

# AEROSPACE SECOND QUARTER (Q2) 2011

The aerospace insurance sector continues to experience a combination of increased exposures, reducing premiums and good loss performance.

While each sector is experiencing slight variations in conditions, the trend is clearly illustrated by our review of the second quarter renewals and the position of 2011 as a whole.

Our analysis of the London Aerospace market Q2 2011 is based on 120 renewing programmes that generated a total premium of USD 180.52 million. This is a reduction of -1.4% compared with the expiring premium base of those renewing programmes, which is a lower level of reduction than that seen in Q1 2011. If the renewal outcome of certain manufacturer programmes is excluded, the core premium reduction of Q2 is approximately -5%. However, as we have reported in previous quarters, there is no average level of renewal reduction but a considerable variation across and within all sectors.

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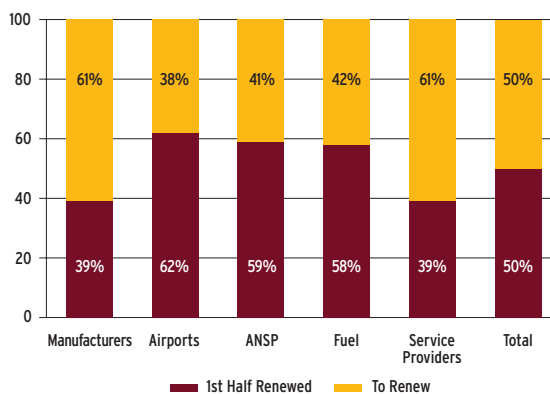
AEROSPACE SECTOR REVIEW: FIRST HALF 2011	NET PREMIUM USD		NET USD PREM CHANGE	EXPOSURE BASE	EXPOSURE VALUE 2011	EXPOSURE CHANGE 2011	NO. OF RENEWING PROGRAMMES
	2010	2011					
<b>Manufacturers</b>	169.31	170.25	0.56%	Projected Sales USD (Billions)	129.05	3.34%	77
<b>Airport</b>	72.55	69.33	-4.44%	Passengers (Billions)	2.35	8.34%	87
<b>ANSP/ATC*</b>	16.63	15.36	-7.64%	Aircraft Movements (Millions)	15.36	5.87%	20
<b>Fuel</b>	17.16	15.49	-9.73%	U.S. Gallons (Billions)	34.68	6.31%	32
<b>Airport Service</b>	7.22	6.07	-15.93%	Projected Sales USD (Billions)	9.59	22.53%	10
<b>Other</b>	0.80	0.98	22.50%	n/a			3
<b>Overall Aerospace</b>	<b>283.67</b>	<b>277.48</b>	<b>-2.18%</b>				<b>229</b>

\* Pure ANSP/ATC programmes

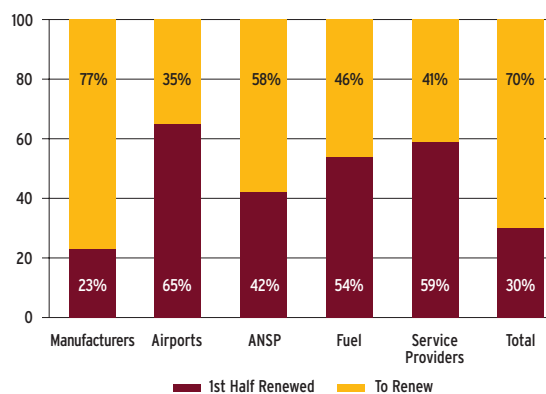
All currencies are converted to USD, ROE as at January 1, 2011

