AIRLINE INSURANCE

INSIGHT

OCTOBER 2009

AIRLINE RENEWALS

Many in the market believe October marks the start of a new renewal cycle. With losses in 2009 being at their highest in history (excluding 11th September losses) and lack of investment income available to insurers, it was expected that the level of premium increase would see a rise on the 17% increase seen during the first nine months of the year.

Rating and premium levels have continued to increase for risks renewing in October, with the headline premium increase currently standing at 30%. However this figure is distorted by the fact that the Average Fleet Value has increased by 21% and passenger numbers by 4%, primarily as a result of the Arik Air, Lion Air and Libyan African Holdings (the name of the new combined programme of Libyan Arab Airlines and Afriqiyah Airways) programmes renewing with substantial growth in exposures. If these renewals are excluded, then the AFV increased by 12% and passenger numbers by 1% and the level of premium increase drops to 17%, the average for the preceding months of 2009.

Although insurers are still succeeding in forcing through large increases in premium when compared to the levels of 2008, the level of percentage increase in premium is not rising significantly. This is likely to set the benchmark from which insurers will base renewals negotiations later in the fourth quarter and renewals going forward into 2010.

It will not be until later in November when some of the world's largest programmes have renewed that we will see how the market will treat the large flag carrier programmes. These will include the Gulf Co-operation Council (GCC), Singapore Airlines and SFIT (SAS, Finnair, Icelandair and TAP), although Austrian Airlines will not renew as part of this programme following its purchase by Lufthansa earlier in 2009.

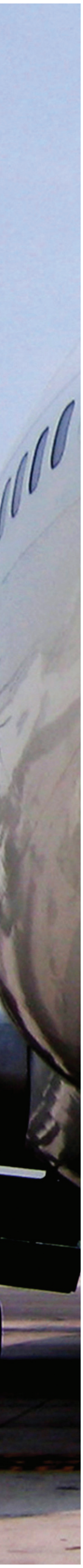
Although October has 22 renewals and has seen an increase in the number of risks renewing in 2008, its importance in the annual renewal calendar both in terms of the size of renewals and premium income generated has diminished in recent years. Only NACIL (Air India/Indian Airlines) has a AFV in excess of US$5 billion, with four other programmes, Libyan African Holdings, Lion Air (Indonesia), GOL (Brazil) and PIA (Pakistan) having AFV's between US$1 – 5 billion at renewal.

Risks that renewed in October for the first time were Air Jamaica, Arik Air, Hello Airlines, Lion Airlines and NACIL (Air India/Indian Airlines). In addition the XL Airways France/Germany programme has now split following the Total Loss of an A320 operated by XL Airways Germany in November 2008. Offsetting these additional renewals TAM has returned to its historic renewal date December 19. Air Algerie has extended for two months and the Synergy Group has also extended its expiring period and both will now renew in December. In addition, TAME of Ecuador has further extended its current policy and will now renew in January 2010, becoming the first programme that incepted in 2008 to subsequently renew in 2010.

HULL AND LIABILITY

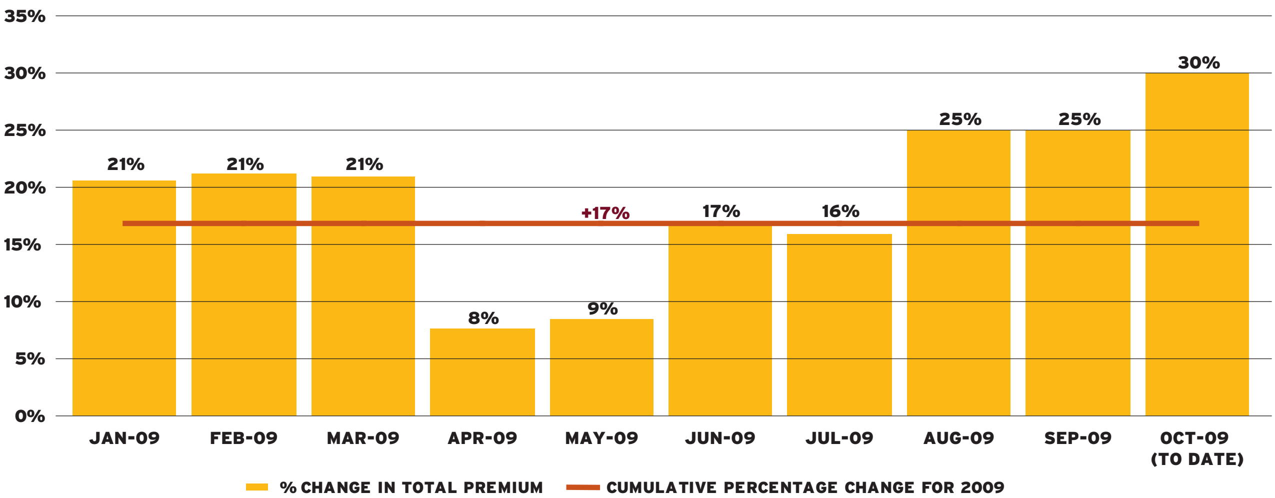
2009 NET % PREMIUM AND EXPOSURE MOVEMENTS

