



# Aviation news



A report on the aviation and aerospace insurance market

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#### Note:

Aviation news is based upon Marsh Ltd's analysis of all aspects of the aviation book of business, through collating information gathered whilst placing comparable risks.

## 2010 Forecast

### Airlines

April has seen a subtle shift in the market. Renewals with large fleet growth have been able to achieve rate reductions, while those with little change in exposure have seen their premium levels remain static. The overcapacity in the market is starting to take its toll and conditions seem to be softening. Furthermore the lack of losses to date is supporting this softening, but it must be remembered how volatile the market can be as demonstrated in 2009 following the Air France loss.

### Manufacturers

There has been a definite softening of market conditions for the manufacturers with good claims records. Capacity is looking to compensate for falling airline premiums with increased premium income from the Aerospace book. As a consequence, competition has intensified especially on the smaller less critical book, where limits tend to be much lower.

However, this competition does reduce for the larger more critical manufacturers, especially when there is significant US exposure. They will still probably be able to obtain premium reductions, but they will be more modest than the rest of the book.

### Airports and ATC

Competition will continue in this class with premium reductions being available especially where passenger throughputs are down. As with all risks, those renewals with poor loss records will be targeted by underwriters for premium increases.

### Ground Service Providers

Reductions will continue to be available for clean renewals, especially when trading limit and self insured retentions against premium. Underwriters will look to charge premium increases on those renewals with poor loss records, but competition may well mean that they are not as high as some underwriters would wish.



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# Airlines

## 2010 Forecast (cont'd)

### Refuellers

As with the rest of the Aerospace portfolio, competition will drive premium levels down, especially on the smaller less exposed risks. The larger risks with big US exposure may not be able to enjoy the same renewal results, and may well see their premium remain static.

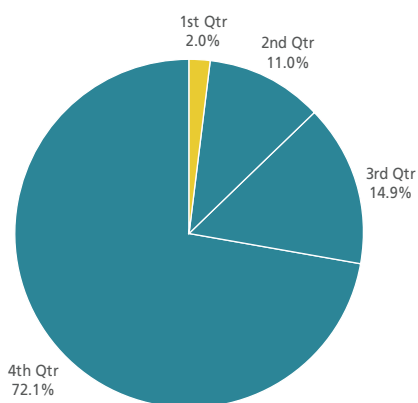
### Conclusion

The second quarter of 2010 could well signal the end of the "hard" market. Capacity is the driving force behind changing market conditions, with underwriters not only trying to increase their participation on the airline portfolio, but also seeking to supplement their falling airline income by writing more of the Aerospace portfolio. This in turn has seen competition increase for aerospace risks and as a consequence premium levels have begun to fall.

With no fall in capacity expected and indeed Hiscox looking to enter the fray with a new aviation underwriting team, market conditions are expected to continue to soften.

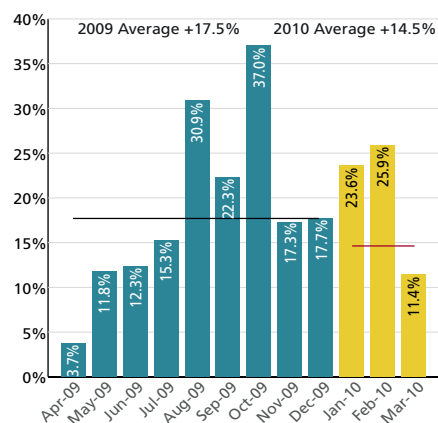
## Review of First Quarter 2010

Newsletter renewal sector –  
Airline premium income



So overall, underwriters kept rating levels close to expiring, unless there was very significant fleet growth or the airline renewed following a loss.

Monthly Premium % Movements



## Airlines

### Renewal trends

There was very little renewal activity during the first quarter of 2010, with only 13 renewals with fleets in excess of USD 100million falling into our analysis. While the average premium movements for January and February show significant premium increases, this can be attributed to two airlines presenting large fleet growth at renewal. In reality, underwriters were looking to maintain rating levels, generating premium growth through increased exposure.

