



# JLT Aerospace



## PLANE TALKING

MARCH APRIL 2007

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#### Editorial

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### Comment

#### A matter of balance

The course of 2007 continues with little excitement of note. Losses continue at low levels, albeit significantly higher than at the same time in 2006 in percentage terms.

Capacity continues to grow, a prime example being the new Mitsui Sumitomo-backed Lloyd's Syndicate to be headed by Robert Swinton, previously at Catlin.

As a result, 'A' grade airline market capacity for an airline with a US\$1.5bn CSL will exceed 220% once this operation commences.

Rates continue to fall and, despite generally increasing fleets and traffic, premiums are still falling by around a quarter. Carried forward, this trend will give an airline hull and liability worldwide income of US\$1.25 – US\$1.3bn for 2007.

The abundance of capacity is the root cause of this and also the reason why any risk-based insurer initiatives seem to have been put on hold.

Hull deductibles have been the subject of some discussion as aircraft, and particularly engine, values have escalated.

Furthermore, the new 'Weapons of Mass Destruction' exclusion clauses have been a recent hot topic.

At the recent IATA Aviation Insurance Rendezvous in Montreal, during a question/answer forum, a prominent aviation underwriter commented to the effect that, with so much available capacity, there seemed little prospect for the introduction of the new WMD clauses.

As is so often the case in the aviation market, pragmatism has lead to compromise. For how long remains open to surmise.

## March Renewals

There were four airlines qualifying for our monthly comparisons, one more than this time last year. Varig has now been included having previously been placed in December. It has been through difficult times financially and is now a quite different operation from before. Its fleet has diminished in size and is now 28% below last years figure with huge drops in revenue passenger kilometres and passenger numbers.

This is reflected in its premium that shows a well above average and somewhat unnatural change. We will therefore exclude this from our final calculations to prevent an unrealistic distortion of the monthly average. The airline has now been taken over by GOL and might well be included in GOL's renewal programme that comes up in December.

The remaining airlines include Air Nostrum from Spain showing strong growth in all areas especially its fleet that is up by over 35% compared to 2006. Iran Air and Bangkok Airways conversely have fleet reductions but varying degrees of increases in anticipated passenger numbers for the forthcoming year.

Taking the three airlines therefore which show a realistic like-for-like renewal we see a very small increase in fleet values by only 1%, RPK's up by 17% and anticipated passenger numbers by 11%.

The overall hull and liability premium reduction for March is 23%.

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## April Renewals

This month should begin to get the pulses racing a little faster for underwriters and brokers with the largest volume of good sized airlines so far this year being renewed. By dint of a four month extension to its previous policy British Airways now becomes the largest airline by far for April and therefore swells the monthly premium income considerably.

There are five other airlines with fleets valued in excess of US\$1 billion the largest being the European I.T. carrier TUI which includes in its programme the airlines Hapag Lloyd, Britannia and Corsair. It has recently announced a takeover of UK based holiday company First Choice.

One other major contender by fleet size is Hainan Airlines of mainland China one of the largest independent operators outside the main CAAC group placing.

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## Loss Analysis

The most serious accident in March occurred on the 7th when a Garuda Boeing 737-400 reg PK-GZC made a very heavy landing at Jogyakarta, Java on a domestic flight from Jakarta. The nose gear collapsed and broke off while the aircraft overran the runway end by 300 metres subsequently hitting an embankment and catching fire.

Out of the 133 passengers and seven crew on board, 21 passengers and one crewmember were feared dead with 50 injured - some with extensive burns. There were a number of Australians and Japanese on board. Hull and liability insurance was placed in the London market, the aircraft being valued at US\$21,600,000.

An Il-76 reg EW-78826 belonging to Trans Avia Export and on operations to the U.N. was hit by a rocket grenade on approach to Mogadishu Airport on the 8th but despite heavy fuselage damage and an erupting fire managed to make a safe landing. All six crew and six Ugandan soldiers safely evacuated the aircraft but due to the fire truck taking an hour to reach the scene as it had no fuel at the time, the aircraft is beyond repair. Insurance details are sketchy but it is assumed the aircraft was placed in the Russian market.

On the 12th, a Bangladesh Biman A310 reg S2-ADE aborted its take off from Dubai International Airport with parts of its nose undercarriage missing. It is thought there was debris on the runway from a previous burst tire incident. Damage is estimated at US\$22,000,000.