2009	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2008 NET PREMIUM US$M	2009 NET PREMIUM US$M	US$M PREMIUM CHANGE	PREMIUM % CHANGE
JANUARY	4	31.8%	14.1%	6.1	7.4	1.3	21.3%
FEBRUARY	4	37.4%	10.8%	4.2	4.5	0.3	7.5%
MARCH	4	12.1%	3.4%	17.0	20.6	3.6	21.2%
Q1 SUMMARY	**12**	**22.5%**	**5.4%**	**27.3**	**32.5**	**5.2**	**19.2%**
APRIL	19	0.1%	-6.1%	97.2	104.6	7.4	7.7%
MAY	16	9.5%	2.5%	56.8	61.6	4.8	8.5%
JUNE	12	-8.1%	-16.2%	31.7	37.6	5.9	18.7%
Q2 SUMMARY	**47**	**1.3%**	**-4.7%**	**185.7**	**203.8**	**18.1**	**9.8%**
JULY	34	2.5%	-12.4%	194.5	223.9	29.4	15.1%
AUGUST	7	8.7%	8.3%	17.3	23.6	6.3	36.4%
SEPTEMBER	8	15.0%	-1.2%	20.0	25.1	5.1	25.4%
Q3 SUMMARY	**49**	**3.1%**	**-11.5%**	**239.6**	**282.3**	**42.8**	**17.8%**
OCTOBER (TO DATE)	19	20.9%	3.9%	98.9	128.2	29.3	29.6%
2009 (TO DATE)	**127**	**4.4%**	**-5.6%**	**543.5**	**637.0**	**93.5**	**17.2%**



HULL AND LIABILITY
2009 NET % PREMIUM MOVEMENTS

AS AT OCTOBER 2009



AIRLINE RENEWALS – 2009 TO-DATE

There have been 127 renewals thus far, generating US$637 million in premium, an increase of 17%. This increase is of course dependent on the exposure figures declared at renewal being achieved. AFV currently totals US$184 billion, an increase of 4%.

Passenger numbers for these renewals total 666 million, a reduction of 6%. It is likely that this level of reduction will rise as the larger programmes renew and the effects of the economic downtown are seen in the projected passenger numbers at renewal.

The fall in passenger numbers will have a greater impact on premium levels as for the majority of renewals the premium generated by liability risks is larger than for that of the hull, with the split being 35% hull and 65% in respect of liabilities in 2008.

Based on information of known November renewals it would appear that the market is continuing to increase rates and premium at a similar level to that seen previously in 2009.

MARKET MOVES

Swiss Re names heads for Aviation and Space unit; Single Risk and Reinsurance operations to split.

Swiss Re announced on October 20, 2009 that with immediate effect that it will split its Aviation and Space unit into two separate entities – Aviation and Space Single Risk and Aviation Reinsurance – headed by Oliver Dlugosch and Alan Beacock, respectively. They will replace Rudi Flunger who assumed the role as Head of Swiss Re's Insurance and Specialty, the company's division responsible for commercial insurance, industrial insurance, large corporate risks and specialty reinsurance, including Aviation and Space in May 2009.

In their new roles, Oliver will be responsible for the Aviation and Space Single Risk team – including the Airlines and Major Manufacturers team located in Munich and Zurich; the General Aviation and Aerospace team located in London and Toronto, as well as the Space unit based in Zurich.

Alan will assume responsibility for the Aviation treaty reinsurance team located in Munich, Zurich and New York. In these functions, both Oliver and Alan will report to Nikolaj Beck, Head of the newly formed Swiss Re Specialties unit.

