



JLT RISK SOLUTIONS Limited



PLANE TALKING

MAY JUNE 2006

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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: peter_barleycorn@jltgroup.com

Editorial Team:
Peter Barleycorn
John Boler
Trevor Howard

No news is good news?

With almost six months of 2006 behind us we have seen a seemingly unspectacular affair so far.

Airline rates have continued their controlled descent with fleet and traffic growth slowing the decline in premium.

There have been few accidents or claims which have been causes for concern but hull loss frequency seems to have increased recently (details to be reported in our next issue).

Whilst these technical aspects have been “quiet” other areas of influence have not.

There has been a veritable game of “musical chairs” in the underwriting arena in London with new players coming into the market and staff moving to fill the new positions – and others moving to fill the consequent vacancies.

Outside of London new entrants – most recently LIG in Korea – have come to the fore and this will not ease pressure on premiums. Furthermore the previously mooted acquisition of GE

Insurance Solutions by Swiss Re has gone ahead to form potentially the largest single block of Aviation capacity in the marketplace. This could be used as a powerful strategic lever in the future.

We now know that the insurance market will not have to worry about the introduction of the mega-jumbo A380 this year due to delays in production.

Whilst this is causing huge consternation for its airline customers and EADS shareholders, certain parts suppliers and airport managers will no doubt be breathing sighs of relief for the extra time it will give them to prepare.

In conclusion we now have further increased capacity seeking a share of diminishing premiums and whilst losses are not catastrophic there has been an increasing frequency of significant, if not catastrophic, hull losses over recent weeks.

Therefore, whilst relatively calm, all is not good news.

May Renewals

There are just five airlines renewing this month down from seven last year. The Central American operator TACA International has extended its renewal policy to July, and Air Seychelles will now be placed under the Air Tahiti Nui programme that comes up in November.

The largest renewal is the Virgin Group that not only consists of Virgin Atlantic and Blue but also incorporates Virgin Nigeria, which was set up last year and has begun operations with a small number of Boeing 737-300's. Virgin America is a more recent addition to the group placement and it hopes to start operations from San Francisco International Airport later this year with A320's. Overall value of the group fleet is in excess of US\$8 billion, by far the biggest renewal programme so far this year.

One other airline of note is U.K. budget operator Easyjet that continues to show growth and is expected to fly more than 35 million passengers this year up from 31 million last year.

The increase in passenger numbers seems more consistent than that of airline fleets, probably due to some re-evaluations of existing stock in addition to new purchases. This month has seen an 11% jump overall in forthcoming enplaned passenger numbers compared with a 2% rise in AFV.

The premium reduction over the five airlines was an average of 11%, remaining within the bounds of market trends.

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June Renewals

With even fewer renewals than in May owing to at least one airline moving to July, there are just two major programmes bringing significant premium into the market.

Aeromexico and Mexicana are placed in parallel and should be the most prominent and important item of the month. Eva Air of Taiwan in size is not far behind this combined placing with a slightly lower fleet value.

The other two are flag carriers and important in their own right but are much smaller in comparison. Ethiopian Airlines renewed last year with a fleet valued at nearly US\$800 million and Uzbekistan Airways is even smaller at US\$550 million.

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Loss Analysis

May produced two serious incidents early in the month that not only killed over 100 passengers but also left five western built jets destroyed with underwriters facing potential claims of over US\$200 million. On top of these were a number of other accidents that resulted in May being the worst month for losses since last August when there was a string of accidents that was quite out of step with loss trends.

May losses began on the 1st when a De Havilland Dash 7 belonging to Trans Capital Airlines of Canada reg CG-LPP and operating a relief flight in Libya suffered undercarriage problems on landing at Zwedrin causing the aircraft to become a CTL. The aircraft was insured for C\$3,000,000

On the 3rd an Airbus A320 reg EK-32009 belonging to Armavia Airlines crashed into the Black Sea while attempting its second approach to Sochi Airport in southern Russia.

Air traffic controllers lost contact with the aircraft while it was manoeuvring to position for the second approach in poor weather conditions with visibility below the minimum. No distress call was issued prior to the aircraft hitting the sea approximately 6 kilometres offshore. All 105 passengers and eight crew were killed. The aircraft was insured in London by brokers U.I.B. for US\$25,000,000.

