

# AIRLINE INSURANCE MARKET OVERVIEW

The final quarter renewal season is now in full swing. There have not actually been many renewals thus far but there has been much activity, as many programmes are seeking early negotiation in a bid to capitalise on the current soft market conditions.

The airline insurance market will continue to be driven by the relativity between the levels of capacity and claims, both of which are currently creating a market situation that is very favourable for buyers.

The industry continues to project a positive picture despite continued global economic challenges. The year so far has seen average fleet value exposures grow by 8%, and passenger numbers have grown by 16%, while premium levels are down by 1%. There continues to be abundant capacity, and loss levels are at a six year low. This backdrop would suggest that there is little to halt the slide in premium levels. The market has progressed the level of rating discount provided for exposure growth to the point where it is impacting total premium volumes.

Market conditions had changed little over the past 24 months with premium volumes being maintained off the back of increased exposures. Equilibrium has however never been maintained in the market for long and therefore at some point one of the major market drivers had to give to create a change of direction.

With claims levels being so benign it was clear that the level of capacity was going to place increasing downward pressure on premiums volumes so despite the increasing exposures this has started to translate into reducing premiums for airlines.

The increased desire for return on capital is prompting the increased deployment of this capacity, resulting in increased market competition. The niche and catastrophe nature of aviation insurance means that it continues to offer diversification to insurers overall portfolio and therefore market withdrawals are unlikely to come in response to results in the airline sector of the market alone.

The position for the larger programmes in the market looks better still, with the Willis 50 programmes that have renewed thus far in 2011 achieving premium reductions of 7% against hull and liability exposure increases of 7% and 13% respectively. There have still only been 14 of the 50 programmes renew which highlights the level of activity still to come.

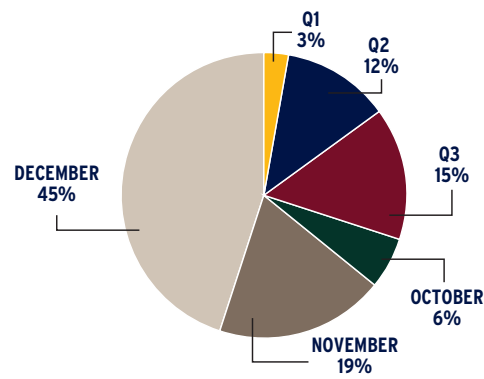
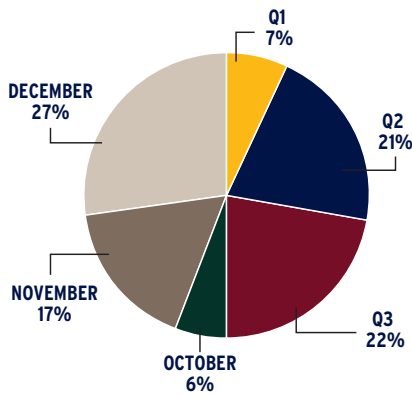
There have only been two broker changes within the past two months, with TRIP moving broker from Aon to Marsh, and the Air India programme moved from JLT to Aon. USA 3000 was the only programme to extend their policy, opting to renew in December.

There were a number of airlines that chose to renew early. The Air India programme purchased a 15 month policy in 2010 which was due to expire on December 31, but the airline chose to renew at October 1. China Airlines and Mandarin Airlines, as well as Transasia Airways, also had programmes that were also due to expire in December after purchasing 14 month policies in October 2010, but chose to cancel and renew on October 15.

