

# AIRLINE INSURANCE MARKET OVERVIEW

## 2012 RENEWALS

January and February have less than ten renewals on a combined basis and contribute less than US\$25 million in terms of premium. The largest renewals in January are Airlinair and Conviasa, which both have an Average Fleet Value below US\$200 million, highlighting the change in the type of risks renewing within Q1. The number of January renewals have reduced by two programmes when compared to 2010. Mexicana currently has its aircraft on ground risk only whilst it tries to find companies that will invest to start flying again, the policy has been extended until March 15. Great Lakes in the U.S. was another airline which renewed in January last year, but in 2011 it cancelled and replaced its policy early on December 15.

The variety in both the size and nature of operation of the airlines renewing at this time doesn't allow much in the way of trend analysis for the year and as many are negotiated in the previous year they offer little deviation from the final quarter or December renewal performance.

## DECEMBER RENEWALS

December is, without question, the most influential month of the year in terms of the number of renewals and the volume of premium generated. The impact and influence of this single month is dramatic, with in excess of 50 major renewals, generating approaching 50% of the annual premium. The continued migration of programmes to renewal dates later and later in the year has created a challenging concentration of activity and premium volume.

The largest programme in the market, in terms of fleet value and passenger numbers, is the Chinese CAAC Group programme. This programme now represents almost 10% and 9%

of the overall market fleet and passenger exposure respectively. The growth of this programme continues unabated and represents the boom in air travel that continues throughout most of Asia.

The major North American airlines capitalised on the domestic capacity available to them and delivered better than average results across the board.

In a move that bucked the recent trend from programme consolidation the senior partners of the SFIT programme split into two groups with SAS and TAP continuing to buy together while Finnair and Icelandair stayed together and added Norwegian Air Shuttle to form the FIN Group.

The Brazilian carrier TAM which last month had its merger with Lan Airlines approved, extended its policy to align with the IAG/LAN policy which renews in April.

## 2011 A YEAR IN REVIEW

2011 saw airline insurance market conditions that were favourable for buyers. Low loss levels, as well as significant capacity, generally resulted in a positive result for the majority. The fourth quarter did see increased resistance to buyers or brokers demands if they were considered to be unrealistic and therefore too aggressive, although the ability to achieve a positive result remained. At a time of both growth and consolidation there was differentiated treatment being applied to organic growth rather than growth through consolidation and the erosion of actual premium that the latter brings.

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There was also differentiation in attitude between the leader and much of the following market. Leaders were looking to address the requirements of their 'core' accounts while the following markets looked to improve their position while still maintaining their ongoing participation. The market has established a threshold that recognises the market conditions but does not threaten its long term sustainability. The key for brokers was therefore to manage the expectations of buyers when it comes to what could be achieved within the current market conditions and strive to achieve a result that was at the boundary of market tolerance.

The continued propensity for losses to be increasingly dealt with through the use of Loss Additional Premiums (AP's) allowed greater utilisation of the capacity available and reduced the overall impact as markets that did not pay the loss did not receive the additional premium associated with the loss.

Growth in exposures of 6% for average fleet value and 8% in passenger numbers indicated an improvement in the health of the airline industry. Rate reductions were given to most airlines with a significant increase in exposures, and premium levels for 2011 were down 3% on 2010.

The first quarter renewals represented a continuation of the levels of market premium which occurred in the final quarter of 2010, although two airlines came to market after losses which pushed the first quarter premium increase up to 12%. By the second quarter the averages had dropped to 0%, which was heavily influenced by consolidation of two major airlines in April. Excluding this programme the premium movement would have been an increase of 3%. By the third quarter, despite three losses in July with cumulative reserves of over US\$275 million, premium levels were showing as before, although the projected exposures for airlines renewing in Q3 had increased by 8% for AFV and 15% for passengers.

Come the fourth quarter renewal season, 2011 had been a good year in terms of losses, the best year the market had seen since 2004. There were only seven losses with a reserve over US\$25 million, and the total loss reserve including an estimate for attritional losses was just over US\$1.1 billion.

