

## AUGUST RENEWALS

With just seven risks originally scheduled to renew, the level of activity in August showed a significant reduction on the preceding months of June and July with 11 and 32 renewals respectively. In 2008 the month generated just 2% of the annual premium.

The level of premium however showed a further reduction in 2009 as two of the risks scheduled to renew, Miami Air International and The Thomas Cook Group (which with an Average Fleet Value (AFV) in excess of US\$4 billion was the largest risk scheduled to renew) have elected to extend their expiring periods of insurance by three months and will now renew in November. They join a small but increasing number of programmes that are electing to extend policy periods in the hope that the level of rating increase being incurred will lessen as the fourth quarter progresses, whether this happens only time will tell. Many in the market believe that this will not occur and if the market incurs a further significant loss it is likely that the level of rate increase will rise further.

Although there have been very few losses during July and August the current hull and liability incurred loss reserve of US\$1,896 million is still the worst since records began (excluding the 9/11 incidents) and is likely to result in insurers making a loss for the third successive year. A situation that is driving their desire to increase premium levels.

The lack of renewal activity makes it very hard to draw any realistic conclusions with regards to rating increases, other than that they are continuing at a similar level to that seen in previous months with July not being truly reflective due to many renewals being negotiated prior to the Air France and Yemenia losses. It will not be until the end of October that a more reliable picture will emerge, when the level of renewal activity increases with around 20 risks (scheduled to renew) including some of the world's major airlines; however the month is not as significant in terms of renewals and premium volume as in the past.

August is now one of the years quietest month in terms of renewals with just five, Berkut (Kazakhstan), Kalitta (USA), Monarch Airlines (United Kingdom), Pegasus Airlines (Turkey) and Skymark Airlines (Japan). Biman Bangladesh Airlines previously one of the month's larger renewals in terms of premium currently has an AFV below US\$100 million and is therefore not included in our monthly percentage change figures. Monarch Airlines with an AFV of around US\$1,500 million and approximately 6 million passengers is now the largest risk to renew.

### ... into challenging times and emerging opportunities

The aviation industry is battling through an unprecedented crisis. As airlines grapple with capital concerns, capacity cuts and expensive credit, some are weathering the storm better than others.

On October 5, Willis Aerospace and Ascend are hosting an industry briefing at the Willis Building in London. In this exclusive business briefing, Ascend's industry experts will join forces with Willis' dedicated team of professionals to discuss and debate the global market outlook and identify where future market opportunities lie.

Look out for your electronic invite or contact your account executive to register your interest.

August generated premium totalling US\$18 million, an increase of 22%. Underwriters concerns that their 2008 year earnings would be eroded through a downturn in exposures were not justified during the month, with the total AFV for August renewals increasing by 5%, but totalling just US\$3.56 billion, and passenger numbers totalling 16 million, an increase of 10%, however this is against the normal trends seen during 2009 and is based on a very small sample, the AFV for the year to date currently shows a 2% increase but passenger numbers have seen a 4% reduction. If Biman Bangladesh Airlines were to be included within our figures then the average premium increase would have been 24%.

We continue to believe that insurers will attempt to increase rates even further in the forthcoming months as a consequence of the current poor claims record for 2009 and to continue to offset falling exposures. In the event of further significant losses it is likely the level of rate increase would rise further, this is despite the level of capacity still available in the worldwide market.

The level of premium in 2009 (to date) totals US\$482 million, an increase of 14%, with income generated since October 2008 totalling US\$1,596 million, an increase of 9%. This increase is of course dependent on the exposure figures declared at renewal being achieved.



