



Market Overview

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The airline insurance market is virtually dormant in February from a program renewal point of view. Only one insurance program with an average fleet value of more than US\$150m renewed.

Just under half of the quarter's total annual lead hull and liability premium has now been placed. Current estimates suggest that the quarter's premium total is likely to be just over US\$20m. This means that for the whole of the first quarter, based on expiring figures, the total amount of lead hull and liability premium is estimated to be around 25% lower than 2007 as a result of the largest renewal in February being merged with another program last year.

Given the limited activity, it is virtually impossible to draw meaningful observations about market direction for 2008 at this stage. The key point to make is that while there appears to be a hardening in airline insurance premium so far this year, this increase has been based on a single renewal that has nearly doubled its average fleet value on its 2008/09 renewal.

Those close to the market are saying however that the harder attitude to renewals will continue during 2008 as underwriters try to avoid suffering two unprofitable years in a row on the airline book of business. The closing of differentials between the lead and following markets suggests it will be difficult it will be to achieve premium reductions during 2008.

Spreading the Risk

It should be noted however that the global underwriting organizations spread their risk exposures across a variety of aviation markets beyond airline.

These include the aerospace and general aviation insurance markets which have differing risk profiles and as such are likely to have been more profitable over the last couple of years.

Some of the global underwriters, particularly in the US, are active in all aviation markets. This will have provided them with some insulation from the recent soft conditions in the airline insurance markets.

For example, while difficult to quantify given the high number of small programs that are insured in local markets globally, the general aviation market is potentially larger than the airline market in terms of premium, but the risk of catastrophic loss is lower and therefore this market is likely to have provided more consistent returns.

It is impossible to gauge the combined size or profitability of the aviation insurance markets overall given its diversity, although rough estimates would suggest that the airline sector represents around 30% of the total global aviation market. Claims are equally difficult to judge given complex nature of aviation incidents, where the ultimate responsibility for a loss can take over five years to agree.

(continues over)

	Renewals	Fleet Value Movement (% change)	Passenger Movement (% change)	Expiring Premium (US\$m)	Renewal Premium (US\$m)	Premium Movement (% change)
2002	17	+19	n/a	59.34	109.34	+84
2003	14	+10	+14	99.05	88.84	-10
2004	12	+4	+6	81.25	69.60	-14
2005	14	0	+2	67.49	62.87	-7
2006	15	+4	+12	61.20	60.28	-2
2007	12	-10	-14	49.40	37.60	-24
2008-to-date	5	+9	+14	9.40	9.99	+6

Source: Aon Market Data
All available data

Market Overview (continued)

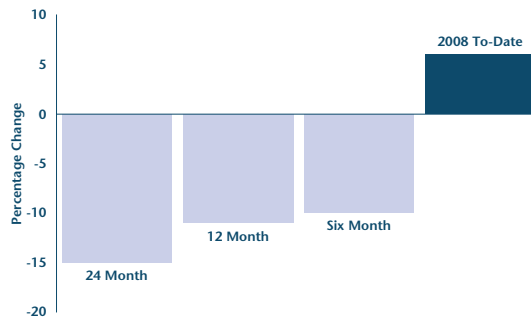
Airline Diversity

Equally, some underwriters are able to diversify their risk through a broad book of aviation coverages and the aviation reinsurance market. In the airline part of the market alone, these coverages include deductible, hull war and excess liabilities, as well as the hull and liability coverage that we focus on in this newsletter.

These other coverages are currently far smaller than the main airline hull and liability market, and although returns have been higher historically in some of the markets, they have been consistently profitable overall during the last few years.

Ultimately, the high level of capacity in the airline insurance market continues to create competition for attractive airline insurance programs. Equally, while some operations have been reassessing their commitment to the airline insurance market, they are still ready to deploy their full capacity should pricing rise to their target levels.

Average Percentage Premium Movement



Source: Aon Market Data

Losses Overview

The hull loss figure excluding attritional losses is US\$181m so far in 2008, compared to US\$88m recorded at the same point last year. Taking a pro-rata figure for an annual estimate of attritional losses into account, the overall loss total is US\$267m, compared to US\$171m in 2007.

There were four losses valued at over US\$1m in February, only one of which valued above US\$10m. This occurred on February 2, when cargo on an Atlas Air Boeing 747-200F, registration N527MC, came loose on take-off from Lome airport in Togo, Africa. The cargo's movement was so severe that it broke through the aircraft's bulk-head. Given its location, the cost of repair is thought to exceed the US\$10m value of the aircraft and it is likely to be declared a constructive total loss.

