”

Loss Analysis

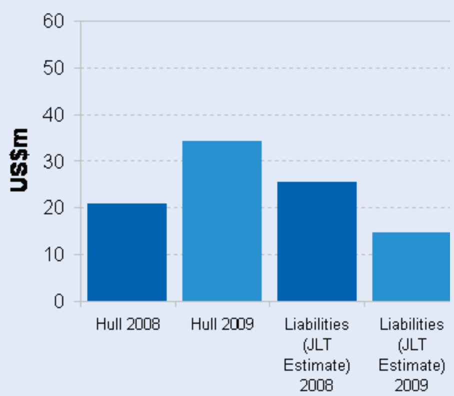
Losses Summary

December

- Hull losses of USD34.27M
- 1 fatality
- Liability loss estimate USD15M

December Losses

All Known Losses Net of deductible

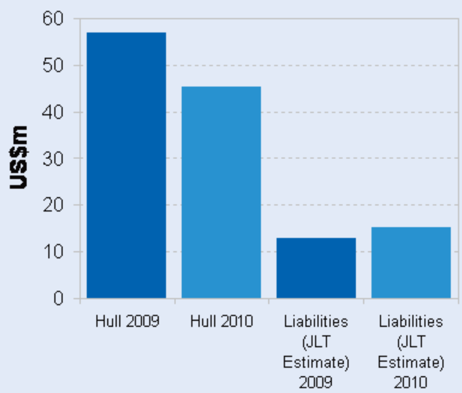


January

- Hull losses are estimated at USD45.29M
- 92 fatalities
- Liability estimate USD15.35M