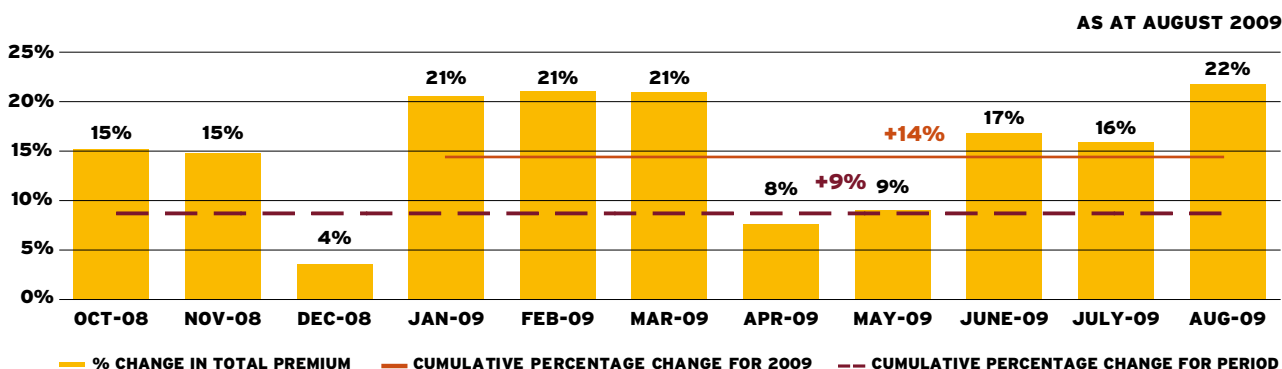
# HULL AND LIABILITY

## NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS

2008	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2007 NET PREMIUM US\$M	2008 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
<b>Q4 SUMMARY</b>	<b>100</b>	<b>4.5%</b>	<b>-1.0%</b>	<b>1,040.8</b>	<b>1,113.7</b>	<b>72.9</b>	<b>7.0%</b>
2009	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2008 NET PREMIUM US\$M	2009 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
<b>Q1 SUMMARY</b>	<b>11</b>	<b>22.5%</b>	<b>5.4%</b>	<b>27.3</b>	<b>32.5</b>	<b>5.2</b>	<b>19.2%</b>
APRIL	19	0.1%	-6.1%	97.2	104.6	7.4	7.7%
MAY	17	9.9%	2.3%	58.2	63.5	5.3	9.1%
JUNE	11	-9.5%	-17.1%	30.3	35.4	5.1	16.8%
<b>Q2 SUMMARY</b>	<b>47</b>	<b>1.2%</b>	<b>-4.6%</b>	<b>185.6</b>	<b>203.5</b>	<b>17.8</b>	<b>9.6%</b>
JULY	31	1.9%	-11.8%	196.6	227.9	31.4	15.9%
AUGUST (TO DATE)	5	4.6%	10.5%	15.1	18.4	3.4	22.4%
<b>2009 (TO DATE)</b>	<b>94</b>	<b>1.9%</b>	<b>-4.0%</b>	<b>424.5</b>	<b>482.3</b>	<b>57.8</b>	<b>13.6%</b>
<b>OCTOBER 2008 - AUGUST 2009 (TO DATE)</b>				<b>1,465.3</b>	<b>1,596.0</b>	<b>130.7</b>	<b>8.9%</b>

## HULL AND LIABILITY

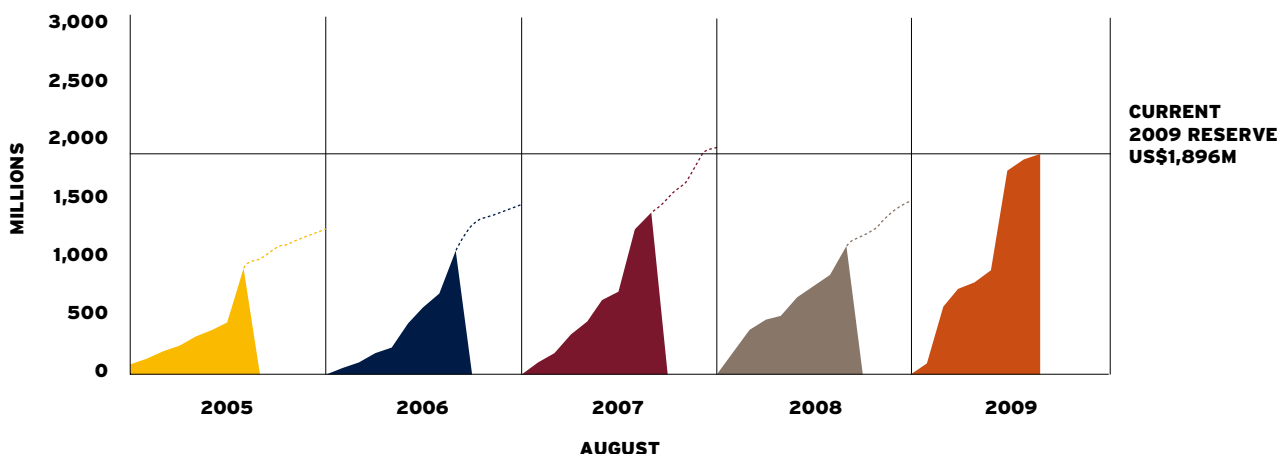
### NET Q4 2008 AND 2009 % PREMIUM MOVEMENTS



