



# PLANE TALKING

FEBRUARY / MARCH 2006

## In this issue

Comment	1
February Renewals	2
March Renewals	2
April Renewals	2
Loss Analysis	2
Insurance Industry News	3
Arrivals and Departures	3
Airline Industry News	4
Launch Log	6

### Editorial

If you know anyone who would like to be added to our mailing list or your email address changes, please advise by emailing details to: [saskia\\_cosgrove@jltgroup.com](mailto:saskia_cosgrove@jltgroup.com)

Editorial Team:  
Peter Barleycorn  
John Boler  
Saskia Cosgrove  
Trevor Howard

## Capacity Turnaround

While renewal activity in the aviation sector is quiet at present, there are significant changes happening on the side of insurer capacity. On the one hand, many established insurers' stance towards aviation insurance in the last few quarters has been that of potential withdrawal of capacity, while more latterly we have seen capacity increasing in the form of some significant new entrants making a play for the sector. The latest announcement is from QBE which has stated its intention to set up a new aviation syndicate at Lloyd's under their managing agency, Limit. The unit is set to commence underwriting with effect from 1st October to include major airlines, general aviation, products and airport business and will be headed up by recognised individual, Emilio di Silvio.

This follows a number of other new members to the aviation underwriting community since the beginning of 2006 as mentioned in our last issue of Plane Talking. These include Starr Aviation

(formerly AIAA), Berkley Aviation and Inter Aero from the USA, Qatar and Samsung from the Middle East and Far East and Lancashire Aviation that is offering new capacity in Excess AV52 risks from Bermuda.

The sum of this new capacity represents a shift in sentiment with regards to the aviation sector, contrary to indications that were emanating from the market around the middle of last year. Incumbent insurers, in unison with their capital providers, had been stressing that should airline premiums drop much further than levels at that time, it would be time to start reviewing their participation in the sector, certainly with the prospect of reducing their lines but possibly withdrawing completely.

This is a threat that is now clearly being undermined by the differing stance being embraced by these new, external parties. As a result one could expect that the direction of rates that is being experienced at present - that is downwards - to continue.

Nevertheless any significant loss will most certainly alter the scenario.

[Back to top](#)

## February Renewals

A dearth of underwriting activity summarises the first quarter with just two airlines in our renewal figures for February. These are MyTravel, the UK inclusive tour operator and Tarom the flag carrier from Romania. The month is one of the lowest points for premium income and airline numbers and therefore this level of market inactivity can by no means be regarded as indicative of underwriting direction, and therefore we should not draw any conclusions from what appears to be quite normal movements in exposures and premiums.

Averaged over these two airlines, fleet values showed a weighted decrease of 1% with passenger numbers down 8%. Although average premiums showed a decrease of 17% this should be tempered against the wide differences in exposures and growth of the individual airlines.

[Back to top](#)

## March Renewals

This month produced three airline renewals for our analysis, none of which are particularly large by today's standards. Air Nostrum of Spain, which is the biggest with a fleet valued in excess of US\$1 billion, Iran Air and Bangkok Airways all of which are unlikely to generate a large overall premium, and as seen in February their impact on the marketplace will not be significant.

We expect some increase in exposures, as is the nature of the airline industry at present although Iran Air with an ageing fleet and a number of other difficulties has yet to be in a position to be able to decide on how to re-equip its old Airbus and Boeing fleet.

[Back to top](#)

## April Renewals

Early indications bear out our statement that rates are falling - and to a greater degree than most underwriters are anticipating.

[Back to top](#)

## Loss Analysis

February was another quiet month for accidents with quite a large number of ground incidents, which in themselves did not amount to any meaningful monetary figure. There were however a number of aircraft written off, the most serious being the UPS cargo jet in an incident where, as we understand it, the crew were lucky to land the aircraft safely, albeit resulting in the aircraft being damaged beyond economical repair by the onboard fire. The month produced reported Hull losses of US\$10,500,000 plus provisional liability reserves of US\$2,300,000.

The most serious accidents being:

A mid air collision occurred on the 5th when two Shorts SD-360's owned by Air Cargo Carriers collided near Milwaukee while undertaking a low level photographic sortie. One of the aircraft (N-3725W) lost control and crashed killing all 3 people on board. The other aircraft (N-372AC) made a crash landing at Juneau Airport sustaining substantial damage but with no injuries to the crew.

The cost to insurers of both aircraft could be about US\$1,250,000.

