

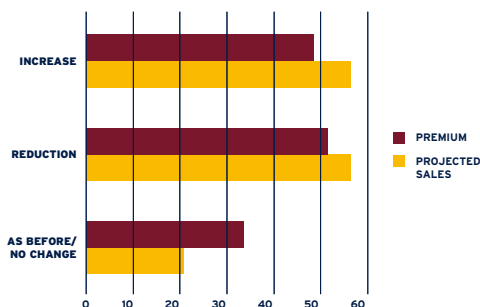
## AEROSPACE THIRD QUARTER (Q3) 2009

Based on 100 renewing Aerospace programmes Q3 2009 generated a total net premium of US\$343.7 million, this is a reduction of 2% compared to Q3 2008.

The Manufacturer sector renewals accounted for 88.6% of Q3 2009 net premium, which is an increase of 1.1% compared to Q3 2008 when the sectors proportion of the total Aerospace renewal premium was 87.5%. The Airport, ATC/ANSP and Fuel sectors accounted for 9.4% of Q3 2009 premium, this is a reduction 3%, compared to Q3 2008, the Airport Services sector accounted for the remaining 2% of Q3 2009 premium and represents a 30% reduction compared with Q3 2008. We first reported, in Index issue 5, a slight rise in the proportion of premium generated by the Manufacturers sector reflecting the firmer stance taken by the London market towards renewal pricing levels in the sector, compared to that of the other sectors within Aerospace. This trend has been a constant throughout 2009 to date.

Based on 47 renewing programmes Q3 2009 Manufacturers' renewal premium totaled US\$305 million. This a reduction of 0.7% compared to Q3 2008. Total projected sales Q3 2009 however are static in comparison with Q3 2008. YTD 2009 (Q1-Q3) based on 135 renewing programmes net renewal premium totaled US\$480.6 million, this is a reduction of 0.4% compared with Q3 2008.

At a glance the Manufacturer sectors renewal experience could be interpreted as the result of a 'firm market', certainly renewal premium reductions are less prevalent than in other Aerospace sectors. However, of 135 renewals monitored YTD 52 achieved premium reductions, 34 obtained 'as before' terms, 49 received premium increases. This renewal 'mix' closely reflects the renewing exposure profile, based on projected sales, where 57 renewing programmes recorded reductions in projected sales, 57 reported increases, and the remaining 21 recording no change.



The Airports sector, Q3 2009, recorded a total renewal premium reduction of 4.3% compared to Q3 2008, based on 27 renewing programmes. Projected passenger numbers are down by 5.40%. Of the 27 renewals monitored 15 recorded projected passenger reductions, however 19 renewing programmes actually recorded premium reductions, third recorded 'as before' with just five renewals recording premium increases. This is a continuation of the trend established in Q2, premium reductions continue to reflect the exposure downturn experienced by the majority of Airport operators.

ANSP/ATC renewals during Q3 2009 recorded premium of US\$11.3 million, a reduction of 6.4% compared to Q3 2008. The level of reduction in Q3 is less than that of Q2, which was the result of programme structure changes that certain renewals implemented.

The Fuel sector generated net renewal premium of US\$5.1 million during in Q3 2009, a reduction compared to Q3 2008 of 3.8%.

Aerospace Q3 sector renewal results are as anticipated. The market remains under considerable pressure to push up premium levels or at least maintain expiring premium levels across all aviation and aerospace insurance sectors. The position with regard to Airline incurred losses during 2009 which at the end of Q3 stands at approximately US\$2 billion has added to that pressure. The impact on Aerospace has been limited, the high level of capacity, and the impact of the recession on buyers has ensured that the market pricing is generally competitive. We anticipate a similar renewal experience during the final quarter 2009.

### AEROSPACE 2010

Looking forward to 2010 we anticipate that aerospace market capacity will be at a similar level to that of 2009.

