

# 2011 TO DATE

The airline insurance market remained stable during the second quarter. There has been no change in the market drivers, capacity and claims and, as a result, there has been no dramatic change to the market trend. At the halfway stage, the market has generated less than US\$0.25 million of additional premium. The challenge for the market is that, despite the lack of additional premium, fleet values have increased by 7% while passenger exposure has increased by 11%.

There continue to be renewals that, for various reasons, experience treatment outside the market norm. There were programmes that received premium increases in excess of 100%, largely as a result of losses on the expiring policy. Other programmes received premium reductions in excess of 25%, largely as a result of dramatically reduced exposure.

The first half of the year witnessed seven renewals in the Willis 50. This section of the market continues to demonstrate the economies of scale available in airline insurance as they received an average premium reduction of 5% against above average exposure increases of 11% in fleet value and also 11% in passenger numbers.

June saw fifteen airlines renew, with only two of these airlines having AFV's over US\$1 billion and four with AFV's over US\$500 million.

The exposure growth was the second lowest we have seen in 2011, with fleet value and passenger numbers increasing by just 2%. The average premium movement was a 1% premium reduction.

The largest renewal of the month was Eva Air of Taiwan which, in comparison with many Asian airlines, had moderate levels of growth. The carrier, which appointed Willis as co-broker to Marsh, achieved a better than average level of premium reduction. The only other carrier with a fleet value in excess of US\$1 billion to renew was Aegean Airlines of Greece, which had significant fleet growth.

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## 2011 HULL AND LIABILITY NET % PREMIUM AND EXPOSURE MOVEMENTS

	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2010 NET PREMIUM US\$ M	2011 NET PREMIUM US\$ M	US\$ M PREMIUM CHANGE	PREMIUM % CHANGE
January	7	-52%	-47%	20.53	22.33	1.81	8.8%
February	3	41%	9%	3.98	5.19	1.21	30.4%
March	5	16%	11%	8.47	9.95	1.48	17.5%
<b>Q1 Summary</b>	<b>15</b>	<b>-31%</b>	<b>-32%</b>	<b>32.98</b>	<b>37.47</b>	<b>4.50</b>	<b>13.6%</b>
April	18	11%	15%	128.53	123.28	-5.25	-4.1%
May	16	10%	11%	69.77	70.94	1.16	1.7%
June	15	2%	2%	31.46	31.27	-0.19	-0.6%
<b>Q2 Summary</b>	<b>49</b>	<b>9%</b>	<b>13%</b>	<b>229.76</b>	<b>225.49</b>	<b>-4.27</b>	<b>-1.9%</b>
<b>2011 Total</b>	<b>64</b>	<b>7%</b>	<b>11%</b>	<b>262.74</b>	<b>262.96</b>	<b>0.22</b>	<b>0.1%</b>

# MARKET NEWS

## QBE ANNOUNCEMENT - EMILIO DI SILVIO

After 36 years in the industry, the past five at QBE, Emilio Di Silvio will be retiring on December 31, 2011. Emilio plans to stand back from day-to-day underwriting and management from September 30 to allow the team to develop but will be providing support during the transition period.

## WILLIS RE: 1ST VIEW PUBLICATION

Willis Re released its 1st view publication for the July 1, 2011 renewal season which covers the changes in the market experienced by Willis Re Brokers following the spate of U.S. Tornados and the third Christchurch Earthquake.

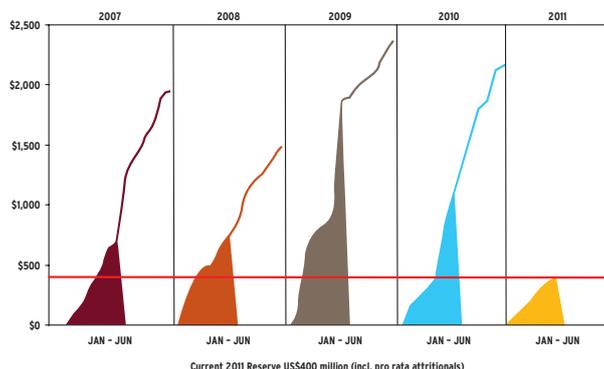
The key findings of the report are:

- Despite the continued run of natural catastrophe losses rate increases have largely been limited to loss affected contracts
- The RMS U.S. windstorm model change has driven some rate increases on a client specific basis despite the lack of any U.S. windstorm losses
- Outside of natural catastrophe covers the market remains flat with no sign of any generalised market hardening
- Fresh capital is starting to enter the market as some reinsurers look to position themselves for a market hardening

# LOSSES OVERVIEW

The loss level being experienced by the airline market remains comparatively good. The first half of 2011 was relatively benign in terms of losses. The hull loss total is US\$117 million and the liability total is US\$58 million giving an overall loss total of US\$400 million including the pro rata of our annual attritional estimate.

## CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (US\$M)



The market as a whole has lost money for the last four years but through very differing loss experience. 2009 saw a large liability aspect to the loss total, while the 2010 loss total, while similar, had much less liability contribution and was more

about high value hull losses. The experience of 2011 continues to demonstrate the uncertain nature of airline insurance as there have been just five losses in excess of US\$10 million with no losses in excess of US\$50 million. The following table highlights the comparison of 2011 with the last 10 years in terms of the frequency and severity of losses.

## LOSS FREQUENCY AND SEVERITY\*

YEAR	\$10 - \$50M	\$50 - \$100M	\$100 - \$250M	\$250M +
2002	17	1	1	0
2003	17	1	1	0
2004	6	3	1	0
2005	15	2	2	0
2006	15	3	1	1
2007	14	3	3	1
2008	13	4	2	0
2009	13	3	2	2
2010	10	4	5	1
2011	5	0	0	0

\* Western built aircraft only

The excellent 2011 performance has made the loss total the lowest at the halfway stage for the past six years. The fatalities total is the fourth lowest in the last 10 years and is only slightly more than half the five year average of 258. To again illustrate the unpredictable nature of the airline market two of the three years with a lowest fatalities total at the half year finished the year among the worst three annual fatality totals. The table below compares the level of fatalities that have occurred thus far in 2011 with the last 10 years and the annual totals that were incurred.

## FATALITIES\*

YEAR	JAN - JUNE	FULL YEAR
2002	787	1,046
2003	248	386
2004	254	357
2005	138	840
2006	131	781
2007	248	620
2008	101	373
2009	449	641
2010	363	694
2011	157	157 to date

\* Western built aircraft only

The loss totals are obviously reflective of the market position as a whole. The number of underwriting units in the market means that each underwriter will have very different experience over recent years. The positive position currently being experienced by markets this year will be largely based on the participations that they secured in the final quarter of 2010.

# LOSSES LIST

Significant losses that have occurred since our last publication are outlined below.

On June 25, a Malev B737 aircraft, registration HA-LOC, received substantial damage when its tail struck the runway on landing at Heraklion International Airport, Crete. All on board remained unharmed and the 737 was able to reach its parking stand without further problems. The hull reserve for this loss is yet to be set.

On June 23, a Tara Air Dornier Do-228 plane, registration 9N-AGQ, went off the side of the runway when landing at Simkot Airport, Nepal, coming to rest with a broken nosegear. Damage occurred on the left wingtip, additionally the propeller blades of the left engine were bent when they came into ground contact. All on board were able to leave the aircraft unhurt. The hull reserve for this loss is yet to be set.

On June 12, a Universal Airlines DC-6 aircraft, registration N600UA, was substantially damaged when it made a gear-up landing at Cold Bay Airport, Alaska. All crew members on board safely evacuated the aircraft after it came to a standstill on its belly. It is unclear whether the undercarriage failed on landing or if the crew forgot to lower it. The hull reserve for this loss is yet to be set.

On June 7, a Skywest Airlines Bombardier CRJ Regional Jet, registration N866AS, sustained damage at Milwaukee General Mitchell International Airport, Wisconsin, USA after it landed on the runway with its right main undercarriage retracted. There were no injuries. The hull reserve for this loss is yet to be set.

On May 28, a Delta Air Lines MD-88 aircraft, registration N941DL, was in the later stages of the landing run on the runway at Atlanta Hartsfield Airport when black smoke and flames were observed coming from the right main gear. The aircraft immediately stopped after it vacated the runway and initiated an emergency evacuation on the taxiway. During evacuation process, the tail cone separated. There were reports that four passengers were injured during the evacuation process. The full extent of damage to the aircraft is unknown at present. The hull reserve for this loss is yet to be set.