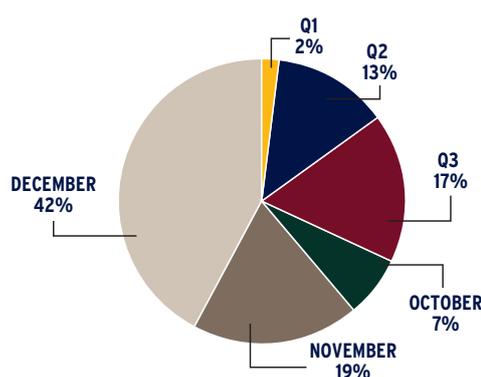
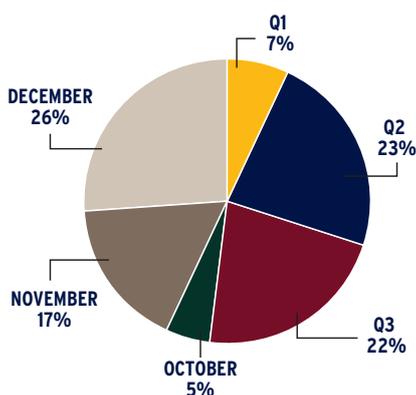
The fourth quarter saw leaders remain competitive on their 'core accounts', while following markets became increasingly selective, and new markets cautious in their approach. The negotiating environment was made even more complex by the changing buyer landscape and structural changes to a number of the markets largest programmes.

The final quarter saw nearly 50% of the renewals and approximately 70% of the overall annual premium and is therefore vital to the overall outcome of the year.

The ability to differentiate each renewal at this time has become increasingly challenging but there were a small number of examples of renewals being able to achieve this and 're align' themselves against their market peers.

The Lead market premium (for programmes with a fleet value in excess of US\$100 million) is estimated to be US\$1.9 billion. This means that the airline insurance market made a profit for the first time in five years. This represents an overall net premium reduction for the year of 3%. It must be noted however that due to the variation in pricing levels any analysis of market trends based on Lead terms is less reflective of the market wide 'composite' result than for a long time and therefore makes historical comparison less reliable.

## RENEWAL DISTRIBUTION % SHARE AND PREMIUM DISTRIBUTION % SHARE



## 2011 NET % PREMIUM AND EXPOSURE MOVEMENTS (HULL AND LIABILITY)

	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2010 NET PREMIUM US\$ M	2011 NET PREMIUM US\$ M	US\$ M PREMIUM CHANGE	PREMIUM % CHANGE
January	6	-59%	-49%	16.08	17.53	1.45	9.0%
February	3	41%	9%	3.98	5.19	1.21	30.4%
March	9	10%	2%	19.02	21.08	2.06	10.8%
<b>Q1</b>	<b>18</b>	<b>-30%</b>	<b>-22%</b>	<b>39.07</b>	<b>43.80</b>	<b>4.72</b>	<b>12.1%</b>
April	19	12%	14%	128.93	125.27	-3.66	-2.8%
May	18	10%	11%	73.22	73.56	0.34	0.5%
June	22	3%	7%	41.35	44.77	3.42	8.3%
<b>Q2</b>	<b>59</b>	<b>10%</b>	<b>13%</b>	<b>243.49</b>	<b>243.60</b>	<b>0.11</b>	<b>0.0%</b>
July	37	7%	11%	255.35	248.85	-6.50	-2.5%
August	10	10%	25%	40.03	44.19	4.16	10.4%
September	11	39%	41%	32.69	33.97	1.28	3.9%
<b>Q3</b>	<b>58</b>	<b>8%</b>	<b>15%</b>	<b>328.07</b>	<b>327.01</b>	<b>-1.06</b>	<b>-0.3%</b>
October	14	2%	21%	149.87	142.28	-7.59	-5.1%
November	45	9%	9%	364.55	365.88	1.32	0.4%
December	68	4%	4%	829.76	783.63	-46.13	-5.6%
<b>Q4</b>	<b>127</b>	<b>5%</b>	<b>6%</b>	<b>1,344.19</b>	<b>1,291.80</b>	<b>-52.39</b>	<b>-3.9%</b>
<b>2011 Total</b>	<b>262</b>	<b>6%</b>	<b>8%</b>	<b>1,954.83</b>	<b>1,906.21</b>	<b>-48.62</b>	<b>-2.5%</b>