# 2011 TO DATE CUMULATIVE SECTOR RENEWAL PROGRAMMES AND PREMIUM POSITION

Aerospace Renewing Programmes by Sector: End of Q2



Aerospace Renewing Premium Volume by Sector: End of Q2



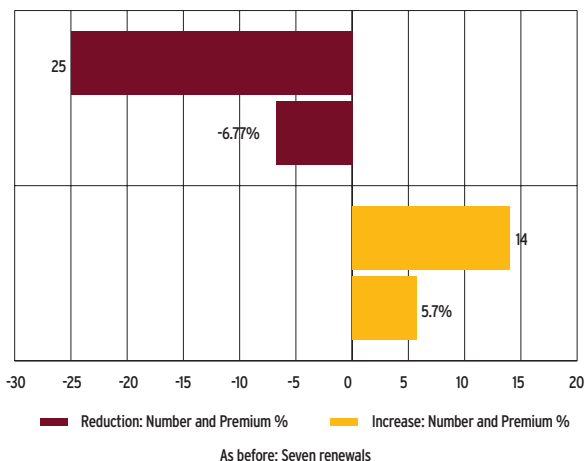
The charts above demonstrate that although approximately 50% of the years anticipated renewal programmes have renewed, they represent just 30% of the projected renewal premium (based on expiring total).

## MANUFACTURERS

There were 46 manufacturer programmes that renewed during Q2 2011 that generated a total premium of USD 131.52 million, which was a slight increase of 0.47% when compared with the expiring premium base. This continues the trend seen in Q1 2011, where a small increase was also recorded. Estimated sales of Q2 renewing programmes totalled USD 107.8 billion, which is a increase of 3.15%, again a similar position to that of Q1, indicating that the industry, or at least the majority of manufacturers, are emerging from the negative impact of the economic downturn of the past few years.

Although Q2 2011 records a small premium increase, the actual renewal experience during the quarter was mixed, continuing the trend of the past few years. The chart on the right demonstrates Q2's varied experience.

Q2 Manufacturers Renewals Change



In most cases those renewing programmes that experienced premium increases did so due to their purchase of increased limits or as the result of their claims history/recent loss experience. As before renewals are primarily the result of long-term agreements.

A number of factors have caused the premium reduction that the majority of Q2 programmes have achieved. Firstly, all have excellent or greatly improved loss histories and therefore naturally heighten Insurers desire to defend their involvement. Secondly as actual sales as opposed to projected sales become known and the impact of the past few years is apparent, Insurers are allowing some retrospective price adjustment.

To date, the markets 2011 renewal stance appears basically unchanged to that of 2010, with Insurers utilising their own modelling and actuarial tool. There has been particular focus on the loss record and past/present exposure profile of each programme individually to indicate price levels, an approach that has lessened the potential influence of the excess of capacity available. However the consistent and growing profitability of the manufacturers sector is exerting increasing pressure on the heritage market, who are determined to retain their share, while newer participants are looking to enhance their involvement.

## WILLIS MANUFACTURERS INDEX REVIEW AS AT END Q2, 2011

SECTOR REVIEW: FIRST HALF 2011	NET USD PREM CHANGE	PROJECTED SALES CHANGE 2011	RATE ON SALES CHANGE 2011	NO. OF RENEWING PROGRAMMES
<b>Aircraft Prime Manufacturer</b>	2.63%	6.47%	-6.62%	5
<b>Sub Manufacturer</b>	11.06%	10.16%	0.91%	2
<b>Engine Manufacturer</b>	-1.93%	8.91%	-9.96%	3
<b>Electronic/Avionics</b>	5.30%	-0.47%	5.80%	5
<b>Component Manufacturer</b>	0.55%	-1.22%	1.80%	16
<b>MRO</b>	-1.83%	7.12%	-35.66%	3
<b>Overall Index</b>	<b>2.41%</b>	<b>4.18%</b>	<b>-1.70%</b>	<b>34</b>

All currencies are converted to USD, ROE as at January 1, 2011

Q2 is a period that sees much greater renewal activity of programmes, 25, monitored by the Index compared with just nine Index renewals during Q1. For that reason we have decided to review the first half of 2011 as a single period.

A total of 34 Index renewals took place during the first half of 2011. This represents approximately 30% out of an anticipated total of 113 programmes, which in terms

### AIRCRAFT PRIME MANUFACTURERS

Of the five renewals in this sector, just one can be classed as a 'pure' aircraft prime manufacturer. The other renewals risk profiles included multi-sector activity such as extensive military and space programmes, civilian commercial transport and general aviation programmes as well as repair and service operations. The single pure aircraft prime manufacturer has experienced a significant downturn in projected USD sales in recent years, however, premium increased by over 19% due entirely to the loss history of the programme and in spite of carrying a large Self Insured Retention (SIR).