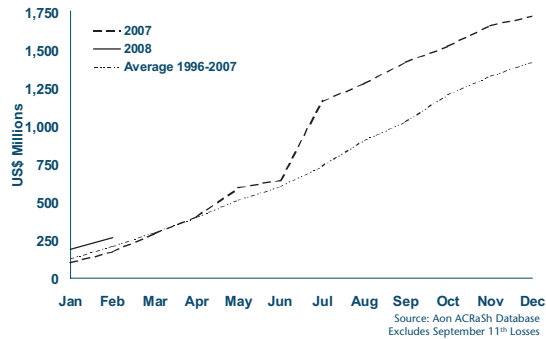
The twelve losses that have occurred so far in 2008, there only lead to 47 fatalities. As a result, while the value of hull claims is likely to be relatively high at this stage, the number of fatalities is currently comfortably below the first quarter average of 161 since 1995. The first quarter on average represents around 20% of the total number of fatalities for the full year.

What this means from an insurance point of view is that while the markets are attempting to harden their stance and reduce the risk that the airline insurance market becomes unprofitable in 2008 as well as 2007, at this point in the year, the value of liability claims is likely to be below average.

The key, as ever, is to remember while the number of fatalities at this stage is low, aviation is a catastrophe market, and a single major loss could significantly increase the number of fatalities and put the value of liability claims above the average.

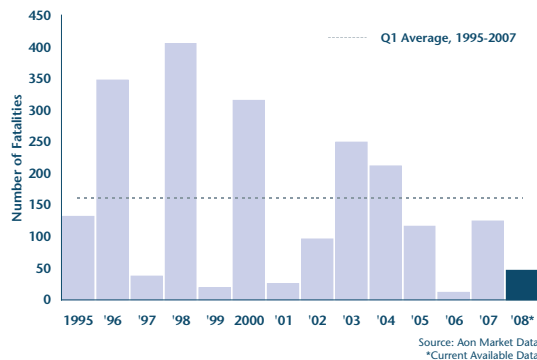
Cumulative Loss Graph 2008

(Including attritional losses)



Source: Aon ACRAsh Database
Excludes September 11th Losses

Quarter One Fatalities, 1995-2008



Source: Aon Market Data
*Current Available Data

Equally, as shown in summer 2005, there is also the possibility of a string of less major losses having a significant impact on the value of hull and liability claims. This can quickly change market sentiment, particularly as underwriters are currently trying to harden their pricing stances.

Aon Services

Aon Trade Credit

Airlines and tour operators traditionally buy credit insurance or bonds for protection against travel agent and commercial client insolvency. Recent insolvency filings by some airlines and poor balance sheet performances by some major tour operators underscore the need for effective coverage.

The growth of internet operations and other commercial specialist organizations has added complexity to ensuring that coverage is effective, and left some companies concerned that they are not fully covered in the event of a travel agent finding itself in difficulty. The knock-on effect of a bad debt can have a damaging impact on a business.

Aon Trade Credit (ATC) can help ease this concern. Its aviation industry experts work with clients to analyze portfolios and highlight potential credit risks, enabling clients to concentrate on their core activities.

ATC works alongside clients to suit them and their business strategy. It offers objective advice and a one-stop-shop for trade receivable management and credit insurance, discussing a range of cost effective options based on a company's needs and requirements.

ATC has the sector knowledge and technical ability to set up a policy and provide ongoing support in all the fundamental policy management areas such as claims and key limit appeals. Because it is part of Aon as a whole, the team also brings the support network that one of the largest global insurance broking and risk management organizations can provide.

Complementing Aon's traditional broking services, ATC has developed its service proposition to meet the increasingly diverse needs of global enterprises.

The key benefits of working with ATC are:

- Dedicated account management teams that work closely with the rest of the Aon servicing teams to ensure alignment with a client's strategic objectives
- A global network that provides immediate access to local service and assistance whether it relates to policy, claims or credit limit issues
- Country and sector expertise
- Market leverage. ATC is the largest placing broker for all the leading insurers and has established strong strategic relationships to optimize client benefits
- A range of credit management services to offer a total receivable management solution

ATC is currently represented in 76 offices in 34 countries, and operates as a recognized global division within the Aon network.

