

Plane Talking

JLT AEROSPACE

JULY 2011

Executive Summary

In times to relax or rethink

The recent losses of an Egyptair Boeing 777-200, a Caribbean Airlines Boeing 737-800 and an Asiana Boeing 747-400 cargo aircraft serve as a stark reminder that despite the improved frequency of major losses over recent years compared with longer term averages, aviation presents significant exposure to a large loss. Indeed the value of these losses could reach approximately USD250 million.

Should the primary cause of the Asiana Boeing 747-400 event ultimately be proven to be the cargo, the high volume transported daily within the holds of passenger aircraft presents the sobering thought as to how this recent loss might have looked, had the aircraft been a passenger rather than a cargo variant.

Perhaps surprisingly, premium rating remains soft and one of the reasons may have something to do with the loss frequency assumptions used throughout the market's various pricing models in use today.

Over the last few years the insurance (and reinsurance) markets have not suffered many very large individual losses. And the critical question is whether this recent market experience provides a credible predictive measure of things to come and what role luck has played?

Only time will tell us, but in the meantime market capacity remains firm, exposures continue to march upwards at pace from every perspective other than loss frequency and the insurance market fights to retain premium levels that are similar to expiring.

If the downward trend in the frequency of high value losses is indeed a trend, then the market's pricing models perhaps need to bring greater focus on the area of attrition (smaller) losses?

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Editor's note

“ This month's edition of Plane Talking does not feature a Lead Line article as July is “holiday” season and so, many of our contributors are away on annual leave. Rest assured Lead Lines will return next month! ”



Renewal Analysis

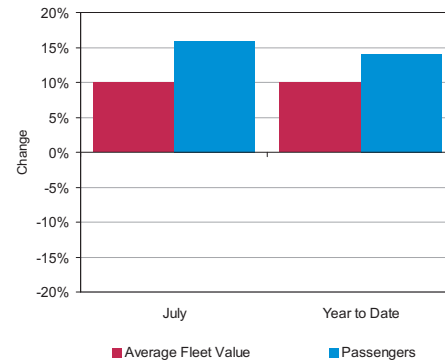
Exposures

Exposures for July are continuing the trend seen so far this year with increases in both passenger numbers and average fleet values.

Colgan/Pinnacle, Volaris and the newly enlarged Aeroflot group placement have seen exceptional growth which has pushed July's exposure growth up.

Year on Year % Exposure Change

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



Source: JLT Database

Premiums*

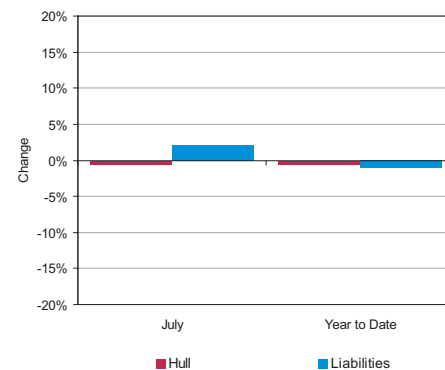
It seems that the market is fighting to maintain premium levels at an as before level in the face of a surprisingly soft market.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2010	187	293	480
2011	187	290	477
% Change	0%	- 1%	- 1%

* Net of brokerage and at lead terms

Year on Year % Premium Change

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



Source: JLT Database

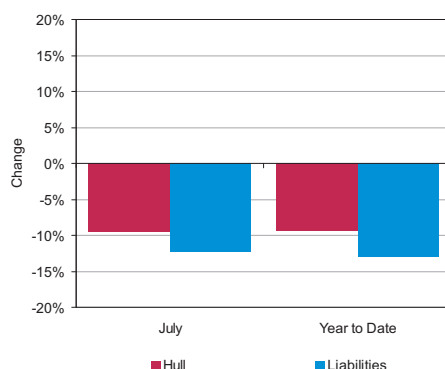
Rates

Rate reductions are the over-riding trend in July following the year to date average.

This of course must be taken in context with the large exposure growth being forecast at renewal allowing rate reductions to occur without loss of premium income.

Year on Year % Rate Change

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



Source: JLT Database

Comment

July is the busiest renewal month to date with around 35 airlines or airline groupings coming to market.

By far the biggest individual airline renewing is American Airlines with a slightly reduced fleet value over last year of USD18 billion. Their estimated passenger numbers are up as are their revenue passenger kilometres.