The other two renewing programmes involved in the civilian aircraft production experienced different renewal outcomes. One that has recently commenced commercial production (in addition to its existing business) achieved a premium reduction of over 10%, with USD sales projected to reduce by approximately 2%. The other manufacturer producing civilian aircraft has projected a USD sales decline of nearly 5% (a third consecutive year of falling sales), but its renewal premium increased by approximately 4%, a poor loss history being the primary reason. This programme also has a significant SIR. The renewal experience of these few accounts clearly illustrate that in this sector, Insurers are focusing on loss history and producing their prices based on the result of their actuarial models, which apparently make little allowance for reduced exposure (i.e. reducing sales and/or retirement/withdrawal from use of older production units).

of premium has generated USD 140.23 million equating to approximately 20% of the Index expiring premium. With the majority of the Index premium base yet to renew, the results contained in the table above are likely to evolve.

The other two renewing programmes in this sector achieved premium reductions, however one had a small decline in projected USD sales, while the other showed increased USD sales of almost USD 5 billion.

### SUB MANUFACTURERS

The two renewing programmes in this sector, both project increased USD sales primarily from civilian transport programmes. The premium increases applied are revenue driven, naturally leading to a small increase in their derived rate on sales, and both programmes have excellent loss records.

### ENGINE MANUFACTURERS

With three programme renewals in this sector, cumulative renewal premium is down by almost 2% while projected USD sales are down by just over 10%. However, the programmes that renewed all had very different risk profiles. The significant sales increase (20%) for one programme resulted in an equally significant premium increase of 32%, while the doubling of the expiring policy limit and a sales reduction of 11% resulted in a premium increase of 22% for another. Finally, the remaining renewal achieved a reduction of 12.50% as a result of another loss free year while it maintains a large SIR, thus showing the benefit Insurers have gained from clients who have elected to or had to utilise a SIR as part of the marketing strategy.

## ELECTRONIC/AVIONIC

Five programmes renewed in this sector and have experienced broadly similar results in that a premium reduction was achieved and in the case of two programmes modified, one because an increase in limit (an additional USD 500 million was purchased) resulting in a premium increase of 6%, the other programme that received an increase (6.5%) did so as a result of claim involvement. The remaining programmes in this sector obtained reductions of between 2% – 5%.

## COMPONENT MANUFACTURER

Numerically, this is the most active renewal sector within the manufacturers Index to date. There were four programmes which renewed as before, seven achieving reductions and five which received increases in premium,

## AIRPORT OPERATORS

The first half of the year is an important period for airport programme renewals as approximately 62% of all programmes renewals occur in this period. The sector saw 41 renewing programmes during Q2 2011 and recorded a premium reduction of 3.17%, a slightly lower level of reduction to that of Q1 2011's 5.27%.

Of the 41 renewing programmes, 25 achieved premium reductions cumulatively amounting to 8% compared with their expiring premium base, while their cumulative passenger exposure grew 12.5%.

Premium increases, which applied to 12 renewing programmes, generated 19.5% more premium when compared with their expiring premium base. The majority experienced rise in premium due to their poor loss records, three programmes experienced higher premiums as a result of purchasing increased limit, and one programme because of very significant exposure growth. Those programmes that achieved renewals at 'as before' premium terms did so due to the long-term programme structure, or they were at minimum premium levels.

a real mix! Premium increases were the result of limit increases or loss history, as before renewals generally resulted from annual re-signing/review of long-term agreements and reductions generally were a result of clean renewal programmes which indicate that this is one sector within the Index that is seeing real market competition.

## MRO

There were only three renewing MRO programmes within the first half of 2011, of which all experienced different results. The core issue in this sector is losses, most of which are property damage. Insurers are quick to increase premium after losses occur and will equally (after a few years) reduce premium as a result of improved loss ratios or by the use of SIR's, therefore comparisons in this sector remain difficult.

The overall exposure, in passenger terms, recorded in Q2 is a significant increase of 11.71% compared with expiring estimates. This growth is almost universal with just five renewals, all African, projecting an exposure downturn. The majority of the growth continues to be driven by the Far and Middle Eastern regions where double digit growth is projected. The European and North American regions project a more modest growth estimate although such growth remains fragile.

