



# Plane Talking

JLT AEROSPACE AUGUST 2011

## Executive Summary

### STEADY AS SHE GOES

There is very little to report this month and whilst perhaps this should be welcomed, it is undeniably more interesting when the market is on the move.

Capacity remains more than adequate in most instances and this situation appears stable. There is continued talk of an insurer seeking an aviation team to set up in Lloyd's and if true, serves as a testament to the continued interest in the class.

The few renewals for the month reveal small increases in premium when compared with their expiring levels, but this is due to the anticipated increases in exposure for the forthcoming period rather than any hardening of premium rates. Overall, year to date premiums remain very similar to prior year levels.

We reiterate our previous assertions that the likely drivers of change to our market will be a reduction in capacity caused by one or a combination of the following:

- Run of very high valued aviation losses (with significant liability components)
- Major market event (e.g. California earthquake) causing capacity to be pulled to support other business classes
- Sustained period of losses in the class forcing capacity providers to withdraw due to a lack of confidence with the future prospects of profit

Indeed all of the above would result from the actions of capacity providers or reinsurers rather than those directly engaged in the business.

Potential drivers of change from within the market include:

- Significant reduction in demand through self-insurance
- New products that challenge the status quo

As mentioned in this edition's Lead Lines, unlike energy buyers, very few airlines have the financial strength to self-insure, even if premium levels made this an attractive option.

In conclusion our market appears far from being in control of its own destiny and whilst underwriting results continue to avoid embarrassment for investors, the current market conditions will prevail.

Are you interested in featuring in Lead Lines, or do you know someone who is, if so please contact us at: [publications@jltgroup.com](mailto:publications@jltgroup.com)

“

It is surely time to take a fresh look at the nature of our business.

”

# Lead Lines



Nick Brown

Group Chief Executive Officer  
- Global Aerospace Underwriting Managers Limited

## Biography

Nick Brown is Group CEO of Global Aerospace Underwriting Managers Limited.

Nick joined Global in 2005 and has over 25 years experience in the aviation insurance and reinsurance market.

In London, so they say, you can wait all day for a bus and then three will come along all at once. The same observation can be applied to airline accidents.

2011 was a remarkably quiet year, and then over just a few days in late July along came three. A cargo B747 off the coast of Korea, a B737 landing long and breaking into pieces and a B777 burnt beyond repair whilst at the gate. The crew of the 747 were the only fatalities, but the passengers of both the other aircraft were undoubtedly fortunate to escape with their lives, with the result that these will only be medium-sized claims for insurers.

There is no particular pattern here – and why should there be? Flight safety has generally improved to the extent that serious accidents are less frequent than in the past and much more random in their nature.

For example, it is nearly 10 years since

we have seen a serious accident involving a widebody passenger aircraft on a flight to/from or within the USA (it was the AA Queen's loss). In the previous 10 years we had three (excluding September 11). On the other hand, the accidents that have occurred in the US, mainly involving smaller commuter aircraft, have given us an indication of just how expensive such a loss could be.

---

**Aviation really has become a low loss frequency/high loss severity class of insurance business.**

---

In a sense this is uncharted territory for the airline insurance market. Traditionally, market commentators (mainly brokers) have added up the claims as we went through the year, and compared them with the premiums being paid. If premiums exceeded claims, their conclusion was that rates should come



down, or vice-versa. It was as if aviation insurers were simply managing a bank account and trying to balance credit and debit.

In a world in which serious accidents are becoming rarer and more random events - but much costlier when they do occur - such a model is looking increasingly inappropriate. It is surely time to take a fresh look at the nature of our business.

Energy Insurance is perhaps the most similar market sector to our own - at least in the sense that it is a small, highly specialised line of business with very high sums insured and limits of liability and relatively infrequent serious claims.

There is, however, one significant difference. The oil companies have big, cash-rich balance sheets which give them a high appetite for risk retention and self-insurance. The commercial insurance market in consequence functions largely as a catastrophe insurer.

By contrast, airlines generally have little appetite for risk retention and the aviation insurance market therefore covers both the catastrophe element of risk and the more predictable everyday attrition. I would argue that we need to view these as two very separate functions.