March saw the majority of the renewals for the quarter, but was heavily influenced by risks subject to US sanctions and where capacity is restricted as a consequence and premium and rating levels are already high. Underwriters once again were able to introduce premium increases by maintaining expiring rating levels as fleet growth was also being presented during this month, and when removing the sanctioned airlines, the average premium movement for March jumps to 18%.

### Airline losses

The first quarter saw only one major loss occur, the unfortunate loss of an Ethiopian Airlines B737-800. While not all damaged aircraft have been assessed as yet, the first quarter of 2010 has only seen airline losses amounting to just over USD 150million, a quarter of the incurred position at the end of the first quarter 2009.

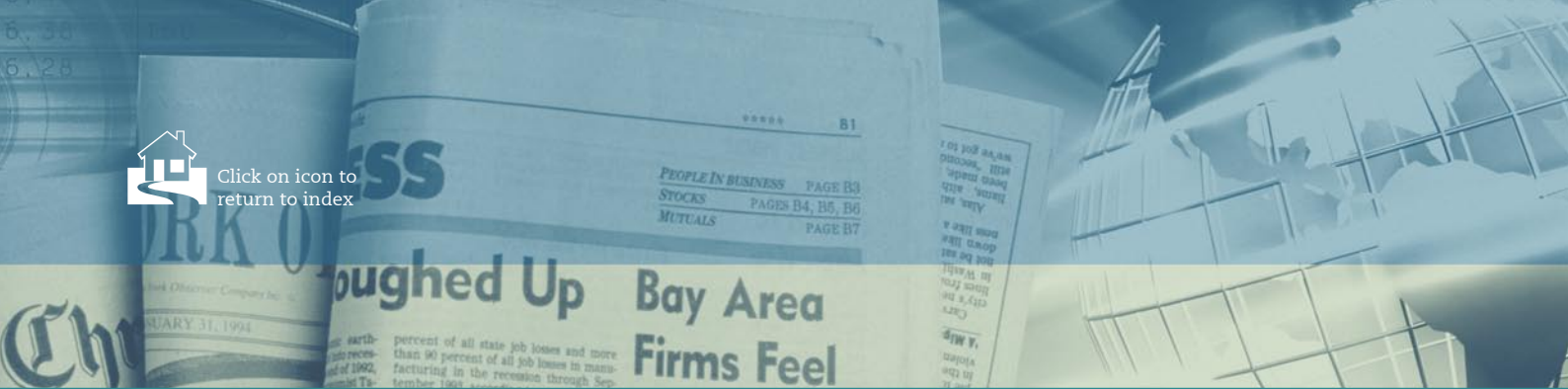
While this is good news for underwriters, 2009 demonstrated how one loss could have a major affect both in terms of profitability to underwriters, but also on the renewal terms airlines were able to achieve.

2010 Major Airline losses

Date of loss	Operator	Aircraft type	Location
25th Jan	Ethiopian Airlines	B737-800	Lebanon
<b>Major loss total (xs \$10m) :</b>		<b>\$104,130,815</b>	
<b>Overall for 2010 to date:</b>		<b>\$151,504,815</b>	



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## Aerospace

### Airframe manufacturers

The first quarter saw very little activity in this part of the manufacturers' book. Those that did renew estimated significant downturn in their turnovers and as a result saw their premium levels fall slightly.

### Engine manufacturers

Once again very few renewals took place in the first quarter. Of the two renewals, both were able to obtain modest premium reductions, the size of reduction being dependent on their change in exposure.

### Critical manufacturers

There was slightly more renewal activity for this portion of the book, with mixed results for those renewing. Underwriters were willing to give significant premium reductions where limits were sizably reduced, but charged premium increases on those accounts which presented deteriorating loss positions.

Once again renewals with reduced turnovers were able to achieve modest premium reductions.