The market renewal trend remains stable with premium reduction likely subject to loss record, limit change or significant exposure growth. Market competition remains positive and is under pinned by the high and stable capacity levels. Insurers are acting to maintain their existing levels of participation. It is worth noting, however, that influencing the markets current renewal position is the sectors good loss record and the importance of emerging regions. Another important factor influencing overall renewal premium levels is the fact that the European region, a key exposure and premium generator to the market, has, for a host of reasons, seen actual passenger numbers fall significantly below estimated levels for the past three years, a fact that the market recognises.

## WILLIS AIRPORTS INDEX REVIEW AS AT END Q2, 2011

REGION REVIEW: FIRST HALF 2011	EST. ANNUAL PASSENGERS	% CHANGE	PREMIUM** USD	% CHANGE	PASSENGER RATE USD	% CHANGE	NO. OF RENEWING PROGRAMMES*
Europe	1,121,438,383	4.25%	42,373,638	0.48%	0.03779	-3.61%	29
Far East	758,433,564	11.27%	4,776,205	-2.70%	0.00630	-12.55%	6
South America and Caribbean	229,968,999	18.99%	3,142,871	-3.81%	0.01367	-19.16%	4
Pacific Region	2,061,267	5.71%	216,152	-2.36%	0.10486	-7.63%	1
Middle East	141,164,287	12.46%	2,026,451	9.93%	0.01436	-2.40%	6
Africa	55,000,659	-4.53%	2,787,587	-2.12%	0.05068	2.52%	7
<b>Overall Index</b>	<b>2,308,067,159</b>	<b>8.08%</b>	<b>55,322,904</b>	<b>0.12%</b>	<b>0.02397</b>	<b>-7.37%</b>	<b>53</b>

\* Renewing placements known as at June 30, 2011

\*\* All currencies are converted to USD, ROE as at January 1, 2011

There was a total of 22 airport programmes monitored within the Willis Airports Index that renewed during Q2 2011. Cumulatively they accounted for 87% of the projected passenger numbers and 70% of the total premium of all airports programmes that renewed during Q2 2011.

Renewal premium during Q2 totalled USD 19.34 million, this is a small reduction of 0.96% compared with the expiring premium base of the renewing programmes. The cumulative total of projected passenger numbers, 1.167 billion showed an increase of 12.11%. The level of projected passenger growth is significant and is again driven by the Far and Middle East regions and certain South American countries.

To the end of Q2 2011, the Index shows that all regions, other than Africa, are projecting passenger growth. This growth pattern mirrors, to some extent, the current varied global political and economic situation.

Europe, the largest region in terms of premium and passengers, has cumulatively projected passenger numbers of 1.121 billion for the first half of 2011, an increase of 4.25% compared with 2010. However, this is still some 190 million or 14.5% fewer passengers than the same programmes projected during 2008. European recovery is slow and remains fragile and exposed to a number of internal and external factors that may again stall a real return to pre 2008 growth.

The overall European premium level increased by a fractional amount in the first half of the year, which is due to the increased premiums applied to a few programmes as a consequence of their loss experience and premium increases applied where increased limits were purchased. The general trend was for premium reduction, to varying degrees, following review of loss history and exposure. Insurers remain positive regarding European airports and are aware of the difficult years that the region has had and is still experiencing.

The African region is the only region to record projected passenger decline at just over 4.5% for the year to date, reflecting the impact of political developments in the north and west of the continent. Overall premium reduced primarily due to the reduced passenger numbers. The regions recent loss experience is good, however, Insurers continue

## ANSP/ATC

Eight programmes renewed during Q2 2011 in this sector that resulted in a small overall premium reduction of 1.61%. Four programmes achieved premium reduction at varying levels primarily reflecting their projected growth, while two stayed as before, reflecting the markets view that their existing premium was at the minimum level for the limit purchased. Two programmes received premium increases reflecting their projected growth in European skies.

to exercise caution in the region; consequently the modest premium reductions have not resulted in a derived passenger rate reduction but an increase.

With just one renewal in the first half year, it is not possible to comment on the Pacific region, other than to note that subject to loss records and exposure development, renewing programmes will likely benefit from a competitive market approach to the region.