## CONTENTS

Airline Insurance Market Overview .....	1
Market News.....	3
Industry News .....	3
Losses Overview.....	4
Forthcoming Renewals .....	5

## RENEWAL DISTRIBUTION % SHARE AND PREMIUM DISTRIBUTION % SHARE



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

	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	17.43	1.35	8.4%
February	3	41%	9%	3.98	5.19	1.21	30.4%
March	6	14%	21%	9.65	11.18	1.53	15.8%
<b>Q1 Summary</b>	<b>15</b>	<b>-32%</b>	<b>-28%</b>	<b>29.71</b>	<b>33.80</b>	<b>4.09</b>	<b>13.7%</b>
April	18	11%	15%	128.53	123.37	-5.16	-4.0%
May	17	10%	11%	71.74	71.92	0.18	0.3%
June	21	3%	7%	41.35	44.77	3.42	8.3%
<b>Q2 Summary</b>	<b>56</b>	<b>10%</b>	<b>13%</b>	<b>241.62</b>	<b>240.06</b>	<b>-1.56</b>	<b>-0.6%</b>
July	35	7%	13%	235.19	228.61	-6.58	-2.8%
August	10	10%	25%	40.03	44.19	4.16	10.4%
September	10	37%	41%	31.59	31.44	-0.15	-0.5%
<b>Q3 Summary</b>	<b>55</b>	<b>9%</b>	<b>17%</b>	<b>306.81</b>	<b>304.24</b>	<b>-2.57</b>	<b>-0.8%</b>
October	11	4%	29%	122.12	113.39	-8.72	-7.1%
<b>2011 Total</b>	<b>137</b>	<b>8%</b>	<b>16%</b>	<b>700.26</b>	<b>691.49</b>	<b>-8.76</b>	<b>-1.3%</b>

## THE HULL WAR AND EXCESS THIRD PARTY LIABILITY MARKET (EXCESS AVN52E)

The Hull War market has not had a major loss since 2001. Rate reductions continue at between 10% – 20%. The premium volume remains well below the long since forgotten benchmark of the value of a wide-bodied aircraft and is now estimated to be below US\$100 million.

The Excess AVN52E market has not incurred any claims since it was formed post the atrocities of September 11, 2001. Premium levels have continued to fall steadily to what we now believe to be in the region of US\$200 million.

# MARKET NEWS

## **WILLIS GLOBAL AEROSPACE HIRES LEADING RISK MANAGEMENT EXPERT AS CHAIRMAN**

Willis Aerospace announced that Mark Wilford, Director of Risk at Rolls-Royce Group plc, has been appointed Chairman of the Willis Global Aerospace division. He will join Willis on January 1, 2012, and be based in London reporting to Joe Trotti, Chief Executive Officer of Willis Global Specialties. Wilford will replace outgoing Chairman, Andre Clerc, who is retiring at the end of this year. Willis Global Aerospace simultaneously announced two other key internal leadership changes, naming Philip Smaje Chief Executive Officer and Garrett Hanrahan President of the division.

Wilford is recognised globally as a leader in corporate risk management and the implementation of integrated risk management solutions. In 2001, he joined Rolls-Royce, a world-leading provider of power systems and services for use on land, at sea and in the air. At Rolls-Royce, Wilford is responsible for the development and operation of the company's approach to Insurance, Enterprise Risk Management, Security, Business and Programme Assurance and the Ethics and Compliance activities.

Prior to joining Rolls-Royce he held senior positions in Johnson Matthey plc and KPMG, in London and the United States. He is a graduate of the University of Warwick and is a Chartered Accountant.

## **MERGER OF CLYDE & CO AND BARLOW LYDE & GILBERT**

On November 1, 2011 Clyde & Co and Barlow Lyde & Gilbert merged. The combined firm will be known as Clyde & Co, and will have with 270 partners, 1,300 lawyers and fee earners and 2,350 total staff operating from 27 offices worldwide.

# INDUSTRY NEWS

## **ANA MAKES MAIDEN 787 FLIGHT**

All Nippon Airways' (ANA) first Boeing 787 has made its inaugural flight.

The special charter service departed from Narita landing at Chek Lap Kok Airport in Hong Kong.

The aircraft, Boeing's Airplane Eight, with the registration number JA801A, carried 240 passengers.

## **LOSS ADJUSTER MCLARENS BUYS AVIATION CLAIMS, RISK MANAGEMENT FIRM AIRCLAIMS**

Loss adjuster McLarens Young International has acquired Airclaims Ltd., a London-based aviation claims and risk management services company.

