



JLT Aerospace



PLANE TALKING

AUGUST SEPTEMBER 2006

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Editorial

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Here We Go...

The insurance markets' holiday season is now behind us and everyone is gearing up for the final quarters' log-jam of renewals – particularly for the final two months of the year.

Indeed some are already being marketed and early indications suggest that the influx of new capacity combined with the changes in personnel and structures are having an effect on the results of negotiations.

In the not too distant past, when markets joined the aviation scene as new participants, there was not perhaps the high level of scrutiny on their financial security nor the experience of their underwriters.

As a consequence these markets were predatorily squeezed by the brokers to participate on risks at very high differentials from the lead.

Many did not survive.

Today, whilst the long-term existing markets are endeavouring to hold back the tide, the new entities have high security ratings and are staffed by experienced aviation professionals and must break into what is still a potentially lucrative market.

As a consequence, whilst there is bound to be pressure on and some widening of vertical marketing differentials, the huge margins of the past should not recur.

Nevertheless there is bound to be a resultant benefit to the airlines' premium bills.

So, whilst it is business as usual, the next few weeks are going to be very hectic, very busy and very, very interesting!

August Renewals

We suggested last month that August would be a quiet month and it has turned out to be so. Our compilation comprises four airlines of differing size and operation with the biggest by way of fleet value being Monarch the U.K. based inclusive tour operator. Their fleet has grown to nearly US\$1.3 billion and passenger numbers are up to 5.8 million. Next in fleet size is Pegasus of Turkey valued at over US\$650 million and expected to carry over 2 million passengers next year.

The only other two operators recorded are Gemini Air Cargo of the USA that is one of the smaller freight carriers with a fleet value of US\$427 million and Bangladesh Biman the Asian flag carrier that is showing a reduction in overall exposures from last year and now has a fleet valued at US\$243 million.

We estimate that overall average fleet values have gone up by about 4% with passenger numbers increasing by 6%. Over the four airlines the weighted average premium has reduced by 15%.

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September Renewals

Apart from the early months of the year, September is almost bereft of airline renewals with just three in our collection. The largest is one of India's second tier operators Air Sahara with a fleet valued at over US\$1.1 billion. The Indian Government thwarted their takeover by Jet Airways in January and they therefore continue as an independent operator in one of the fastest growing regions of the world.

Lion Airlines of Indonesia showed substantial growth last year with continued positive expectations in passenger numbers. The only other noteworthy airline is Pace Airlines of the USA that has tended to mark time growth wise due to the demise of the Hooters side of their operation and now specialise in scheduled and non-scheduled charters while competing in a difficult and competitive marketplace.

September would have been dominated by one of the biggest regional airlines Skywest which merged with Atlantic Southeast Airlines last year but moved its programme forward a month to October.

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Loss Analysis

With two serious fatal jet accidents in August resulting in over 200 passengers losing their lives and with both losses probably due to some sort of human error, there is little comment to make, suffice to say that the weakest link in the current chain of world airline safety has been briefly broken. The rest of the losses are what we would normally expect and are as follows:

Yet another fatal accident took place in the Congo, this time on the 3d August when an Antonov An-28 reg 9Q-COM belonging to Tracept struck high ground and broke apart nine miles from the runway at Bukavu in poor visibility killing all 14 passengers and three crew. Tracept is among the list of EU blacklisted carriers.

The next day an Embreair EMB-110 reg N-59BA belonging to AirNow during a missed approach to Bennington Airport, New Hampshire failed to gain sufficient height and hit high ground killing the pilot, the only person on board. Weather at the time was poor with low ceiling and rain and reduced visibility. The aircraft was valued at US\$500,000.

On the 8th a TAM Fokker 100 reg PP-MQN had the forward passenger door burst open and separate from the aircraft soon after take off from Sao Paulo, hitting the aircraft's port wing leading edge and landing on a supermarket roof. Cost of repairs are expected to fall below the deductible.

While en route from Calgary to Edmonton on the 10th, a Capital Cargo Airlines B727-223F reg N708AA entered a severe hail storm at 35,000 feet and landed with extensive damage to nose, radar equipment and a shattered windscreen. The aircraft was valued at US\$6,500,000 and is unlikely to be repaired.

An Air Algerie Lockheed Hercules L-100-30 reg 7T-VHG crashed on approach to Piacenza in northern Italy on the night of 13th killing the three crewmembers. The pilot had reported an engine problem while on a cargo flight from Algiers to Frankfurt and was attempting an emergency landing. The aircraft was insured for US\$6,000,000.