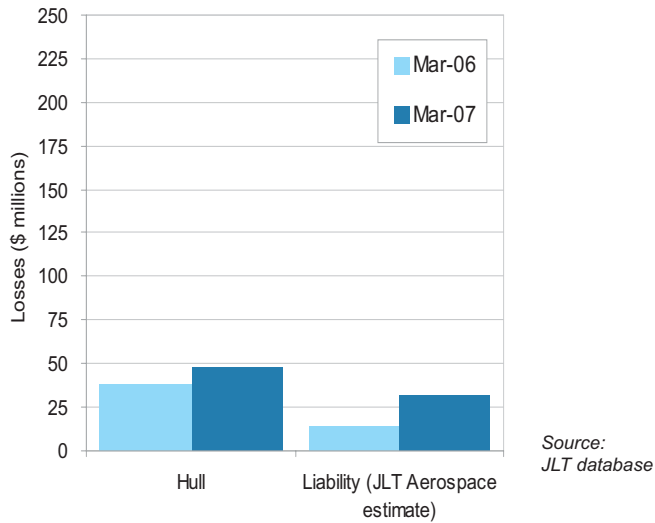
A Russian Utair TU-134A reg RA-65021 on landing in poor weather at Samar International Airport on the 17th, touched down short of the runway causing the fuselage to break apart. Seven people have been reported killed and an unknown number injured. There was freezing fog at the time with very limited visibility. Approximate value of the aircraft was US\$1,500,000. Utair is among the list of banned Russian airlines preventing them flying into EU airspace due to safety concerns.

A further terrorist act occurred to Trans Avia Export on the 23rd when another of their IL76's reg EW-78849 was shot down by a missile on take off from Mogadishu, killing the 11 crew. The aircraft was in fact taking spare parts away from the previous IL76 incident on the 8th.

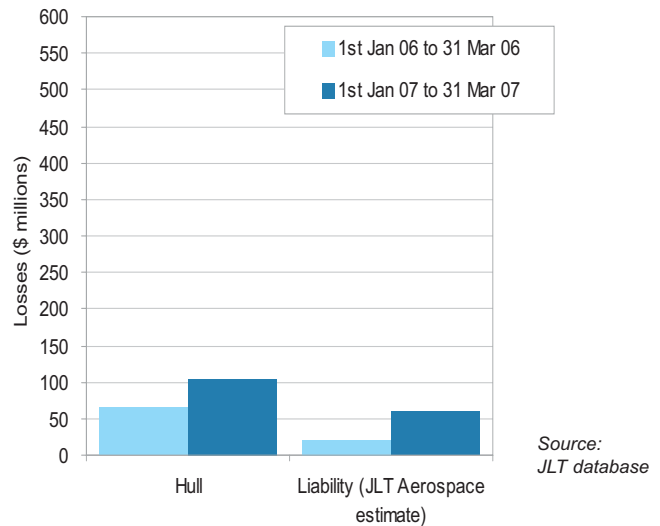
An Ariana Afghan Airbus A300B4 reg YA-BAD on landing at Istanbul in poor weather on the 23rd slid off the end of the runway coming to rest with its right main landing gear broken off within the airport boundary. In order to clear the area quickly the authorities decided to cut the aircraft up into pieces thus rendering it a distinctive and definite constructive total loss. Insured value was US\$2,200,000.

Overall hull losses for the month amount to US\$48,550,000 with our own liability reserve estimated at US\$31,400,000.

### March Losses



### Major Airline Losses for Year to Date



## FIRST QUARTER UPDATE

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### Insurance Renewal Data

Comparing the First Quarter 2007 with the First Quarter 2006 - % Movement

These renewal figures relate to medium to large airlines.\*

% Movement	AFV	RPK	Passengers	Hull Rate	Liability Rate	Premium
January	+8%	+4%	+15%	-38%	-27%	-28%
February	-3%	-4%	-6%	-26%	-25%	-28%
March	+15%	+29%	+20%	-35%	-39%	-23%
<b>1st Quarter 2007</b>	<b>+7%</b>	<b>+10%</b>	<b>+13%</b>	<b>-32%</b>	<b>-30%</b>	<b>-25%</b>
<b>THE YEAR TO DATE</b>	<b>+7%</b>	<b>+10%</b>	<b>+13%</b>	<b>-32%</b>	<b>-30%</b>	<b>-25%</b>

### Major Loss Summary First Quarter

Period	Number	Hulls (US\$)	Liabilities(US\$)*	Total (US\$)
January	8	36,480,000	28,850,000	65,330,000
February	3	18,750,000	850,000	19,600,000
March	6	48,550,000	31,400,000	79,950,000
<b>1st Quarter 2007</b>	<b>17</b>	<b>103,780,000</b>	<b>61,100,000</b>	<b>164,880,000</b>
<b>THE YEAR TO DATE</b>	<b>17</b>	<b>103,780,000</b>	<b>61,100,000</b>	<b>164,880,000</b>

\*JLTRS Estimates

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# Insurance Industry News

After the usual slow start to the year during which the first quarter produced a trickle of airline renewals and very little interest to market analysts, April stands out as the first month of real interest with a few good and medium sized airlines which might provide some sort of indication as to the possible direction the market will take this year.