January Losses

All Known Losses Net of deductible



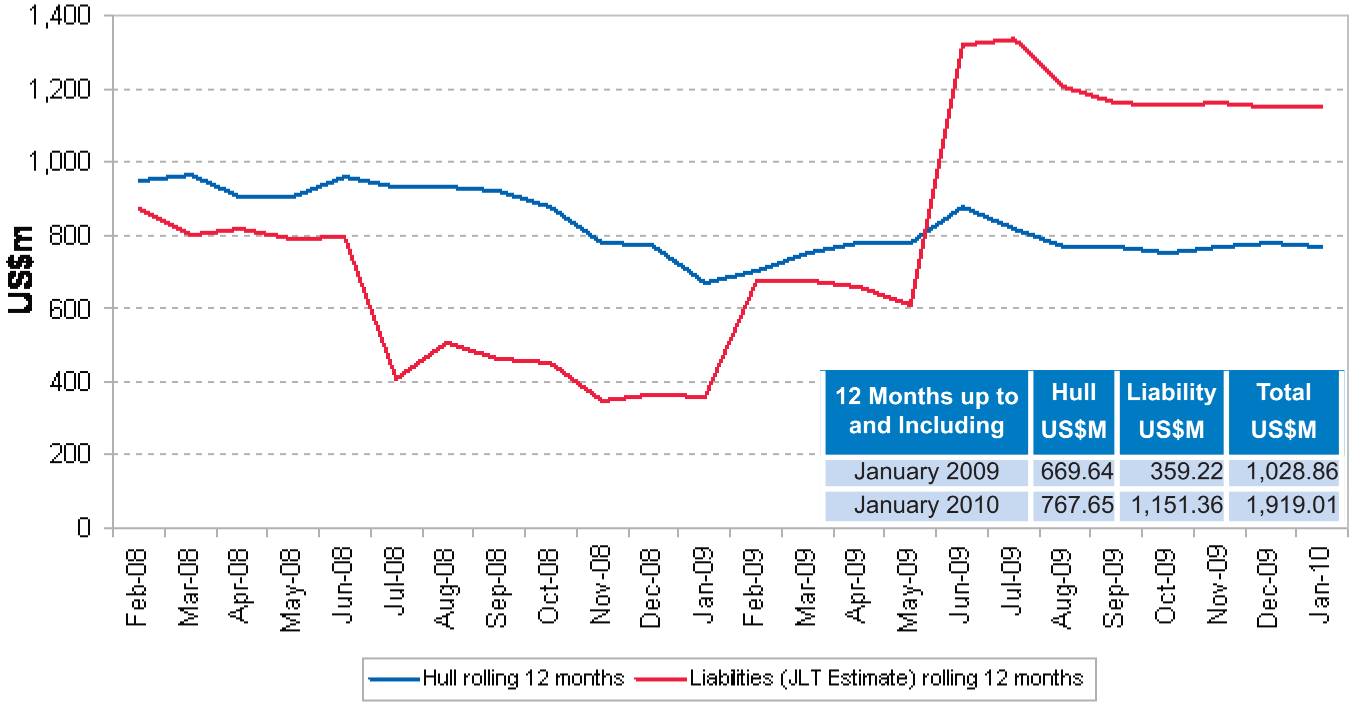
Known Losses in January

Date	Operator	Aircraft	Location	Details
2nd	Compagnie Africaine d'Aviation	Boeing 727-200F (9Q-CAA)	PDR Congo	On departure from Kinshasa, the crew reported hydraulic problems, deciding to return to the airport. On landing back, the undercarriage collapsed and the aircraft left the runway, causing the fuselage to break in a number of places.
10th	United Airlines	Airbus A319-131 (N816UA)	USA	On approach to Newark, NJ, the crew received an unsafe gear warning. After troubleshooting the problem, the aircraft was landed with the starboard undercarriage retracted.
12th	Middle East Airlines & Kabo Air	Airbus A330 & Boeing 747-200	Nigeria	The Middle East Airlines A330 was taxiing to its stand at KanoMalam Aminu Intl Airport when its wing tip sliced into the tail section of the parked Kabo Air 747.
15th	Iran Air	Fokker F100 (EP-IDA)	Iran	The aircraft veered off the runway on landing at Isfahan resulting in the nose undercarriage collapsing.
16th	UTAir	Boeing 737-500 (VQ-BAC)	Russia	The nose undercarriage collapsed whilst the aircraft was parked at Moscow - Vnukovo.
21st	Cargolux	Boeing 747-400F (LX-OCV)	Luxembourg	Having been cleared to land at Luxembourg in foggy conditions, one of the aircraft's wheels struck the roof of a van parked on the runway.
22nd	ACE Air Cargo	Beech 1900C (N112AX)	USA	Shortly after departure from Sand Point, AK, on a domestic freight flight, the aircraft crashed into the sea. The two crew are still missing.
24th	Kolavia for Taban Air	Tupolev Tu-154M (RA-85787)	Iran	The aircraft was holding for the weather to clear at Mashhad when a passenger became seriously ill. The crew decided to attempt a landing in visibility below minimums. On landing, the aircraft veered off the runway causing the undercarriage to fail, the wings to separate and a fire to destroy the tail end. No fatalities were reported though at least 40 people were hospitalised.
25th	Ethiopian Airlines	Boeing 737-800 (ET-ANB)	Off Lebanon	Leaving Beirut for Addis Ababa in heavy rain, the aircraft reportedly climbed to around 8,000 feet before decending rapidly and impacting the Mediterranean Sea. At this time, there are no reports of survivors amongst the 90 passengers and crew.

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to January, 2010



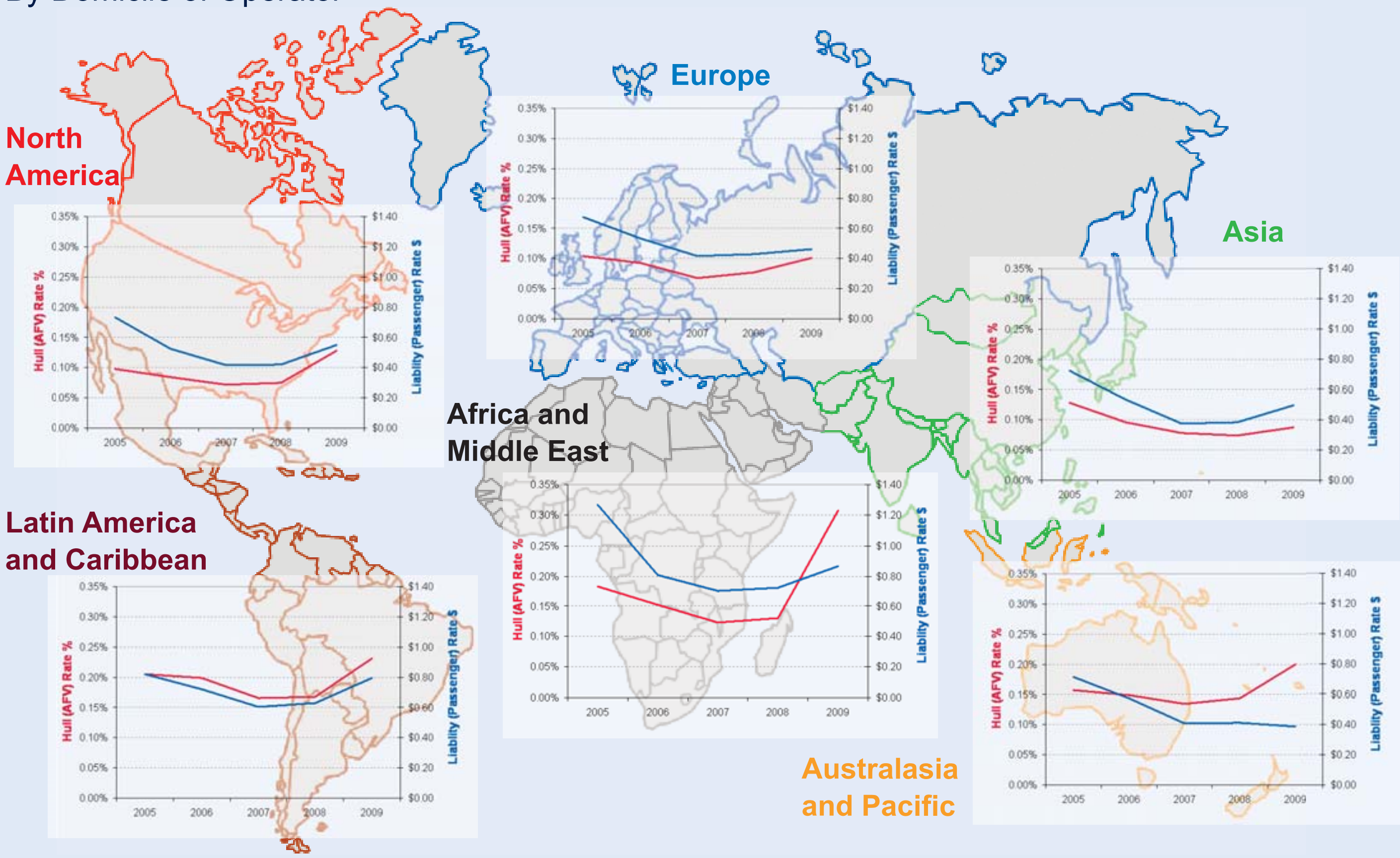
12 Months up to and Including	Hull US$M	Liability US$M	Total US$M
January 2009	669.64	359.22	1,028.86
January 2010	767.65	1,151.36	1,919.01

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

Regional Chart

Hull versus Liability Rates, Average 2005 - 2009

By Domicile of Operator



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Editorial

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