

## JULY RENEWALS

With losses at the end of June, being the worst since records began it was expected that subsequent renewals would see increases in premium at a higher level than seen so far in 2009. Premium levels in July have increased, but they are at a similar level to that seen earlier in the year at 14%.

Many of the July renewals had however already had terms agreed by leading markets before the Air France and Yemenia losses in June. This has subsequently lowered the overall monthly increase. It is likely that the full extent of the hardening market, will not become apparent until the fourth quarter of 2009. Renewal activity is much quieter during the months of August and September with just eight and nine risks scheduled to renew respectively. October, previously a key month in the annual calendar is now considerably depleted with 22 renewals expected.

July is now the third busiest month in terms of renewals with 31 and included some of the world's largest insurance programmes. In 2008 the month generated 13% of the annual premium or the third largest monthly volume of premium after December and November. Arik Air (Nigeria), Ethiopian Airlines and SriLankan Airlines all renewed in July for the first time. The NACIL programme (Air India and Indian Airlines) previously a July renewal will now renew in October having extended its expiring policy.

The month sees a wide spread of business both in geographical terms and in the type of operations. With 12 risks domiciled in Europe, five each in North America and the Far East, three from South America and two each from Africa, the Indian Sub Continent and the Middle East.

There were two programmes, American Airlines, the largest risk to renew both in terms of exposure and premium and Federal Express with an AFV in excess of US\$10 billion.

China Airlines (Taiwan), which changed broker from Aon to JLT, renewed with an AFV in excess of US\$7 billion, and Aeroflot and Alaska Airlines renewed with AFV between US\$3.5 billion and US\$5 billion.

July generated premium of US\$224 million, an increase of 14%. The concerns of underwriters that their 2008 year earnings would be eroded through a downturn in exposures were however further underlined. The July renewals total Average Fleet Value (AFV) increased by 1%, but more importantly as a larger volume of premium is generated from liability risks, passenger numbers saw a 12% reduction.

On a rating basis, the 14% premium increase equates to a near 20% and 30% increase in hull and liability rates respectively. We believe it is likely that insurers will attempt to increase rates even further in the forthcoming months as a consequence of the current poor claims record for 2009 and attempt to continue to offset falling exposures. With the level of capacity still available in the worldwide market it remains to be seen if this level of increase is achievable.

The level of premium in 2009 (to date) totals US\$454 million, an increase of 12%, with income generated since October 2008 totalling US\$1,568 million, an increase of 8%. This increase is of course dependent on the exposure figures declared at renewal being achieved.

## HULL AND LIABILITY

### NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS

2008	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2007 NET PREMIUM US\$M	2008 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
<b>Q4 SUMMARY</b>	<b>100</b>	<b>4.5%</b>	<b>-1.0%</b>	<b>1,040.8</b>	<b>1,113.7</b>	<b>72.9</b>	<b>7.0%</b>
2009	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2008 NET PREMIUM US\$M	2009 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
<b>Q1 SUMMARY</b>	<b>11</b>	<b>25.0%</b>	<b>5.4%</b>	<b>26.9</b>	<b>32.5</b>	<b>5.6</b>	<b>20.8%</b>
APRIL	19	-0.1%	-6.2%	94.0	98.7	4.6	4.9%
MAY	17	12.5%	1.3%	58.2	63.4	5.2	8.9%
JUNE	11	-11.3%	-17.1%	30.3	35.4	5.1	16.8%
<b>Q2 SUMMARY</b>	<b>47</b>	<b>1.6%</b>	<b>-5.0%</b>	<b>182.5</b>	<b>197.5</b>	<b>14.9</b>	<b>8.2%</b>
JULY (TO DATE)	30	0.5%	-11.8%	195.8	224.1	28.3	14.4%
<b>2009 (TO DATE)</b>	<b>88</b>	<b>2.4%</b>	<b>-4.4%</b>	<b>405.3</b>	<b>454.1</b>	<b>48.8</b>	<b>12.0%</b>
<b>OCTOBER 2008 - JULY 2009 (TO DATE)</b>				<b>1,446.1</b>	<b>1,567.8</b>	<b>121.7</b>	<b>8.4%</b>

## US CARRIERS

Generally the largest share of U.S. domiciled risks are underwritten by U.S. based insurers who do not participate on risks from elsewhere in the world. As a consequence these carriers tend to receive different treatment from these insurers, based more directly on the claims position of the U.S. Carriers.