# MARKET NEWS

### WILLIS REINSURANCE FIRST VIEW: AEROSPACE

- January first Aviation excess of loss pricing was again subject to pricing reduction in the region of -5% to -7.5% in respect of programs unaffected by recent loss events and where a stable exposure profile is evident
- A degree of concern has been forthcoming from primary XOL markets in respect of the potential exposure from U.S. General Aviation risks
- Where primary layers will potentially be loss affected, markets have reacted by looking to increase retentions, specifically in respect of U.S. General Aviation exposures
- Despite a move from some proportional treaty clients to increase commissions, there has been considerable resistance from reinsurers, due to the very clear softening of original rates and premiums, particularly on major airline and products business
- With the majority of General Aviation risk excess placements originating from or largely covering business emanating from the U.S. and with the underlying market continuing to suffer from over competition, reinsurers have been extremely keen to ensure that this product continues to generate a sufficient level of return to support the limits of capacity provided; there has also been an ongoing general review and reassessment of original loss attachments points
- Aviation Industry Loss Warranty (ILW) pricing has remained unchanged

### AXIS CAPITAL ANNOUNCES CEO SUCCESSION PLAN FOR MAY 2012

AXIS Capital Holdings Limited have announced that John R. Charman will retire as Chief Executive Officer and President effective May 3, 2012, the date of the Company's 2012 Annual General Meeting of Shareholders. Mr. Charman will be succeeded by Albert Benchimol, who will become Chief Executive Officer and President, also effective May 3, 2012. Mr. Benchimol currently serves as the Company's Chief Financial Officer and as a member of its Executive Management Committee.

Mr. Charman will remain with the Company in the position of Chairman of the Board of Directors, succeeding Michael A. Butt, who is stepping down as Chairman of the Board but will continue to serve as a member of the Board of Directors. As Chairman, Mr. Charman will remain actively involved with the Company, ensuring a seamless transition in leadership. Mr. Benchimol will be appointed to the Board of Directors effective January 1, 2012. The Company has initiated a search for Mr. Benchimol's successor as CFO, and is considering both internal and external candidates.

## **WILLIS ANNOUNCES GLOBAL LAUNCH OF WILLPLACE, A GROUNDBREAKING INSURANCE PLACEMENT TOOL FOR CLIENTS**

Willis Group Holdings, the global insurance broker, today announced the global launch of its groundbreaking insurance placement system, WillPLACE, an online tool that helps Willis to match its clients' insurance needs with the most appropriate insurers.

With WillPLACE, Willis placement professionals are able to gather data about insurers' risk appetites around the world, which is then imported into the WillPLACE Market Match tool. Using a proprietary matching algorithm, this information is then correlated online with the WillPLACE database that records the specific risks clients have, and matches these with appropriate insurers.

Willis risk advisors then work with their clients to assign a variety of weightings to their priorities. These weightings for ultimate carrier selection may include such factors as price competitiveness, claims service and underwriting focus, among others. The client's requests are then electronically matched with carrier data, resulting in a recommended match between client need and carrier appetite.

## **THE RELATIONSHIP BETWEEN INSURERS, INSURED AND INSURANCE BROKERS: IMPORTANT HIGH COURT JUDGMENT PROVIDES CLARIFICATION**

The Court of First Instance in Hong Kong has handed down an important judgment that upholds the long established commercial practice of an insurance broker acting as agent for the insured and not as agent for the insurer. The court's judgment in *Hobbins v Royal Skandia Life Assurance Ltd & Anor.*, HCCL No.15 of 2010, also refers to the trade practice surrounding the payment of commissions by insurers to insurance brokers with respect to the business brokered on behalf of a client (the insured). The judgment finds that commissions paid by an insurer to an insurance broker are not illegal secret profits, unless in excess of what is normally paid in the insurance market.

### **WILLISWIRE**

To read the Willis Aerospace blog please [click here](#).

## **2012 WILLIS, IATA, AAPA ASIA PACIFIC AVIATION INSURANCE CONFERENCE - HONG KONG**

Between March 6th and 9th 2012, Willis will hold our annual Willis, IATA, AAPA, Asia Pacific Aviation Insurance Conference in Hong Kong and are delighted to have Cathay Pacific as our Airline Partner whose endorsement and involvement provided us with a fitting platform to this popular industry event. Through presentations, panel debate and networking sessions, topics including the global and regional state of the industry, safety, risk management, legal issues and insurance market dynamics will be addressed and provide delegates with invaluable industry insight.