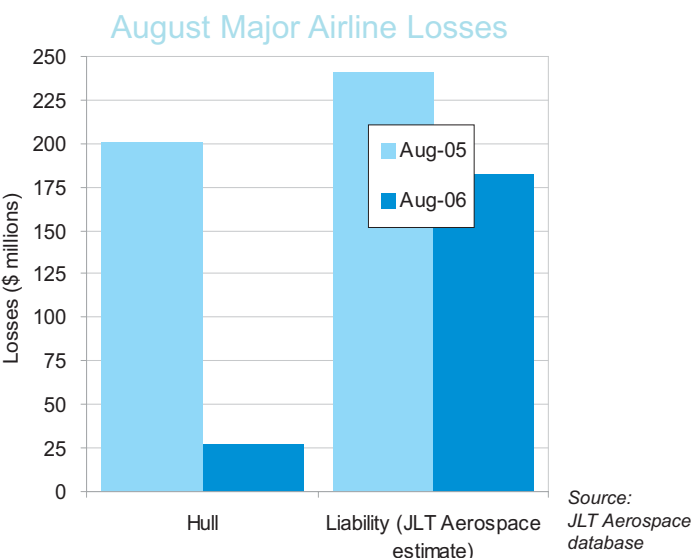
A North Korean TU-154A reg P-551 belonging to the state airline Air Koryo overran the runway on landing at Pjongjang on the 15th resulting in damage to the undercarriage and wing. The aircraft landed long on its second approach due to dense smog, and ended up in a paddy field. Details regarding repairs are a little hazy.

A Russian TU154M reg RA85185 belonging to Pulkovo Aviation Enterprise crashed in the Ukraine on the 22nd killing all 160 passengers and 10 crew. It appears that the aircraft deep-stalled at over 39,000 feet and spun while trying to climb over severe storm clouds. At a special Russian government meeting on August 31st regarding aircraft safety it was stated that the thunderstorm front was unusually high, extending up to 15 km and the aircraft did not have the performance to have overflown it.

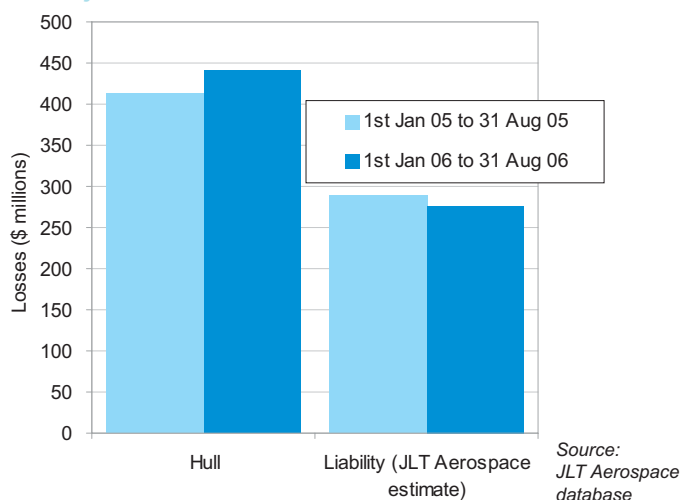
The aircraft was en route from the Black Sea resort of Anapo to St Petersburg and included in the passenger compliment were about 45 children. The aircraft was insured domestically for about US\$2.5 million with the possibility that some excess liabilities might be placed in London.

A Canadair Regional Jet CRJ100ER belonging to Comair crashed immediately after attempting to take off from Lexington-Blue Grass Airport in Kentucky on the 27th killing all 47 passengers and two of the crew. The first officer who was the pilot flying at the time was dragged from the wreckage and survived the crash with severe injuries. The aircraft was making an early pre-dawn flight to Atlanta in darkness when the pilots are alleged to have turned onto a shorter runway used by GA aircraft that is half the length of the main runway. They continued accelerating beyond the end of the runway across fields and briefly became airborne before hitting trees and exploding. Comair is the regional arm of Delta Airlines placed mainly in the US with an order to London via Marsh lead in the London market by ACE. The aircraft reg N431CA was valued at US\$17,306,194 and passenger liabilities are expected to be substantial.

Overall hull losses for the month come to US\$27,560,000 plus liability reserves estimated at US\$182,150,000, totalling US\$209,710,000. Overall losses for the year to date come to US\$718 million.



Major Airline Losses for Year to Date



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Insurance Industry News

August was marred by the worst passenger jet accident for over four years when the Russian Tupolev came down in the Ukraine killing all 170 people on board. It seems highly likely that the cause was weather-related and that the pilot flew the aircraft beyond its capabilities in order to avoid a huge thunderstorm.

A few days later a regional jet in the USA took off from the wrong runway in darkness, struck trees and crashed killing all 47 passengers. Blame will likely be apportioned between the airline and the airport controllers and passenger settlements are expected to be the most serious since the American Airlines A300 loss in Queens New York in November 2001. Gross negligence will be the lawyer's passport to possible record compensation payouts, which could well create a new benchmark for US domiciled passengers.

