

## AEROSPACE MARKET THIRD QUARTER (Q3) 2011

The conditions in the aerospace insurance market remain competitive. Market capacity levels are stable, exposures are on the increase and loss levels remain low. The Aerospace sector continues to be a buyers market with underwriters remaining under pressure to further reduce premiums going forward. The level of competition, as a result of reducing premiums in other sectors of aviation is increasingly prevalent in the Aerospace sector. Our analysis covers the renewal conditions in the various sectors that make up the overall aerospace market.

Our Q3 2011 London Aerospace market review is based on 105 renewing programmes that generated a total premium of USD 311 million which is a reduction of 4% when compared with the expiring premium. The quarter is dominated by the renewal experience of the manufacturer sector, which accounts for 89% of Q3's renewal premium base. This is particularly true of the major U.S. manufacturers which represent a large percentage of the manufacturing total, as well as the quarter as a whole. It is their renewal experience, in most cases influenced by excellent loss records, that has produced an overall premium reduction, which at -3% is at a significantly higher level than that of Q2 2011 (-0.2%). As we review the Q3 renewal experience of the various Aerospace sectors, the familiar pattern of markedly differing experience is maintained with the obvious anomaly being the Airport Service sector.

### CONTENTS

Aerospace Third Quarter (Q3) 2011	1
Aerospace Manufacturers	2
Airport Operators	4
ANSP/ATC	6
Refuellers	6
Airport Service/ Ground Handler	6
Market Developments	6

## AEROSPACE MARKET NINE MONTH CUMULATIVE POSITION AS AT END Q3 2011

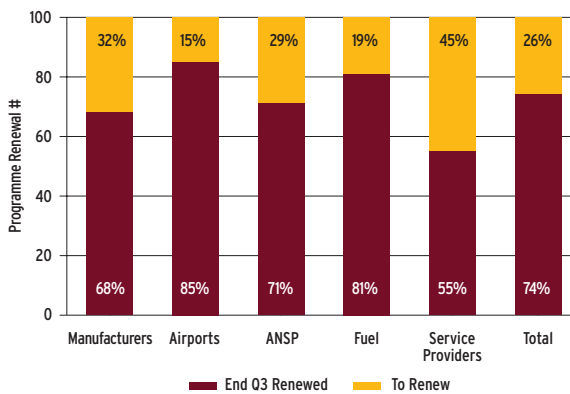
AEROSPACE SECTOR REVIEW END Q3 2011	NET PREMIUM USD (M)		NET USD PREM CHANGE	EXPOSURE BASE	EXPOSURE VALUE 2011	EXPOSURE CHANGE 2011	RENEWING PROGRAMMES 2011
	2010	2011					
<b>Manufacturers</b>	448.75	437.97	-2.40%	Projected Sales USD (Billions)	306.82	+0.95%	133
<b>Airport</b>	85.95	82.13	-4.45%	Passengers (Billions)	3.09	+7.90%	116
<b>ANSP/ATC*</b>	26.92	25.23	-6.29%	Aircraft Movements (Millions)	26.73	+5.90%	30
<b>Fuel</b>	23.49	21.21	-9.70%	U.S. Gallons (Billions)	54.11	+5.43%	44
<b>Airport Service</b>	11.65	12.40	+6.44%	Projected Sales USD (Billions)	11.29	+23.40%	13
<b>Security/Regulatory</b>	3.51	3.44	-2.08%	n/a			4
<b>Overall Aerospace</b>	<b>600.27</b>	<b>582.38</b>	<b>-2.98%</b>	<b>n/a</b>			<b>340</b>

\* Pure ANSP/ATC programmes

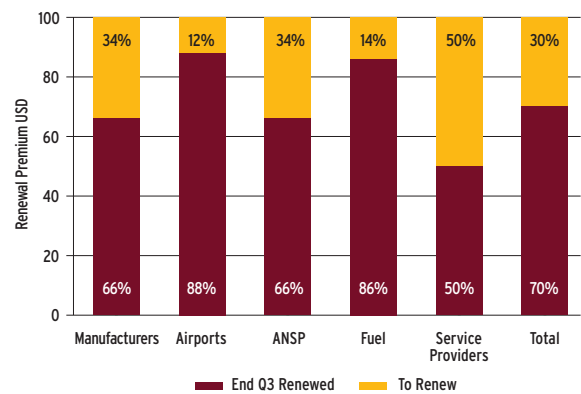
All currencies are converted to USD, ROE as at January 1, 2011

# TO DATE 2011 CUMULATIVE SECTOR RENEWAL PROGRAMMES AND PREMIUM POSITION

Aerospace Renewing Programmes by Sector: End of Q3



Aerospace Renewing Premium Volume by Sector: End of Q3



Renewed programmes nine months to the end of Q3 numerically represent 74% of the years expected total, at end of Q2 approximately 50% had renewed. In terms of premium however by the end of Q3 70% of the total anticipated annual renewal premium had been accounted for compared with just 30% as at the end of Q2.