Atlanta-based McLarens said that Airclaims will operate under its current name within the McLarens group in a deal that will provide expanded services to clients in the aviation and insurance sectors.

McLarens purchased all Airclaims shares held by LDC, the private equity arm of Lloyd's Banking Group in London, financing the deal with funding from Altamont Capital Partners, a private equity firm in Palo Alto, Calif. The acquisition price was not disclosed.

## **HDI-GERLING TO WRITE AIRLINE BUSINESS**

HDI-Gerling announced that it is undertaking an expansion of their Aviation underwriting to now include Airline risks.

The business will be written through HDI-Gerling Industrie Versicherung AG, who is a subsidiary of the Talanx Group.

HDI-Gerling have been involved in Aviation Insurance for over 40 years and have a dedicated and professional team providing their clients with risk management solutions and capacity for all aspects of the aerospace insurance industry.

The underwriting of the Airline portfolio will be undertaken in Cologne under the responsibility of the Aviation Department Head and Senior Underwriters – Rolf Urbach and Roland Pultke.

## **PAUL LEATHERBARROW TO JOIN QBE**

Paul Leatherbarrow has resigned his position as active aviation underwriter at Kiln to join QBE. Paul MacMillan is performing the role as active aviation underwriter at Kiln.

The aircraft is configured with 264 seats – 12 in business class and 252 in economy class.

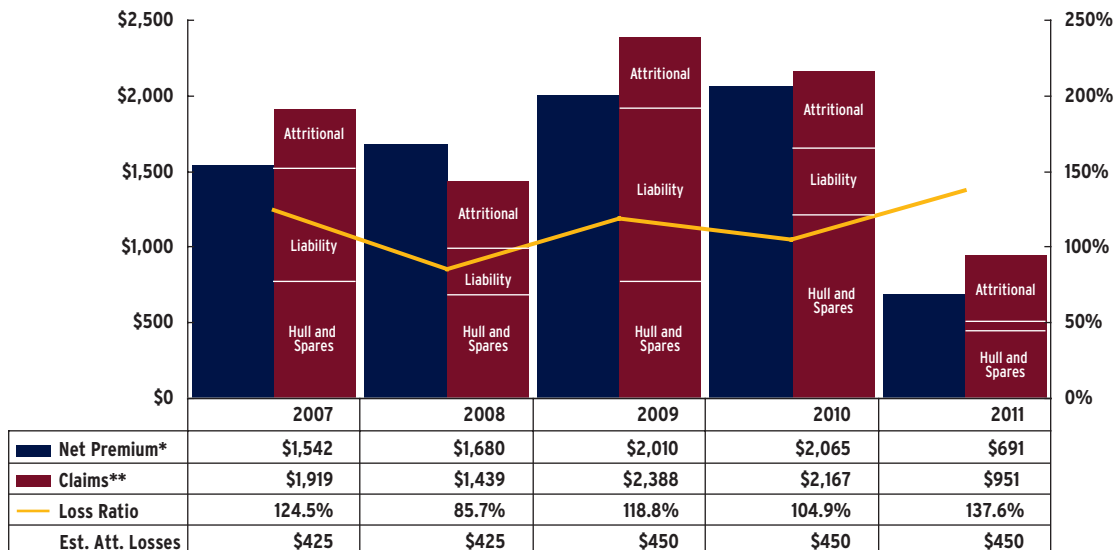
ANA hopes to have 12 aircraft in service by the end of its current fiscal year ending on March 31, 2012, and another eight one year later.

Scheduled service begins on November 1, between Tokyo-Haneda and Okayama and Tokyo-Haneda and Hiroshima. ANA's first long haul flight from Tokyo to Beijing, China is scheduled to begin in December.

# LOSSES OVERVIEW

The airline loss position through the first ten months of the year is exemplary. Whether it is further evidence of improved industry safety or is a result of good fortune can be debated. Passenger fatalities currently stand at 285 for the year, which is the lowest they have been at this point of the year for the last ten years.