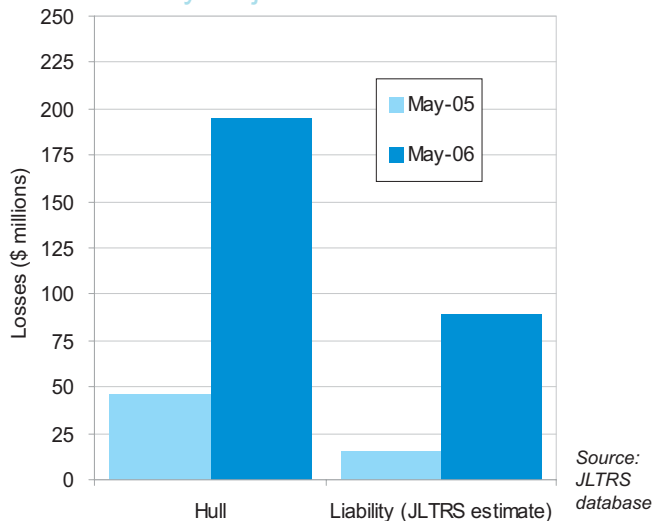
A Boeing 727-200 reg 9M-TGA belonging to Transmile of Malaysia had the left wing fuel tank over pressurise while on the ground at Bangalore resulting in an explosion which severely damaged the wing. Valued at US\$9,000,000 the aircraft is beyond economical repair.

There was a very serious fire at Brussels airport on the night of the 5th that destroyed a large hangar belonging to Sabena Technic, and resulting in three commercial and one military aircraft being destroyed.

Unfortunately Armavia Airlines had one of their A320's parked there at the time resulting in most of their western built fleet being destroyed in just two days. The aircraft was insured for US\$35,000,000.

Two other A320's were lost, one belonging to Armenia Airlines and valued at US\$28,000,000, the other owned by Hellas Jet of Greece at US\$56,000,000. The military aircraft, a C130 Hercules belonged to the Belgian Air Force that was also lost and was insured for US\$20,000,000 along with a significant amount of spares that has yet to be quantified.

May Major Airline Losses



This fire is probably amongst the worst claims of its sort ever to hit the insurance industry albeit spread between the aviation and non-marine markets with the overall final sum to be decided.

A Lufthansa B747-400 reg D-ABTK had the nose landing gear collapse while parked at Frankfurt on the 15th, resulting in a reserve including loss of use of US\$13,000,000.

An Airbus A300 cargo aircraft reg N152UP belonging to UPS was hit by an Air Europa A330 while parked at Barcelona on the 18th causing damage estimated at US\$500,000.

Also on the 18th an Air Cargo Carriers Shorts SD-330-200 made a gear up landing at Myrtle Beach, South Carolina and early reports suggest the aircraft valued at US\$1,000,000 is beyond repair.

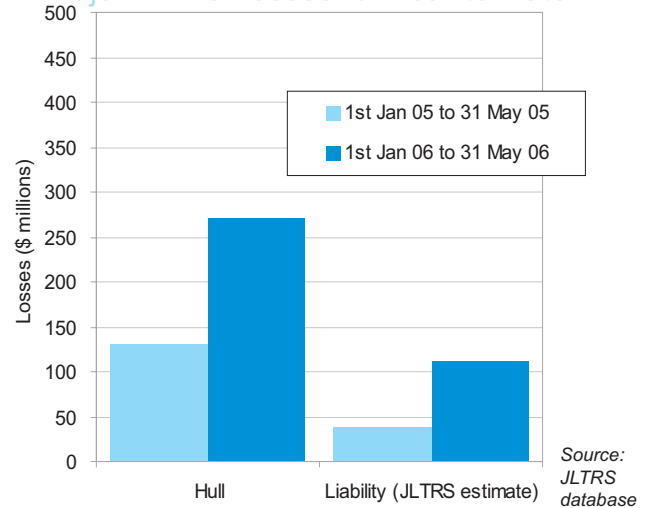
An Air Sao Tome DHC-6-300 Twin Otter reg S9-BAL lost height and crashed into the Gulf of Guinea on a training flight on the 23rd resulting in the deaths of the two crew and two non-revenue passengers. The aircraft was insured for US\$850,000.