## LOSSES UPDATE

The current loss figure for 2009 is US\$1,896 million and continues to be the largest total at this time of year ever. This total is composed of US\$515 million hull losses, US\$1,081 million in liability claims and a pro-rata estimated figure of US\$300 million in respect of attritional losses. This figure does not include reserves from some recent losses that are still to be confirmed and will therefore add to this total.

### CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



Please note the loss reserve development only contains known liability reserves.

# LOSSES UPDATE (CONTINUED)

Recent incidents of significance are detailed below:

On August 2, a Merpati Nusantara Airlines, Bombardier Twin Otter DHC6-300, registration PK-NVC went missing whilst on a domestic flight from Jayapura to Oksibil. The aircrafts wreckage was discovered on a mountainside approximately 15 miles from the flights destination. All 12 passengers and three crew were killed.

On August 4, a Bangkok Airlines, ATR 72-500, registration HS-PGL, suffered substantial damage when the aircraft ran off the side of the runway and crashed into a disused control tower whilst landing in rain and windy conditions at Koh Samui Airport, Thailand following a domestic flight. It was subsequently declared a total loss. There were 68 passengers and four crew on board. Four passengers and one crew member suffered serious injuries and the pilot was killed.

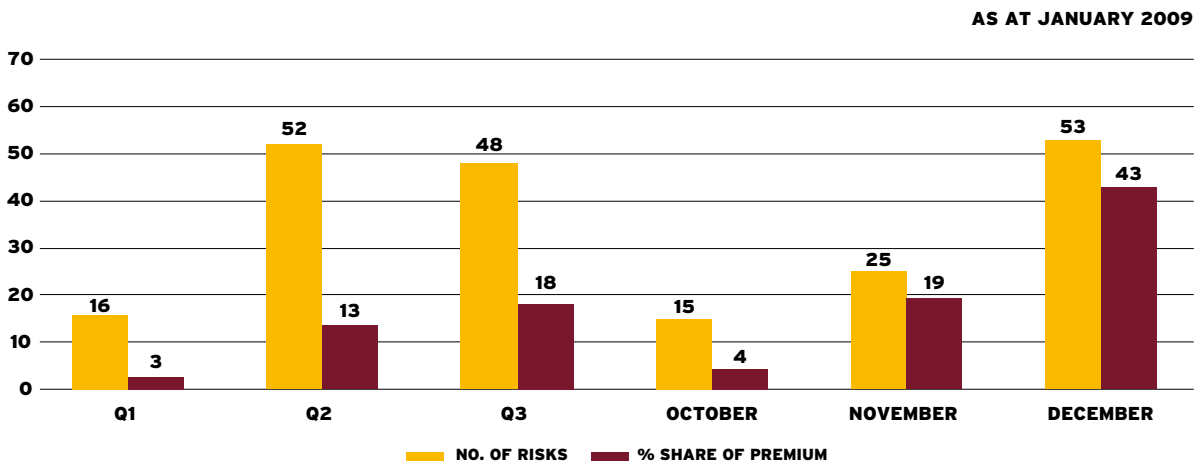
An Airbus A320-200, registration CS-TKO of SATA International made a hard landing at Ponta Delgada Airport, Portugal following a flight from Lisbon on August 4. There were no reported injuries.

On August 14 an Airlines of Papua new Guinea (PNG), Bombardier Twin Otter DHC6-300, registration P2-MCB went missing whilst on approach to Kokoda in poor weather following a domestic flight from Ports Moresby. The wreckage of the aircraft was discovered in a tree covered ridge at an altitude of 5,500 feet approximately 10 kilometres from its destination. All 11 passengers and two crew were killed.