Deployment of that capacity, backed by sophisticated analytical models and clear business plans, will likely be similar to 2009. The market is therefore expected to demonstrate continued support for all aerospace sectors during the slow recovery post recession, however, pricing will be based on the specific experience, exposure profile and scope of cover of buyers programmes. In addition we believe that the number of underwriter appointments made during 2009 has further enhanced the existing high quality of the markets 'leader pool' and will maintain a level of competition amongst underwriters and offer options to aerospace buyers.



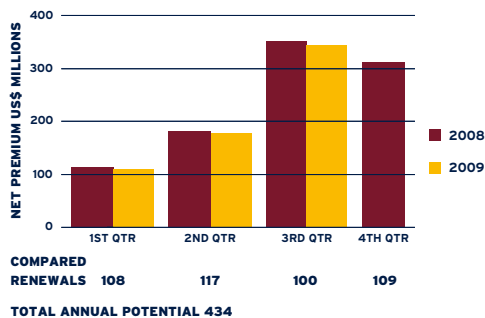
## AEROSPACE YTD END Q3 2009 RENEWAL PREMIUM CHANGE

AEROSPACE SECTOR	NET US\$ PREMIUM (M) 2008	NET US\$ PREMIUM (M) 2009	CHANGE %	RENEWING PROGRAMMES
<b>MANUFACTURERS</b>	478	481	0.5	135
<b>AIRPORT</b>	92	87	-5.3	106
<b>ATC</b>	26	24	-5.4	27
<b>FUEL</b>	24	24	-2.8	41
<b>AIRPORT SERVICES</b>	10	9	-8.8	16
<b>OVERALL AEROSPACE</b>	<b>630</b>	<b>625</b>	<b>-0.9</b>	<b>325</b>

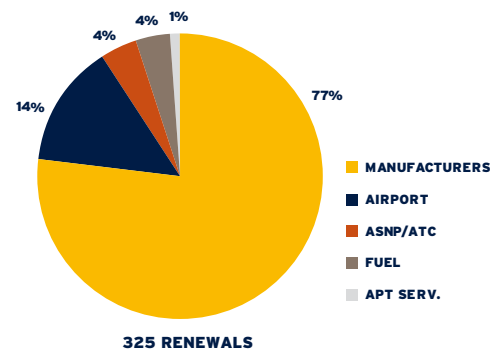
\* All expiring currency converted a 2009 US\$ ROE  
All premiums are net

## QUARTERLY TOTAL AEROSPACE RENEWAL PREMIUM DISTRIBUTION YTD END Q3 2009 vs Q1-Q4 2008

### AEROSPACE QUARTERLY RENEWAL PREMIUM DISTRIBUTION YTD END Q3 2009 vs Q1-Q4 2008



### AEROSPACE SECTOR SPLIT YTD END Q3 2009

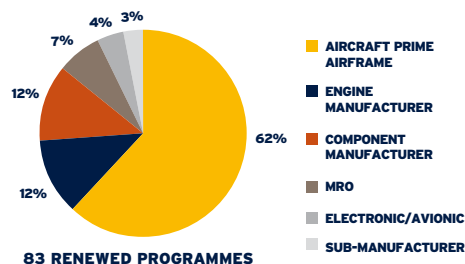


## WILLIS MANUFACTURERS INDEX YTD END Q3 2009 RENEWAL CHANGE

WILLIS MANUFACTURERS INDEX SECTOR	NET US\$ PREMIUM CHANGE*	ESTIMATED SALES CHANGE	RATE ON SALES CHANGE	RENEWING PROGRAMMES
<b>AIRCRAFT PRIME MANUFACTURER</b>	-1%	-2%	1%	11
<b>SUB-MANUFACTURER</b>	-8%	-3%	-5%	9
<b>ENGINE MANUFACTURER</b>	1%	2%	-1%	7
<b>ELECTRONIC/AVIONIC</b>	5%	7%	-2%	11
<b>COMPONENT MANUFACTURER</b>	-1%	1%	-2%	28
<b>MRO</b>	5%	-2%	7%	17
<b>TOTAL</b>	<b>1%</b>	<b>0%</b>	<b>0%</b>	<b>83</b>

\* All currencies converted to US\$, ROE as at January 1, 2009

### WILLIS MANUFACTURERS INDEX, PREMIUM DISTRIBUTION, BY SECTOR YTD END Q3 2009



Q3 sees 39 'Willis Index' renewals that generated a total net renewal premium of US\$289.7 million a figure unchanged when compared to Q3 2008.