---

**If the cover for those rare “serious” accidents is the true “risk transfer” element of what we provide, the insurance for the minor losses is really more of a risk management service.**

---

Insurers can add value by handling small claims in an effective and efficient manner, just as insurers and brokers add value through a range of other services such as certification, contractual and risk advice and so on, all of which play an important role in facilitating the business of flying. The problem is that we tend to confuse the two aspects of our product, particularly when talking about premium

adequacy. In effect we judge the premiums on whether or not they are adequate to cover the everyday bumps and scrapes, plus the odd medium-sized mishap, when we really should be asking whether there is enough left over to support limits in excess of US\$2 billion and ever growing risk exposure.

The fact is, sooner or later - I can't say when - another bus or maybe a number of buses will turn up. And sooner or later we will be faced with the sort of claims that really prove the “risk transfer” element of our product.

As we contemplate the tenth anniversary of the 9/11 attacks, we have to ask whether our market is really in any better condition than it was prior to that event and just how well it will react to the next catastrophe if we continue to let the economics of the marketplace drive premiums down to levels that are inadequate to cover even an average loss year.



# Renewal Analysis

## COMMENT

The summer months produce a relatively small number of renewals and as a prelude to the final quarter remain comparatively calm.

Around 12 airlines are included in our August analysis and of these Alaska Airlines is by far the biggest, albeit with a slightly reduced fleet, valued at USD 4.2 billion compared to USD 4.4 billion in the previous policy year.

Other significant August renewals included Pegasus from Turkey which has shown significant exposure growth with substantial increases in both fleet size and passenger numbers and Monarch, who predict sustained passenger numbers for the forthcoming year.

Bangladesh Biman, the only familiar flag carrier that renewed is re-equipping with wide bodied aircraft and is doubling its fleet values. Passenger numbers are also expected to rise.

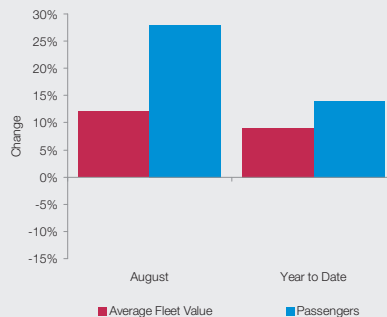
## EXPOSURES

The increase seen in fleet values is on a par with what is generally accepted in today's world of fleet replenishment. The passenger growth reflects little, in so far as one airline, out of the minimal number of renewals for the month, showed a near doubling of its numbers due to it's acquisition of some wide-bodied aircraft to its fleet.

Year on Year Exposure % change.

August / Year to date. Based on latest Information at 29 August 2011

Source: JLT Database



## PREMIUMS\*

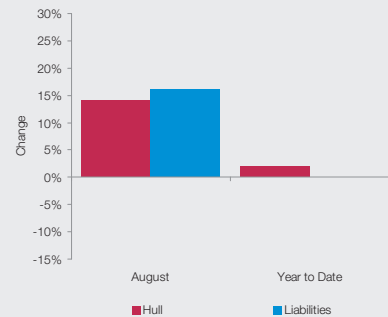
The overall premium movement for the month looks reasonably healthy. However this is based on the small number of airline renewals that come to the market in August, some of which have shown considerable exposure movements as mentioned.

This premium increase does not reflect the general trend seen so far for this year, which suggests a more modest rise overall.

Year on Year Premium % change.

August / Year to date. Based on latest Information at 29 August 2011

Source: JLT Database



Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2010	199	309	507
2011	203	310	513
% Change	2%	0%	1%

\* Net of brokerage and at lead terms

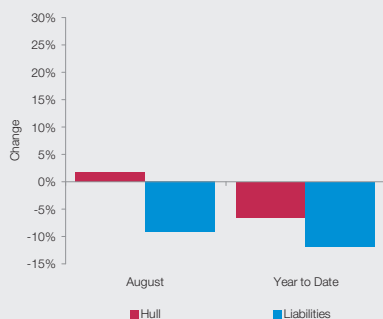
## RATES

Again due to the modest number of airlines involved in our analysis, this month, the overall rate changes seen mean little in real terms and merely reflect the exposure/premium balance.

Year on Year Rate % change.