## FORTHCOMING RENEWALS

### HULL AND LIABILITY

#### 2009 RENEWAL AND NET PREMIUM DISTRIBUTION



#### FOR PROGRAMMES WITH AN AFV IN EXCESS OF US\$100M

The level of renewal activity in September is greater than that seen in August, but is still relatively low with just 11 risks scheduled to renew. Aeromexico, the months largest renewal in 2008, has elected to extend its expiring period of insurance and will renew on December 1, in addition Lion Air, the Indonesian Low Cost Carrier has extended for one month and will now renew in October, both have

changed broker from Aon to JLT. This move has however been offset by Mexicana, previously a June 1, renewal choosing to extend its expiring policy and now renewing on the September 1.

The largest programme in September in terms of AFV is now Mexicana with a AFV of approximately US\$2 billion.

## FORTHCOMING RENEWALS (CONTINUED)

### SEPTEMBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$M
MEXICANA	1-SEP-09	1,986
TRIP LINHAS AEREAS	1-SEP-09	100
ABC AEROLINEAS	9-SEP-09	696
TAME	16-SEP-09	244
AEROREPUBLICA	21-SEP-09	389
AIRES COLOMBIA	22-SEP-09	247
AZUL LINHAS AEREAS BRASILEIRAS	23-SEP-09	374
FLYGLOBESPAN	27-SEP-09	737
AEROSVIT AIRLINES	30-SEP-09	395

The lack of activity in September inevitably results in the market's attention becoming concentrated on the October renewals. Negotiations have likely started on many of these accounts as they mark, what most now believe, to be the start of the 2009 renewal cycle that will likely set the benchmark for the following 12 months.

There are around 20 risks scheduled to renew in October, with the NACIL programme (Air India and Indian Airlines) being the largest of the month. This programme previously renewed in July 2008 and at the time of going to press is believed to have moved from Aon to Marsh. Other significant renewals with a fleet value in excess of US\$1 billion are Air Algerie, GOL Transportes Aereos (Brasil), Lion Air (Indonesia) and Pakistan International Airlines. The Synergy Group (Colombia), which renewed in October for the first time in 2008, has elected to return to its previous renewal date of the November 18 in 2009.

### OCTOBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$M
NACIL - AIR INDIA AND INDIAN AIRLINES	1-OCT-09	7,015
AIR ALGERIE	1-OCT-09	1,459
AIR JAMAICA	1-OCT-09	748
AIR MALTA	1-OCT-09	419
SYRIAN ARAB AIRLINES	1-OCT-09	385
TRANSASIA AIRWAYS	1-OCT-09	306
ALLEGIAN AIR	1-OCT-09	245
LIBYAN ARAB	1-OCT-09	161
CARGOJET	1-OCT-09	135
IRAQI AIRWAYS	1-OCT-09	118
USA 3000	4-OCT-09	335
LION AIRLINES	7-OCT-09	1,232
MK AIRCARGO	8-OCT-09	122
GOL TRANSPORTES AEREOS	10-OCT-09	3,300
PAKISTAN INTERNATIONAL	15-OCT-09	1,689
SA AIRLINK	17-OCT-09	156
AIR CAIRO	20-OCT-09	168
GO AIRLINES	21-OCT-09	267
XL FRANCE/GERMANY	23-OCT-09	552
FINNISH COMMUTER AIRLINES	24-OCT-09	213
JAT YUGOSLAV AIRLINES	24-OCT-09	144
CEBU PACIFIC AIR	26-OCT-09	876
MAHAN AIRLINES	27-OCT-09	283

The geographic spread of renewals is also varied with five risks domiciled in Europe, four from the Middle East, with three in Africa, the Indian Sub Continent and North America. There are also two in the Far East and one in South America.

As we approach this busy and critical time for the market there is continued uncertainty about the ability of underwriters to turn the market sentiment into premium dollars. We do believe however that insurers will continue to be successful in significantly increasing rates. With no boost from exposure growth anticipated, a firming in the reinsurance market, combined with claims being at their highest level and the potential of another incident sending rate increases still higher it is going to represent a challenging renewal season for all involved.

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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 7DQ Tel +44 (0)20 3124 6000. [www.willis.com](http://www.willis.com)  
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