It is unlikely though that the loss will adversely affect either the U.S. or the London insurance markets.

The theme reported fairly repetitively so far this year has been for premium reductions that have been entirely in line with expectations and go hand in hand with market conditions. Capacity remains plentiful and would accommodate some fall-out if nervousness crept in following a steeper slide in the premium base.

Whether this will happen when the true renewal season begins in October is anyone's guess.

Even if the airline premium for the year fails to reach the US\$2 billion mark (which some suggest is quite likely), there should still be ample leeway for underwriters.

Might there soon however be a note of caution that could waft around the nostrils of capital providers as a smoke alarm picks up the early traces of trouble? We have seen several times in the past that when too much capacity enters an attractive segment of a marketplace, in a very short period of time there is some sort of collapse.

It is noticeable that over the last few months one of the biggest movements of senior personnel in the aviation insurance industry has occurred, with companies and Lloyd's syndicates determined to establish or retain an ever greater foothold while conditions remain so benevolent.

One thing remains certain, the aviation industry growth continues unabated and estimates indicate that global fleet values have risen by between 12% and 15% since 2000, and passenger numbers have increased by over 6% this year alone.

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Arrivals and Departures

Roger Bowes is leaving the ACE claims department to join Faraday.

James Healy-Pratt group General Council at Amlin is leaving to join U.K. claims solicitors Stewarts.

Simon Hennessey and Russell Mason will be establishing a General Aviation arm of the Wellington Underwriting Agency in early October.

James Walker is moving from brokers AON to underwriters Kiln.

Olivier Marre is joining the Bermudian reinsurance company Max Re as senior vice president having been at La Reunion Aérienne for many years.

Andrew Innes is leaving BRIT to join Catlin as a Class Underwriter, primarily on the Products and Airports book of business.

Steve Wilkinson, senior claims executive at Marsh, London, will be joining CTC Services Aviation as Managing Director, Commercial.

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Airline Industry News

Nearly forty years ago an underwriting sage suggested that when the airlines did badly the insurance industry did well and vice-versa. Today we are beginning to see this coming true yet again. Premiums are predicted to fall to or below the US\$2 billion mark for the first time since 2000, and conversely airline profits are improving worldwide including the worst hit areas such as the United States.

Despite continued over capacity and the high cost of fuel, severe cost cutting has put the airlines into better shape with IATA suggesting that the sector will lose US\$1.7 billion in 2006 a better figure than first thought and return a profit of between US\$1 to US\$2 billion in 2007. Even United Airlines which emerged from bankruptcy in February returned a second quarter profit for the first time in six years. However Delta, the third largest US operator lost US\$2.2 billion in the same quarter (mainly due to reorganisation costs) and has notched up losses of more than US\$16 billion since January 2001.

IATA also suggest that restrictive foreign ownership rules and lack of progress in reaching an open skies agreement between Europe and the United States are seriously hindering the ability of the airline industry to slash over capacity and reshape itself as a healthy business with reasonable profit margins.

Some critics have said the U.S. industry won't really bounce back until some of the competition is taken out for good rather than repeatedly resorting to chapter 11 bankruptcy protection when things go wrong. Four of the six top U.S. airlines have taken cover under chapter 11 over the past few years, one of them twice in a two-year span.

Heightened security requirements will also cost the industry and change forever the freedom of passengers especially regarding things like hand baggage restrictions that some airlines have described as completely nonsensical.

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And finally...

Between a rock and a hard place?

So who is the scariest – airport security or your mother?

In the case of one man travelling from America to Turkey with his mother the choice appears to have been a simple one.

The 'grenade shaped' object in his luggage was, apparently, a 'sexual aid' – but, when confronted by security officials, the man identified the object as a bomb.

Madin Azad Amin has been charged with felony disorderly conduct and faces up to three years in prison if found guilty – but, hopefully, his mother still loves him.....

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Launch Log

September LAUNCHES

01 September

Site: Kodiak
Launcher: Polaris/STARS
Payload: IFT 15

01 September

Site: Tanegashima
Launcher: H-2A/202
Payload: IGS-3A

01 September

Site: Vandenberg
Launcher: OBV
Payload: FT-2

12 September

Site: Xichang
Launcher: CZ-3A
Payload: Zhongxing 22A

05 September

Site: Wuzhai
Launcher: DF-31
Payload: Dummy warhead

14 September

Site: Baykonur
Launcher: Soyuz U
Payload: Kosmos 2423

07 September

Site: White Sea
Launcher: Bulava
Payload: Dummy warhead

18 September

Site: Baykonur
Launcher: Soyuz FG
Payload: Soyuz TMA-9

09 September

Site: Jiuquan
Launcher: CZ-2C
Payload: Shi Jian 8

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09 September

Site: Kennedy
Launcher: Atlantis
Payload: STS-115
ITS-P3/P4

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