

AEROSPACE FOURTH QUARTER (Q4) 2008

Q4 is the second busiest renewal period in the non-airline Aerospace sector, by premium volume. Net renewal premium generated during Q4 (based on 96 renewing programmes) totalled *US\$311.5 million, which is a reduction of 2.2% compared to Q4 2007.

This is a lower level of premium reduction than that recorded in Q3. This apparent firming of renewal premiums was primarily the result of the markets reaction to a number of renewals that have experienced recent losses or have recorded known loss deterioration. Increased estimated sales projections within the manufacturing sector influenced the renewal price only where growth was at double digit percentage levels.

2008 REVIEW

Total renewal *net premium of US\$974 million for 2008 represents a reduction of almost 4% compared to 2007. No single Aerospace sector experienced a negative 'blanket response' from underwriters, however, it must be noted that MRO renewals within the Manufacturers sector and renewals in the Airport services sectors were generally scrutinised against a backdrop of poor recent loss histories, both major and attritional, within their respective sectors.

Throughout 2008 the London Market maintained a consistent approach towards renewals in the Aerospace sector. Underwriters were positive and after careful assessment of each renewing programme's coverage requirements, exposure profile and loss record, applied to the majority of renewing programmes, premium and/or rate reductions.

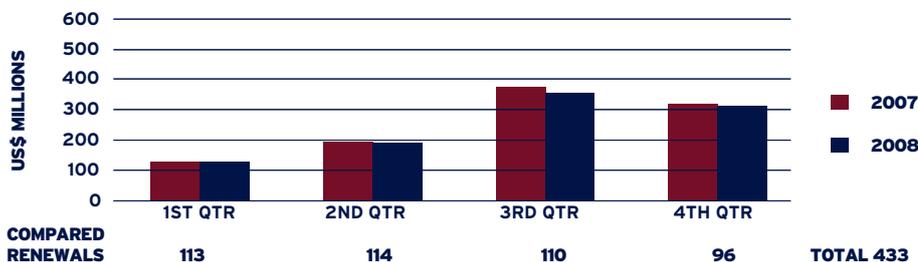
In many instances premium reduction and certainly rate reduction was achieved despite projected exposure growth or where limit of cover increased.

Premium reduction was generally not applied where recent loss or past loss deterioration was recorded because underwriters focused on the experience of specific insured's.

Towards the end of the year some parts of the market sought to take a firmer line towards renewal programmes and limit premium reductions to low single percentage levels. This move arose from pressure applied by underwriting managers who are themselves being tasked by capital providers to improve the 'underwriting' return on utilised capital believed to be because interest rates have fallen to historically low levels offering only limited *interest* earnings. A firming in the Airline market was also expected to provide an impetus to reduce aerospace premium reductions, however, due to the level of Aerospace underwriting capacity available, much of it relatively new, many renewals obtained double digit percentage premium reductions.

* All currencies converted to US\$ Roe as at January 1, 2008

TOTAL AEROSPACE RENEWAL PREMIUM DISTRIBUTION 2008



AEROSPACE RENEWAL PREMIUM CHANGE 2008

SECTOR	NET PREMIUM *US\$ 2007 (M)	NET PREMIUM US\$ 2008 (M)	CHANGE %	RENEWING PROGRAMMES
MANUFACTURERS	773	743	-3.9%	193
AIRPORT	124	121	-2.4%	132
ATC	41	39	-4.9%	33
FUEL	30	28	-6.7%	46
AIRPORT SERVICES	44	43	-2.3%	29
OVERALL AEROSPACE	1,012	974	-3.8%	433

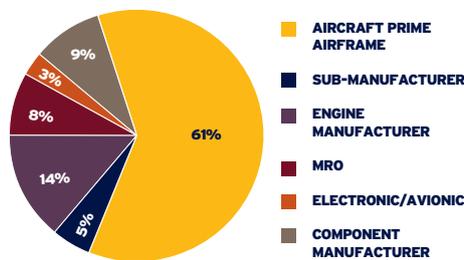


WILLIS MANUFACTURERS INDEX 2008 RENEWAL CHANGE

WILLIS MANUFACTURERS INDEX SECTOR	NET US\$ PREMIUM CHANGE*	ESTIMATED SALES CHANGE	RATE ON SALES CHANGE	RENEWING PROGRAMMES
AIRCRAFT PRIME MANUFACTURER	-7%	17%	-21%	14
SUB-MANUFACTURER	6%	21%	-13%	14
ENGINE MANUFACTURER	-4%	13%	-15%	12
MRO	5%	12%	-6%	23
ELECTRONIC/AVIONIC	-5%	8%	-12%	15
COMPONENT MANUFACTURER	7%	12%	-4%	35
TOTAL	-4%	15%	-17%	113