On the 7th, a KLM B747-400 reg PH-BFN was hit by a ground vehicle at Schiphol Airport sustaining damage estimated at US\$1,000,000.

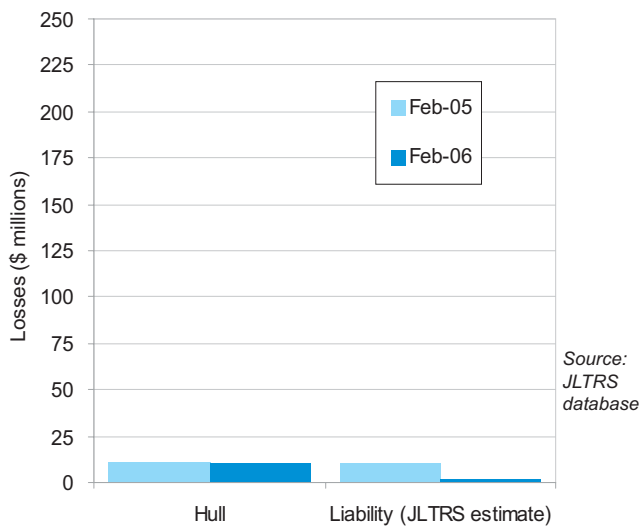
A DC8- 71CF reg N-748UP belonging to United Parcel Service Co made an emergency landing at Philadelphia Airport on the evening of the 8th due to smoke in the cargo compartment. The subsequent fire severely damaged the upper fuselage rendering the 38-year-old aircraft a constructive total loss. The aircraft was valued at US\$6,000,000 and the cause of the fire is still being investigated.

A Tricoastal Air Metro SA226 reg N-629EK crashed on approach to Harlingen, Tennessee killing the pilot, the only person on board. The aircraft was insured for US\$1,000,000.

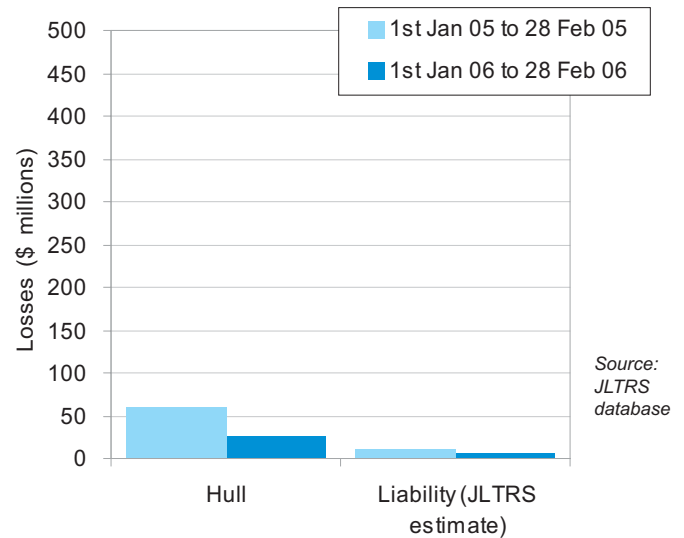
A Fokker 50 reg LN-RND belonging to SAS had its gear retract while on the ground at Oslo on the 14th. Estimated cost of repairs is in the region of US\$1,250,000.

The year to date has accumulative losses of US\$32,150,000 compared with US\$73,000,000 at the same time last year.

## February Major Airline Losses



## Major Airline Losses for Year to Date



As mentioned earlier, we note some of, but do not record in our statistics, the many incidents that occur on or around ramp areas at airports. This is due to the fact that these losses fall below the deductibles and therefore are not classified strictly as "insured losses". Figures recently released by the Flight Safety Foundation show that these incidents amount to far more than was originally thought.

The annual global figure for repairs is US\$4.25 billion and for human injury and death, US\$5.8 billion.

The type of operation that causes most damage is cargo handling, especially container and belt loading, catering and maintenance. Geographical trends are unknown at present as is the cost breakdown between airlines and ground handlers; however, steps are being taken to improve the reporting of these types of incidents.

[Back to top](#)

## Insurance Industry News

The continued stability in the aviation market must give reassurance to the underwriting community as we progress further into the fifth year of this current, highly favourable era following the debacle of 2001.

Current statistics indicate that we should now continue to expect at least US\$1 billion of losses annually excluding any major catastrophe or catastrophes.