And finally, a United Airlines / Shuttle America Embraer 170LR reg N651RW landed at Dulles Airport with the nose landing gear retracted, causing damage estimated at US\$2,250,000.

The result of this plethora of adversities is five western built jets being written off and 108 passengers from all sources being killed. The estimated value of all the Hull losses comes to US\$194 million plus our evaluation of liabilities at US\$89 million, giving an overall monthly total of US\$283 million.

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Major Airline Losses for Year to Date



Insurance Industry News

Swiss Re has now completed the acquisition of GE Insurance Solutions. The Aviation and Space Department is headed by Andreas Peter and the respective team leaders are Rudi Flunger (Aviation Direct and Facultative), Alan Beacock (Proportional Treaty), Hubert Oeckl (Non-Proportional Treaty) and Eric Allenspach (Space).

A potential new market for airline risks has emerged in the form of LIG Insurance Co. Ltd (formerly known as LG Insurance Co. Ltd.) of Korea. The focus at present is on non-U.S. airline business with a maximum underwriting capacity of USD45 million on combined hull and liability. The security is rated A- (Excellent) by A. M. Best and BBB+ (Stable) by Standard and Poor's.

We have commented for many months now on the somewhat mellifluous blend that continues to exist between premium volume and claims. May, as expected also provided less airline premium than this time last year but instead of being able to reiterate our reassurance that this is of little consequence owing to the benevolent level of losses, the month suddenly swung round presenting underwriters with the ugly but ever present side to their industry.

We would like to describe the hangar fire at Brussels Airport as a one-off, although an accumulation of aircraft damaged or destroyed in one location is by no means unheard of. Over the last 20 years there have been eight serious incidents where a hailstorm, a fire or act of terrorism has caused considerable damage to insured aircraft. The Munich hailstorm of July 1984 was the worst up to that time with a loss of over US\$40 million. There have been four other serious hailstorms the worst being at Sydney Airport in April 1999 causing over US\$68 million of damage.

Fire has been another misfortune with one at Dusseldorf Airport in 1996 at US\$25 million and another at Brussels Airport in 1997 costing US\$35 million

Perhaps the most feared of ground losses is a deliberate act of violence and by far the worst loss of this type was the terrorist attack by Tamil Tigers on the Sri Lankan Airways fleet while parked at Colombo Airport in July 2001 which cost the war market US\$396 million.

To assume that there is any sort of trend regarding losses is therefore wrong and our guess last month that things would remain stable might be premature. To suggest though that a loss of this type would resemble a wake up call for underwriters is pure conjecture and it is doubtful if this would even activate the snooze control to disturb their equilibrium..

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Arrivals and Departures

Inter-Aero have strengthened their Space team with the recruitment of four specialists previously with XL Aerospace. The existing underwriting team of Inken Gerlach and Devin Fairbanks have been joined by Jeff Sadler and Jim Clark, while the Aerospace Technical Assessment Team has been boosted by the inclusion of Phil Hamilton and Bill Smith.

Trevor Mitchell has resigned from his position as an underwriter at Global Aerospace.

Chris Hancock has left Farraday to join C.V.Starr.

John Bowman will soon be taking up his position as an underwriter at Limit.

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Airline Industry News

With the recent acrimony surrounding the announcement of delays to the introduction into service of the new A380, the next phase of passenger jet transportation has taken an unexpected turn for the worse.

The sheer size and conceptual improvements over existing large aircraft have mainly been overcome, the use of modern materials, stresses and loads which have spewed from the computer and the physical complexity of bringing all the component parts from all over Europe to Toulouse is being mastered.

Thirty-six years ago Boeing was in the similar position of bringing into production the 747, a much-needed aircraft to satisfy the then expected growth in passenger traffic. This would be the biggest passenger aircraft ever built, the first wide-body twin aisle concept with huge turbo fan engines. But the only thing that was really more complex and technically advanced from the aircraft it replaced was the engines.