On May 18, a Sol Lineas Aereas Saab 340A plane, registered LV-CEJ, was destroyed when it crashed 20 km north of Prahuanique, Argentina. There were 19 passengers and three crew members on board. There were no survivors. The hull reserve for this loss is US\$1.7 million.

On May 17, a Great Lakes Airlines Beechcraft 1900D aircraft, registration N218YV, turned off the runway when landing at Denver International Airport and the left main landing gear collapsed. The hull reserve for this loss is yet to be set.

# INDUSTRY NEWS

## **CHARTIS INSURANCE UK LIMITED - NAME CHANGE**

Chartis Insurance UK Limited will change their name, on December 1, 2011, to Chartis Europe Limited. There will be a cross border merger of Chartis Insurance Ireland Limited and Chartis Insurance UK Limited, and a portfolio transfer of the Chartis business in Ireland into a newly formed branch of Chartis Europe Limited in Ireland. There will also be a portfolio transfer of the Chartis businesses in Cyprus and Malta into newly formed branches of Chartis Europe Limited in Cyprus and Malta.

During 2012 there will be a portfolio transfer of the Chartis businesses in Greece into a newly formed branch of Chartis Europe Limited in Greece. A portfolio transfer will also take place from Chartis Romania Insurance Company SA to Chartis Europe Limited in Romania. A cross border merger and portfolio transfer of Chartis Europe SA into Chartis Europe Limited will also happen.

The rights of existing policyholders, claimants and other third parties will be unaffected by these legal transactions. Chartis Europe Limited will continue to be regulated by the FSA.

## **FLIGHTGLOBAL EXPANDS WITH ASCEND ACQUISITION**

Reed Business Information, publisher of Flightglobal and the business information division of Reed Elsevier, has acquired the entire issued share capital of aircraft fleets and data business Ascend Worldwide Group Holdings.

Ascend will be integrated with the aerospace information and data service activities provided by Flightglobal.

Headquartered in London with offices in New York, Hong Kong and Tokyo, Ascend delivers aircraft and engine data through online subscription services and provides valuations, appraisals and advisory services to a world-wide client base of aviation investors and financiers, lessors, manufacturers, aircraft operators and suppliers. Ascend plays a key role in informing decisions and identifying opportunities within the aviation industry.

Flightglobal provides aerospace information and data services through flightglobal.com, the largest professional aviation website in the world, Flight International and Airline Business magazines, civil fleet data from ACAS, and real time news and business intelligence from Air Transport Intelligence.

## GLOBAL PASSENGER TRAFFIC UP 6.8% IN MAY

IATA has reported a 6.8% year-on-year growth in global passenger traffic but a 4% decline in freight traffic in May 2011.

Global passenger capacity grew 5.8%, and the passenger load factor was 77.1%, said IATA. The international market saw a growth of 8% in passenger traffic and an 8.1% increase in capacity, as compared with May 2010.

The domestic passenger market showed a 4.8% growth over the previous year, outpacing a capacity increase of 2%.

In the cargo market, international freight traffic declined 4.3% against a capacity increase of 3.6%. Domestic freight traffic fell 2.3% while capacity declined 0.1%. IATA director general Giovanni Bisignani said that there are risks associated with the Middle East and with the European currency crisis.

Since the beginning of the year, freight volumes have increased by 2%. This is lower than the 5.5% IATA forecast for 2011, said the association.

While the continued expansion of world trade at around 6% annually could lend support to accelerated freight growth in the second half of 2011, the performance so far this year has been lower than expected, added IATA.

## PARIS AIR SHOW NEWS

### AIRBUS A320NEO STAR OF THE PARIS AIR SHOW

The unprecedented volume of A320neo orders and commitments announced during the Paris Air Show has more than validated Airbus' decision to launch this enhanced fuel-efficient version of its single-aisle jetliner family.

Boosted by a record setting 200-aircraft booking from Air Asia, total orders and commitments for the A320neo family have now surpassed the 1,000 mark since its launch in December 2010.

Some of the biggest buyers included Malaysia's Air Asia who said they will purchase 200 aircraft, and IndiGo Airlines who will purchase 150 A320neo aircraft and 30 A320 aircraft.