However, as with the scientists who predict that somewhere in the world an earthquake or volcanic eruption must statistically be overdue, so it could be said that on an historical basis the market should realistically be prepared for that big loss. It seems likely that a major accident or rather a series of accidents that turns the US\$1 billion loss average into a US\$2 billion meltdown will either stabilise rates or see the withdrawal of capacity from the market - or both.

Once again we must consider what the market views as a commercially viable balance between premium and claims on a year on year basis. Is a premium of US\$2 billion dollars an equitable return for the risks taken by aviation underwriters?

[Back to top](#)

## Arrivals and Departures

Jason Humphreys is starting at HSBC at the beginning of April.

[Back to top](#)

## Airline Industry News

One of the most interesting headlines recently was from IATA saying that global international airline passenger traffic rose by 6.2% in January from a year earlier and freight traffic rose by 5.3%. So, with traffic on the increase and more aircraft coming out of the factories of Boeing and Airbus than ever before, all must be well with the industry?

The reality is of course that these figures, spread over the airlines of the world are having little impact on the operator's bottom line. The snake in the grass, in fact there are three big ones, nipping and poisoning almost without exception, are overcapacity, pension debt and altitudinous fuel costs.

The major airlines with huge fleets of aircraft and overheads have tried to address the pension problem, but this seems endemic with not just the airline sector, and has caused mayhem throughout the western world and will burden corporations and governments into the next decade and beyond.

The stranglehold that the oil producing nations continue to exercise has caused the deepest wounds of all to airlines and, apart from some hedging and surcharging, there is little they can do. British Airways and Cathay Pacific both reckon fuel will cost them US\$2 billion for the forthcoming year. Delta Airlines lost US\$300 million in January bringing the total of its losses in the last four reported months to US\$1.5 billion and Northwest reported fourth quarter losses at US\$1.3 billion.

Both Malaysian Airlines and Japan Airlines are suffering severe financial problems in part due to costs but also to severe competition from low cost carriers in the Far East. Even China Airlines of Taiwan admitted that 2005 profits would tumble 88% due to surging fuel costs.

In an attempt to cover US\$600 million of anticipated additional fuel costs this year, Southwest Airlines the number one low-fare carrier in the US raised some ticket prices in the middle of March by as much as US\$10, the largest increase in the airline's 34 year history. This appears to be a brave move and one not taken lightly. Interestingly a number of other airlines quickly followed suit, upping their own fares. One airline analyst however got right to the nub of the problem - one that has been around for far too long - excess capacity - too many airline seats chasing too few passengers.

In a de-regulated industry where free enterprise has a voracious appetite fed in abundance by a readily available diet of capital and equipment - this is a meal that is giving the industry self induced indigestion.

It is quite probable that the industry is more vulnerable to overcapacity now than it used to be because today's "old" aircraft are more reliable than in previous decades. Commercial aircraft technology galloped ahead in the 1970's particularly in engines, suggesting that obsolescence will take much longer to filter through the airline marketplace.

As the enhancement of technology continues to be introduced by way of new aircraft so must the older and more venerable ones be discontinued. Boeing has begun final assembly of the 156th and last 717 to come out of their Long Beach plant. The delivery to AirTran Airways will also mark the closure of their California facility that first opened in 1941. The termination of the 717 also brings to a close a heritage dating back to 1965 where the aircraft can trace its bloodline back to the original DC-9, developed as a 70 seat workhorse that over the years has undergone more development than any other aircraft in history.

Airbus, the relative newcomer to commercial aircraft production, has announced that the A300 and A310 production line will close by July 2007 after existing orders are fulfilled. The A300 was launched in 1969 and was the world's first twin-aisle wide -body twin-engined jet, establishing Airbus as a major force in the large commercial aircraft manufacturing arena. This is the first time the European manufacturer has phased out any of its models. The decision follows diminishing demand for the type, with all current versions being for the A300-600F freighter. A total of 821 units have been ordered to date with FedEx being the largest operator with 105 freighter aircraft in service. The oldest A300 still in service was first delivered to Air France in 1975 and continues to operate as a freighter with MNG Airlines of Turkey. Airbus plan to develop the A330 as a freighter and possibly as a military tanker.

The other prospective retiree is the B767 that has now been in production since 1982 and has notched up nearly 1,000 orders. Boeing is growing doubtful about whether it can keep open the production line beyond year- end with just a 30-order backlog. Much depends on a decision by the U.S. Department of Defence regarding the USAF tanker programme, of which Boeing suffered the cancellation of a US\$23.5 billion contract in 2004 due to a purchasing scandal.