If you would like further details about how the ATC team can support your aviation activities, please contact aviation@aon.com. For more top line information, visit www.aon.co.uk/tradecredit

Airline Renewals

The first quarter's low level of renewal activity continues in March, with only six renewals expected.

It looks increasingly unlikely that the quarter will manage to match the 2% of total recorded annual lead hull and liability premium it represented in 2007.

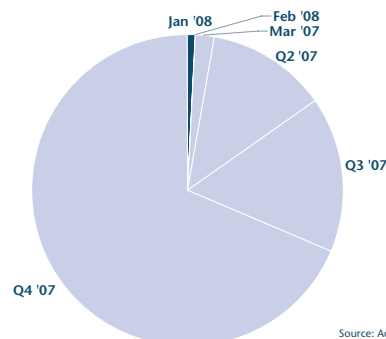
April is likely to be the first real opportunity to gauge market direction in 2008, although the situation is complicated by a significant loss at the first major renewal of the year.

The market is likely to use this period to assess the direction of the airline insurance market and work out their level of commitment to it.

The relative lack of activity in the first quarter highlights a very interesting peculiarity of the airline insurance market where around 70% of the total annual lead hull and liability premium is renewed in the final quarter. There is a strong argument for airline organizations to bring their insurance program renewals forward in order to take advantage of the relatively quiet time to really build strong relationships between their organizations and aviation underwriters.

Airline	Renewal Date
Air Nostrum	01 Mar
KD Avia	10 Mar
Free Bird Airlines	14 Mar
Iran Air	21 Mar
Avolar Aerolineas	28 Mar
Bangkok Airways	28 Mar

Airline Monthly Premium Profile



Source: Aon Market Data

Aon Aviation & Aerospace Reviews Now Available

Airline Insurance Market Review

Aon's Airline Insurance Market Review 2007 is now available. It brings together all of the data that Aon has collected during 2007 and examines how it may impact market direction into 2008.

The review examines the airline insurance market according to sector, region and fleet value, highlighting the evolution of the airline industry from the perspective of its insurance markets.

The key findings of the review are that after the high cost of insurance following 9/11, prices have now softened to their lowest point since 1999.

This might suggest that the airline insurance markets may harden in 2008, but the high level of insurance capacity means that there will be still be competition for insurance programs as the year progresses.



Aerospace Insurance Market Review

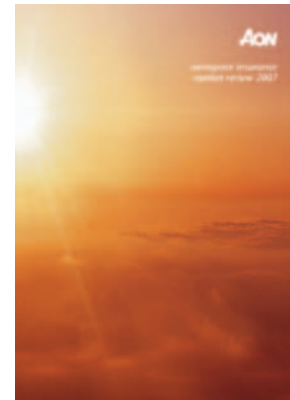
Aon's Aerospace Insurance Market Review 2007 is also now available, focusing on the airport, manufacturer and service provider sector.

Like the airline review, it examines data by sector, region, and liability limit, to draw out developing trends in the aerospace industry.

The aerospace review paints a picture of a softening market that has the potential to continue in the same direction in 2008, assuming that the level of claims in the airline insurance market does not scare off the high level of aerospace capacity currently available.

All three of the major aerospace sectors enjoyed reductions overall in 2007, although the smallest sector, service providers, enjoyed the highest reduction in lead premium at -11% compared to 2006. The airport sector followed with -8% average reductions while the manufacturer sector only saw average reductions of -3%.

Both reviews are available at www.aon.com/aviation, along with back issues of this newsletter and its quarterly aerospace companion.



This is the Aon Aviation & Aerospace Airline Insurance Market News, which is our attempt to keep our clients and others informed of developments in the airline insurance market.

We welcome any comments or suggestions to add to or improve our product.

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All figures detailed in this newsletter include all known information at time of production on the lead London terms of airlines renewing with fleet values in excess of US\$150 million. They do not take into account any coverage changes and are not weighted in any way with regard to the size of the airline's fleet or the volume of premium paid.

Loss information covers western built equipment only and the data only includes losses with a total incurred value of over US\$1million. We only write about losses over US\$10m.

We must point out that due to the nature of this type of bulletin, Aon UK cannot be held responsible for any loss or damages caused through the use of any information contained herein. While we try to comment on issues we know to be fact, we are fully aware that in gathering the information contained from various sources there is always the possibility of inaccuracy. We can therefore only claim that the information in this newsletter is correct to the best of our knowledge at the time of publication.

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