## AEROSPACE MANUFACTURERS

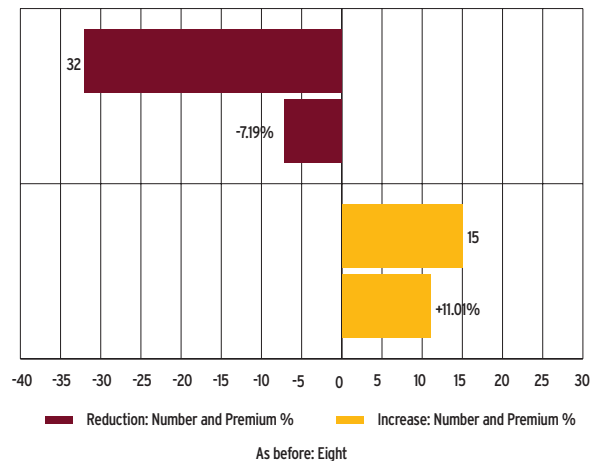
There were 55 Manufacturer programmes that renewed during Q3 which generated a cumulative renewal premium of USD 267 million. This is a significant reduction of 4% compared with the expiring premium base and continues the trend of premium reduction recorded for each quarter this year. Q3, however, records the largest quarterly premium reduction this year.

Projected sales of Q3's renewing programmes totalled USD 177 billion. This is virtually unchanged in comparison with the expiring projected sales figure. This is a reversal of the trend during 2011, which at the end of the first half year recorded cumulative projected sales increase of 3%, which is due to the projected reduction of only a few major renewing programmes.

As was the case in the first half of the year, Q3's actual renewal experience was very mixed but the majority of renewing programmes obtained premium reductions.

The chart to the right illustrates the basic renewal outcome in the manufacturers sector. 32 programme renewals obtained premium reductions, resulting in an overall premium fall of -7%. Increased renewal premiums were applied to 15 programmes that generated a premium rise of 11%, while a total of eight renewing programmes obtained 'as before' prices.

Willis Aerospace Insurance Index Third Quarter 2011



We have reported in previous Aerospace Index publications that a number of factors influence insurers' pricing approach towards renewing programmes. The most important factors are the loss record and projected sales values and/or the perceived change in exposure as a consequence of projected sales change.

To illustrate these influences, the table over the page focuses on the 15 Q3 2011 manufacturer programmes that received renewal premium increases.

### Q3 Manufacturer Renewal 'Premium Increase' Programmes

RENEWAL PROGRAMME	#	USD PREMIUM MILLION	PREMIUM CHANGE	PERCENTAGE OF TOTAL PREMIUM	PROJECTED USD SALES BILLION	PROJECTED SALES CHANGE	PERCENTAGE OF TOTAL PROJECTED SALES
Limit Increase	2	6.5	+7.14%	2.4%	15.8	-5.63%	8.9%
Loss Influenced	3	27.4	+13.14%	10.2%	23.4	-4.0%	13.2%
Sales Increase	8	6.3	+5.74%	2.4%	9.9	20.17	5.6%
Other	2	0.9	+5.97%	0.3%	0.3	0.3%	0.2%
<b>Overall</b>	<b>15</b>	<b>41.1</b>	<b>+10.8%</b>	<b>15.4%</b>	<b>49.5</b>	<b>-0.50%</b>	<b>27.9%</b>

Eight programme renewals received premium increases directly as a result of projected sales growth. Cumulatively the premium increase slightly more than 6% is significant, the actual premium amount was however a modest USD 344,000.

Increasing limits commonly results in increased pricing as experienced by the two programmes that opted to do so. Each purchased an additional USD 250 million and paid a cumulative increase of 7% despite negative sales growth, however, the actual increased premium volume was again modest being just over USD 450,000.

Three programmes, with either recent losses and/or deteriorating loss histories, vividly demonstrate the

markets' response in that their renewal experience resulted in a cumulative premium increase of 13%, despite their projected sales actually declining.