This well-established conference has a proven track record in providing delegates with a stimulating agenda of presentations and panel discussions relevant to the aviation insurance community and its diverse customer base.

# LOSSES OVERVIEW

2011 was a comparatively good year from an airline loss perspective. The annual loss total of US\$1.1 billion was the third lowest in the past 10 years and represented another year without a major insurance catastrophe loss.

The loss total is made up of hull losses of US\$578 million with US\$100 million for liabilities. The increasingly significant attritional loss total of US\$450 million continues to provide a drain on underwriters premium income and provides limited opportunity for them to build a volume of premium to respond to a catastrophe.

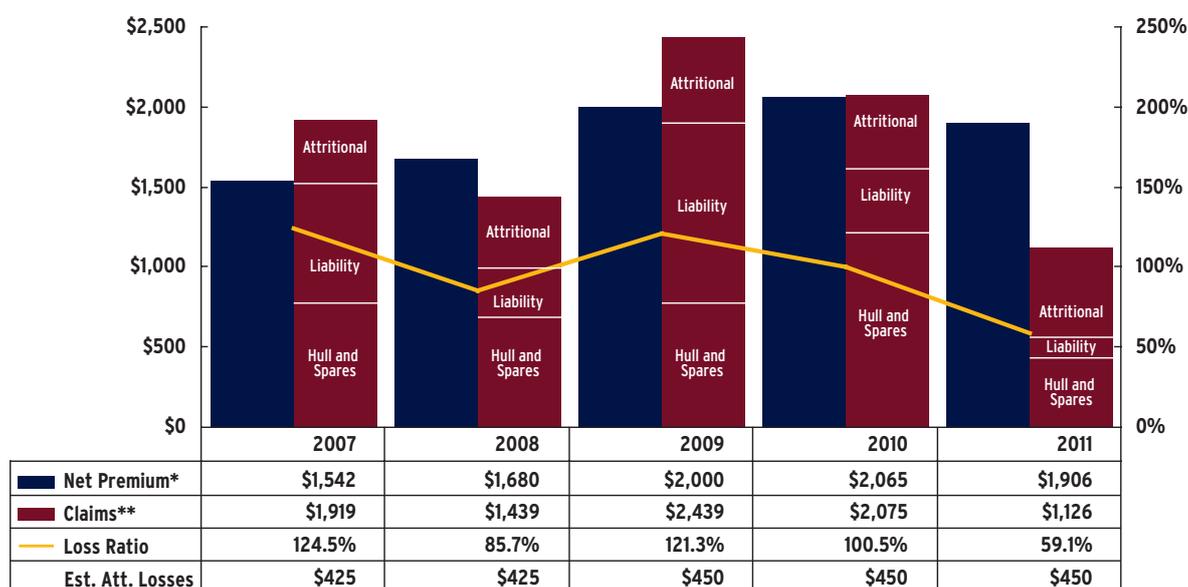
The number of fatal accidents in 2011 was reported to be up on 2010 (see Industry News for article) but the total volume of fatalities is one of the lowest. The low level of fatalities means a low level of liability losses which is also influenced by the lack of geographic location of the losses.

The excellent industry performance has continued as 2012 has started well with only a small number of minor losses.

## LOSSES FIVE YEAR SUMMARY TABLE

YEAR	LOSSES EXCESS OF \$100M	LOSSES BETWEEN \$10M - \$99M	FATALITIES
2011	1	14	230
2010	6	14	715
2009	4	16	497
2008	2	18	410
2007	4	17	622