Although we will be using 12 airlines for our own assessments, there are over 20 operators of greatly differing size renewing overall. Among these is British Airways that took up its option to extend last years policy by four months and should by its importance provide some sort of a pointer as to the markets' inclination.

As the scales now seem almost to be evenly balanced with premiums just providing a slight bias upwards by only a few degrees, actions and intentions going forward from now on will be critical to the overall annual result.

The first quarter therefore might not be considered indicative of market direction and although we calculate that airline premium reductions so far this year are in the order of 25% it cannot be assumed that subsequent quarters throughout 2007 will produce a similar result. As it stands losses remain low with the first quarter hull and liability figure totalling US\$165 million compared with US\$85 million at the same time last year. Passenger fatalities are also higher at 153 compared with 19 in the first quarter of 2006/8\* but as yet this has not sent out any alarm signals.

Within the last few weeks yet another new Lloyd's managing agency was announced, Mitsui Sumitomo Insurance. Robert Swinton will head the aviation underwriting team with Noel Holloway as his deputy, and followed by a number of class underwriters from the Catlin Group.

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## Arrivals and Departures

After 27 years with Global Aerospace and its forerunners, Dan Boulwood has resigned and will be joining Limit at Lloyd's as soon as he is clear of his existing contractual commitments.

Russel Mason, Alex Taylor, Andrew Webster and Simon Hennessey have resigned from Catlin and are rumoured to be joining the new Mitsui Sumitomo operation.

John Ayris has joined Cooper Gay.

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## Airline Industry News

With the perpetual struggle for not only profitability but survival still rife among airline operators on many continents in the world, we continue to see even more consolidation and some bold business plans to provide more black ink for the balance sheet.

The burden of high fuel costs continues into April with the price of crude oil at US\$66 a barrel, and giving airlines the nagging reminder that the new breed of fuel efficient aircraft is essential. It must be of some relief to airlines that Boeing's new wide body intercontinental 787 Dreamliner will fly for the first time in August and start deliveries next July. Boeing have now received over 500 orders for the type. Some operators such as American Airlines will be bringing forward the retirement of its fleet of old generation MD-80's of which it has 325 in order to compete with the low-cost carriers.

Delta and Northwest, recipients of the kindness of chapter 11 are now predicting that they will make profits of US\$800 million and US\$980 million respectively in 2007, and because of the new open skies deal which will come into effect next April, Delta's prospects were sweetened by the news that it had secured a number of Heathrow slots after negotiations with the Air France/KLM group, its European partner. Delta's timing is fortuitous and will give it access to the busiest business route in the world.

Just how new U.S. start up airlines like low-cost Virgin America and Skybus - which plans an "ultra low cost" business model will stay the course will be interesting.

One example of how success and failure can run side by side in the same country is reflected in the recent acquisition of Varig by rival GOL. Varig was Brazil's top airline and flag carrier for decades but virtually disintegrated last year under crushing debt before re-emerging as a much smaller carrier. It will have to adopt the same low-cost business structure that made GOL, the countries number two carrier so successful in its short six year career. Like so many established legacy airlines many

of Varig's practices were based on old fashioned ideas such as serving free whisky in coach class on domestic flights which although provided a source of national pride did nothing for profitability. Under GOL's stewardship it intends to quickly double Varig's fleet from 17 to 34 aircraft.

## Obituary

### Len Broadway (1949 – 2007)

It is with great sadness that we report the death of our friend and colleague Len Broadway.

Len had worked in the aviation insurance industry for over 38 years with several broking houses including Leslie and Godwin, Alexander Howden, Crawley Warren - Benfield's and Heath Lambert. He joined JLT in 2003.

During his career he earned the deep respect and affection of both clients and colleagues alike.

Len passed away peacefully, in the presence of his family, on 19th April after a long battle with illness.

He leaves a wife, Lesley, and 22 years old son, Ian.

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# Launch Log

## April Launches

### April 7

Site: Baykonur  
Vehicle: Soyuz FG  
Payload: Soyuz TMA-10

### April 9

Site: Baykonur  
Vehicle: Proton M  
Payload: Anik F3

### April 11

Site: Taiyuan  
Vehicle: CZ 2C  
Payload: Hai Yang 1B

### April 12

Site: Xichang  
Vehicle: CZ 3A  
Payload: Beidou 2B

### April 17

Site: Baykonur  
Vehicle: Dnepr 1  
Payload: Egyptsat 1  
SaudiSat 3  
SaudiComsat 3  
SaudiComsat 4  
SaudiComsat 5  
SaudiComsat 6  
Saudi Comsat 7

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Registered office: 6 Crutched Friars, London EC3N 2PH England.

Registered in England Number: 5523613 VAT No. 244 2321 96