Acknowledging that insurers continue to evaluate their renewal response based on the individual merits of each programme, the experience of manufacturer renewals during 2011 to date shows a consistent trend that insurers are prepared to offer premium reductions. This position is being driven by growing inter market competition as insurers seek to maintain and/or enhance their level of involvement in this sector and the fact that the sector continues to be extremely profitable.

### WILLIS AEROSPACE MANUFACTURERS INDEX, NINE MONTH CUMULATIVE AS AT END Q3 2011

SECTOR REVIEW: END OF Q3 2011	NET USD PREMIUM CHANGE*	PROJECTED SALES CHANGE 2011	RATE ON SALES CHANGE 2011	NO. OF RENEWING PROGRAMMES
Aircraft Prime Manufacturer	-2.86%	0.77%	-3.61%	12
Sub Manufacturer	+3.70%	+11.11%	-6.67%	7
Engine Manufacturer	+2.38%	-4.11%	+4.91%	6
Electronic/Avionics	+1.09%	+0.23%	+0.86%	13
Component Manufacturer	-0.17%	+3.54%	-4.82%	29
MRO	-3.58%	+5.03%	-8.19%	12
<b>Total</b>	<b>-1.66%</b>	<b>+1.37%</b>	<b>-2.99%</b>	<b>79</b>

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

### WILLIS MANUFACTURERS INDEX Q3 2011

Q3 is a key renewal period of the aerospace manufacturers sector particularly as a number of major U.S. based programmes renew. In the context of the Willis Manufacturers Index a total of 38 programmes renewed. Total Willis Manufacturers Index renewal premium for Q3 of USD 251 million is a reduction of 4%. The projected sales are as expiring at USD 172 billion.

For the nine months, as at the end of Q3, a total of 79 Willis Manufacturers Index programmes have renewed, with a total of 112 expected for the full year. The total renewal premium is a modest reduction of 2%; with projected sales recorded showing a small increase of just over 1%.

## AIRCRAFT PRIME MANUFACTURERS

Q3 dominates in terms of premium volume and projected sales within this sector. There were seven programmes that renewed during Q3, and a cumulative renewal premium of USD 167 million shows a reduction of 5%. Five of the seven renewing programmes achieved premium reductions at varying levels. Overall insurers are responding to the pressure for premium reductions due to the excellent loss histories and high profitability of the sector. In addition the reduction in projected sales is encouraging insurers to offer reduced premium levels.

## SUB MANUFACTURERS

There were four Q3 renewals in this sector that in contrast with the Aircraft Prime Manufacturers recorded an impressive increase in projected sales of over 12%, continuing the trend of Q2 renewals where sales increased by 9%. Renewal premium for the quarter of USD 7 million is a slight reduction of 1%, however, the derived rate on sales records a reduction of 12%. There is a similar market approach towards this sector as with the Aircraft Prime Manufacturers; where good loss records are driving a positive renewal response.

## ENGINE MANUFACTURERS

Two manufacturers renewed in this sector during Q3. Renewal premium of USD 25 million is an increase of 4% while projected sales record a reduction of 3%, resulting in derived rate on sales increase of over 8%. The major renewing programme in this sector is a manufacturer of prime airframes and major aircraft systems in addition to its position as a major engine manufacturer. It is this programme's recent loss history that is responsible for the increased premium in this sector as a whole. This outcome clearly demonstrates that insurers continue to focus on the merits of individual programmes and will price accordingly despite the general trend of giving premium reductions.

## ELECTRONIC/AVIONIC

Eight programmes in this sector renewed during Q3, generating a renewal premium of just over USD 9 million which is a modest reduction of 4% compared with the expiring premium. Projected sales of USD 13 billion are an

## AIRPORT OPERATORS

Airport renewal activity during Q3 is relatively quiet involving just 29 programmes that represent approximately 20% of the annual premium and projected passenger numbers. The total Q3 renewal premium of USD 12 million is a reduction of 4% when compared with the expiring premium. The projected passenger numbers for these risks increased by 5% to 535 million.

The majority of Q3 renewals obtained premium reductions that amounted to 13% compared with their expiring premium base, while their projected passenger exposure grew 9%. Five programmes renewed at as before premium terms; their projected passenger numbers however increased by a

increase of 9% compared with the expiring sales, resulting in the derived rate on sales consequently reducing by over 11%. The Q3 renewal outcome is a continuation of the underlying trend of the past few years, where premium reductions or a reduction in the derived rate on sales has been achieved by the majority of programmes. The exceptions, when they have occurred, have been due to significant projected sales increases or in very few occurrences the recent losses to the policy. The sector continues to benefit from significant market competition.