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



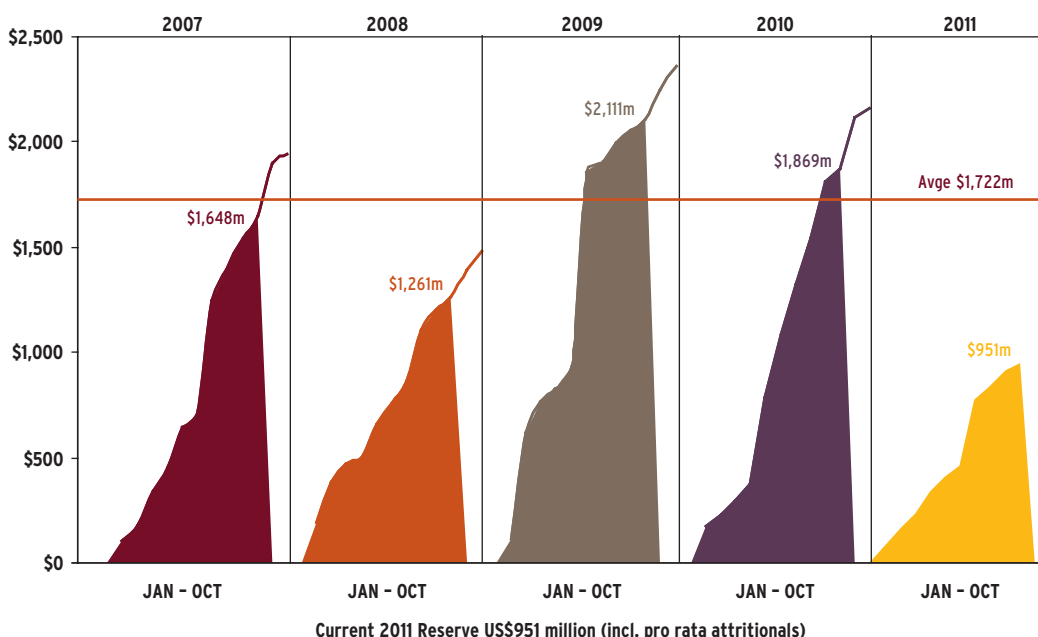
\*Premium includes all known airlines with an AFV in excess of US\$100 million and is based on Net London Lead Terms; it is subject to change as more information becomes available.  
 \*\* Claims shown include the estimated figure for attritional losses. Claims are updated as more information becomes available.

The annual loss total is currently US\$507 million for hulls and US\$69 million for liabilities with US\$375 million of attritionals. The overall total of US\$951 million is the lowest at this point for six years. There is talk of the level of attritional losses increasing. They are certainly increasing as a percentage of the overall loss total but there is little evidence in the premium claims figures that they are increasing dramatically in total. Greater programme consolidation and premium erosion makes attritional losses a greater factor in some of the largest programmes, leaving a reduced premium volume for the catastrophe risk.

While the airline industry safety record remains exemplary there is little correlation between loss frequency and insurance market severity. We do believe however that unless there are a number of major airline catastrophes it is unlikely that the softening market conditions will change before the 2012 renewal season.

A single catastrophe such as the Air France loss in 2009 is unlikely to change the market as the current level of capacity and competition is providing insurers with an in built 'miss factor' in their airline underwriting.

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



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

On November 1, a LOT Polish Airlines B767 aircraft, registration SP-LPC, sustained damage after it landed with its undercarriage retracted. The hull reserve for this loss is yet to be set.

On October 10, a Sky Airlines B737 aircraft, registration TC-SKF, scraped along the runway on its engine upon landing at Antalya Airport. Reports suggest that the cause was due to a tyre bursting or one of the main undercarriage legs collapsing on landing. The hull reserve for this loss is yet to be established.

