



## AIRLINE INSURANCE MARKET OVERVIEW

The counter-cyclical relationship between the airline industry and the insurance market that supports it has continued to evolve over the summer months. The airline industry news has been of economic upturn and the start of the recovery while the insurance market has witnessed further softening and a string of losses.

The losses alone however appear unable to create any resolve among underwriters to halt the slide in premium increases. The volume of capacity, combined with a seemingly increased desire to deploy it, has actually resulted in leaders being more competitive in their pricing and increasing levels of premium verticalisation with larger percentages of the placement being achieved further from the lead.

The effect of this verticalisation is not being reflected in the overall market averages, which are reflective of leaders terms, but are resulting in better than market average result for buyers. With the market average increase being 6.4% this could be resulting in actual premium reductions for some buyers. This situation is likely to continue and develop as the year progresses, however the market remains very fragile and loss sensitive and could be subject to an upward change if losses continue at the current rate.

July is the busiest month in terms of renewals and the largest in terms of premium outside the final quarter. The size, sector and geographic variation of the renewals normally offer a good indication of the market conditions and how things will develop to the end of the year.

This year however there was some distortion in the average due to the corrective measures employed by brokers following the 'knee jerk' reaction from underwriters post the June 2009 Air France catastrophe. The renewal treatment back in 2009 had put the summer renewals at a competitive disadvantage as, by the final quarter, the market were unable to carry anywhere near the level of increases first targeted.

There were 36 programmes that renewed in July, the largest of which were American Airlines and Federal Express, both with an AFV in excess of US\$10 billion. These represented the first US\$10 billion plus fleets to renew in 2010.

China Airlines (Taiwan) which renewed in July last year purchased a fifteen month policy and now renews in October. The Synergy programme, which has seen a number of changes to its renewal date in recent years, cancelled and replaced its programme in July. Some programmes included a provision to cancel their programme in the busy final quarter of the year. Ethiopian Airlines had a major loss in its expiring policy and the near doubling of the premium provided an indication of the market attitude towards airlines with losses.

August saw the activity level drop sharply with only a small number of renewals entering the market. Pegasus Airlines of Turkey was the largest to renew and highlighted the development of aviation in the country with a 56% increase in Average Fleet Value (AFV) and a 38% increase in passenger numbers. Monarch Airlines was the second largest airline to renew in August. Its AFV and passenger numbers both declined by 6% and 8% respectively.

There were broker changes to two of the renewals in August. Air Nigeria, formerly Virgin Nigeria and Nigerian Eagle, changed broker from Marsh to Aon, Monarch changed broker from Willis to Marsh.

Projected exposures continue to increase as a result of the continued anticipation of airline industry recovery. This exposure growth does however highlight the differing experience of the industry on both a regional and sector basis. It remains to be seen how much of this will end of being included without charge.

# HULL AND LIABILITY

## Q4 2009 AND 2010 NET % PREMIUM AND EXPOSURE MOVEMENTS

2009	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2008 NET PREMIUM US\$M	2009 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
OCTOBER	20	18.5%	3.4%	102.4	136.5	34.1	33.3%
NOVEMBER	23	-0.1%	-6.9%	276.6	316.4	39.8	14.4%
DECEMBER	65	3.3%	1.7%	775.9	932.3	156.4	20.2%
<b>Q4 SUMMARY</b>	<b>108</b>	<b>2.5%</b>	<b>0.2%</b>	<b>1,154.9</b>	<b>1,385.2</b>	<b>230.3</b>	<b>19.9%</b>

