AIRLINE INSURANCE
Willis INSIGHT
OCTOBER 2008

AIRLINE RENEWALS

Despite the below average level of losses the deployment of capacity is being controlled by underwriters and as a result the market looks set to rise for the foreseeable future. The airline insurance market has shown continued hardening during October. Both hull and liability rates have seen double digit percentage increases during the month and if the resulting level of premium increase is sustained until the end of 2008, it is likely that gross premium for 2008 (for all risks, including those with an AFV less than US$100 million) will exceed US$2 billion. Insurers undoubtedly feel that they have gained some momentum and it is therefore possible that the level of hardening could increase as the final quarter progresses. At this moment in time the market has seen very little activity in terms of US risks, who will have a significant impact on the year's premium.

Based on known November renewal information it would appear that the market is continuing to harden further as the quarter progresses. The lack of any significant losses in the past two months would appear not to have tempered the change in underwriter attitudes, with the demands of capital providers and the worlds overall financial situation as a backdrop.

A consequence of this hardening is that many following underwriters are, with varying levels of success, attempting to obtain lead terms or even rates higher than the leader. This has resulted in the percentage differential between lead and following market terms seeing a greater contraction than in the past three months. If these trends continue this is likely to make it increasingly difficult to complete the insurance programmes of those risks renewing in December.

The number of renewals in October saw an increase on 2007 with there now being 15. The Synergy Group, GOL and TAM have all renewed during the month for the first time as a consequence of changing insurance regulatory requirements in Brazil. TAM renewed with a period that will return it to its previous December renewal date in 2009.

This increase in the number of renewals has been offset to some degree by the smaller carriers of NOK (Thailand), Southern Air (USA) and TAAG (Angola) all extending their expiring periods of insurance to renew later in the quarter. As a result of these changes the month will generate a larger share of the annual premium than the 3% generated in 2007.

As the world's airlines see a reduction in passenger numbers and have started to defer orders or return aircraft to lessors, many of the month's renewals have declared anticipated exposures lower than declared at renewal in 2007.
The overall Average Fleet Value is projecting an increase of 3% with passenger numbers showing a reduction of 10%.

The reduction in passengers will have a greater impact as the majority of premium is generated from liability risks.

Despite this exposure downturn the level of additional premium generated in October has increased to 10% and totals US$76 million. The premium figure is distorted by the renewal of Air Algerie, which suffered significant damage to a B737-800 in its expiring policy and incurred a substantial increase in premium. If this renewal is excluded the premium generated still shows an increase of 4%.

The total of premium generated in 2008, including known November information to date is US$849 million, an increase of 9%, or US$72 million of additional premium, Programme consolidation and airlines ceasing operations is however continuing to offset much of the headway that insurers are making in their bid to increase premium levels, with a further five airlines ceasing operations during the month. Although as more airlines have renewed the increase in income is currently greater than the premium lost.

GROSS 2008 HULL & LIABILITY PREMIUM BALANCE

HULL WAR

With no significant losses since 11th September 2001, rates have continued to fall throughout 2008, and premium levels have long been below the cost of a high valued wide-bodied aircraft. At the beginning of November a number of major leaders in the market indicated that they were no longer prepared to accept rate reductions, which has resulted in renewal discussions becoming more difficult for risks being negotiated after this point. Other insurers have taken note of this change in environment, especially for those risks with high aircraft values and aggregate limits that require greater levels of capacity. The Hull War market will continue to be extremely loss sensitive.

EXCESS AVN52

With no losses ever having occurred in this sector since its creation in 2001, rates have continued to fall. Premiums were estimated at US$250m for 2007 down from US$650m in 2002. During November the market has started to show signs of hardening with some insurers requiring premium increases as they feel that premium levels are now inadequate.