Another large US operator is Fed Ex, the small-package cargo airline, which showed continued growth with a fleet increasing by 9% to USD15.3 billion.

The risk with the largest amount of fleet value growth is Aeroflot which renews with a number of additional airlines now under its policy. These include Orenair, Vladivostok Avia and Rossiya, all of which attributed to a 48% increase in overall fleet value.

The Indian low cost operator Kingfisher continues its expansion with fleet growth up by 10% to over USD 3 billion and forecast passenger numbers of 14.7 million up by 21% over last year.

In amongst these renewals are a number of flag carriers, none of them particularly large, including Ethiopian Airlines, Middle East Airlines, Sri Lankan and Syrian Arab Airlines.

Forthcoming Airline Renewals

August is one of the quieter months for airline renewals. This year it is enhanced by the inclusion of Alaska Airlines, by far the largest airline renewing, which has been extended by a month from its previous July renewal date.

Monarch, Skymark and Pegasus are the only other significant operators renewing in August in terms of fleet values.

Flag carriers Bangladesh Biman and Belavia also come to market.

Airline	Renewal Date	Expiring AFV USDm
Air Nigeria	1st August	123
Monarch	1st August	1,485
Skymark Airlines	1st August	947
Kalitta	3rd August	268
Alaska Airlines	5th August	4,475
Belavia	9th August	212
Phuket Airlines	14th August	66
Bangladesh Biman	15th August	167
Small Planet Airlines	15th August	90
Pegasus	24th August	1,485
Viva Aerobus	28th August	86
Aero Union	31st August	23

Source: JLT Database.

Loss Analysis

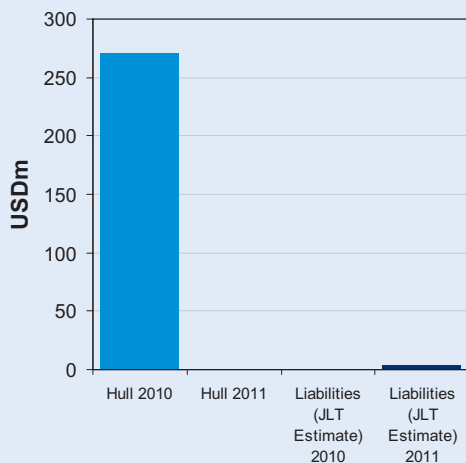
Airline Loss Summary

June

- Hull and spares losses of USD0.50m
- 47 airline fatalities
- Liability loss estimate of USD4.70m

June Losses

All Known Airline Losses Net of deductible

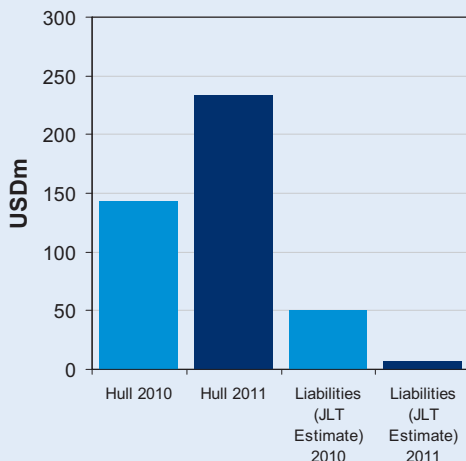


July

- Hull losses of USD234.30m
- 108 airline fatalities
- Liability loss estimate of USD7.10m