Q3 remains the most significant renewal quarter in terms of renewal premium generated being approximately 43% of the anticipated total for 2009. Prime Airframe and Engine manufacturers' renewals dominate Q3 premium volume.

YTD a total of 83 or 73% of the Willis Index manufacturers have renewed, of an anticipated total 113 for the year (based on 2008 Index total renewals) In terms of potential annual Index premium YTD Q3 generates approximately 65% of the projected years total.

As was the case with the review of Q2 2009 individual sector renewal results are varied. YTD 2009 total Index premium increased by 1% compared to 2008.

**Aircraft Prime Manufacturer:** Approximately 64% of Q3 'Willis Index' renewal net premium is generated by this sector. Q3 2009 total renewal premium of US\$164.8 million is a reduction compared to Q3 2008 of approximately 1%. Projected sales rose fractionally to US\$108.8 billion or plus 0.3%, consequently the sectors derived rate on sales reduced by 1.3%. YTD 2009 11 of a total of 14 programmes anticipated for the year have renewed and have generated US\$264.7 million in renewal premium, this is a reduction of 1.12% compared with 2008 while projected sales of US\$161 billion are a reduction of 2.27%, consequently the sectors derived rate on sales has risen slightly by 1%.

**YTD 2009 this sectors renewals cumulatively record an improved seven year incurred loss ratio of 35% compared with the 2008 figure of 38%.** The sector continues to be attractive to the majority of insurers but concerns regarding old year loss deterioration and catastrophic loss potential continue to influence insurers pricing models.

**Sub Manufacturer:** Q3 2009 saw five programmes renew in this sector, net premium reduced by 3.4% compared to Q3 2008. Projected sales fell 1.8% resulting in a derived rate on sales reduction of 1.7%. YTD 2009, nine of a total of 14 programmes anticipated for the year have renewed generating a net premium of US\$14.1 million this is a reduction of 7.7% compared to 2008, projected sales are down 3%, the derived rate on sales has reduced by 5%, the largest reduction recorded for any Willis Index' sector YTD.

**Engine Manufacturer,** Three programmes renewed during Q3 2009 producing a slight premium increase of 0.5% when compared with Q3 2008. Projected sales however increased by 2.5% producing a derived rate on sales reduction of 1.9%. A total of seven programmes, of an anticipated 11 for the full year have renewed YTD 2009. Premium, compared to 2008 is 0.7% higher, projected sales are down 2.1%. The self insured retentions carried by some programmes are as before. YTD 2009 the seven year cumulative loss ratio of 33% is unchanged compared with 2008. As is the case with the Aircraft prime manufacturers the engine sector is generally attractive but similar concerns regarding old year losses and catastrophic loss potential prevail and in addition the non-engine exposure of certain programmes in this sector limits some market participation.

**Component:** A total of 10 Index programmes renewed during Q3 2009 recording a premium reduction of 4.1%, this is a significant swing compared to Q2 where a premium increase of 6.45% was recorded. The Q3 reduction is the result of two significant renewals that account for 75% of this sectors

Q3 total premium but only 50% of projected sales. Together they recorded a premium reduction of 7.90%, on projected sales 3.3% down compared with 2008. The remaining (8) Q3 Index renewals recorded a total premium increase of 9.2% compared with 2008, while projected sales recorded a reduction of 1.6%. YTD Index renewals for this sector total 28 the total premium has reduced by 1.2% with projected sales recording a 07% fall. This sectors derived rate on sales is down by 1.9%. This sectors wide product/exposure profile continues to produce very mixed results.

**Electronic/Avionic:** Seven Index renewals occurred in Q3 2009 recording a net renewal premium increase of 1% while projected sales reduced by 1.9% resulting in a derived rate on sales increase of 3%, the largest rate on sales change of any manufacturer sector in Q3. YTD the total renewal premium for this sector results in an increase of 5% while projected sales record an increase of approximately 7.3%, the derived rate on sales has consequently fallen by 2.3%. In terms of sales this sector ranks #3 of #6, in terms of premium it remains #5 of #6. YTD it is the only sector to record significant sales growth.