### ORDERS SUMMARY BY MANUFACTURER

AIRCRAFT TYPE	FIRM	OPTION	LOI	LOI TO OPTION	TOTAL
Airbus	599	36	315	14	964
Boeing	23	0	88	4	115
ATR	70	42			112
Embraer	34	2	20	10	66
Bombardier	26	6	10	20	62
GECI	8	4	12	13	37
International					
Sukhoi			24		24
AgustaWestland	22				22
Antonov	10				10
Sikorsky	6				6
Eurocopter	4				4
Viking Air	4				4
Reims Cessna			3		3
<b>Total</b>	<b>806</b>	<b>90</b>	<b>472</b>	<b>61</b>	<b>1,429</b>
<b>Grand Total of all Commitments</b>			<b>1,368</b>		

Source: Ascend

## AIRLINE INDUSTRY 2011 PROFIT OUTLOOK SLASHED TO US\$4 BILLION

### HIGH OIL PRICES, NATURAL DISASTERS, AND POLITICAL UNREST TAKE THEIR TOLL

The International Air Transport Association (IATA) recently further downgraded its 2011 airline industry profit forecast to US\$4 billion. This would be a 54% fall compared with the US\$8.6 billion profit forecast in March and a 78% drop compared with the US\$18 billion net profit (revised from US\$16 billion) recorded in 2010. On expected revenues of US\$598 billion, a US\$4 billion profit equates to a 0.7% margin.

"Natural disasters in Japan, unrest in the Middle East and North Africa, plus the sharp rise in oil prices have slashed industry profit expectations to US\$4 billion this year. That we are making any money at all in a year with this combination of unprecedented shocks is a result of a very fragile balance. The efficiency gains of the last decade and the strengthening global economic environment are balancing the high price of fuel. But with a dismal 0.7% margin, there is little buffer left against further shocks," said Giovanni Bisignani, IATA's Director General and CEO.

Airlines rebounded faster than expected from recession last year, helped by higher traffic and a drive to keep a lid on spare capacity. But a series of external shocks and higher oil prices have hit the industry hard this year.

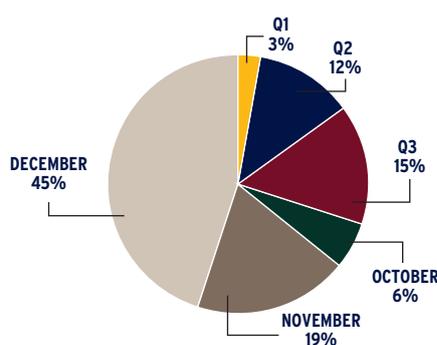
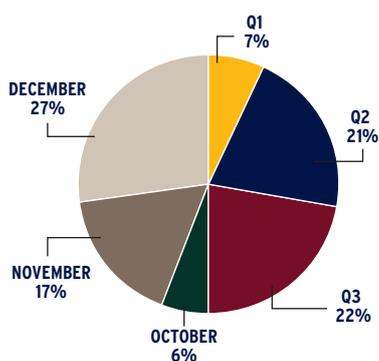
IATA is forecasting a US\$110 per barrel average oil price in 2011, up 15 percent from US\$96 last year. It issued a warning that capacity was set to expand 5.8 percent in 2011, outstripping a 4.7 percent increase in demand. The 1.1 percentage point gap is sharply higher than 0.3 percent previously forecast. Bisignani has said a lack of discipline could dent the industry's recovery as airlines jostle for market share.

# FORTHCOMING RENEWALS

July is the most significant month in terms of renewals and premium volume outside the final quarter. The month represents 16% of the renewals and, more importantly, 13% of the premium of the year. American Airlines is the first of the U.S. majors to renew in the year and represents the largest single premium to renew thus far in 2011. The Fedex programme is the largest cargo programme in the market and comes to market

with the cargo sector having experienced a number of poor claims years. Industry consolidation has continued with three airlines being included in the Aeroflot programme as a result of the industry changes taking place in Russia. Other notable renewals include Pinnacle, Colgan & Mesaba Airlines, Ethiopian Airlines and Volga Dnepr.