2010	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2009 NET PREMIUM US\$M	2010 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
JANUARY	4	19.1%	-14.3%	8.6	10.5	1.9	22.7%
FEBRUARY	5	27.3%	7.9%	5.7	7.1	1.4	24.7%
MARCH	9	5.8%	-3.4%	32.2	35.9	3.8	11.7%
<b>Q1 SUMMARY</b>	<b>18</b>	<b>10.9%</b>	<b>-3.9%</b>	<b>46.5</b>	<b>53.6</b>	<b>7.1</b>	<b>15.3%</b>
APRIL	19	6.4%	13.2%	102.9	112.7	9.8	9.5%
MAY	20	11.2%	10.8%	72.9	73.2	0.3	0.4%
JUNE	14	1.8%	4.3%	37.5	46.6	9.1	24.2%
<b>Q2 SUMMARY</b>	<b>53</b>	<b>7.3%</b>	<b>11.4%</b>	<b>213.3</b>	<b>232.4</b>	<b>19.2</b>	<b>9.0%</b>
JULY	36	12.7%	14.0%	234.9	241.6	6.8	2.9%
AUGUST	4	16.7%	21.9%	13.2	12.5	-0.7	-5.0%
<b>Q3 SUMMARY</b>	<b>40</b>	<b>12.9%</b>	<b>14.5%</b>	<b>248.1</b>	<b>254.2</b>	<b>6.1</b>	<b>2.5%</b>
<b>2010 TOTAL</b>	<b>111</b>	<b>9.8%</b>	<b>12.0%</b>	<b>507.8</b>	<b>540.2</b>	<b>32.4</b>	<b>6.4%</b>
<b>TOP 50 TO DATE</b>	<b>12</b>	<b>7.5%</b>	<b>10.6%</b>	<b>210.6</b>	<b>220.8</b>	<b>10.2</b>	<b>4.9%</b>
<b>OCTOBER 1, 2009 - 2010 TO DATE</b>				<b>1,662.7</b>	<b>1,925.4</b>	<b>237.4</b>	<b>15.8%</b>

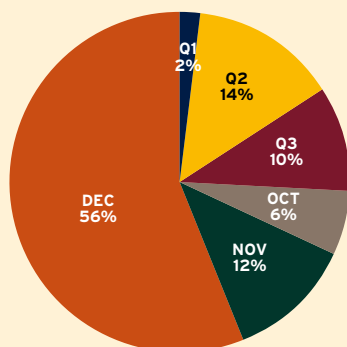
## THE WILLIS 50 AIRLINES

Economies of scale in airline insurance purchasing continue to be highlighted by the Willis 50. The largest programmes have out performed the market average by approximately 25% to date. The Willis 50 average premium increase is 4.9%, compared to the 6.4% overall market average.

Just 12 of the Willis 50 programmes have renewed thus far in 2010 and only 2 of the largest 10. It is within these 10 that represent 51% of the passengers and 49% of the premium of the Willis 50 that we are likely to see the most significant changes and therefore greatest impact on the group.

### WILLIS 50 AIRLINE PROGRAMMES RENEWAL DISTRIBUTION

#### BY NUMBER OF PROGRAMMES



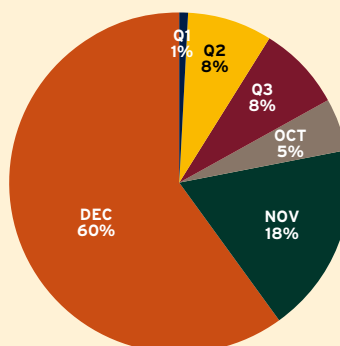
## MARKET MOVERS

There have been a number of resignations within the underwriting community during the summer which are shown below:

- Andrew Walker has resigned from his underwriting position at Starr and will be joining Talbot.
- Dan Rose has resigned from his underwriting position at Amlin and will be joining Faraday.
- Jack Dahl-Wilson has resigned from his underwriting position at Amlin to join Aspen.
- Lisa Crowe has resigned from her underwriting position at Starr and will be joining Faraday.

All these people will take up their new positions on completion of their various contractual obligations.