August / Year to date. Based on latest Information at 29 August 2011

Source: JLT Database



## FORTHCOMING AIRLINE RENEWALS

In renewal terms, September is even quieter than August, with just ten airlines included in our analysis as opposed to 12.

From the carriers that are listed below not one can really be described as a major international operator.

The largest renewal that comes to the market in September is the Finavia Group from the Ukraine (previously known as Aerosvit) which consists of four individual airlines and is currently valued at nearly USD 900 million.

Airline	Renewal Date	Expiring AFV USDm
Trip Linhas Aereas	1st Sept	825
Interjet Airlines	9th Sept	778
AMC Airlines	11th Sept	280
Kolavia	11th Sept	111
Atlas Jet	15th Sept	594
Nordwind	15th Sept	182
Aerorepublica	21st Sept	529
Cargojet	22nd Sept	121
Finavia Group	30th Sept	889
Georgian Airlines	30th Sept	150

Source: JLT Database, based on current risks with AFV in excess of USD100m

## JLT % RATE CHANGE BAROMETER\*

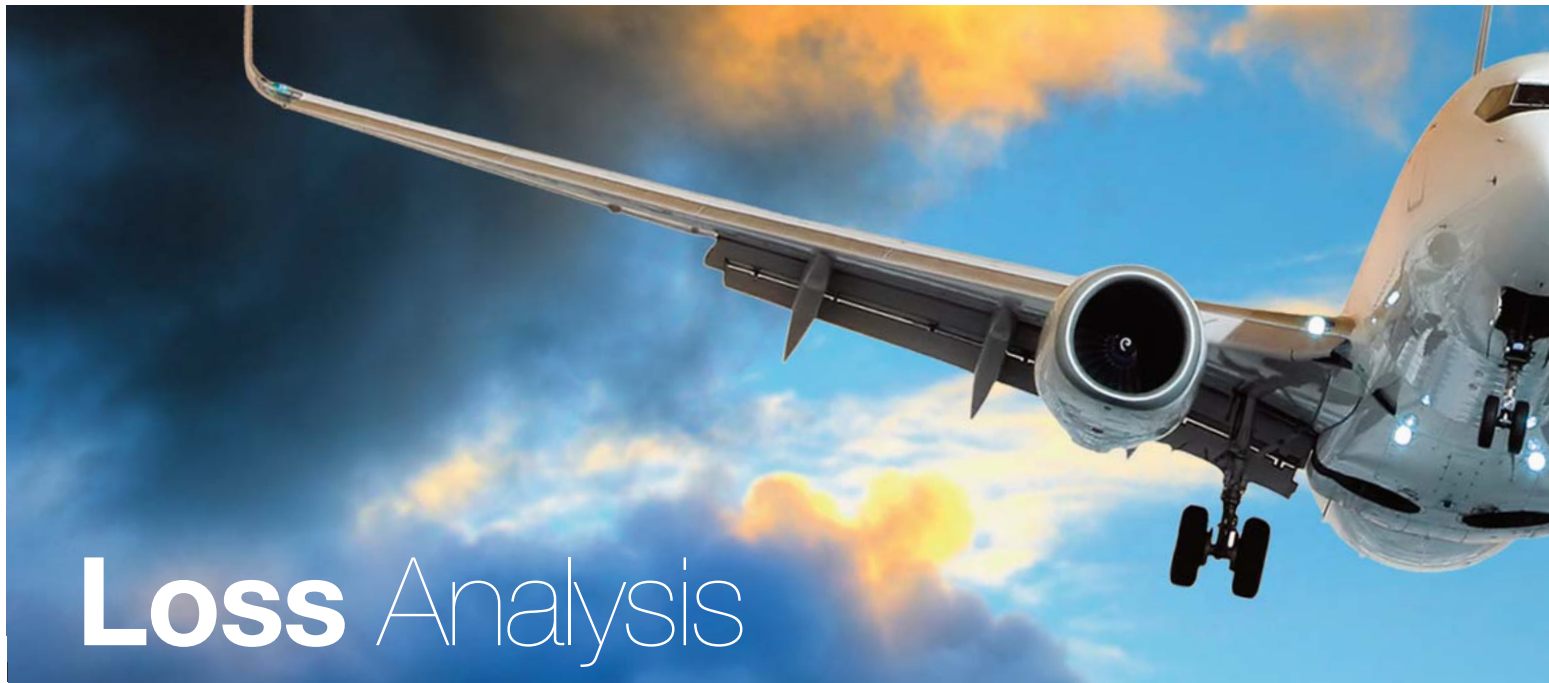
### Hull Rates



### Liabilities



\*The JLT Rate Change Barometer ignores anonymous renewals, and is the market trend to date.