July Losses

All Known Airline Losses Net of deductible



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

6th	Silk Way Airlines	Ilyushin IL-76TD (4K-AZ55)	Afghanistan
The aircraft crashed near Bagram Air Base on a cargo flight from Baku. Contact with the aircraft was lost suddenly with reports suggesting the aircraft hit a high ridge or crashed mid-air with an unidentified flying object. The crew of 9 lost their lives.			
8th	Hewa Bora Airways	Boeing 727-100 (9Q-COP)	DR Congo
Landing at Kisangani in poor weather on a scheduled domestic flight with a reported 112 passengers and 6 crew the aircraft crashed into the forest close to the runway. Reports suggest 71 passengers and 4 crew lost their lives. Hewa Bora have had their AOC suspended pending an investigation into the cause of the crash. This was the airline's 4th hull loss since operations began in 1995. Cover is believed retained in the Russian market.			
11th	Angara Airlines	Antonov An-24RV (RA-47302)	Russia
On a passenger charter flight to Surgut from Tomsk, the aircraft suffered an uncontained engine fire whilst in the cruise. The crew attempted a diversion but, due to doubts about the structural integrity of the wing, decided to carry out a forced landing in the shallows of the Ob river. Six of the 37 occupants lost their lives in the forced landing.			
13th	Noar Linhas Aereas	Let 410UVP-E20 (PR-NOB)	Brazil
Shortly after takeoff from Recife on a scheduled passenger flight to Natal with 14 passengers and 2 crew the aircraft suffered some problems causing the crew to attempt a return to the airport. They were unable to do so and tried an emergency landing but crashed in an open area with the loss of all lives.			
13th	Frontier Airlines & others	Various	USA
The Denver area was struck by a severe hailstorm causing damage to at least 15 Frontier Airlines aircraft and a small number from other operators.			
14th	Comair & Delta Air Lines	Bombardier CRJ-900ER (N132EV) & Boeing 767-300 (N185DN)	USA
Both aircraft were taxiing for takeoff on adjacent taxiways at Boston Airport when the Delta Boeing 767's wingtip struck the Comair CRJ's fin, partially shearing it off. The 767's wingtip remained embedded in the Comair aircraft.			
17th	Aer Arann	ATR72-212 (EI-SLM)	Ireland
Landing at Shannon on a scheduled passenger flight from Manchester, the aircraft's nose undercarriage collapsed. No injuries were reported.			
28th	Asiana Airlines	Boeing 747-400F (HL7604)	South Korea
The aircraft en-route South Korea to China disappeared off radar shortly after the crew reported a cargo fire. Debris was later spotted in the sea off Jeju Island. Both crew members were killed.			
29th	Egyptair	Boeing 777-200ER (SU-GBP)	Egypt
Whilst being prepared for a flight to Jeddah, Saudi Arabia a fire broke out in the flight deck, burning holes in the outer skin. Minor injuries were reported in the evacuation but no fatalities.			
30th	Caribbean Airlines	Boeing 737-800 (9Y-PBM)	Guyana
Landing at Georgetown on a scheduled flight from New York, JFK via Port of Spain, Trinidad & Tobago, the aircraft failed to stop on the runway and overran through the perimeter fence and down an incline. The fuselage broke forward of the wing root. No fatalities occurred and only minor injuries were reported.			

Market News

Lloyd's ratings affirmed...

Rating agency AM Best has affirmed the financial strength rating of Lloyd's as "A" (excellent) and issuer credit rating of "a+" for the market and for the Lloyd's Insurance Company (China) subsidiary. The outlook for all the ratings is stable.

In addition to AM Best, ratings agency Fitch announced its reaffirmation of Lloyd's "A+" rating, the Society of Lloyd's "A" rating and Lloyd's Reinsurance Company (China) "A+" rating. The outlook for all ratings is stable.

Both agencies also commented that they believed that Lloyds will remain profitable in 2011.

Chaucer ratings affirmed...

Ratings agency AM Best has affirmed the financial strength rating of Chaucer Syndicate 1084 as "A" (Excellent) and the issuer credit rating (ICR) of "a+".

AM Best also has affirmed the ICR of "bbb" of Chaucer Holdings, an intermediate parent company of the syndicate's managing agent, Chaucer Syndicates. The outlook for all ratings remains stable.

Generali rating affirmed...

Rating agency Fitch has affirmed the financial strength rating of Italian insurance company Generali and its core subsidiaries at "AA-" with a "stable" outlook.

Kuwait Re outlook cut...

Rating agency AM Best has cut its outlook on reinsurance company Kuwait Re to "negative" from "stable", while affirming its financial strength rating at "A-" (Excellent).

Bribery Act 2010 now in force...

The Bribery Act 2010 came into force on 1 July 2011, in broad terms there are four types of offences under the Act which are:

- A general offence targeting the payer of a bribe
- A general offence targeting the recipient of a bribe
- A specific offence prohibiting the bribery of foreign public officials
- A corporate offence of failing to prevent bribery

2012 to see increase in capacity...

Specialist insurer Hiscox expects capacity of Syndicate 33 at Lloyd's to be GBP1bn for 2012 - an increase of GBP100m from this year.

This increase is driven by anticipated improved market conditions particularly in reinsurance lines and a desire to have sufficient capacity available in the event of a widespread market turn.

Hiscox noted that a final plan will be submitted to Lloyd's later in the year which may involve a change to Syndicate 33's capacity if the hurricane season has no material impact on the market.