**MRO,** Seven programmes renewed during Q3 2009 generating a total premium of US\$10.7 million, this is a small increase of 1.2% compared with Q3 2008 total projected sales however are down by a significant 18.7%. Q3 renewals in this sector continue the mixed results experienced during Q1 and Q2. YTD 2009 17 programme renewals record a total premium 4.6% higher when compared with 2008, projected sales are 2.3% down. In this sector the combined impact of falling sales, incurred claims deterioration and the introduction of self insured retention make premium comparisons unrealistic. The market has generally responded positively where sales have fallen, however, the individual record, particularly loss history, is the main influence on renewal price. The introduction of self insured retentions by some programmes has resulted in minimizing the level of price increases.

The Willis Index Q3 2009 renewal results generally reflect the 'no reductions' stance of the market evidenced by the static overall renewal premium level recorded compared with Q3 2008 and by the YTD 2009 1% increase in total premium compared with 2008. The market however, continues to respond supportively where projected sales have declined, subject to satisfactory loss history by giving premium reductions, however, premium increases are generally applied where projected sales have risen. Program renewals that have experienced recent losses and/or significant past loss deterioration are likely to incurred premium increases.

## WILLIS AIRPORTS INDEX

The Willis Airports Index Q3 2009 represents 70% of the total number of Airport renewal placements and 56% of the total renewal premium that occurred during Q3 2009.

## AIRPORTS INDEX YTD END Q3 2009 RENEWAL CHANGE

YTD END Q3 2009/2008 COMPARISON*							
REGION	PLACEMENTS **	EST PAX #	CHANGE	PREMIUM**	CHANGE**	PAX RATE	CHANGE
EUROPE	31	1,148,778,022	-6.3%	47,440,057	-7.9%	0.04130	-1.8%
FAR EAST	6	540,130,122	-3.0%	5,269,542	-4.5%	0.00976	2.6%
SOUTH AMERICA-CARIBBEAN	6	65,160,356	-15.6%	2,137,950	-7.3%	0.03281	9.9%
PACIFIC REGION	8	85,461,492	-7.2%	2,199,480	3.2%	0.02574	11.1%
MIDDLE EAST	5	75,545,432	13.2%	1,470,283	-0.1%	0.01946	-11.7%
AFRICA	9	80,313,870	1.8%	5,036,177	1.6%	0.06271	-0.3%
<b>OVERALL INDEX</b>	<b>65</b>	<b>1,995,389,294</b>	<b>-4.3%</b>	<b>63,553,489</b>	<b>-6.1%</b>	<b>0.03185</b>	<b>-1.3%</b>

\* Renewing placements known as at September 30, 2009

\*\*All expiring currency converted a 2009 US\$ ROE

Willis Airports Index Q3 2009 renewal premium of US\$9.4 million (adjusted by removal of ATC proportion of premium of combined programmes) is a reduction of 2% compared to Q3 2008. Total projected passenger numbers of 355 million are a reduction of 6.25% compared with Q3 2008.

Two Q3 2009 European Index renewals produced a premium increase of 8.2%, projected passenger numbers record a reduction of 4%. The recent loss experience of both renewals is the reason for the premium increase although encouragingly it is worth noting that the reduction in projected passenger is less than those reported in Q1 and Q2 in this region.

The Pacific region sees eight Q3 2009 programme renewals that cumulatively record a premium increase of 3.2%, compared with Q3 2008 however; this increase is due to the restructuring of a single programme, which if excluded, results in a premium of reduction of 2.4%. Projected passengers for the region are down 7.2%.

South American and Caribbean Q3 renewals record a premium reduction of 11.8% driven by a fall in projected passenger numbers of 15.1%.

The African continents two Q3 2009 renewals are fairly static recording a premium reduction of 2% on a slight increase in projected passenger numbers of 1.4%.