Looking at the Middle and Far East regions we again see double digit projected passenger growth, however cumulative premium levels have reduced.

All of the Middle East renewals have projected passenger growth. The regions investment in its infrastructure and the development of its tourism and its non carbon based industry base is sustaining impressive passenger growth, continued investment and development of airports. Renewal premiums have fallen significantly with the exception of one programme, as Insurers compete to retain or enhance their level of participation in the region where there are only a small number of programmes. One programme experienced a significant premium increase due to loss history, and this has caused the regions cumulative premium to rise, however the regions loss record is generally excellent.

The Far East projected passenger growth of 11.27% represents an additional 88 million passengers, almost 70% of which are Chinese. The region generates and benefits from intense market competition which can be evidenced by the derived passenger rate of 0.063% which is a reduction of 12.5%.

The South American and the Caribbean region had the highest percentage level of projected passenger growth within the Index due to a single programme renewal. The level of premium reduction and derived passenger rate are consequently exaggerated, the general level of change is considerably less.

Airport Liability buyers continue to benefit from market competition as Insurers are generally determined to defend their existing profile within the class and where possible grow their portfolios.

The renewal trend in this sector is for premium reductions despite exposure growth. However, the impact on premium levels varies considerably by region, with Europe experiencing a far higher pricing structure reflecting the intensity of traffic. The market stance remains very positively influenced by an excellent loss record and significant capacity.

## FUEL

Q2 2011 records a premium reduction of 8.9% based on the renewal outcome of 15 programmes. This is consistent with Q1 which recorded a premium reduction of 10.5% based on 17 renewing programmes. Renewal estimates of U.S. Gallons throughput for the half year 2011 to date record an increase of 6.31%, last year the same period saw estimates down by approximately 6%.

The Airport, ANSP/ATC and Fuel sectors are all projecting growth underlining the welcome fact that the Global economy is emerging from the economic downturn of the past few years, however, recovery levels are different for each region and some are fragile not only to further economic uncertainty but to political and environmental events.

## AIRPORT SERVICE/GROUND HANDLER

Eight programme renewals in this sector generated an overall premium reduction of almost 16%, a result that is not reflective of the markets position regarding this sector but the outcome of a single major programme renewal increasing their SIR. If we exclude that renewal, a small premium reduction of 2.8% occurred. Estimated revenues rose by 22.53% due to Freight Forwarder programmes,

whereas aircraft servicing operations are actually projecting revenue downturn.

This sector remains loss driven, with Insurers imposing significant premium increases as well as tougher SIR terms where loss records are poor.

## MARKET DEVELOPMENTS

### QBE ANNOUNCEMENT - EMILIO DI SILVIO

After 36 years in the industry, the past five at QBE, Emilio Di Silvio will be retiring on December 31, 2011. Emilio plans to stand back from day-to-day underwriting and management from September 30 to allow the team to develop but will be providing support during the transition period.

all at one locale. The 2011 conference is scheduled for September 18 – 20 at the InterContinental Boston in Boston, Massachusetts.

### AIRCRAFT BUILDERS COUNCIL CONFERENCE

The Aircraft Builders Council, Inc. conducts a conference each year, which is an informational forum on the most recent developments in the aviation and aerospace industry and products liability. This annual conference is unique in that it brings together insureds, potential insureds, lead underwriters, brokers and defense counsel,

Thomas J. Kinton, Jr. of the Massachusetts Port Authority is one of the distinguished speakers currently in the line-up. Other speakers slated to speak include Fred Brisbois (Sikorsky Aircraft Corporation), Bill Garcia (Airclaims Inc.), John Hickey (Federal Aviation Administration), Bill Leff (Bill Leff Airshows), Randy Thomas (Texas Aero Engine Services LLC), Fabrice Villaumé (Airbus S.A.S.), the ABC Lead Underwriters and additional legal speakers.

For a full pre-conference programme or for more information and registration information, please contact the ABC office at 952-928-4662 or [info@aircraftbuilders.com](mailto:info@aircraftbuilders.com) or visit [www.aircraftbuilders.com](http://www.aircraftbuilders.com).

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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.

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.

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