On October 2, a Fokker 50 operated by Sudan Airways, registration ST-ASD, sustained damage to its left wing when landing after the pilot experienced difficulties in locking the left main gear. The hull reserve for this loss is yet to be established.

On September 26, an Aeropostal Alas de Venezuela DC9-50 aircraft, registration YV-136T, made an extremely hard touchdown causing both engines to break free of their support fittings. There were no reports of any injuries. The hull reserve for this loss is US\$1 million.

On September 16, a TAME Embraer 190 aircraft, registration HC-CEZ, sustained damage when landing in rainy conditions at Mariscal Sucre International Airport, Quito, Ecuador. The aircraft overran the end of runway coming to a stop on a concrete wall. A number of passengers are known to have received various injuries. The aircraft lost its entire undercarriage and the nose section received substantial damage. The hull reserve for this loss is US\$25.4 million.

On September 4, a Trans States Airlines ERJ-145 aircraft, registration N840HK, damaged its undercarriage upon landing in rainy conditions. The aircraft ran off the end of the runway coming to rest on the grass. The aircraft suffered a

fuel leak resulting in a massive spillage. The hull reserve for this loss is US\$6.6 million.

On September 2, a Turkish Airlines A340 aircraft, registration TC-JDM, sustained damage after landing when it ran off paved ground and became stuck in mud. The hull reserve for this loss is US\$6.6 million.

On September 1, an Atlantic Southeast Airways CRJ200ER Regional Jet, registration N875AS, sustained damage at Baton Rouge Metropolitan/Ryan Field, Louisiana, after it landed with its left main undercarriage retracted. The hull reserve for this loss is US\$1.27 million.

On August 29, a Gulf Air A320, registration A9C-AG, was damaged in a runway excursion accident at Kochi International Airport, India. At least seven passengers were injured. During the landing roll the airplane went off the side of the runway and the nose gear collapsed as the airplane came to rest in the grass. The hull reserve for this loss is US\$14.5 million.

On August 28, an Air India Express B737 aircraft, sustained damage when the take off resulted in a tailstrike. The hull reserve is yet to be established.

On August 20, a First Air B737-200 aircraft, registration C-GNWN, crashed 2km west of Resolute Bay Airport, Nunavut, Canada. There were twelve fatalities. The aircraft was on approach to Resolute Bay, when the accident occurred. The hull reserve for this loss is US\$6.4 million.

On August 6, a Delta Airlines DC-9-50 aircraft, experienced a uncontained engine failure during take off. The hull reserve for this loss is to be established.

## FORTHCOMING RENEWALS

The final two months of the year could be some of the most interesting the airline insurance market has seen in a number of years. The combination of excess capacity and benign claims levels will increasingly make it a buyers market. Combine this with continued impressive growth projections and changes in the make up of some programmes and there are clearly 'deals to be done'.

The consolidation of programmes continues with Nippon Cargo Airlines and Southern Air being included in the DHL led cargo airline pool programme. Proving that group programmes are not necessarily the thing for everyone SAS, Finnair, Icelandair and TAP Portugal, the senior partner airlines of the SFIT programme, went their separate ways. SAS and TAP will be insured separately from Finnair and Icelandair, who have added Norwegian to their ranks to form the FIN Group.

Spanair, along with a number of other constituent parts, have chosen to make their insurance purchasing arrangements separately from their former sponsors.

December is now by far the largest month in terms of premium generation representing 45% of the annual premium volume. The majority of North American majors come to market, along with the major Japanese programmes and some of the worlds largest low cost carriers.

It remains to be seen if the market attitude will continue to soften as the end of the year progresses, if losses deteriorate or if there is pressure from the reinsurance market or elsewhere outside the airline market to increase premiums.

The abundant capacity levels will only change once the global economy delivers alternative areas for the deployment of capital. Whilst this is anticipated to be at some point in 2012 or 2013 in the short to medium term insurance will continue to offer a reasonable return and therefore capital and capacity will continue to be retained in the insurance market as a whole.