# Loss Analysis

## AIRLINE LOSS SUMMARY

### JULY

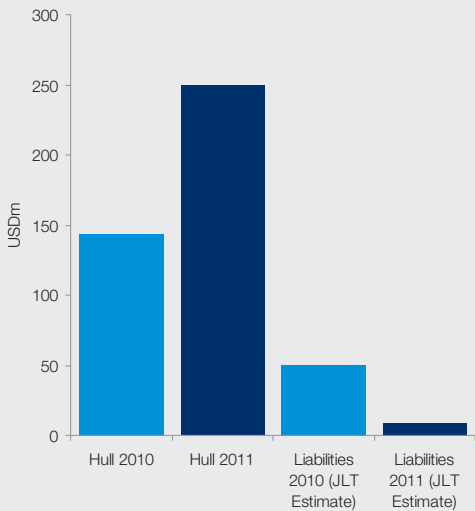
- Hull losses USD 249.33m
- Liability loss estimate of USD 9.10m
- 108 airline fatalities

### AUGUST

- Hull losses USD 7.59m
- Liability loss estimate of USD 4.80m
- 23 airline fatalities

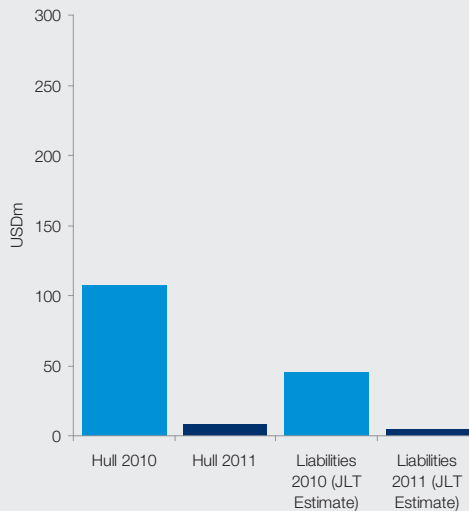
### July Losses

All Known Airline Losses Net of deductible



### August Losses

All Known Airline Losses Net of deductible



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



## AUGUST AIRLINE LOSS SUMMARY

### 03 August 2011 Nolinor Aviation, Convair CV-580 (C-GKFP), Canada

On landing at Kasba Lake on a flight from Winnipeg, the aircraft's nose undercarriage collapsed causing it to skid along the runway before coming to a stop. The aircraft was reported to be substantially damaged.

All crew and passengers were evacuated with no reported serious injuries.

### 08 August 2011 IrAero, Antonov An-24RV (RA-46561), Russia

Landing at Blagoveshchensk Airport on a scheduled flight from Chita with 36 passengers and 5 crew, the aircraft overran the runway, contacted a tree and came to a stop on soft ground.

It was reported the aircraft was landing in heavy rain, strong gusts and reduced visibility when it overran the runway.

12 occupants received injuries of varying degree and were taken to hospitals, the aircraft was said to be substantially damaged with collapsed gear and the left wing separated from the body.

### 09 August 2011 Avis-Amur, Antonov An-12A (RA-11125), Russia

Performing a freight flight from Magadan to Kerpveem with 11 occupants and 18 tons of cargo, the crew reported an engine fire and announced a return to Magadan.

Shortly thereafter the aircraft disappeared from radar and the signal of its Emergency Locator Transmitter (ELT) was temporarily received in the region.

Search flights later located the wreckage of the aircraft in remote rugged terrain north-east of Magadan. All 11 occupants were killed in the crash.

### 20 August 2011 First Air, Boeing 737-200Combi (C-GNWN), Canada

The aircraft was performing a flight from Yellowknife to Resolute Bay with 11 passengers and 4 crew on-board.