## RENEWAL DISTRIBUTION % SHARE AND PREMIUM DISTRIBUTION % SHARE



As we approach the northern hemisphere summer months the level of renewal activity falls away quite dramatically. August has just eight renewals and generates just 1% of the annual premium volume. September has a small increase in the level of activity with nine renewals and just over 1% of the annual premium. There is only one renewal from the Willis 50 during this period which is Alaska Airlines.

The low level of activity doesn't however make the next few months of less interest as there may be a small number of airlines looking to take a second chance at eliminating the market bounce that occurred post the Air France loss in 2009. If there remains any legacy in the premium volume being paid by carriers at this time its removal is unlikely to significantly impact on the overall market trend.

The renewal profile means that as we pass July 1 people are already looking ahead to October and the start of the 'renewal season'. The simple laws of supply and demand will

seemingly dictate that at this time market conditions have to deviate from single digit premium growth being generated from higher levels of exposure increase. The industry recovery continues and as the largest programmes come to market at year end they are going to look to secure as much rating discount from this growth in exposures as possible. Economies of scale continue to exist in airline insurance purchasing and increases in exposure do not consistently translate into increased losses.

If the next few months see no major deterioration in the loss position and no withdrawal of capacity then the pressure on underwriters to further reduce not just rates but premium levels in the final quarter will be significantly increased. This remains a catastrophe business, and much can happen, but if we are looking at when the bottom of the cycle will be reached it seems increasingly likely that we are not there yet!

## JULY RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
American Airlines	1-Jul-11	19,986,810,065
Federal Express	1-Jul-11	14,062,800,000
Pinnacle Airlines, Colgan Air & Mesaba Airlines	1-Jul-11	4,659,218,967
Ethiopian Airlines	1-Jul-11	1,885,325,784
Volga Dnepr	1-Jul-11	1,649,840,380
Spirit Airlines	1-Jul-11	1,356,265,000
Wizz Air	1-Jul-11	1,215,382,603
Onur Air	1-Jul-11	862,200,000
Volaris	1-Jul-11	861,916,568
Middle East Airlines	1-Jul-11	825,000,000
Tiger Airways	1-Jul-11	795,054,191
Mid East Jet	1-Jul-11	728,000,000
Air Macau	1-Jul-11	631,814,430
Aigle Azur	1-Jul-11	430,038,350

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
Air Italy	1-Jul-11	352,500,000
Air Mediterranee	1-Jul-11	293,277,558
Merpati Nusantara	1-Jul-11	261,589,481
Fedex Cessna 208 Program	1-Jul-11	212,500,000
Syrian Arab Airlines	1-Jul-11	210,770,886
Avianova (Russia)	1-Jul-11	201,621,164
Arkia	1-Jul-11	169,300,000
Silk Way Airlines	1-Jul-11	136,000,000
AeroContractors Company of Nigeria	1-Jul-11	132,310,000
Sky Service S.A.	1-Jul-11	122,654,600
Israir Airlines	1-Jul-11	113,897,260
Lao Aviation	1-Jul-11	107,712,328
LIAT	1-Jul-11	104,100,000
Aeroflot Group	2-Jul-11	4,585,053,548
Cargoitalia	5-Jul-11	121,000,000
Kingfisher Airlines	7-Jul-11	2,804,170,449
Santa Barbara Airlines	8-Jul-11	154,909,640
Srilankan Airlines	11-Jul-11	691,790,000
Atlasjet International Airways	12-Jul-11	565,825,000
TNT Holdings	15-Jul-11	969,886,082
Pluna	15-Jul-11	234,010,000
Kingdom Holding Company	18-Jul-11	156,000,000
Deccan Express Logistics	18-Jul-11	103,621,917
Binter Canarias	26-Jul-11	298,046,238
IndiGo	28-Jul-11	1,473,229,977
Satena	29-Jul-11	156,500,000
Aeromar Airlines	31-Jul-11	133,000,000

## AUGUST RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
Monarch Airlines	1-Aug-11	1,272,710,548
Skymark Airlines	1-Aug-11	862,054,349
Air Nigeria	1-Aug-11	123,600,000
Kalitta	3-Aug-11	268,087,671
Alaska Air Group	5-Aug-11	4,475,500,000
Belavia	6-Aug-11	212,843,836
Bangladesh Biman	15-Aug-11	167,800,000
Pegasus Airlines	24-Aug-11	1,335,165,323

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