* All currencies converted to US\$ RoE as at January 1, 2008

WILLIS MANUFACTURERS INDEX, PREMIUM DISTRIBUTION, BY SECTOR 2008



The Willis Manufacturers Index 2008 reviews the cumulative renewal experience of 113 monitored insured's. Compared to 2007 the total net renewal premium for 2008 of US\$678 million is a reduction of 4%, 2008 estimated sales of approximately US\$450 billion represent an increase of 15%, while the overall derived rate on sales records a reduction of 17%.

Total 2008 Index net premium represents 84% of an estimated total manufacturer's net premium to the London Market of approximately *US\$810 million.

Aircraft Prime Manufacturers recorded a renewal premium reduction of 7%. Actual renewal results were varied, with double digit premium reductions achieved by three insured's and just two programmes receiving a premium increase. This result reflects the sectors' improved loss ratios, growing credit balances in underwriters favour, and a lack of a catastrophe loss. Estimated sales increases were projected by the majority of insureds and consequently the derived rate on sales recorded a significant reduction of 21%. As a proportion of total 2008 Index premium Aircraft Prime Manufacturers represents 61%, a fall of 2% compared to 2007.

Engine Manufacturers renewals resulted in a 4% premium reduction with three insured's receiving premium increases, two of which were the result of significant projected sales growth. Underwriters' treatment of renewals in this sector reflects an improved loss position, particularly over recent years following the introduction of self insured retentions by a number of insured's and in common with the Aircraft Prime Manufacturers the lack of a catastrophe loss. Estimated sales increases were projected by all but one renewing programme producing a derived rate on sales reduction of 15%. As a proportion of total 2008 Index premium this sector represents 14%, a fall of 1% compared to 2007.

The **Sub-Manufacturers** sector recorded an estimated sales increase of 21%, the highest of any sector reviewed within the Index. This exposure growth, not simply the US\$ value of sales growth, was the key factor that generated an overall premium increase of 6%. The loss record of the sector remains excellent. Derived rate on sales recorded a reduction of 13%. The sectors proportion of the total 2008 Index premium of 5% is an increase of 1% compared to 2007.

The **Maintenance, Repair and Overhaul (MRO)** sector recorded a premium increase of 5%. The level of premium increase has fluctuated during the year, highlighting the fact that it is the loss experience of renewing programmes that is the key factor considered by underwriters when setting premium levels in this sector. However, where loss records are good and projected exposure growth is modest or static, premium reductions were obtained. Estimated sales in this sector have risen by 12% compared to 2007. The 8% of total 2008 Index premium represented by this sector has increased by 1% compared to 2007.

The **Component Manufacturers** sector continues to be the most difficult to review due to its varied product base. The index reviews the renewal experience of 35 component manufacturers that represent 9% of the total 2008 Index net premium; a position unchanged compared to 2007. The sector recorded a net premium change for 2008 of 7% compared to 2007. This increase was driven by the renewal result of a few manufacturers which have suffered significant recent losses, however, if those manufacturers were excluded the sector would record a renewal net premium reduction of 12.5%. Estimated sales recorded an increase of 11.5%.

Electronic/Avionic Manufacturers is the smallest sector by premium volume of the Index; in 2008 3% which is up 1% compared to 2007. However, in terms of estimated sales it is comparable with the component sector and actually exceeds the Sub-manufacturers sector. It should also be noted that this sector within our Index reviews only 'pure' electronic/avionic manufacturers. The net premium change for 2008 was a reduction of 5% compared to 2007, while estimated sales increased by 8% resulting in a reduction in the derived rate on sales of 12%. Generally the base rate of this sector is one of the lowest of all manufacturers; consequently underwriters feel there is only limited scope for reductions despite the sector's excellent loss record.