GLACIER GROUP ANNOUNCES APPOINTMENT OF NEW CEO

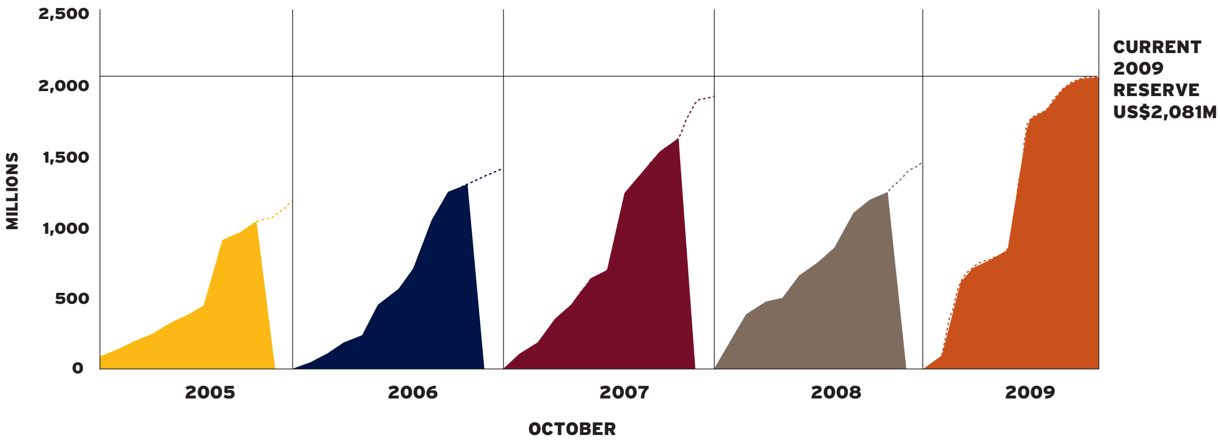
The Glacier Group announced on October 29, 2009 the appointment of Todd Hart as Chief Executive Officer (CEO) with immediate effect.

He will replace Robbie Claus who has resigned from his position as CEO but will continue to support the group as a consultant.

LOSSES UPDATE

The current loss figure for 2009 is US$ 2,081 million, composed of US$625 million in respect of hull losses, US$1,081 million in respect of liabilities and a pro-rata figure of US$375 million in respect of attritional losses.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



Recent incidents of significance are detailed below:

On October 1, a Wind Jet Airbus A319-130, registration EI-ECX, sustained impact damage when it flew through a hailstorm whilst on a flight from Palermo to Cantania, Italy. The aircraft landed safely with no further incidents.

On October 2, a Boeing B737-400 of Malaysian Airlines, registration 9M-MMR, sustained damage when the aircrafts left main undercarriage collapsed whilst parked at Kuching Airport, Malaysia. The aircraft had recently arrived from Kuala Lumpur and was being prepared for its returned flight. There were no reported injuries.

On October 7, a Boliviana de Aviacion (BoA) Boeing B737-300, registration CP-2551, sustained damage when it flew through a hailstorm whilst on a domestic flight from Sucre to Cochabamba, Bolivia. The aircraft landed safely with no further incidents. There were no reported injuries.

A Boeing MD-11 of Centurion Air Cargo sustained substantial damage to its right main undercarriage when the aircraft made a hard landing in Montevideo, Uruguay on October 20. The aircraft was operating a flight from Miami, USA. There were no reported injuries.

FORTHCOMING RENEWALS

NOVEMBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US$M
SINGAPORE AIRLINES	1-NOV-09	14,250
TUI GROUP	1-NOV-09	7,425
DHL WORLDWIDE EXPRESS	1-NOV-09	6,956
SOUTH AFRICAN AIRWAYS	1-NOV-09	3,834
AIR EUROPA	1-NOV-09	2,497
CYPRUS AIRWAYS	1-NOV-09	610
SKYSERVICE AIRLINES INC	1-NOV-09	475
MIAMI AIR INTERNATIONAL	1-NOV-09	382
STAR AIR	1-NOV-09	374
CARIBBEAN AIRLINES	1-NOV-09	302
SA EXPRESS AIRLINES	1-NOV-09	212
SKYEXPRESS	1-NOV-09	116
HIS MAJESTY THE SULTAN OF BRUNEI	4-NOV-09	568
JET2	8-NOV-09	585