Between now and the end of the year the majority of airlines are coming to market with considerable growth projections and healthy five year credit balances, the situation only looks to be getting better for buyers.

The niche nature of aviation does however lead it to be subject to pressure from major losses in other sectors of the insurance industry. If there is a spate of natural catastrophe losses and market hardening as a result, aviation insurers would be required to demonstrate the ability to deliver similar returns to prevent capacity being re-deployed elsewhere.

## NOVEMBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
Qantas Airways	01-Nov-11	15,511,452,055
Singapore Airlines	01-Nov-11	13,209,200,000
DHL Worldwide Express	01-Nov-11	7,439,600,600
TUI	01-Nov-11	6,734,387,390
Air New Zealand	01-Nov-11	3,628,679,981
South African Airways	01-Nov-11	3,156,836,986
Cyprus Airways	01-Nov-11	578,910,501
Jetstar Asia	01-Nov-11	549,000,000
Air Canada Tier 3	01-Nov-11	474,739,000
Miami Air International	01-Nov-11	374,396,750
XL Airways France	01-Nov-11	337,497,566
Neos	01-Nov-11	307,700,685
Star Air	01-Nov-11	304,803,000
Swiftair	01-Nov-11	282,850,000
South African Express Airlines	01-Nov-11	205,300,000
Jetstar Pacific	01-Nov-11	166,000,000
First Air	01-Nov-11	136,544,000
SkyExpress	01-Nov-11	127,928,768
Cargojet	01-Nov-11	121,000,000
His Majesty The Sultan of Brunei	04-Nov-11	568,200,000
Zest Airways	05-Nov-11	172,500,000
Air Via	10-Nov-11	245,473,752
MNG Airlines	12-Nov-11	117,600,000
Linhas Aereas Mocambique	12-Nov-11	117,295,890
Thomas Cook Group	14-Nov-11	3,589,364,039
Ural Airlines	14-Nov-11	391,400,958
Emirates Airlines	16-Nov-11	21,612,791,531
United Parcel Services	16-Nov-11	13,863,314,800
Saudi Arabian Airlines	16-Nov-11	6,559,069,486
Ethihad Airways	16-Nov-11	5,870,558,904
Kuwait Airways	16-Nov-11	2,421,407,000
Gulf Air	16-Nov-11	2,405,237,000
Oman Air	16-Nov-11	1,677,900,000
Nasair	16-Nov-11	1,606,016,296
Qatar Amiri Flight	16-Nov-11	1,061,000,000
Air Arabia	16-Nov-11	965,505,028
Presidential Flight of Abu Dhabi	16-Nov-11	795,000,000
Yemen Airways (Yemenia)	16-Nov-11	781,720,724
Jazeera Airways	16-Nov-11	298,000,000
Bahrain Air	16-Nov-11	212,736,988
Aerosur	19-Nov-11	224,100,000
Eastar Jet	22-Nov-11	190,128,767
Vision Airlines	27-Nov-11	171,322,000
Air Atlanta Icelandic	29-Nov-11	435,250,000
FIN Group (incl Air Europa & Jet2)	30-Nov-11	10,354,752,790
SAS Group	30-Nov-11	5,382,340,312
TAP Group	30-Nov-11	2,919,280,884
Spanair	30-Nov-11	1,034,542,919

## DECEMBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
CAAC	01-Dec-11	63,445,582,168
Air France/KLM Group	01-Dec-11	34,478,731,669
All Nippon Airways	01-Dec-11	12,556,738,055
Korean Airlines	01-Dec-11	10,096,704,981
Ryanair	01-Dec-11	10,025,539,399
Japan Airlines	01-Dec-11	9,959,527,187