Overall a review of the Index demonstrates that during 2008 underwriters have maintained a disciplined approach towards renewing programmes and have reflected in their renewal prices the merits and experience of each individual insured.

GENERAL AVIATION MANUFACTURERS

Pure General Aviation Manufacturers are not widely supported by the London market primarily because of underwriters' concern regarding liability awards in the USA. Of the programmes that are supported in London, renewal premiums generated totalled US\$36.5 million compared to US\$34.4 million in 2007 an increase of 9.5%. Pricing of General Aviation manufacturers continues to be very loss sensitive as well as being influenced by unit numbers delivered. We anticipate underwriting capacity for this class to be static in 2009.

WILLIS AIRPORTS INDEX

The Willis Airports Index represents 90% and 95% respectively of the total known market airports Q4 2008 renewal premium and estimated passengers numbers, excluding North American placements.

AIRPORTS INDEX RENEWAL CHANGE Q4 2008

Q4 2008/2007 COMPARISON							
REGION	PLACEMENTS #	EST PAX #	CHANGE	PREMIUM*	CHANGE*	PAX RATE	CHANGE
EUROPE	5	87,840,112	-7.9%	3,126,164	6.04%	0.0358	15.8%
FAR EAST	4	116,659,998	1.2%	1,572,082	-11.0%	0.0135	-12.0%
SOUTH AMERICA-CARIBBEAN	3	145,832,151	4.7%	3,849,938	65.5%	0.0264	58.1%
PACIFIC REGION	1	6,800,000	8.7%	335,317	-14.5%	0.0493	-21.3%
MIDDLE EAST	1	45,885,000	42.3%	379,745	-1.7%	0.0083	-31.0%
AFRICA	1	2,650,000	17.8%	295,429	-6.4%	0.1115	-20.5%
OVERALL INDEX	15	405,637,264	3.8%	9,558,675	17.5%	0.0236	13.3%

* All Currencies Converted to US\$ Roe as at January 1, 2008

A total of 15 Willis Airports Index programme placements renewed.

Willis Airports Index Q4 renewals generated renewal premium of US\$9.55 million (adjusted by removal of ATC proportion of premium of combined programmes) an increase of 17.5% in comparison with Q4 2007. This is a significant change in the result of renewal pricing experienced during the preceding three quarters of 2008, however, it was the experience of a few renewals that is the cause of the overall premium increase. The majority of renewals have obtained premium and rate reductions comparable to that so far seen during 2008.

Of the 15 Q4 Willis Airports Index renewal programmes, three generated 25% of the Q4 premium in 2007, however, due to their loss histories the renewal premiums applied increased to the extent

that they now represent 44% of Q4 2008 premium, this is a total premium increase of 106% for those 3 programmes. Ignoring the 3 loss penalised renewals the remaining 12 renewals programmes actually generated 12.5% less premium in 2008 compared 2007.

Q4 2008 estimated passenger numbers of 405m are just under 4% higher than those of Q4 2007 and is the smallest quarterly increase seen during 2008 with Europe and the Far East showing the most significant falls, this is a clear reflection of the global economic slowdown.

The overall Q4 Index derived passenger rate of US\$0.0236 is an increase of just over 13% compared to Q4 2007, however, by removing the three programmes mentioned above, the derived rate becomes US\$0.0209, a reduction of almost 18% compared with Q4 2007.

WILLIS AIRPORTS INDEX YEAR 2008

Willis Airports Index renewal premium, excluding North America, totalled US\$82.5 million during 2008 compared to US\$84.5 million for 2007, a reduction of 2.3%, while estimated passenger numbers increased by 8.9%, consequently the derived passenger rate reduced by 10.2% to US\$0.0320.

Throughout 2008 the market has remained consistent in its approach to renewal programmes by applying premium and rate reductions. It has increased premiums, in most cases as a penalty where losses or a deterioration of existing losses has significantly impacted the renewing programme. Premium increases have also resulted for a few renewals as a consequence of exposure growth, however, in these instances the rate per passenger has still reduced considerably.