#### BY PREMIUM

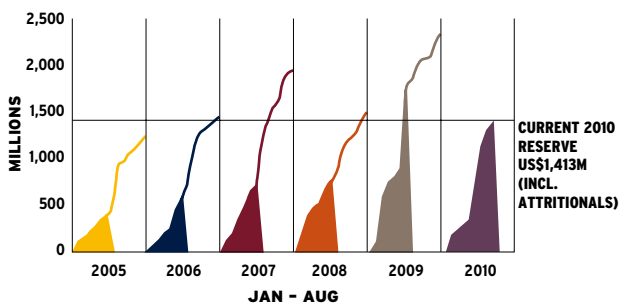


# LOSSES UPDATE

The current loss figure for 2010 is US\$1,413 million, composed of US\$862 million hull losses, US\$251 million in liability claims and a pro-rata estimated figure in respect of attritional losses. This figure does not include liability reserves that are still to be confirmed and will therefore add to this total.

The vast majority of the recent losses will remain below any reinsurance threshold for direct insurers and the number of significant value hulls will place a drain on the cash reserves of underwriters.

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



Significant losses that have occurred within the last month are outlined below:

On July 28, an Airblue A321 aircraft, registration AP-BJB, on a domestic flight from Karachi to Islamabad crashed into the Margalla Hills, just north of the capital Islamabad. Weather conditions are thought to have been poor with monsoon rain and poor visibility. It has been reported that there is no evidence that the aircraft had any technical problems. All 146 passengers and six crew on board were killed. The hull reserve for this loss is US\$48.95 million.

On July 28, a Mauritania Airways B737-700 aircraft, registration TS-IEA, sustained substantial damage in a runway excursion accident upon landing at Conakry International Airport (CKY), Guinea. The airplane landed in heavy rain and overran the end of the runway. Ten passengers were injured in the incident. The hull reserve for this loss is US\$32.5 million.

On August 16, an Aires B737-700 aircraft, registration HK-4682, crashed on landing and then broke up on the Caribbean island of San Andres, Colombia after a flight from Bogota. Reports suggest that there was a thunderstorm close to the airport at the time of the accident. The aircraft was transporting 121 passengers and six crew. There was one fatality and 34 people were hospitalised. The hull reserve for this loss is US\$35.2 million.

On August 24, a Henan Airlines Embraer 190, registration B-3130, crashed on landing at Lindu Airport, Yichun City, China. According to reports, the aircraft overran the runway, broke up and caught fire. There were 91 passengers and five crew onboard and 40 fatalities have been confirmed. The hull reserve for this loss is US\$31 million.

On August 25, a Passaredo Embraer 145 aircraft's main landing gear struck a low wall before the threshold, losing both main landing gear units. The aircraft slid down most of the runway before it swerved left off the runway with its right engine on fire. The flames were quickly extinguished by the airport's fire brigade, with only two passengers suffering minor injuries. Preliminary reports indicate that the aircraft might be a total loss due to extensive damage to wings and fuselage. The hull reserve for this loss is US\$12.5 million.

# FORTHCOMING RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV (US\$)
TRIP LINHAS AEREAS	01-Sep-10	372,916,667
AMC AVIATION	08-Sep-10	193,750,500
INTERJET	09-Sep-10	662,000,000
NORDWIND AIRLINES	15-Sep-10	116,683,014
AEROREPUBLICA	21-Sep-10	477,485,858
CARGOJET	22-Sep-10	126,000,000
AZUL LINHAS AEREAS	30-Sep-10	521,200,000
AEROSVIT AIRLINES	30-Sep-10	330,065,518

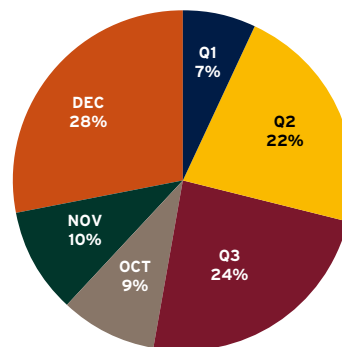
September has very few major renewals taking place and as a result contributes little to the overall exposure and premium volume of the market. Flyglobespan ceased operations during its 2009 policy which leaves just eight September renewals, down from ten in 2010.

The largest renewal by AFV is the Mexican carrier Interjet. Mexicana which renewed in September 2009 has extended for three months. The well publicised challenges facing Mexicana highlighting that the industry recovery is far from consistent.