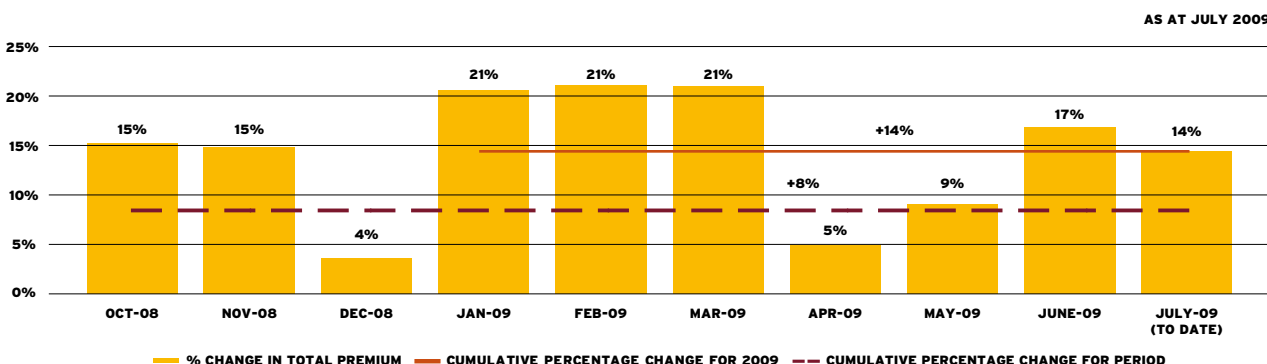
The recent U.S. airline loss experience had been relatively benign since the Queens loss in 2001. Claims for U.S. domiciled risks this year total US\$458 million without any allowance for attritional losses. This exceeds the premium generated by the U.S. carriers in 2008, with nearly half the year still to go.

With two of the U.S. airline carriers renewing in July, it offered the first real chance to see how insurers would treat U.S. risks, which are also seeing significant reductions in exposures. Excluding cargo risks, premium increased by 6%, but with AFV falling by -6% and passenger numbers down 17%.

In addition Pinnacle Airlines and Colgan Air left the Delta Air Lines policy forming a combined programme with effect from July 1. They have not been included in the above figures as a number of factors, not least the Colgan loss earlier in 2009 make it impossible to make a like for like comparison.

## HULL AND LIABILITY

### NET Q4 2008 AND 2009 % PREMIUM MOVEMENTS



## HULL WAR

This sector of the market has a very similar renewal profile to that of the hull and liability market, so the vast majority of renewals are still to renew. Based on leader's terms, rates in the majority of cases are unchanged, with a small number of risks seeing small percentage increases. With the Average Fleet Value also seeing a very small increase a 6% increase in overall premium has been generated. However the overall market premium volume remains very small at around \$35 million for the year to date.

## MARKET PERSONNEL CHANGES

There have been a significant number of resignations from the aviation division at the Aon Group, following the resignation of Jonathan Palmer Brown detailed in last months Insight.

James Geller, of ACE Global Markets (Claims) has resigned and is to join QBE in London upon completion of his contractual obligations.

## MARKET NEWS

### AIG FORMS A SPECIAL PURPOSE VEHICLE

It was announced on July 27, that AIG has formed a special purpose vehicle (SPV), consisting of the equity in AIG's general insurance companies – Commercial Insurance, Private Client Group and American International Underwriters, of which AIG U.K. is a part of. It is the next step in the process of positioning them as an independent global general insurance company.

The new company is called Chartis. Kristian P. Moor has been named President and Chief Executive Officer and Nic Walsh as Vice Chairman. It will start to operate under the new name later in 2009.

### PARTNERRE TO ACQUIRE PARIS RE

It was announced on July 6, that PartnerRe have entered into a agreement to acquire Paris Re, a Swiss based reinsurer. It is expected that the transaction will be completed in the first quarter of 2010. Until completion both entities will continue to conduct business as two separate entities. The combined entity will have a total capitalisation of US\$6.5 billion and assets of US\$23 billion.