Whilst on approach to Resolute Bay in low cloud/fog the aircraft collided with high terrain and caught fire.

4 crew and 8 passengers perished, three passengers survived with injuries and are reported to be in a stable condition.

### 24 August 2011 Afriqiyah Airways & Libyan Airlines, 2 x Airbus A300-600 (5A-IAY & 5A-DLZ), Libya

Fighting erupted at Tripoli Airport between rebel forces and those loyal to Muammar Gaddafi, resulting in the total destruction of two Airbus A300 aircraft.

At least one other Afriqiyah aircraft, an A320-family jet, appears to have been damaged by fire and there are reports of possible damage to a number of others.

We believe insurance cover in the London market was cancelled due to sanctions. The above two aircraft's values would total USD 43.3 million. This has not been included in the month's total of losses.

### 29 August 2011 Gulf Air, Airbus A320-200 (A9C-AG), India

The aircraft was performing a flight from from Bahrain to Kochi (India) with 137 passengers and 6 crew on-board.

The aircraft veered off the runway whilst landing at Kochi in strong wind and rain, coming to rest in soft ground with a collapsed nose undercarriage.



# Market News

## NEWS IN BRIEF

### Four UK law firms in merger deals

Clyde & Co, Barlow, Lyde & Gilbert and, separately Beachcroft LLP and Davies Arnold Cooper LLP, are to merge in deals set to complete on 1 November.

Clyde & Co and Barlow Lyde & Gilbert announced that following a commitment to merge shown by votes on 28 and 29 July, the two firms have now signed heads of terms and will move forward to sign a formal merger agreement. The intention is to complete the merger of the two firms on 1 November 2011.

The combined firm will be named Clyde & Co and will have 270 partners, more than 1,250 fee earners and around 2,250 total staff operating from 27 offices.

Meanwhile Beachcroft LLP and Davies Arnold Cooper LLP members have voted in favour of merging their two firms.

Management teams from both firms are finalising the outstanding details and the combined firm will launch as DAC Beachcroft LLP on November 1, 2011.

DAC Beachcroft LLP will have a turnover in excess of GBP 175m, with around 230 partners and in excess of 2,000 total staff operating a comprehensive network of offices in the UK and an international capability covering Europe, Latin America, North America and Asia Pacific.

### Debt exposure prompts Groupama downgrade

Fitch Ratings has downgraded the financial strength rating of Insurer Groupama to "A-" from "A". Fitch assigned the rating a negative outlook, citing the cause of the downgrade as the insurer's continued exposure to the sovereign debt of southern European countries.

The rating agency said the downgrade reflected the deterioration of its view "of

Groupama's capital adequacy" as a result of a material exposure to southern European government debt, through the holdings of both local subsidiaries and French entities.

Groupama's exposure to Greek government bonds had already caused Standard & Poor's to downgrade its rating to "BBB+" from "A-" in May 2011.

### Alterra outlook revised

Ratings agency AM Best has revised the outlook to negative from stable and affirmed the financial strength rating (FSR) of "A" (Excellent) and issuer credit ratings (ICR) of "a" of Alterra Bermuda Limited and its affiliated operating companies, Alterra Reinsurance Europe plc, Alterra Europe plc, Alterra America Insurance Company, Alterra Excess and Surplus Insurance Company and Alterra Reinsurance USA Inc.

Concurrently, AM Best has revised the outlook to negative from stable and affirmed the ICR of "bbb" of Alterra Bermuda's parent company, Alterra Capital Holdings Limited.

### PartnerRe rating affirmed

Ratings agency AM Best has affirmed the financial strength rating (FSR) of "A+" (Superior) and issuer credit ratings (ICR) of "aa-" of Partner Reinsurance Company Ltd. (PartnerRe) and its affiliates. The outlook for all ratings is stable.

### Standard & Poors rating's changes

Ratings agency Standard & Poor's (S&P) affirmed the financial strength ratings of "AA+" for Berkshire Hathaway International Insurance Ltd and its entities General Re Corporation and Faraday Reinsurance Co. Ltd. The outlook for the ratings was reduced from stable to negative.

The negative review is in line with the agency's recent controversial downgrade of the US sovereign credit rating.