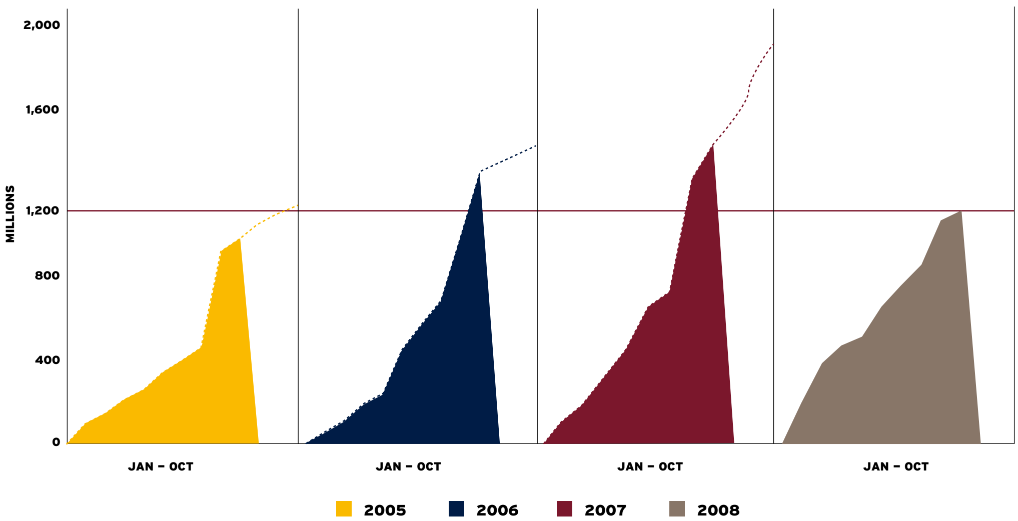
XL INSURANCE PERSONNEL CHANGES

Pete Bilsby, Rod Mearing, Chris Collins, Murray Walker, Matt Budd and Trevor Woollcott have resigned from their positions at XL London Market in London and are to join the Talbot Syndicate at Lloyd's once their contractual obligations are completed.

LOSSES UPDATE

The current loss figure for 2008 is US$ 1,208 million, composed of US$ 520 million hull, US$ 334 million liabilities and a pro-rata figure of US$ 354 million in respect of attritional losses. Despite some recent major losses, 2008 continues to show an improvement over the same point in 2007 and 2006 with the current position US$ 376 million and US$ 112 million better off respectively. Recent incidents of significance are detailed below:

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



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

- On October 1, a KD Avia, Boeing 737-300, registration EI-DON, was forced to make a gear-up landing after the pilots were unable to lower the landing gear on approach to Kaliningrad Airport, Russia. Despite suffering substantial damage the aircraft came to rest without any serious injuries to the passengers and crew.

- On approach to Tallin International Airport, Estonia on October 7, a Boeing 737-500, registration ES-ABL, operated by Estonian Air, flew through a flock of Geese resulting in multiple bird strikes. The aircraft landed safely, but damage was sustained to the nose cone, fuselage and horizontal stabiliser.

- A Skywest Airlines, Bombardier CRJ-700ER, registration N770SK, suffered significant damage to its nose and the right forward underside of the fuselage when it collided with a truck whilst taxiing from the maintenance hangar to its assigned gate at Chicago O'Hare International Airport, USA, on October 18. Neither of the two engineers on the aircraft suffered injury, but the truck driver was critically injured.

- On October 27, a Cargo B Airlines, Boeing 747-200F, registration OO-CBB, experienced a tail-strike on departure from Brussels International Airport, Belgium. The aircraft returned safely to the airport where, following inspection, a large hole was discovered in the underside of the tail fuselage section.

HULL AND LIABILITY

GROSS 4TH QUARTER 2007 AND 2008 % PREMIUM MOVEMENTS

2007	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2006 PREMIUM US$M	2007 PREMIUM US$M	US$M PREMIUM CHANGE	PREMIUM % CHANGE
Q4 SUMMARY		**8.0%**	**9.1%**	**1,216.7**	**1,101.4**	**-115.3**	**-9.5%**
2008	**NO. OF RENEWALS**	**AFV % CHANGE**	**PAX % CHANGE**	**2007 PREMIUM US$M**	**2008 PREMIUM US$M**	**US$M PREMIUM CHANGE**	**PREMIUM % CHANGE**
JANUARY	3	41.6%	69.3%	3.7	4.8	1.1	29.5%
FEBRUARY	4	26.8%	25.8%	5.0	5.7	0.7	14.1%
MARCH	5	11.0%	1.4%	25.3	26.1	0.8	3.1%
Q1 SUMMARY		**17.5%**	**3.0%**	**34.0**	**36.6**	**2.6**	**7.6%**
APRIL	18	22.4%	16.8%	102.9	112.4	9.6	9.3%
MAY	13	12.4%	20.3%	48.9	54.0	5.1	10.5%
JUNE	12	28.9%	19.6%	43.2	45.4	2.2	5.1%
Q2 SUMMARY		**17.7%**	**16.0%**	**195.0**	**211.9**	**16.9**	**8.7%**
JULY	27	6.9%	12.5%	198.9	217.1	18.2	9.2%
AUGUST	7	3.9%	2.0%	38.4	35.5	-2.9	-7.6%
SEPTEMBER	7	12.4%	3.7%	34.4	36.0	1.7	4.9%
Q3 SUMMARY		**15.1%**	**8.8%**	**271.7**	**288.6**	**17.0**	**6.3%**
OCTOBER (TO DATE)	13	2.9%	-9.5%	66.9	73.5	6.7	10.0%
NOVEMBER (TO DATE)	9	8.8%	3.0%	209.3	238.5	29.2	13.9%
2008 TO DATE	**118**	**11.4%**	**6.8%**	**776.9**	**849.2**	**72.3**	**9.3%**

FORTHCOMING RENEWALS

NAME	INCEPTION	EXPIRING AFV USD MILLION
SIA	01-NOV-08	12,534
TUI	01-NOV-08	6,375
SAA	01-NOV-08	3,544
AIR EUROPA	01-NOV-08	2,242
CYPRUS	01-NOV-08	587
STAR AIR	01-NOV-08	332
CARIBBEAN AIRLINES	01-NOV-08	268
SA EXPRESS	01-NOV-08	169