Aerospace portfolio – Quarterly percentage premium changes

	2nd Qtr 2009		3rd Qtr 2009		4th Qtr 2009		1st Qtr 2010	
	Orig Ccy	USD	Orig Ccy	USD	Orig Ccy	USD	Orig Ccy	USD
Manufacturers								
Airframe	-0.30%	-0.30%	-0.20%	-2.50%	0.80%	0.80%	-7.10%	-6.20%
Engine	1.20%	1.20%	0.50%	0.50%	4.50%	4.50%	-5.70%	-2.80%
Critical	4.00%	3.60%	-0.70%	-1.10%	-4.00%	-4.90%	6.50%	6.90%
Non Critical	-6.40%	-2.80%	-3.30%	-7.90%	-2.80%	-5.40%	-2.80%	-5.40%
MROs	0.80%	0.80%	-0.70%	-4.00%	-1.90%	-5.40%	-2.40%	-2.40%
<b>Overall</b>	<b>-2.40%</b>	<b>0.60%</b>	<b>-0.40%</b>	<b>-2.20%</b>	<b>0.70%</b>	<b>0.20%</b>	<b>-0.20%</b>	<b>0.40%</b>
Ground Service Providers	-8.90%	-11.80%	-34.60%	-34.60%	-8.00%	-10.60%	-19.20%	-19.20%
Refuellers	2.30%	-2.00%	-12.40%	-12.40%	-8.80%	-8.80%	-3.60%	-3.60%

### Non critical manufacturers

As with the rest of the manufacturing portfolio premium changes were driven by sales, limits and claims. Premium reductions were obtained but only where estimated sales fell, where significant changes in exposure occurred, underwriters charged increased premium levels to take this into account.

### MROs

The majority of the renewals posted falling turnovers during the first quarter. As a consequence they were able to obtain modest premium reductions. Those that presented increased estimated sales saw underwriters introduce modest premium increases.

### Airports and ATC

Market conditions also softened for the book of business. The majority of renewals were able to obtain modest premium reductions as competition intensified. Only where exposures were estimated to increase did underwriters seek to introduce premium increases.



Airport and ATC portfolio – Quarterly percentage premium changes

Continued....

	2nd Qtr 2009		3rd Qtr 2009		4th Qtr 2009		1st Qtr 2010	
	Orig Ccy	USD	Orig Ccy	USD	Orig Ccy	USD	Orig Ccy	USD
Airport only	-4.40%	-14.80%	-6.50%	-9.60%	-4.40%	-13.60%	-3.50%	0.90%
Airport & ATC	-0.30%	-7.80%	-2.70%	-4.80%	-6.40%	-13.40%	-5.40%	-3.80%
Stand alone ATC	-10.80%	-15.70%	-7.60%	-14.10%	-2.30%	-10.20%	-8.00%	-5.20%
Overall	-4.50%	-13.50%	-6.00%	-10.40%	-4.20%	-11.90%	-4.80%	-1.50%

**Overall for 2009:**  
 Original currency -3.80%  
 USD equivalent -10.10%



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Aerospace (cont'd)

## Ground Service Providers

The overall book saw a significant reduction in the premium level for the first quarter. This was more as a consequence of a major renewal reducing their limit and therefore obtaining a significant premium reduction.

The majority of renewals saw conditions similar to that for manufacturers, with modest premium reductions being obtained, dependent on claims history.

## Refuellers

A number of renewals reduced their limits during the first quarter and were able to obtain significant premium reductions. For the majority modest reductions were available for those buying the smaller limits, whereas those with higher exposure and larger limits saw their premium levels remain static.

## Conclusion

The first quarter of 2010 has seen the beginnings of softening market conditions. Overcapacity exists in all classes of the aviation portfolio and clean renewals were able to obtain premium reductions. Limit and self insured retention were also traded to larger premium increases, however, renewals with poor loss records or substantial increases in exposure saw their premium levels increase.

# Aviation news

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