



Market Overview

Contents

Market Overview

Losses Overview

Legal Update

Movements in the
European blacklist

Airline Renewals

PDF users click blue
contents title to move
to section

Click on Aon logo to
access the Aon Aviation &
Aerospace website

March marks the end of the quiet opening quarter of the year. Activity is significantly higher than the preceding two months, but it is still too low to extrapolate meaningful forecasts for market direction in 2008, mainly because the numbers are so susceptible to shifts at the individual months' larger operations (or in the case of the February renewals, the only operation).

The general prognosis however is that the airline insurance markets will continue to attempt to harden during 2008, with the following markets particularly being very careful about the risks that they are involving themselves with and the prices that they offer.

There are two further renewals expected to be placed at the end of the month, although they are not significant in size and as a result are not expected to change the figures that we have so far.

Historical Changes

Looking back at the 17 renewals that occurred in the first quarter of 2002 highlights the continuing evolution of the airline insurance industry. Consolidation, changes in ownership and the growth of group program placements have all eroded the amount of activity over the last few years. Only three of the programs in 2002 have renewed in the first quarter of 2008.

Of the renewals that occurred six years ago, seven have

ceased operations to all intents and purposes and three have been absorbed into larger insurance programs either through total consolidation of the business or becoming part of larger group insurance programs. A further two have fallen below the criteria that we have for inclusion in this newsletter.

Interestingly, while the number of renewals has nearly halved since 2002, the proportion of lead hull and liability premium that the first quarter represents has remained steady at around 3% of the annual total, despite the fall in the total amount of premium.

This demonstrates the contraction that has occurred in the airline insurance markets as well as the overall fall in price since the post-9/11 peaks.

Activity Across the Industry

While the airline insurance markets have been relatively quiet, there has been plenty of activity in the industry itself.

The construction of what is claimed to be the largest maintenance hangar in Asia has been completed in Beijing. Aircraft Maintenance and Engineering Corporation (Ameco), the hangar's operator, says it is capable of accommodating all Boeing and Airbus aircraft types including the A380.

(continues over)

Quarter One	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	7	+6	+38	22.06	23.13	+5

Source: Aon Market Data
All available data

Market Overview (continued)

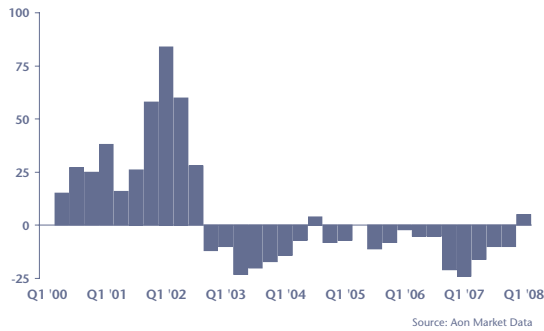
Singapore Airlines has begun to use the A380 between Heathrow and Singapore. Separately, the company grounded an A380 after a fuel pump issue during March. The carrier grounded another of its three A380s in February with a separate issue that also involved fuel pump systems. The issues were quickly resolved.

This is interesting from an insurance point of view because it highlights the scrutiny that the new aircraft type is currently under, as well as the effectiveness of the technology that ensures that the aircraft is safe to fly.

There are rumors that the delivery date for the Boeing 787 is about to be delayed to some point in 2009. A new delivery schedule is expected to be announced in April. The setback may lead to significant delayed delivery payments, similar to those paid by Airbus during the drawn out process of delivering its A380.

Elsewhere, the launch of Heathrow Terminal 5 in the UK has been blighted by issues which caused the cancellation of a number of flights on its opening day and generated less than complementary headlines around the globe.

Average Quarterly Percentage Premium Change 2000-08



The challenges highlight the need for comprehensive risk management and insurance programs for organizations within the industry that cover not only the obvious issues that can face an aircraft operator but also the wider implications and knock-on effects resulting from issues with partners and suppliers.

Losses Overview

The hull loss figure excluding attritional losses is US\$206m so far in 2008, compared to US\$171m 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\$335m, compared to US\$294m in 2007.

There have been no losses valued at more than US\$10m since the last edition, and only 16 losses that are likely to lead to claims over US\$1m for the year so far.

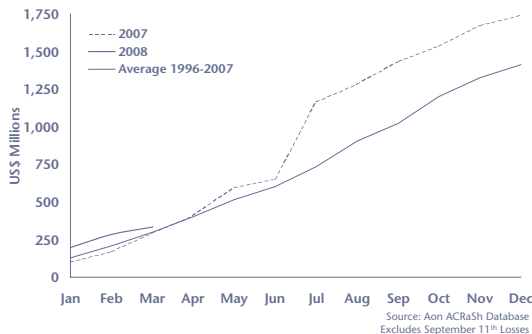
This means that while the cumulative losses for the industry in January 2008 were 90% higher than January 2007, at this point at the end of March, they are only 14% higher.

Similarly, in comparison with the average between 1996 and 2007, the 2008 cumulative losses in January were 52% higher in January but only 11% higher by the end of March.

Discounting the British Airways loss in January, the cumulative losses for 2008 would be around 90% lower than the 1996-2007 average.

Ignoring a loss could be classified as massaging the figures to suit a particular viewpoint, but it does suggest that the industry's overall loss record continues to improve.