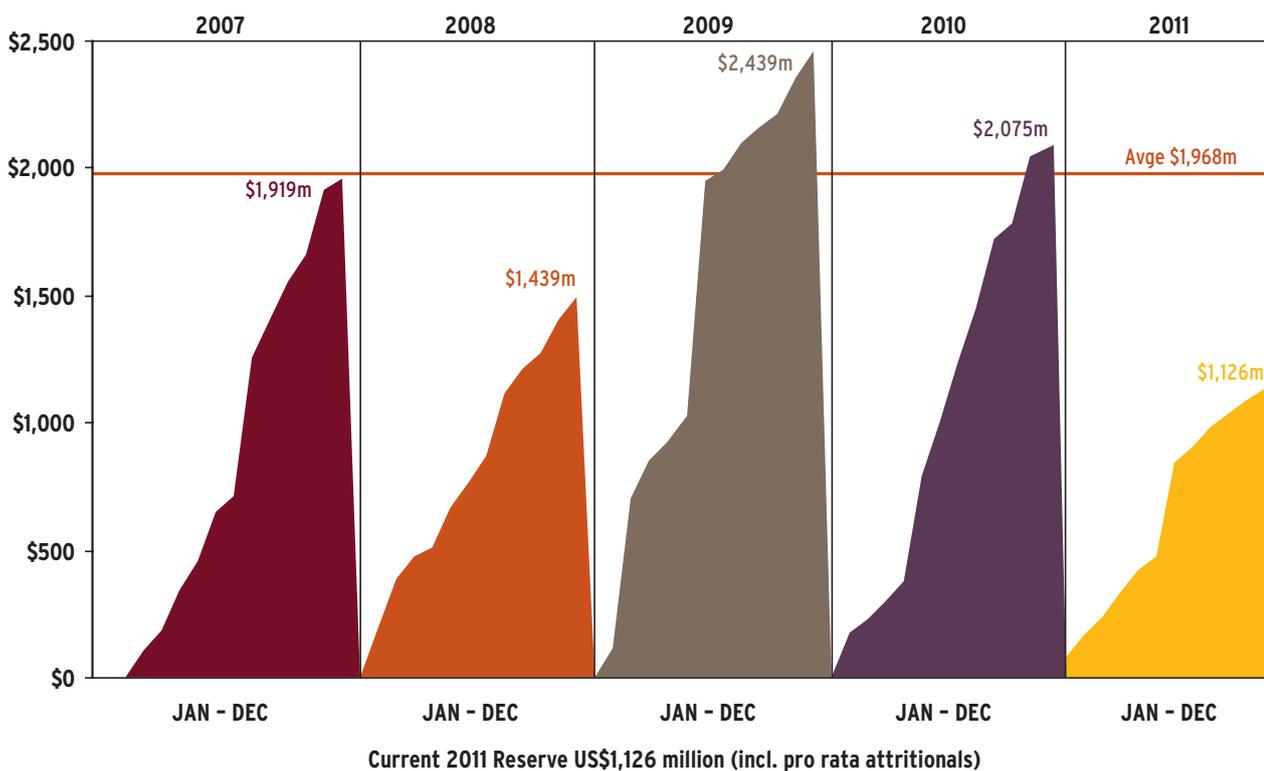
## WORLD WIDE AIRLINE HULL AND LIABILITY PREMIUM AND CLAIMS ON A CALENDAR YEAR BASIS 2007 - 2011 (NET LEADERS TERMS US\$ MILLION)



\* Premium includes all known airlines with an AFV in excess of US\$100 million and is based on Net London Lead Terms; it is subject to change as more information becomes available.

\*\* Claims shown include the estimated figure for attritional losses. Claims are updated as more information becomes available.

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



Significant losses that have occurred since our last publication are outlined below.

On February 13, a Carpatair Saab 2000, registration YR-SBK, sustained damage during the take-off roll, in snowy conditions at Craiova Airport. The aircraft caught a bank of snow with the right wheel and veered off the runway. The hull reserve for this loss is US\$5 million.

On February 10, a Gol, B737, registration PR-GUI, sustained damage when a catering truck collided into the aircraft at Congonhas Sao Paulo Airport. The hull reserve for this loss is yet to be established.

On January 30, a Southwest B737, registration N222WN, suffered damage when its left wing knocked down a light pole at Denver Airport, USA. The hull reserve for this loss has yet to be established.

On January 16, a Piedmont Airlines Dash 8 aircraft, registration N839EX suffered significant damage to the horizontal stabiliser of the aircraft. This accident was caused by miscommunications between the pilots of the aircraft, a ramp agent and a de-icing truck which caused a collision. The hull reserve for this loss is yet to be established.

