



# JLT Aerospace



## PLANE TALKING

APRIL MAY 2007

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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@jltre.com](mailto:peter.barleycorn@jltre.com)

#### Editorial Team:

Peter Barleycorn

John Boler

Saskia Cosgrove

Trevor Howard

### Comment

#### Excess Capacity?

Over the course of the past few months we have mentioned the apparent slide of the airline market into a technical loss situation as the combined effects of high capacity, past profits and only moderate overall claims have driven premium / rate levels downwards.

We had expressed surprise that, a market that had seemingly outgrown the boom to bust to boom situation of the late 20th century and, having gone through the chilling results of 9/11, was seemingly drifting into making the same 'mistakes' again.

It has become apparent however, that we were slightly misjudging the situation. Our recent experiences in the market suggest that it is no longer totally 'open season' for the broker and their airline clients.

Insurers are starting to be more selective in the allocation of their security – reducing their lines if not totally happy with the risk to reward ratio.

So, whilst there is a technical excess of capacity in the market it must be remembered that this is a variable 'gift' of the insurers to use as they see fit.

Perhaps this marks a watershed in market trends and today's more profit focussed market is starting to take a 'strategic' stance for the future.

## April Renewals

This month brings interest and variety to the market with the largest collection of renewals seen so far this year. There are ten airlines in our listings representing the larger operators from an overall total comprising over 20 airlines in all.

By far the largest is the British Airways group placing which features in April for the first time after extending its policy from November. Fleet and passenger growth is substantial, in part due to the inclusion of Lan Chile into the programme, and as such now provides coverage for some six airline operators.

The next largest is TUI, the European tour operator which includes Hapag-Lloyd, Corsair and Thompsonfly, and is one of the biggest IT operators in the world. Its overall exposures also increased.

The one other significant airline is Hainan of China, which operates independently from the main Chinese consortium and shows one of the biggest increases in passenger numbers of all the monthly renewals.

Others of note include Air Berlin, Airasia, Air Jamaica, Air Mauritius, Jet Airways of India and Royal Brunei.

Exposure levels have seen the biggest rise so far this year with average fleet values up by 20% and passenger numbers also expected to increase by about 20%. But the most important movement of all, of course, is the premium and over the airlines we have included in our calculations this has come down by 18% overall, despite the significant increase in exposure.

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## May Renewals

With fewer airlines but equal in quality, May will, like April prove of significant interest to the market as it includes a number of substantial items.

First among them will be the Virgin placing which includes Atlantic and Blue. Their new start up in the US, Virgin America, has only just been granted regulatory approval and its start up date has yet to be decided. This new operation has been thwarted up to now, due to ownership issues with the American authorities and their chief executive has had to be replaced.

Virgin Atlantic's fleet value is significant and far exceeds the next biggest airline, the low-cost operator Easyjet.

The latter's passenger numbers have however, grown dramatically over the years in a fast expanding sector of the market and this is expected to continue into next year despite the current dip in growth.

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## Loss Analysis

On the 9th April an Air India A310 reg VT-EJJ had the nose landing gear collapse on landing at New Delhi International Airport. There were no injuries to the 169 passengers but damage is estimated at US\$1.5m.

A Canadair CRJ-440LR regional jet reg N8905F belonging to Pinnacle Airlines on landing in darkness and reduced visibility at Traverse City Airport, Michigan on the 12th April, ran beyond the runway due to snowy conditions. The nosegear collapsed followed by the right wing dragging along the ground. The aircraft was substantially damaged with repair estimates to be US\$1m.

An EI A320 B747-400 reg 4X-ELD suffered severe engine damage on the 13th April when, after pushback at Paris, Charles De Gaulle the towing truck became wedged under no. 3 engine. Damage to both the engine and the tow truck was heavy. The cost of replacing the engine plus the third party damage will be US\$7m.

A potentially serious fire at a maintenance hangar in Abu Dhabi on the night of the 18th April destroyed one aircraft and slightly damaged one other. A Qatar Airways A300 reg A7-ABV caught fire in the forward cabin area and quickly spread to the rest of the aircraft. Falling debris also slightly damaged an Air Mauritius A319. The A300 was totally destroyed and was valued at US\$54m.

On the 20th April a Bahamas Air DHC-8-300 had the left main landing gear collapse on landing at Eleuthera in the Bahamas causing the aircraft to be declared a Constructive Total Loss. Insured value was US\$4m.