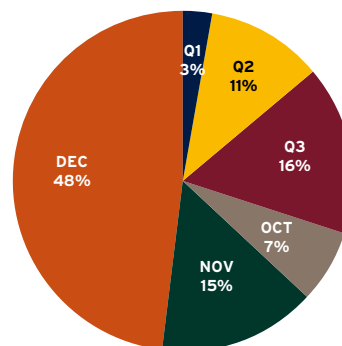
All eyes will therefore be turning to the all important final quarter of the year as it is during this quarter that the overall market result is determined.

## HULL AND LIABILITY 2010 RENEWAL AND NET PREMIUM DISTRIBUTION

### RENEWAL DISTRIBUTION % SHARE



### PREMIUM DISTRIBUTION % SHARE



For Programmes with an AFV in excess of US\$100 million.

The chart above highlights that the once vital month of October has diminished in its importance and it is now the final six weeks of the year and in reality the impact of a small number of the very largest programmes that will determine the overall market picture.

With a number of major airline mergers approaching final ratification it is likely that there will be some of these very large insurance programmes changing shape before the end of the year and the extent to which they benefit from these enhanced economies of scale remains to be seen.

With the increasingly positive messages surrounding the airline industry recovery, the exposure growth being projected will undoubtedly be up come year end and will do something to offset the softening of rating levels.

The level of losses incurred in 2010, significantly without a catastrophe, provides a strategic challenge of when to approach a final quarter renewal. Come to market too early and you may not benefit if underwriters resolve weakens further. If however there is a catastrophic loss before the end of the year then there remains the potential for a swift change in market sentiment.

The challenge that faces all market stakeholders, come the end of the year, remains to balance the upturn in aircraft exposures and potential premium dollars with the level of losses and competition through excess capacity.

As we head for another loss making year for the market as a whole, which means that, niche or not, insurance company management must again be looking long and hard at the viability of their continued participation in aviation.

## AIRLINE PROGRAMMES WITH FLEET VALUES IN EXCESS OF US\$5 BILLION

AIRLINE	RENEWAL DATE	EXPIRING AFV (US\$)
NACIL - AIR INDIA AND INDIAN AIRLINES	01-OCT-10	8,598,303,910
CHINA AIRLINES	15-OCT-10	7,102,048,438
DHL WORLDWIDE EXPRESS	01-NOV-10	6,397,099,198
TUI	01-NOV-10	5,952,232,698
GULF CO-OPERATION COUNCIL	16-NOV-10	50,238,351,417
UNITED PARCEL SERVICES	16-NOV-10	13,912,049,800
SFIT	30-NOV-10	15,691,711,442
AIR FRANCE/KLM GROUP	01-DEC-10	35,470,501,098
THAI AIRWAYS INTERNATIONAL	01-DEC-10	7,950,120,599
ALL NIPPON AIRWAYS	01-DEC-10	10,267,208,350
KOREAN AIRLINES	01-DEC-10	9,440,145,560
IBERIA GROUP	01-DEC-10	8,674,928,919
JAL - JAPAN AIRLINES	01-DEC-10	14,542,741,186
RYANAIR	01-DEC-10	8,987,150,981
WESTJET AIRLINES	01-DEC-10	5,034,583,803
CAAC MASTER PLACEMENT	01-DEC-10	55,664,418,706
JETBLUE AIRWAYS	01-DEC-10	5,300,000,000
SINGAPORE AIRLINES	15-DEC-10	13,618,190,000
SKYWEST	15-DEC-10	6,368,363,340
AIR CANADA	15-DEC-10	11,165,775,053
UNITED AIR LINES	15-DEC-10	10,905,110,000
QANTAS AIRWAYS	15-DEC-10	13,801,479,726
SOUTHWEST AIRLINES	15-DEC-10	10,969,000,000
CONTINENTAL AIRLINES	15-DEC-10	21,726,900,000
TAM	19-DEC-10	6,336,194,638
DELTA AIR LINES	21-DEC-10	21,204,162,820
US AIRWAYS GROUP	22-DEC-10	10,708,450,000
CHAUTAUQUA AIRLINES	31-DEC-10	7,001,496,000

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