## Extreme Measures by The EU

The European Union has issued a blacklist banning 92 airlines from operating in the region plus three with operational restrictions, the Commission saying they fail to meet international standards.

The ban affects both passenger and cargo operators, with most of the airlines being based in Africa including 50 from the Democratic Republic of Congo, 14 from Sierra Leone, 11 from Equatorial Guinea and six from Swaziland. Also included are airlines from North Korea, Afghanistan, Kazakhstan, Kyrgyzstan and Thailand. This is regarded as a strong case for European co-operation between the aviation authorities of the 25 member states some of which strenuously guard their traditional autonomy. The list will be updated at least every three months.

## Baltia Airlines To Service Unusual Routes

A new airline is amidst preparations to set up operations that will service routes from New York to St Petersburg in Russia and other destinations in the Baltic region. The airline, by the name of Baltia Airlines, will be based in New York and will commence operations with one Boeing 747 made up of a three class seating layout and cargo capacity.

## New Airline for Peru

A local airline by the name of Wayraperu is to commence serving six domestic cities in Peru with plans to expand to include a further seven destinations. The airline has launched operations with three Fokker-100 aircraft in a two class layout with a strategy based on fares that are below the average.

## Serbia Low Cost Airline

A new low cost airline is to be launched this year in Serbia by the name of Centavia. The airline will operate Boeing 737s from Belgrade to Athens, Frankfurt and Istanbul.

## OzJet Falls by the Wayside

After just four months in operation OzJet has conceded that it cannot compete with much larger rivals. Its business plan was based on the short one hour flight from Sydney to Melbourne with an all business class low cost strategy. It appears that while business class passengers preferred to stick with their current choice of airline in the established operators, the budget travellers showed no appetite for upgrading from the cheapest fares for a significantly more luxurious option at not much greater cost as the short length of the flight did not warrant it. The airline also flew 30 year old Boeing 737's competing with the latest offerings utilised by its rivals.

## And More Casualties

The USA's Hooters Air, which commenced operations last summer and Air Wales, launched in November 1999, have also conceded that they cannot balance the books in the current competitive climate. Both have ended their scheduled operation although Hooters will continue offering private charters for tour groups and sports teams and Air Wales will continue its cargo and charter operations.

## And finally.....

Reginald Perrin – NZ Style....

Many readers will remember Reginald Perrin, the TV character who left his clothes on the beach and faked his own disappearance. Well, Howard Jamison from Ashburton in New Zealand has gone one better by making an entire Cessna 185 disappear!

Back in July 2004, Howard reported the ditching and total loss of his C185 after a power failure and subsequently lodged a NZD 258,000 hull claim. Fuel receipts, a dramatic account of the ditching and visible injuries supported his claim.

Unfortunately for Howard, in February 2006 someone opened a carefully packed container, found a 'ghost' aircraft and now he is facing a possible jail term.....

# Launch Log

## FEBRUARY LAUNCHES

### 15th February

Site: Pacific  
 Vehicle: Zenit 3SL  
 Payload: Echostar 10

### 18th February

Site: Tanegashima  
 Vehicle: H-2A/2024  
 Payload: MT-Sat 2

### 21st February

Site: Kagoshima  
 Vehicle: M-5  
 Payload: Astro F  
 CUTE-1.7  
 SSP

### 28th February

Site: Baykonur  
 Vehicle: Proton M  
 Payload: Arabsat 4A

## MARCH LAUNCHES

### 11th March

Site: Kouru  
 Vehicle: Ariane 5ECA  
 Payload: Hot Bird 7A  
 SpainSat

### 22nd March

Site: Vandenberg  
 Vehicle: Pegasus XL  
 Payload: ST-5a  
 ST-5b  
 ST-5c

### 24th March

Site: Kwajalein  
 Vehicle: Falcon 1  
 Payload: FalconSat 2

### 30th March

Site: Baykonur  
 Vehicle: Soyuz FG  
 Payload: Soyuz TMA-8

[Back to top](#)

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 Risk Solutions Limited unless otherwise stated.

Whilst every effort has been made to ensure the accuracy of the content of this publication, neither JLT Risk Solutions Limited 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.



**JLT RISK SOLUTIONS**  
**Limited**

Lloyd's Broker. A member of the Jardine Lloyd Thompson Group.  
A company incorporated with liability limited by shares.  
Authorised and regulated by the Financial Services Authority.

Registered office: 6 Crutched Friars, London EC3N 2PH England.  
Registered in England Number: 1536540 VAT No. 244 2321 96