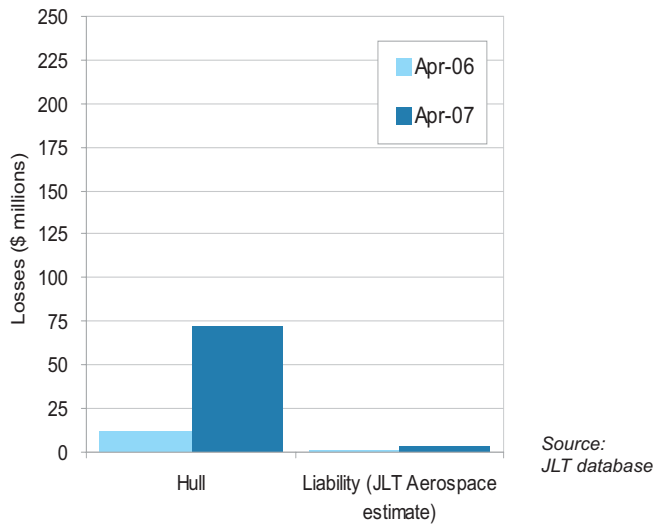
The only fatal accident to a commercial operator during the month occurred on the 26th April when an Air Services Guyana Britten-Norman Islander crashed in Kopinang, Guyana killing the two passengers on board. Insurance details are sketchy and estimated insured value is US\$150,000.

And finally, A Royal Air Maroc Boeing 737-500 reg CN-RMB overran on landing at Bamako, Mali on the 30th April resulting in extensive damage to the undercarriage, fuselage and engines. Cost to insurers will be US\$4m.

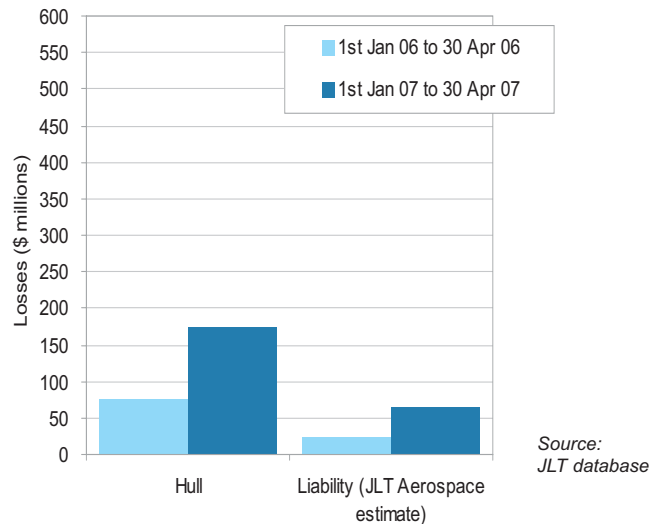
Hull losses for the month amounted to US\$71.65m with an estimate for liabilities of US\$3.45m giving an overall total of US\$75.1m. This compares with a total for April 2006 of US\$14m.

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## April Losses



## Major Airline Losses for Year to Date



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## Insurance Industry News

As can be seen from our April summary, airline premiums continue their decline much in line with what has been happening for a lengthy period now. The April result is almost exactly what has been predicted and the fall in premiums of around 18% is just about par for the course.

Like every other industry the price is being driven by market forces and despite evidence that some underwriting units are reducing their lines on airline business and (one assumes) giving greater consideration to each risk that they are shown, there seems at the moment at least to be enough leeway for manoeuvre with new and existing capacity still willing to provide enough coverage to enable brokers to fulfil their commitment to clients. It seems however that this is waning.

Fortunately for underwriters, another month has gone by without serious loss of life and although hull losses have exceeded US\$70m it could have been worse. The hangar fire at Abu Dhabi contributed to most of this figure with the total loss of the Qatar Airways A300 costing US\$54m. This figure could easily have doubled as two other jets were also being serviced in the hangar at the same time but this was averted thanks to swift action by the authorities.

As has been said before, the acceptable commercial gap between premium and claims is narrowing by the month and at last it seems there is evidence of a hint of hardening attitudes from some of the market which could well prove more concrete as the year pans out.

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## Airline Industry News

One of the most significant headlines to appear in the press recently was the news that Virgin Atlantic will become the first airline to fly non-stop from London to Australia. This announcement was received in much the same way as most technological breakthroughs these days – with a shrug, and a certain indifference and nonchalance just as we now accept the upgrades to our mobile phone as our own miniature multi-purpose computer, camera and video recorder all rolled into one.