On December 29, a Go Airlines A320, sustained damage when a bus rammed into its nose while parked at at Mumbai Airport. The hull reserve for this loss is US\$2.1 million.

On December 23, a Austrian Airlines A321, registration OE-LBF, suffered tailstrike at Manchester airport resulting in damage to the aircraft. The hull reserve for this loss is US\$1.75 million.

On December 20, a Sriwijaya Air B737-300, registration PK-CKM, received damage when the aircraft overran on landing at Adisutjipto Airport. The right maingear collapsed and the lower fuselage sustained damage. Three passengers received minor injuries. The hull reserve for this loss has yet to be established.

On December 17, a Bangkok Airways aircraft, registration HS-PGA, sustained damage to its forward fuselage when it ran off the apron, down a ditch while taxiing in darkness. The hull reserve for this loss is US\$1.5 million.

On December 4, a Batavia Air A320 aircraft, registration PK-YUC, received damage when it experienced tailstrike during departure at Jakarta. The hull reserve for this loss has yet to be established.

# INDUSTRY NEWS

## GLOBAL PASSENGER TRAFFIC UP 5.7% IN JANUARY: IATA

Global passenger traffic increased by 5.7% in January against a capacity growth of 4.2% compared with the same month last year, according to IATA.

This resulted in an average load factor for the month of 76.6%, up 1.1 percentage points year on year.

IATA said the occurrence of Chinese New Year in January this year, rather than in February as it was last year, exaggerated the increase in passenger demand.

International passenger traffic rose 5.5% against a capacity growth of 4.2%, while the domestic passenger traffic increased by 6.1% against a capacity growth of 4.1%.

Middle Eastern carriers recorded the largest rate of growth in January, up by 14.5% against a capacity increase of 10.6%. This resulted in a load factor of 78.5%, up 2.7 percentage points.

Global cargo traffic fell 8% in January, as international cargo traffic decreased by 8.1% and domestic traffic decreased by 7%. Overall cargo capacity contracted by 0.6%, as international capacity decreased by 0.6% and domestic capacity by 0.5%.

Cargo load factor fell to 41% from 44.3% in January. IATA said deliveries of new widebody passenger aircraft had offset measures to reduce cargo capacity.

“It appears that cargo markets have stabilised, albeit at weak levels, and this is having a positive impact on business-related travel,” said IATA’s director general and CEO, Tony Tyler. “However, airlines face two big risks: rising oil prices and Europe’s sovereign debt crisis. Both are hanging over the industry’s fortunes like the sword of Damocles.”

## AIRLINE FATAL ACCIDENT NUMBERS CLIMB IN 2011

The year 2011 saw a sharp rise in the number of airline fatal accidents, reaching a total of 37 compared with 26 in 2010, and well above the annual average for the last decade, which is 30. The last time the number of airline fatal accidents climbed to this sort of level was 2002, when the total reached 40. These numbers can be seen in context, however, by contrasting them with the relatively low fatalities total for 2011. At 515, this is the second lowest annual figure in the preceding decade, in which the yearly average is 777. The lowest total for a year in the last decade was 466 fatalities in 2004.

The reason for the high fatal accident figure and the contrastingly low number of casualties is the relatively large number of regional aircraft involved, mostly turboprop aircraft, and the small number of big jet fatal accidents. The number of casualties per fatal accident was just below 14. The worst accident of the year involved an Iran Air Boeing 727-200 domestic flight that crashed in January near Orumiyeh killing 77 of the 105 people on board.

These initial figures include airline operations of all types, including scheduled and charter, pure freight and positioning flights. The fatalities numbers include crew casualties, not just passengers.

A full analysis of global airline safety performance in 2011, and the current challenges facing carriers, will be published later this month on [flightglobal.com](http://flightglobal.com) and in the 17 – 23 January issue of *Flight International* magazine. This will include a list of all the fatal accidents and serious non-fatal incidents, complete with a synopsis of each event, compiled in association with Flightglobal’s specialist partner Ascend.

Source: Air Transport Intelligence

## AIRBUS OUTPACES BOEING IN 2011 DELIVERIES

Boeing’s 477 aircraft deliveries in 2011 fell short of rival Airbus, who delivered 530 aircraft last year.