## LOSSES UPDATE

The current loss figure for 2009 is US\$1,846 million, composed of US\$503 million hull losses, US\$1,080 million in liability claims and a pro-rata estimated figure of US\$263 million in respect of attritional losses. This figure does not include reserves from some recent losses that are still to be confirmed and will therefore add to this total.

After a very bad June, where crashes resulted in the fatalities of 358 passengers and total reserves increasing by in excess of US\$850 million there were very few incidents in July, although two losses in Iran resulted in the deaths of 156 passengers. These losses however are not believed to be widely insured in the international markets.

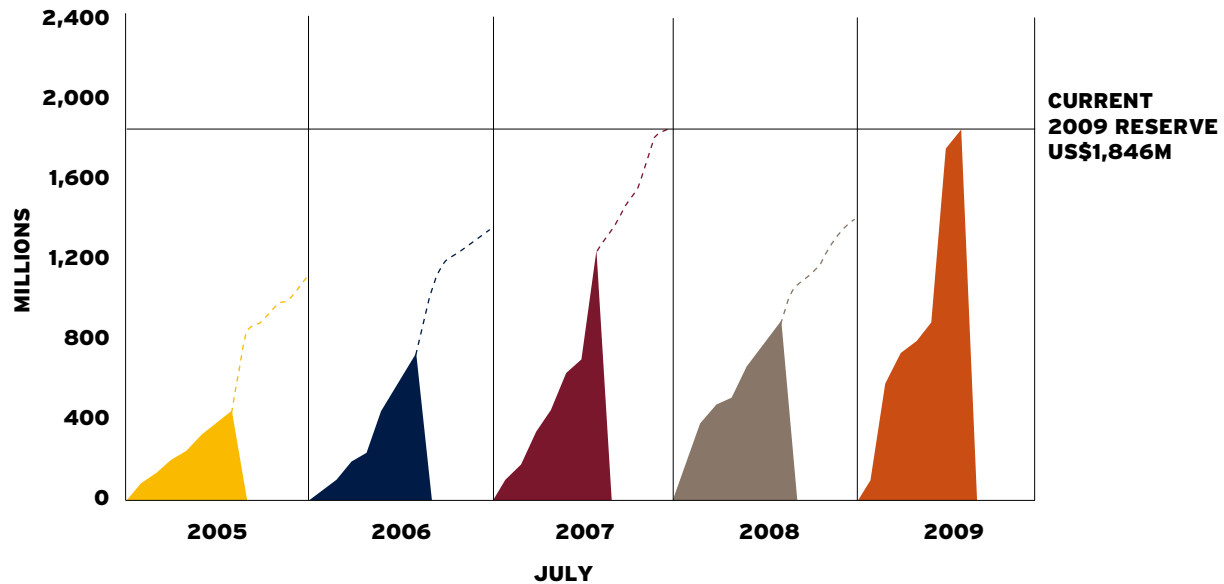
Recent incidents of significance are detailed below:

On July 7, an Rossiya – Russian Airlines, Airbus A320-200, registration VQ-BBM suffered a tail strike on landing at St. Petersburg Pulkovo Airport, Russia. There were no reported injuries amongst the 176 passengers and 6 crew.

On July 15, a Caspian Airlines, Tupolev TU-154m, registration EP-CPG, was destroyed when the aircraft crashed in farmland, approximately 16 minutes after take-off from Imam Khomeini International Airport, Tehran. All 153 passengers and 15 crew were killed. The aircraft was operating a flight to Yerevan, Armenia.

A Ilyushin IL-62M, registration UP-I6208 of Aria Air was destroyed on July 24, when the aircraft reportedly landed 'long and fast' and overran the runway by approximately one kilometre, eventually coming to rest on a small road amongst fields. The aircraft reportedly struck a wall resulting in the destruction of the cockpit area and part of the forward fuselage. Three passengers and 13 crew amongst the 138 passengers and 15 crew onboard were killed.

### CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



\*Assumes average five year losses in 2nd half of 2009 and estimated attritional losses.

Note: The loss reserve development only contains known liability reserves.