YTD END Q4			
REGION	2008 EST PASSENGER # CHANGE	*2008 NETT US\$ PREMIUM CHANGE	CHANGE 2008 NETT US\$ RATE PER PASSENGER
EUROPE	7.3%	-2.0%	-8.6%
FAR EAST	13.2%	-8.9%	-19.6%
SOUTH AMERICA	6.7%	19.7%	12.2%
PACIFIC REGION	1.6%	-11.5%	-12.9%
MIDDLE EAST	20.9%	-6.3%	-22.0%
AFRICA	2.1%	-9.8%	-11.7%
ALL	8.9%	-2.3%	-10.2%

* All currencies converted to US\$ Roe as at January 1, 2008

AIR NAVIGATION SERVICE PROVIDERS Q4 2008

A total of nine 'pure' ANSP/ATC programmes renewed during Q4 2008 that cumulatively generated US\$ 11.1 million of premium which is an increase of 11.5% compared to Q4 2007.

As was the case for Airport renewals it has been underwriters' reaction to those renewals that have suffered losses that has caused the rise in overall premium. The majority of the programmes that renewed, however, obtained premium reductions.

AIR NAVIGATION SERVICE PROVIDERS YEAR 2008

The 2008 renewal premium, generated by 'pure' ANSP/ATC, totalled US\$39.4 million, which, when compared to 2007 is a reduction of almost 5%. The level of renewal premium reduction would have been greater, in the region of 9%, but for the impact of the premium increases applied to two renewals as a result of their recent poor loss experience. ANSP/ATC estimated exposure, aircraft movements, were projected to increase by the majority of renewing programmes, overall by approximately 4%, despite the worsening economic outlook. Underwriters were positive towards the class during 2008.

FUEL SUPPLIERS/REFUELLING

Net renewal premium during 2008, based on the renewal experience of 46 programmes, records a reduction of 4.5% when compared to 2007. Almost all renewing programmes achieved premium reductions ranging from a few percentage points to low double digit percentage values. The few exceptions to this occurred where estimated increases in projected throughput exceeded 10%, particularly where exposure growth was 'fuel into plane'. Towards the end of 2008, and influenced by a loss reserve set for a loss at a North American provincial airport, some underwriters stated that the total premium base has reached a minimal level in 2008.

AIRPORT SERVICE PROVIDERS

Net renewal premium levels for this aerospace sector are virtually unchanged for 2008 compared to 2007, however this result does not reflect accurately the renewal experience of this sector. The majority of programmes achieved premium reductions and in common with aerospace renewals in general the level of premium reduction varied considerable. It was the premium increase applied to a few renewals that effectively negated the impact of the underlying trend of premium reduction. Loss histories, particularly old year's deterioration were a key factor in determining renewal price. A poor or deteriorating loss history that produced a five year loss ratio up to 75% generally resulted in, at best, an as before renewal price; a loss ratio above 75% resulted in premium increase. However, in a few instances the deductible or Self Insured Retention levels carried by insureds were increased to limit the severity of the premium increase.

AVN52

During 2008 a number of renewing programmes opted to increase their AVN52G sub limit from US\$50 million to US\$150 million. Generally this was achieved at a modest charge added to the overall renewal price which, in most cases, still resulted in a reduction.

AEROSPACE 2009

Certain insurers in of the London market have indicated that they intend to harden their pricing philosophy towards aerospace renewal business from the outset of 2009. It is not clear if other insurers will follow suit considering the overall profitability of the aerospace sector to underwriters especially as exposure values are likely to reduce as a consequence of the global recession, a fact the majority of underwriters are sympathetic towards.

Insurance is currently recognised as an attractive capital investment area although the collapse of interest rates has significantly reduced potential earnings on premium received and on reserves that insurers are legally obliged to hold. Pressure is consequently being applied by capacity providers and underwriting managers to ensure that underwriters accept risks at prices that offer 'pure underwriting' profit.

We anticipate that market underwriting capacity will remain at 2008 levels and that the majority of underwriters will deploy their capacity much as they did in 2008. The markets, we anticipate, will generally seek to stabilise premium levels during 2009 and will continue to employ their modelling and actuarial resources in determining price level as well as taking careful consideration of loss experience into account.

CONTACT DETAILS

• **Steve Lodge**
• steve.lodge@willis.com
• +44 (0)20 3124 7456
•
• **Steve Doyle**
• steve.doyle@willis.com
• +44 (0)20 3124 7208

This is the Willis Aerospace Insurance Index our vehicle to keep our clients and others informed of developments in the aerospace 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 London lead terms and structure of the renewing insurance programmes monitored.

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