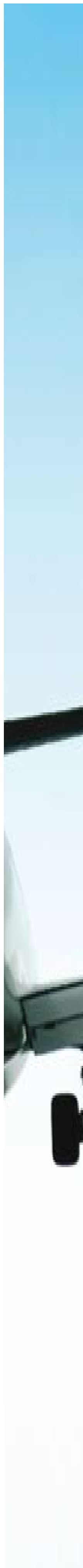
NAME	INCEPTION	EXPIRING AFV USD MILLION
TAAG	01-NOV-08	596
JET2	08-NOV-08	593
DHL ETAL	11-NOV-08	5,838
SOUTHERN AIR	13-NOV-08	437
GCC	16-NOV-08	39,646
UPS	16-NOV-08	13,806
AIR ATLANTIC ICELANDIC	29-NOV-08	2,764
SAFIT	30-NOV-08	19,987

NOVEMBER RENEWALS

The November premium and exposure activity will be reduced with the Cathay Pacific group programme which has extended its expiring policy by a month and now renewing on December 15. The Qantas packaged programme that includes Air New Zealand will also renew on December 15, for the first time. With these changes, and Spanish operator Futura ceasing operations, November has just 16 renewals. This is only one more than the number seen in October but the month will generate a much larger volume of premium as SAFIT and the Gulf Cooperation Council, undoubtedly among the world's largest programmes in terms of exposures, renew. The size of these risks means they will have a significant impact on the final percentage change and exposure figures for the month.

In 2008 there are three carriers with an expiring AFV in excess of US$20 billion and two with an expiring AFV in excess of US$10 billion. In addition there are two with AFV greater than US$5 billion, with three having AFV's between US$1 and US$5 billion and seven between US$100 million and US$1 billion.

Currently November renewals would appear to be seeing a higher level of premium increase (+14%) than those placed in October. The increased exposures on the accounts renewing in November have hugely contributed to this increase. These figures will be subject to change as more information becomes known. SAFIT is believed to have incurred a premium increase of around 35%, primarily a consequence of the Spanair total loss in August.



DECEMBER RENEWALS

December is the busiest month of the year with the largest number of renewals and as a result it offers by far the largest premium volume and a varied selection of renewals, in terms of size, sector and geography.

There are 54 risks expected to renew during the month, including 14 US airlines and the majority of the 'US Majors' although changes in the ownership of some of these carriers will have an impact on the insurance programmes.

The Delta Air Lines and Northwest Airlines programmes will be combined now that Northwest is a subsidiary of Delta. Continental Airlines and COPA will continue to be placed together without Northwest who were previously part of their combined programme. Alaska Airlines which previously renewed in December elected to 'cancel and replace' its policy in July 2008. In 2007 the US Majors contributed 31% of the month's premium.

The world's largest insurance programme in terms of AFV, CAAC renews during the month with an AFV in excess of US$50 billion. Due to the large number of renewals in December we have currently listed those risks with an Average Fleet Value in excess of US$5 billion, we will produce a full list in the next newsletter.

The annual picture is far from complete and could change further. In 2007, renewals during December generated around 50% of the year's premium and it is likely that this figure will increase. The impact of the anticipated exposure changes on the world's major airlines could have a significant effect on premiums.

As ever the number and premium volume of the renewals during December will have a significant impact on the final figures for the year. With many in the market believing that the market will become even harder it is likely that December's effect on the annual volume will be even greater than in the past.

NAME	INCEPTION	EXPIRING AFV USD MILLION
CAAC	01-DEC-08	44,951
AIR FRANCE /KLM	01-DEC-08	28,752
DELTA AIRLINES/ NORTHWEST AIRLINES	18-DEC-08	27,841
CONTINENTAL AIRLINES	15-DEC-08	20,436
JAL	01-DEC-08	15,369
UNITED AIRLINES	01-DEC-08	13,281
QANTAS	15-DEC-08	11,648
CATHAY PACIFIC	15-DEC-08	11,646
AIR CANADA	15-DEC-08	11,620
SOUTHWEST AIRLINES	15-DEC-08	11,429
ANA	01-DEC-08	10,637
US AIRWAYS	15-DEC-08	10,324
THAI INTERNATIONAL	01-DEC-08	9,794
KOREAN AIRLINES	01-DEC-08	9,057
IBERIA	01-DEC-08	8,854
SKYWEST AIRLINES	01-DEC-08	6,354
RYANAIR	01-DEC-08	6,183
ALITALIA	01-DEC-08	5,475
JETBLUE	01-DEC-08	5,100

BREAKING NEWS

At the time of going to press it is reported that a Ryanair Boeing B737-800 suffered multiple birdstrikes whilst on final approach to Rome Ciampino Airport, Italy and has sustained substantial damage. Three passengers and two crew were hospitalised as a precaution.

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