## COMPONENT MANUFACTURER

The component manufacturers sector remains mixed with 11 renewing programmes during Q3, representing a diverse spread of aviation products. A renewal premium of USD 33 million is a reduction of 2% while projected sales increased by 7%, producing a derived rate on sales reduction of 8%. The sector is generally experiencing a favourable renewal environment, however, the sector's overall renewal results always fluctuate due to the diversity of products base and the differing fortunes and loss experience of the renewing programmes.

## MRO

Six programmes renewed in this sector during Q3 that achieved an overall premium reduction of 6%. Projected sales of just over USD 3 billion are flat compared with the expiring value. The sector is particularly sensitive to losses and as most are property damage events the market tends to price programmes very much on their individual profile. Renewal premiums can rise rapidly as well as record significant reductions driven by the relevant loss record deterioration or improvement.

The renewal experience of Willis Index programmes during Q3 2011 reflects insurers continued positive attitude towards aerospace manufacturers and generally demonstrates a proportionate response when renewing the sectors programmes balancing their management demands with the growing competition the sector is attracting based upon its continued profitability.

relatively modest 2%. Their renewal experience was primarily due to long term agreements, subject to annual resigning, although in the case of one programme loss history was the reason. Just four renewing programmes experienced premium increases primarily due to increased exposure, interestingly not growth in passenger numbers which cumulatively amounted to 3% but as a result of increased aircraft movements and in the case of one programme recent loss history was the cause of its premium rise.

The sector continues to benefit from strong market competition driven by abundant capacity and a good loss record.

## WILLIS AIRPORTS INDEX, NINE MONTHS CUMULATIVE AS AT END Q3 2011

REGION REVIEW: Q3 2011	NO. OF RENEWING PROGRAMMES*	PROJ ANNUAL PAX	% CHANGE	PREMIUM USD**	% CHANGE**	PAX RATE USD	% CHANGE
Europe	31	1,238,747,383	+4.04%	44,048,753	-1.08%	0.03556	-4.89%
Far East	8	815,766,564	+11.87%	5,751,431	-5.34%	0.00705	-15.39%
South America and Caribbean	7	258,887,000	+16.72%	3,865,946	-3.29%	0.01493	-17.14%
Pacific Region	9	82,675,114	+5.86%	2,262,374	-18.51%	0.02736	-23.01%
Middle East	6	141,164,287	+12.64%	2,026,451	+9.93%	0.01435	-2.40%
Africa	9	95,383,351	+3.79%	4,389,700	-5.85%	0.04602	-9.28%
<b>Overall Index</b>	<b>70</b>	<b>2,632,623,699</b>	<b>+8.01%</b>	<b>62,344,654</b>	<b>-2.41%</b>	<b>0.02368</b>	<b>-9.65%</b>

\* Renewing programmes known as at September 30, 2011,

\*\* All expiring premium currency converted at 2011 USD ROE

## WILLIS AIRPORTS INDEX Q3 2011

A total of 17 airport programmes monitored within the Willis Airports Index renewed during Q3. Of the quarters known Airport market renewal activity Index programmes accounted for 60% of the projected passenger numbers and 60% of the renewal premium. The total Willis Index Q3 renewal premium of USD 8 million is a reduction of 11%. Projected passenger numbers of 319m are an increase of 6% compared with the expiring projections.

Q3 is numerically dominated by the Pacific region programme renewals and therefore it is this regions renewal experience that is responsible for the sharp rise in the level of premium reduction, a position not universally applied.

Two European region Index programmes renewed during Q3 and generated a cumulative premium of just over USD 2 million. This is a modest a reduction of 3% and projected passenger numbers of 117 million have increased by 1%, resulting in a derived passenger rate reduction of 4%. At the end of Q3, 31 of a probable 36 European region Index programmes have renewed. The total premium of the renewed programmes of USD 44 million is a reduction of just 1%, the lowest regional level of premium reduction within the Index. The same renewing programmes cumulatively project passenger numbers growth of just over 4%. This may well be an optimistic projection as European airports traffic continues to suffer the impact of global financial uncertainties, increasing European unemployment and austerity measures as well the effects of regional political change. The region continues to be attractive to Insurers; however, pricing levels remain generally firm.

The renewal experience of Q3 Airport Index programmes in the Pacific region is in stark contrast to that of Europe. Eight programmes renewed during Q3, producing a cumulative renewal premium reduction of almost 20%, projected passenger numbers recorded growth of approximately 6%, the resulting derived passenger rate of USD 0.02736 per passenger is a reduction of 23%.