## DECEMBER RENEWALS (Continued)

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
Thai Airways International	01-Dec-11	8,466,937,636
Jetblue Airways	01-Dec-11	5,500,000,000
Malaysia Airlines	01-Dec-11	5,137,671,489
Asiana Airlines	01-Dec-11	4,819,650,714
Westjet Airlines ltd	01-Dec-11	3,858,202,740
Garuda Indonesia	01-Dec-11	3,569,153,457
Aeromexico	01-Dec-11	2,706,600,119
Air Tahiti Nui	01-Dec-11	2,066,463,895
Royal Air Maroc	01-Dec-11	1,983,857,171
Air Algeria	01-Dec-11	1,707,930,500
Tunisian Airline Team	01-Dec-11	1,377,142,750
Azul Linhas Aereas Brasileiras	01-Dec-11	1,215,103,314
Caribbean Airlines	01-Dec-11	818,011,874
TAAG	01-Dec-11	636,566,136
Blue Panorama	01-Dec-11	419,263,186
His Majesty The Sultan of Oman	01-Dec-11	369,833,333
Europe Airpost	01-Dec-11	339,100,000
Air Niugini	01-Dec-11	267,450,000
Air Do	01-Dec-11	181,938,534
IBEX Airlines	01-Dec-11	156,983,771
Air Namibia	01-Dec-11	149,765,479
UT Air	05-Dec-11	286,910,000
Star Flyer	12-Dec-11	209,754,456
Arik Air	13-Dec-11	811,910,266
Blue Air Transport (Romania)	13-Dec-11	101,491,781
Metro Batavia	14-Dec-11	741,796,713
Cathay Pacific	15-Dec-11	14,338,895,443
Air Canada	15-Dec-11	11,023,749,369
Southwest Airlines	15-Dec-11	10,930,000,000
Vietnam Airlines	15-Dec-11	3,216,219,902
Dragonair	15-Dec-11	1,939,270,466
Philippine Airlines	15-Dec-11	1,891,322,500
Trans States Airlines	15-Dec-11	1,831,792,940
Global Aero Logistics	15-Dec-11	1,628,821,525
Pakistan International	15-Dec-11	1,605,618,092
Mesa Airlines	15-Dec-11	1,245,853,687
Air Hong Kong	15-Dec-11	532,286,339
Air Malta	15-Dec-11	409,786,119
Omni Air International	15-Dec-11	385,635,885
Air Pacific	15-Dec-11	199,240,000
USA 3000	15-Dec-11	183,000,000
Enter Air	15-Dec-11	161,019,452
Nok Airlines	15-Dec-11	150,762,740
Egyptair	16-Dec-11	3,638,671,746
Air Cairo	16-Dec-11	160,000,000
Sun Country	17-Dec-11	413,514,920
Aires Colombia	18-Dec-11	353,637,379
TAM - Transportes Aereos Regionais	19-Dec-11	6,468,991,823
Hawaiian Air	20-Dec-11	1,622,742,000
Delta Air Lines	21-Dec-11	15,157,785,756
US Airways Group, Inc	22-Dec-11	10,103,200,000
Royal Jordanian	22-Dec-11	1,971,695,102
Centurion Air Cargo	25-Dec-11	344,630,137
El Al	30-Dec-11	1,446,350,256
United Continental Holdings	31-Dec-11	26,240,118,581
Copa Panama	31-Dec-11	1,910,790,500
Cubana	31-Dec-11	376,628,228
Aer Arann Express	31-Dec-11	107,121,184

## CONTACT DETAILS

**Steve Doyle**  
Tel: +44 (0)20 3124 7208  
Email: steve.doyle@willis.com  
[airline.insight@willis.com](mailto:airline.insight@willis.com)

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

**Holly Connell**  
Tel: +44 (0)20 3124 8521  
Email: holly.connell@willis.com

**Jason Mota**  
Tel: +44 (0)20 3124 6945  
Email: jason.mota@willis.com

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 2011. All rights reserved.

Willis Limited, Registered number: 181116 England and Wales. Registered address: 51 Lime Street, London, EC3M 7DD. Tel +44 (0)20 3124 6000. [www.willis.com](http://www.willis.com)  
A Lloyd's Broker, Authorised and regulated by the Financial Services Authority for its general insurance mediation activities only.

10254/11/11