Because of an accumulation of new engineering techniques that have come together simultaneously, as has happened many times in the history of the aeroplane, today's airlines are on the cusp of one of the biggest leaps forward since the Comet entered service in the early fifties.

Forty four different airlines have now ordered nearly 570 examples of the Boeing 787 Dreamliner - the fastest selling wide-body airliner ever, which promises to revolutionise not just air travel but also the way aeroplanes are assembled.

The long single hop to the other side of the world has never quite been attainable due to the economics of the equipment available; it could just be done physically but not economically- until now. Boeing has taken its biggest gamble since investing in the 747 in the 1960's and the 787 is probably the most important product in Boeing's 90 year history.

Final assembly will take place at the vast Everett plant near Seattle, Washington and not only does the 787 incorporate new and revolutionary

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technologies but it will also be Boeing's main weapon in the battle to dominate the market for mid-sized jets – those that seat between 200 and 400 passengers.

The way the aircraft is made and what it is made of sets it aside from anything that has been produced so far. About 50% of the 787 will be constructed of composite materials thus providing the vital ingredient for fuel efficiency. For the first time large components have been manufactured overseas by risk sharing partners like Mitsubishi who make the largest composite wings ever made and the first not actually designed and made exclusively by Boeing. Others include Kawasaki and Fuji, Alenia in Italy plus Vought and Spirit Aerosystems in America. With much of their wiring and other systems already installed and flown to Seattle for final assembly, the engineers merely bolt the bits together. Even the nose section includes an installed Messier-Dowty landing gear made from parts manufactured in Canada, France, China and England. Boeing say it will eventually be able to assemble a 787 in an impressive three days, and to compare this with the 777 where they handle 35,000 components - there are just 1,700 on the 787!

One of the main differences with the new composite material used is the fact that it does not flex and fatigue like aluminium and this will allow Boeing to pressurise the cabin to a different level – the equivalent of being at 6,000 feet above sea level rather than 8,000 feet in a conventional aircraft. As corrosion is not such a problem the air inside will be more humid. The result of these changes should give passengers a much more relaxed and healthy atmosphere and could help to minimise the threat of DVT.

The other ingredient which makes this aircraft so revolutionary are the engines. Both Rolls Royce with the Trent 1000 and General Electric with their GENx have produced fuel efficient and technically advanced propulsion units based on their experience with "wide bodied" engines that have proved highly successful over the years. Again, modern high tech materials are used to help provide better weight savings / fuel economy and less pollution.

The main criteria going forward for airlines has got to be a lower fuel burn than any equivalent type of aircraft. Virgin in particular cite the 27% improvement they will get over their existing A340's.

Assembly of the first of six test aircraft has already started and is expected to take seven weeks to complete, with roll out on the 8th July. First flight is anticipated to be late

August or early September and will, subject to FAA approval be certified and ready to enter commercial service with All Nippon Airways by May next year.

However, due to the FAA's inexperience with large-scale use of composite structures, approval will involve Boeing having to satisfy the FAA's view that especially in regard to the fuselage that it cannot be assumed to have the fire resistance previously afforded by aluminium. The FAA also goes on to say that Boeing must prove that the composite structure will not propagate fires that may develop in inaccessible areas and that fumes from composites and any nearby thermal/acoustic insulation will not be toxic to passengers. Boeing no doubt have covered every eventuality as they always do and will make this product like every aeroplane they have ever made, a resounding success.

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## And Finally...

### Go/No Go?

It sounds like the kind of routine assessment that pilots need to make on every flight. However, if you're thinking of flying with China Southern Airlines, it may be one that you need to make as well.

The airline's logistics department has calculated that the energy required to flush the toilet at 30,000 feet burns one litre of fuel – "Enough for an economical car to run at least ten kilometres" stated Captain Liu Zhiyuan.

So, at a time when the low-cost operators are hoping that you will spend your pennies on the aircraft, China Southern would rather you spent them on the ground...

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# Launch Log

## May Launches

### May 4

Site: Kourou  
Vehicle: Ariane 5 ECA  
Payload: Astra 1L  
Galaxy 17

### May 12

Site: Baykonur  
Vehicle: Soyuz U  
Payload: Progress M-60

### May 13

Site: Xichang  
Vehicle: CZ 3B  
Payload: NigComSat 1

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