Berkshire Hathaway was one of five "AA+" rated (re)insurance groups to have a negative outlook put on its rating by S&P. The others were Assured Guaranty, Guardian, Massachusetts Mutual, and Western & Southern.

S&P also lowered ratings on another five triple-A rated insurers by a notch to "AA+" with a negative outlook. This group included Knights of Columbus, New York Life and Northwestern Mutual, Teachers Insurance & Annuity Association of America (TIAA).



## A century of risks

August 18 marked the hundredth anniversary of the 1911 Lloyd's Act, which was instrumental in transforming the market from a primarily marine insurer, to the specialized global risk market it has become today.

In addition 1911 is also the year when Lloyd's wrote the first ever aviation policy, following its first US Automobile Policy in 1907.

A bulletin on the Lloyd's website said "This Act made the range of business Lloyd's does today – from property to aviation, casualty to energy – possible."

## Atrium Syndicate merger

Members of Atrium Underwriters Syndicates 570 and 609 have approved the merger of the two entities, which will take effect from the 2012 underwriting year.

A ballot resulted in more than 99 percent of the votes (by capacity) being recorded in support of the merger for each syndicate.

The Lloyd's Capacity Transfer Panel reviewed the application and granted consent to Atrium Underwriters Limited under the Major Syndicate Transactions Byelaw to merge syndicates 570 and 609 with effect from the 2012 underwriting year of account.

## HCC receives upgrade

Ratings agency AM Best has upgraded the issuer credit ratings (ICR) to "aa" from "aa-" and affirmed the financial strength rating (FSR) of "A+" (Superior) of Houston Casualty Group (HCC) and its members.

The outlooks for all ICR's and debt have been revised to stable from positive, while the outlook for the FSR remains stable.

## Hurricane Irene hits New York

Carriers are expected to resume full services over the coming days in the aftermath of hurricane Irene.

Thousands of passengers are thought to have been affected by the disruption caused when the tropical storm tore along America's eastern seaboard, bringing strong winds and torrential rain.

It is reported that approximately 14,000 flights were cancelled in the days before, during and after the storm.

## Libyan sanctions begin to ease

European sanctions against Libyan Airlines are beginning to be lifted following the political developments in the North African state.

The EU has announced that it has eased some of its prohibitions, lifting restrictions on 28 organisations including airlines, various oil companies, port authorities and banks.

## ARRIVALS AND DEPARTURES

- Peter McDermott has been promoted to active underwriter of MITSUI Sumitomo syndicate 3210 at Lloyd's.

McDermott joined Mitsui Sumitomo in 2002 from RSA as underwriting manager for marine and aviation.

In his new role he will retain his marine and aviation underwriting manager duties and report to Mitsui Sumitomo at Lloyd's director of underwriting Eamon Brown.

Noel Holloway, who took over as class underwriter for aviation from Robert Swinton at the end of 2009, will continue to report to McDermott.

- Managing Director of Aviation, David George has left UIB and has joined Marsh.

#### JLT Specialty Limited

6 Crutched Friars  
London EC3N 2PH  
Tel +44 (0)20 7528 4000  
Fax +44 (0)20 7528 4500  
www.jltgroup.com

Lloyd's Broker. Authorised and Regulated by the Financial Services Authority. A member of the Jardine Lloyd Thompson Group.  
Registered Office: 6 Crutched Friars, London EC3N 2PH. Registered in England No. 01536540. VAT No. 244 2321 96.

© August 2011

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.

## PlaneTalking



## Contact Us

### Subscriptions and General Queries

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

### Editorial Team

#### Brad Hills

Tel: +44 (0) 207 466 1434  
[brad\\_hills@jltgroup.com](mailto:brad_hills@jltgroup.com)

#### Victor Fryer

Tel: +44 (0) 207 466 6818  
[victor\\_fryer@jltgroup.com](mailto:victor_fryer@jltgroup.com)

### Business Contacts

#### Nigel Weyman

Tel: +44 (0) 207 466 1448  
[nigel\\_veyman@jltgroup.com](mailto:nigel_veyman@jltgroup.com)

#### William Smith

Tel: +44 (0) 207 466 6654  
[william\\_smith@jltgroup.com](mailto:william_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)