Q3 2009 Far East's two renewals produce a premium increase of 20.2%. This premium increase is a distortion, the outcome of programme restructuring of one renewal that restructured a single joint Airport/ATC placement into separate placements that resulted in a significant premium increase, excluding that renewal, the remaining renewals achieved a premium reduction of 7.1%

Index YTD renewals total 65 of which 20 received premium increases, of this number, seven have projected passenger increases, cumulatively amounting to 7.1% while the cumulative premium generated increased of 14.5% entirely due to the increase in projected passenger numbers. The majority of the remaining 13 programmes that received premium increases have generally done so because of their recent loss histories, however a few received premium increases due to programme changes such as increased limits, change in aircraft type exposure or the addition of locations, none projected passenger exposure increase. Airport Operators Liability remains a desirable class within the market and, subject to loss history, continues to attract competitive pricing.

## **AIR NAVIGATION SERVICE PROVIDERS Q3 2009**

Ten pure ANSP/ATC programmes renewed during Q3 2009 generating a total net premium of US\$12 million which is a reduction of 4.8% when compared with Q3 2008. Projected aircraft movements, totaling 9.7 million, is a reduction of 2.3%. All but two renewing programmes obtained premium reduction. A single renewal obtained as before terms due to historic loss deterioration and another received a premium increase as a result of programme restructure. YTD total renewal premium is a reduction of 5.4% compared to 2008, projected aircraft movements are just 0.4% down. The market remains positive towards this sector.

This is the Willis Aerospace Insurance Index our vehicle to keep our clients and others informed of developments in the aerospace insurance market.

We welcome any comments or suggestions you may have to improve this publication. All data and analysis within this newsletter includes all known information at the time of production and is based on the net London lead terms and structure of the renewing insurance programmes monitored.

It is intended to highlight general issues which may be of interest and does not necessarily deal with every important subject nor cover every aspect of the subjects contained herein. If you intend to take any action or make any decision on the basis of the content of this bulletin, you should first seek specific professional advice and verify its content.

Copyright Willis Limited. All rights reserved.

Willis Limited, Registered number: 181116 England and Wales. Registered address: 51 Lime Street, London EC3M 7D0 Tel +44 (0)20 3124 6000. www.willis.com

A Lloyd's Broker, Authorised and regulated by the Financial Services Authority for its general insurance mediation activities only.

## **FUEL SUPPLIERS/ REFUELLING**

A total of seven monitored renewals occurred during Q3 2009 which generated a total premium of US\$5.1, a reduction when compared with Q3 2008 of 3.8%. Estimated U.S. Gallons throughput is static. YTD 2009 41 monitored programmes have renewed resulting in a total US\$ premium reduction of 2.8%, throughput records a reduction of 3.9%. Premium reductions continue to be the normal renewal response unless a recent loss has occurred or where loss histories are deteriorating. Generally increased throughput of up to 5% will not result in a premium increase above this amount however insurers will seek a premium rise. The sector remains attractive to the market and pricing continues to be competitive.

## **AIRPORT SERVICE PROVIDERS**

This sector saw little renewal activity during Q3 with just a two monitored renewals. Comparison with expiring programmes provide no indication of market trend as structural changes, including self insured retention amounts and deductible levels change year on year, consequently impacting premiums. Insurers and buyers continue an evolutionary process to establish risk management/ risk transfer structures that offer equitable solutions within the growing infrastructure support sector.

## **MARKET PERSONNEL CHANGES**

Jean-Claude Geze of Allianz (based in Paris) is to join QBE Insurance in Paris, France where he will be responsible for underwriting aviation business once his current contractual obligations are complete.

Graham Spencer-Brown of Allianz (based in London) has resigned and is to join CV Starr upon completion of his current contractual obligations.

### **CONTACT DETAILS**

• **Steve Lodge**  
• [steve.lodge@willis.com](mailto:steve.lodge@willis.com)  
• +44 (0)20 3124 7456

• **Steve Doyle**  
• [steve.doyle@willis.com](mailto:steve.doyle@willis.com)  
• +44 (0)20 3124 7208