In addition to Hiscox it has also been reported that a number of other syndicates, some with smaller overall capacity, have also made plans for significant increases in 2012.

ACE (Australia) rating upgraded...

Rating agency Standard & Poor's has raised its counterparty credit and financial strength ratings on ACE Australia to "AA-" from "A+", reflecting the ratings of ACE Group's other core operating subsidiaries. The outlook is stable.

Arrivals and Departures

- Allianz Global Corporate and Specialty (AGCS) has announced two new chief executives for its London and Americas operations after Andreas Berger, currently the London chief executive, was promoted to the company's board.

With effect from 1st October 2011, Carsten Scheffel will take on the role of chief executive in London, with Hugh Burgess taking over from Mr Scheffel as chief executive for the Americas.

- Swiss Re have announced that Christian Mumenthaler will become CEO of its reinsurance subsidiary, Swiss Reinsurance Company (SRZ) with effect from 1 October 2011.

Mr Mumenthaler had been Chief marketing Officer for Reinsurance since January this year. From October he will be accountable for Swiss Re's reinsurance strategy, capital and asset allocation.

According to Swiss Re, the changes in leadership structure reflect its new legal entity set-up and are a further step in re-shaping its structure to enhance client focus, to increase capital efficiency and transparency, and to create long-term value for shareholders.

Aerospace News

Hailstorm causes damage...

Dozens of flights were canceled or delayed and around 1,000 people were stranded at Denver International Airport following a severe hail storm.

About 40 planes were damaged by golf ball size hail that pummeled the airport for about 15 minutes as severe thunderstorms moved through the Denver area.

Frontier Airlines whose operational base is at Denver International Airport announced almost a third of its Airbus fleet were damaged and had to be removed from service to undergo repairs.

The airport's fleet of operations vehicles also sustained light to moderate hail damage, as did some passengers' parked cars.



Chile volcanic ash continues to cause disruption...

Ash from Chile's Puyehue volcano grounded flights again this month at airports in the capitals of Uruguay and Argentina.

The Puyehue volcano has been causing air travel mayhem since it began erupting on June 4 for the first time in five decades, spewing forth clouds of dust and ash.

The ash has blown around the Southern Hemisphere several times, grounding jets as far away as Australia and New Zealand.

Airline analysts have estimated that airline industry losses could total in excess of USD 50 million.

On going to print Chile's National Geology and Mines Service remained on "red alert", announcing that there is still a chance of more outbursts, and small earthquakes.



RBS aircraft leasing unit up for sale...

Royal Bank of Scotland (RBS) has started a formal auction process for the sale of RBS Aviation Capital, its aircraft leasing and financing subsidiary.

RBS Aviation Capital provides a range of aircraft financing services, including debt and operating leases. It was created through a 2001 acquisition of a small advisory firm and now comprises a fleet of around 260 aircraft.

RBS Aviation Capital ranks among the top-five operating lessors by fleet value and has a focus on narrow-body aircraft types that cater to low-cost carriers' needs.

The disposal is expected to raise over GBP 4 billion to bolster RBS's balance sheet.



Kiln launches Aviation team in Singapore...

Kiln, the international specialist insurance and reinsurance underwriting group, has launched a new team to underwrite aviation risks in Singapore.

The team, led by established aviation underwriter Brendan Warner, will focus on underwriting a broad range of aviation risks including Regional Airline; General Aviation; Products & Airport Liability; Hull War; Hull Deductible and Excess Liability business across the Asia-Pacific region, which has experienced a period of rapid growth in recent years.

The new team will operate with a USD 80m line size for Liability and USD 12m for Hull risks.

Mr Warner, who has 33 years experience in the aviation insurance industry, joins Kiln alongside underwriter Jenny Choi, with whom he has worked for the past five years in

the Australian aviation market. They will be supported by Idie Si as underwriting assistant, who recently relocated from Kiln's office in Hong Kong.

The launch follows the recruitment of a number of Property, Treaty, Marine Hull and Marine Liability underwriters to Kiln in Singapore in the past year.



UK space law reform ...

The UK Government has announced that it has taken the first steps towards making UK satellite operators more internationally competitive by reducing their insurance premiums for compulsory third-party liability insurance (for both launch and in-orbit operation).

This cost will be reduced from EUR 110 million to EUR 60 million for the majority of missions.



PlaneTalking

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