Boeing’s commercial deliveries did rise by 15 aircraft year-over-year despite missing delivery targets of 15-20 aircraft for its new 747-8 and 787 models, of which 12 were delivered.

The airframer also recorded a year-over-year increase in fourth quarter deliveries by 12 aircraft to 128.

Boeing’s website shows total gross orders of 921 and net orders of 806 for commercial aircraft recorded in 2011 compared with 625 gross and 530 net for the year prior. Included in the 2011 totals are Southwest’s order for 150 737 Max aircraft, a 100 aircraft order by American for 737-800s and a firm order from Delta Air Lines for 100 737-900ERs.

Boeing has previously said it has collected roughly 1,000 orders and commitments for the re-engined 737 Max. It currently has a backlog of 3,771 aircraft.

# FORTHCOMING RENEWALS

2012 would appear to offer much of the same in terms of renewal experience for buyers. There has been no withdrawal of capacity and it is unlikely that a single major loss would cause the market to deviate from its current stability. Capacity continues to be by far the leading driver of the market with the impact of claims being diluted due to the number of underwriting units in the market. This means that each entity has a very different loss experience, results and strategy.

The level of renewal activity drops away sharply with just 17 renewals taking place the whole of the first quarter. It is not just the renewals but the premium volume that virtually disappears. The first quarter premium volume of approaching US\$45 million represents approximately 2% of the annual total.

With this level of renewal activity any indication of market sentiment is challenging to judge until the major renewals that take place in April. With the cycle running from the

start of the renewal season which traditionally has been October forthcoming airline renewals should expect little to change until the latter part of 2012.

The insurance market as a whole remains soft and is likely to remain that way until there is an upturn in the global economy and a withdrawal of capital and therefore capacity from the insurance sector there is unlikely to be significant hardening in other market sectors.

The global economic picture will likely have an impact on the exposure projections of buyers which will impact their renewal results. 2012 is therefore expected to continue to be a good year for buyers provided the excellent safety record is maintained.

## Q1 2012 RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
Federal govt of Nigeria	01-Jan-12	105,733,000
Airlinair	07-Jan-12	138,050,000
Conviasa	16-Jan-12	136,672,000
Hi Fly	05-Feb-12	317,000,000
ACG Air Cargo Germany	11-Feb-12	294,986,301
Skynet Asia Airways	20-Feb-12	238,220,837
Evergreen International	01-Mar-12	236,000,000
Almasria Universal Airlines	01-Mar-12	180,761,664
Montenegro Airlines	10-Mar-12	138,272,225
Mexicana	15-Mar-12	607,582,501
Midwest Airlines	18-Mar-12	111,100,000
Pullmantur Air	20-Mar-12	143,514,161
Bangkok Airways	28-Mar-12	384,372,122
Cameroon Airlines	28-Mar-12	106,972,068
Sriwijaya Air	29-Mar-12	221,349,315
Passaredo Transportes Aereos	30-Mar-12	207,041,095
Qatar Airways	31-Mar-12	11,236,101,370

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This is the Willis Airline Insurance Insight, which is our vehicle to keep our clients and others informed of developments in the airline 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 lead terms of airline insurance programmes renewing with fleet values in excess of US\$100 million. The analysis does not take into account any coverage changes and is not weighted in relation to the size of the programme's exposure or volume of premium paid. Loss information includes western built equipment and our attritional loss threshold is below US\$1 million. These figures are based on a like for like basis and exclude those risks that inception in 2009/2010 and are no longer in operation and those risks that have commenced operations in 2010/2011 as these will distort the percentage change figure.

This newsletter offers a general overview of its subject matter. It does not necessarily address every aspect of its subject or every product available in the market. It is not intended to be, and should not be, used to replace specific advice relating to individual situations and we do not offer, and this should not be seen as, legal, accounting or tax advice. If you intend to take any action or make any decision on the basis of the content of this publication you should first seek specific advice from an appropriate professional. Some of the information in this publication may be compiled from third party sources we consider to be reliable, however we do not guarantee and are not responsible for the accuracy of such. The views expressed are not necessarily those of the Willis Group. Copyright Willis Limited 2012. All rights reserved.

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