AIRLINE	RENEWAL DATE	EXPIRING AFV US$M
AIR VIA	10-NOV-09	196
TAAG	12-NOV-09	716
MNG AIRLINES	12-NOV-09	139
SOUTHERN AIR	13-NOV-09	431
THOMAS COOK GROUP	14-NOV-09	4,816
URAL AIRLINES	14-NOV-09	145
GCC	16-NOV-09	43,927
UNITED PARCEL SERVICES	16-NOV-09	14,875
AIRES COLOMBIA	18-NOV-09	272
SAUDI OGER LIMITED	20-NOV-09	398
AIR ATLANTA ICELANDIC	29-NOV-09	827
SFIT	30-NOV-09	21,070
FINNISH COMMUTER AIRLINES	30-NOV-09	213

Renewal activity in November shows a small increase on October in terms of numbers of programmes, with 28 risks scheduled to renew compared to 22 in October. However November sees some of the worlds largest programmes, including Gulf Co-operation Council (GCC), Singapore Airlines and SFIT renew.

In 2008 November generated in excess of 17% of the years annual premium compared to just 5% in October. This figure is likely to increase with the Thomas Cook programme renewing during the month for the first time, having extended its expiring period of insurance from August.

The GCC programme will be the largest risk to renew in terms of AFV during November and 2009 to date with an AFV in excess of US$50 billion. During the month there will be two programmes with an AFV in excess of US$40 billion, with the SFIT programme, Singapore Airlines and UPS renewing with an AFV between US$10 – 20 billion. In addition there are two risks scheduled to renew with a fleet value between US$5 – 10 and four programmes between US$1 – 5 billion. The remaining 18 have a fleet value between US$100 million and US$1 billion.

We believe that insurers will continue to be successful in their efforts to increase rates and premiums further, but we believe that the level of increase will remain similar to that seen so far in 2009 and with the exception of a few specific risks that have suffered significant losses or exposure reductions/increases we will not see risks incur premium increases in excess of 25%.

DECEMBER RENEWALS

December is the busiest in terms of the number of renewals offering a varied selection of renewals, in terms of size, sector and geography.

There are 69 risks expected to renew during the month, including the majority of the 'U.S. Major carriers' within the 18 U.S. airlines scheduled to renew. There will be interest within the market to see what effect the losses sustained by U.S. carriers earlier in 2009 will have on these renewals. In 2008, with U.S. insurers primarily only participating on U.S. domiciled programmes, they had seen a relatively low level of loss activity since 2001. This resulted in them giving smaller increases in rates and premium than the non U.S. markets required.

There are 19 programmes that will renew with an expiring AFV in excess of US$5 billion, which are listed below.

AIRLINE	RENEWAL DATE	EXPIRING AFV US$M
CAAC	1-DEC-09	51,189
AIR FRANCE/KLM	1-DEC-09	30,189
JAL	1-DEC-09	15,797
ANA	1-DEC-09	10,773
IBERIA GROUP	1-DEC-09	9,486
KOREAN AIRLINES	1-DEC-09	9,333
THAI INTERNATIONAL	1-DEC-09	7,849
RYANAIR	1-DEC-09	7,330
JETBLUE AIRWAYS	1-DEC-09	5,100
CONTINENTAL AIRLINES	15-DEC-09	20,958
CATHAY PACIFIC	15-DEC-09	13,382
QANTAS	15-DEC-09	13,150
UNITED AIR LINES	15-DEC-09	13,084
AIR CANADA	15-DEC-09	11,815
SOUTHWEST AIRLINES	15-DEC-09	11,246
US AIRWAYS GROUP	15-DEC-09	10,315
SKYWEST	15-DEC-09	6,224
TAM	19-DEC-09	6,612
DELTA AIR LINES	21-DEC-09	25,635

As ever the renewals during December will have a significant impact on the final figures for the year, in 2008 they generated in excess of US$800 million in premium.

CONTACT DETAILS

Steve Doyle
Tel: +44 (0)20 3124 7208
Email: steve.doyle@willis.com

Brad Ottolangui
Tel: +44 (0)20 3124 8122
Email: ottolanguibg@willis.com

Kelly Crudgington
Tel: +44 (0)20 3124 7377
Email: kelly.crudgington@willis.com

Gemma Li
Tel: +44 (0)20 3124 6555
Email: lig@willis.com

airline.insight@willis.com

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