The reliability of the first JT9D turbofans were a major problem for the 747 programme but appreciating the importance of what was at stake, Pratt & Whitney worked hard for a fix. The engines now available for the A380 are the most reliable and efficient components of any aircraft, having benefited from over 40 years of development.

For Airbus to be forced to delay the A380 by another six to seven months following their previous deferment has not only uncovered the mechanical complexities of the modern product but something far more serious and fundamental with implications affecting the whole congenital composition and character of the European consortium.

“ Production ramp up issues” is the official line to describe what has happened, but unlike the early 747 issues the A380 problem is in part synonymous of today’s complex and ever changing high tech electronics industry. Expounding, Airbus emphasise that this is purely an industrial issue which has resulted from the high-speed innovation in electrical systems and harnesses which the manufacturer has attempted to integrate into the A380 at the request of its customers.

These mechanical anomalies will not be insurmountable as history has proved, the basic product is sound and whatever happens the first production aircraft will still be delivered to Singapore Airlines by year end. The knock on effect of the delays might however be hard to accept as airlines such as Qantas Emirates and Malaysian Airlines see traffic increase on the busy Far East routes but could well be unable to supply all the seats. The number of A380’s to be delivered during 2007 will likely be limited to just nine, instead of around 20 as originally planned.

There is now speculation and accusations that the real cause of the malaise is far deeper rooted than this engineering hick-up. Strong comments have been made that there is open warfare within Airbus’s politicised Franco-German management with a culture built by “committee” and riven with cultural misunderstandings and grievances.

Could it also be said that the A380 has become a symbol of all that is wrong with modern Europe- incompetence, greed and bickering, the consequence of which has plunged Airbus into its worst crisis in its history.

One could say therefore that there is a lot to the single nation manufacturing base where there is more centralisation, and this undoubtedly helped Boeing overcome the early problems with the 747, but during the late 60's Concorde, a more complex programme and a far higher technically advanced aircraft than anything that has been produced since demonstrated that at the time, a joint effort between two nations was achievable without the affliction and encumbrance that has proved such an impediment to the multi-national Airbus of today.

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And finally...

Of matters Olfactory.....

A German man, Werner Brechtfeld, is seeking compensation for missing his flight after being told that he was too smelly to fly.

A day's sightseeing in the heat of Honolulu had apparently taken its toll on Werner and, with his luggage checked in, he did not have a change of t-shirt available when the passenger seated next to him complained. As a result he was asked to leave the flight and subsequently missed his connection to Germany.

Passengers expect, and airlines like to provide, a pleasant travelling environment. We were surprised, however, to hear that some airlines including British Airways, Air France, KLM and Finnair have banned the Swedish delicacy *surstromming* from their flights.

Rumours that the tins of fermented Baltic herring can explode are, apparently, untrue – but the cost of cleaning and deodorising the residue of leaky tins has apparently become too onerous (or should that be odorous?) for the airlines to bear.

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Launch Log

June LAUNCHES

12th June

Site: Pacific
Launcher: Zenit 3SL
Payload: Galaxy 16

22nd June

Site: Baykonur
Launcher: Tsyklon 2
Payload: Kosmos

13th June

Site: Yasny
Launcher: Dnepr 1
Payload: Genesis PF1

24th June

Site: Baykonur
Launcher: Soyuz U
Payload: Progress M-57

14th June

Site: Vandenberg
Launcher: Minuteman 3
Payload: GT-191GM

27th June

Site: Vandenberg
Launcher: Delta 4M+
Payload: NRO L-22

15th June

Site: Baykonur
Launcher: Soyuz U
Payload: Resurs DK-1

28th June

Site: Baykonur
Launcher: Dnepr 1
Payload: BelKA
Beamanets
JAESat Master
JAESat Slave
Saudisat 4
Palamede
Unisat 4
AtmoCube
CAPE-1
CubeSat RAFT
Funsat
KatySat 1
Libertad 1
PolySat 3
UCISat 1

18th June

Site: Baykonur
Launcher: Proton K
Payload: KazSat

19th June

Site: Cape Canaveral
Launcher: Delta 2/7925
Payload: MITEx

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