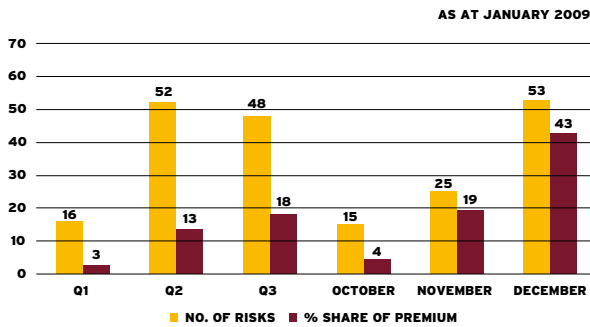
## STOP PRESS

On the August 4, 2009 a ATR72-500, registration HS-PGL sustained substantial damage and is likely to be declared a Constructive Total Loss (CTL) when according to reports the aircraft skidded off the runway and crashed into a disused control tower whilst attempting to land in rain and windy conditions following an internal flight from the province of Krabi. There were 68 passengers and 4 crew on board the aircraft, the aircraft's captain died and four others on board suffered serious injuries with two others having minor injuries.

# FORTHCOMING RENEWALS

## HULL AND LIABILITY

### 2009 RENEWAL AND NET PREMIUM DISTRIBUTION RENEWAL AND PREMIUM DISTRIBUTION



FOR PROGRAMMES WITH AN AFV IN EXCESS OF US\$100M

The level of renewal activity in August and September sees a significant reduction. In August there are just two risks with a fleet value in excess of US\$1 billion scheduled to renew, Monarch Airlines (U.K.) and the Thomas Cook Group (Germany). In September there is just one risk, Lion Airlines (Indonesia), which has changed broker from Aon to JLT, with an AFV in excess of US\$1 billion. The Aeromexico group programme which is scheduled to renew in September and would have been the largest programme in terms of exposure, is believed to be extending its policy and will renew later in 2009.

## AUGUST RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$M
MONARCH AIRLINES	01-AUG-09	1,333
SKYMARK AIRLINES	01-AUG-09	635
MIAMI AIR INTERNATIONAL	01-AUG-09	382
KALITTA	03-AUG-09	238
THOMAS COOK GROUP	14-AUG-09	4,368
BANGLADESH BIMAN	15-AUG-09	101
BERKUT	23-AUG-09	174
PEGASUS AIRLINES	24-AUG-09	729

## SEPTEMBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$M
AZUL LINHAS AEREAS BRASILEIRAS	01-SEP-09	374
TRIP LINHAS AEREAS	01-SEP-09	100
LION AIRLINES	07-SEP-09	1,232
ABC AEROLINEAS	09-SEP-09	696
TAME	16-SEP-09	244
AEROREPUBLICA	21-SEP-09	389
AIRES COLOMBIA	22-SEP-09	247
FLYGLOBESPAN	27-SEP-09	737
AEROSVIT AIRLINES	30-SEP-09	395

The lack of activity in these two months of the year inevitably results in the markets attention becoming concentrated on the October renewals, which since 2001 have represented the start of the annual renewal cycle and will likely set the benchmark for the following 12 months.

There are 22 risks scheduled to renew in October, including the NACIL programme (Air India and Indian Airlines) which will be the largest renewal of the month, other significant renewals with an AFV in excess of US\$1 billion are Air Algerie, GOL Transportes Aereos (Brasil), Pakistan International Airlines and the Synergy Group (Colombia). The geographic spread of renewals is also varied with five risks domiciled in Europe, four from the Middle East, with three in Africa, the Indian Sub Continent and North America. There are also two in the Far East and South America.

The market dynamics are set to result in an interesting and challenging renewal season. The airline industry challenges and subsequent downturn in exposures had already set underwriters a tough task in achieving their objective of increasing premiums. Added to this, is the worst start to a year ever in terms of losses and capacity levels that theoretically remain abundant.

We believe that insurers will continue to be successful in their efforts to significantly increase rates as a result of these circumstances. In addition the cost of reinsurance programmes that have renewed recently have seen increases in price and in some cases increased excess points/retentions. Reinsurers are letting it be known that direct insurers can expect to pay significant increases in the cost of their programmes as they renew in the following months. This is likely to further increase the pressure on airline insurers to increase rates but at what level this will continue into the fourth quarter at remains to be seen.

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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. Copyright Willis Limited. All rights reserved. Willis Limited, Registered number: 181116 England and Wales. Registered address: 51 Lime Street, London EC3M 7DQ Tel +44 (0)20 3124 6000. www.willis.com  
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