This result is the successful outcome of a combined programme and marketing refinement process that reflects the regions excellent operational history and future prospects.

The Far East regions Q3 renewals continue the trend of the past few years, with modest premium adjustment coupled with significant passenger growth resulting in a derived passenger rate of 0.00705 for the year to the end of Q3, which is a reduction of over 15%. The regions rapidly growing global importance and its relatively low bodily injury liability awards sustain intense market competition as insurers seek to maintain their existing shares.

There were no Middle East programmes renewals that are monitored within the Willis Airports index during Q3.

Three Index renewals in the South America and the Caribbean region during Q3 generated a cumulative renewal premium reduction of just under 1% with projected passenger numbers up by just 1%. We reported in our Q2 Index a surprise fall in the projected passenger numbers for the single programme that renewed in this region during Q2. Further investigation has revealed that the projected passenger numbers correctly recorded an increase of 30%. The necessary adjustment has been made to the Willis Airport Index and as a result as at the end of Q3 the region records cumulative passenger growth of 17% producing a derived passenger rate of USD 0.01493, a reduction of 17%.

Finally there were two Q3 Index programme renewals in the African region. Both programmes achieved significant renewal premium reductions of almost 12% while overall projected passenger numbers increased by almost 5%. There are no further 2011 Index programme renewals in the African region. For the year the Index records that the nine African region programme renewals recorded a premium fall of 6% while passenger growth increased by 4%. The derived passenger rate of the region reduced by almost 10% but at USD 0.04602 per passenger it remains

substantially higher than any other region within the Index. Of the nine Index renewals during 2011 just two received premium increases, one the result of a substantial rise in projected passengers, the other being attributed to a recent loss. The region's overall loss record continues to compare favourably with other regions and as a region it has achieved exposure growth despite the recent political uncertainties experienced by some states on the continent. Improved safety awareness, technological and infrastructure investment, enhanced training programmes are all factors that are raising the region's profile and increasing its attractiveness to insurers.

As at the end of Q3 2011, a total of 70 Index programmes have renewed out of an expected total of 88.

## ANSP/ATC

Seven programmes renewed during Q3 producing a premium of USD 8 million, a reduction of 7%. All of the programme renewals obtained premium reductions, despite projected exposure growth that cumulatively amounted to approximately 6%. The level of renewal premium reduction varies considerably within the sector ranging from a modest 2% to a larger reduction of 13%. A combination of the region controlled and the projected aircraft movements determining the level of premium change.

The renewal trend in this sector clearly remains that of premium reduction and the market stance remains very positive influenced by an excellent loss record and significant capacity.

## REFUELLERS

The third quarter shows a premium reduction of 10% based on the renewal outcome of 10 renewing programmes. This is very consistent with the first half of the year, which recorded premium reductions of 10% for Q1 and 9% for Q2 respectively. Q3 estimates of throughput in U.S. Gallons shows an increase of 5%. In common with the ANSP/ATC sector, exposure growth, unless significant, has not resulted in premium increase as the sector continues to enjoy the effects of strong market competition and a good loss record.

## AIRPORT SERVICE/ GROUND HANDLER

Three programme renewals occurred in this sector during Q3 and cumulatively they generated a premium of nearly USD 6 million, an increase of 42%. Two programmes experienced premium increases, one due to significantly higher revenues the other due to its poor recent loss experience. Renewal results remain uneven, being loss driven, with insurers imposing significant premium increases or tougher Self Insured Retention where loss records are poor.

## MARKET DEVELOPMENTS

### 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 Program 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.

## 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.

## MARKET MOVERS

Nick Vine has left Marsh and is to join Boston Marks in Houston. Nick is currently on gardening leave whilst completing his current notice period.

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.

Ed Louth is leaving Aon to join Marsh. Ed is currently on gardening leave whilst completing his 12 month notice period.

Ian Krise has resigned from JLT to go to Colemont.

David Sales and Alan Webb have resigned from Colemonts and are to join Locktons once their notice periods are complete.

Thomas Thompson is joining Colemont from Cooper Gay.

## 2012 WILLIS AEROSPACE INTERNATIONAL AVIATION INSURANCE COURSES

The dates for the 2012 Willis Aerospace Aviation Insurance Courses have now been established. As in recent years there will be two identical courses which cover the operation of the Aerospace Insurance market and will take place in the Willis Building in London. The first will take place between May 14 and May 18, 2012 and the second will take place between June 11 and June 15, 2012.

Please contact your account executive regarding securing a place on either course.

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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 programs 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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