Cumulative Loss Graph 2008 (Including attritional losses)



That said, it also shows that the airline insurance market operates to support an industry with an inherently high level of risk, and the price of an insurance policy needs to reflect this if it is to offer sufficient coverage in the event of further major losses or even strings of losses.

Legal Update

Movements in the European blacklist Paul Phillips, Partner and Head of Aviation, Stephenson Harwood

There have been two further updates to the EU blacklist of airlines, which was first published in March 2006. In the September 2007 update, the European Commission, acting on the advice of the European Air Safety Committee, banned two new airlines that had been found to be unsafe: Ukrainian Mediterranean Airlines from the Ukraine and Mahan Air from Iran.

The September 2007 update followed quickly on the heels of the fourth update of the blacklist published in July 2007, which controversially imposed an operating ban on all Indonesian airlines, as well as on the Angolan flag carrier TAAG Angolan Airlines and the Ukrainian carrier Volare Aviation Enterprise.

Normally issued on a quarterly basis, the September 2007 update represented a step change in the approach the European Commission is taking to the blacklist: Jacques Barrot, the Commission Vice-President in charge of transport, said: "This latest update illustrates once more that the blacklist is a dynamic instrument which the Commission can use whenever necessary, without having to wait for the quarterly review".

In the sixth update of the EU blacklist published in November 2007, the Commission lifted the bans imposed on Blue Wing Airlines from Surinam and the operating restrictions imposed on Pakistan International Airlines (PIA). Blue Wing and PIA successfully completed the implementation of a corrective action plan following their inclusion on the list, and their respective oversight authorities produced evidence that they had verified the measures taken by the airlines so as to avoid the same problems recurring in the future.

Commenting on the removal of airlines from the list, Barrot said: "When airlines take rapid and sound corrective action to comply with safety standards, they can be withdrawn from the list quickly... The list increasingly serves as a pre-emptive rather than punitive tool for safeguarding aviation safety. There are now numerous instances where the Commission has successfully addressed potential safety threats with third countries and airlines in advance, and before it is forced to take the drastic measure of imposing restrictions".

The latest update highlights the continuous dialogue between the Commission and certain states regarding the safety of their carriers. In particular, the Commission will continue to closely monitor various Russian air carriers on which the Russian oversight authorities imposed their own operating restrictions, as well as monitoring airlines from Bulgaria and Moldova.

Meanwhile, the ban on all 51 airlines certified in Indonesia remains in place, following a review by the EU Air Safety Committee in November 2007. All Indonesian airlines were added to the list in July 2007 following a string of accidents including an Adam Air

jet that plunged into the seas off Sulawesi Island on 1 January 2007, killing all 102 on board, and a Garuda jet that crashed in Central Java in March 2007 with 21 fatalities.

The European Commission's Head of Aviation safety, Roberto Salverani, has declined to say when the ban might be lifted on the Indonesian carriers, but said that a conference that took place in November 2007 between the EU Safety team and Indonesian airlines is a step towards lifting the ban. The reputation and safety record of Indonesian airlines was not assisted by the skid off the runway by a Mandala Airlines jet on Java Island at the end of October 2007, caused by the snapping of the Boeing 737-200's front axle when it landed.

Indonesia is very concerned by the EU's decision to renew the ban of all of its airlines on 28 November, despite repeated appeals. Relations between Indonesia and the European Union have now nose-dived to an all time low, to the extent that negotiations have been suspended until the ban on all of its airlines has been lifted.

Indonesian Director General of Air Transportation, Budhi Mulyawan Suyitno, has announced that the Indonesian Government will not be purchasing European aircraft in retaliation for the inclusion of all the country's airlines on the EU blacklist, and has also suspended negotiations with the EU over an open skies policy.

The European blacklist has undoubtedly been a contributory factor to the reduction in the global crash toll figures for 2007, which were published by Flight International in early January 2008. The global figures for commercial aviation crashes in 2007 show a marked drop against previous years, with an all time low of 23 fatal accidents and 597 fatal casualties. This compares favorably to annual averages for the decade 1998-2007 of 34.5 fatal accidents and 846 fatalities a year.

First airline removal - EU Blacklist

Stephenson Harwood acted for the first airline to be removed from the EU Blacklist, Buraq Air, and also acted for Blue Wing Airlines, which was removed in November 2007. The team is currently acting for several other carriers seeking removal from the blacklist and is also advising national oversight authorities. For advice and assistance please contact Paul Phillips at paul.phillips@shlegal.com

The Legal Update section is designed to keep our clients, the market and the industry as a whole informed about important developments in the legal aspects of the aviation industry. If you would like to submit a piece to be included in the Aon Airline Insurance Market News or the Aon Aerospace Insurance Market News, please contact aviation@aon.com

Airline Renewals

Airline	Renewal Date
Air Comet	01 Apr
Air Jamaica	01 Apr
Air Madagascar	01 Apr
Air Mauritius	01 Apr
Air Tahiti	01 Apr
AirAsia	01 Apr
British Airways	01 Apr
Corse Mediterranee (CCM Airlines)	01 Apr
Evergreen International	01 Apr
Kingfisher Airlines	01 Apr
Meridiana	01 Apr
Neos	01 Apr

Nearly twice the number of airline insurance programs are expected to renew on April 1 than the whole of the first quarter combined. The expected renewals include nine programs with average fleet values of over US\$1bn.

In 2008, the month is particularly pivotal, as it is likely to show how successful the insurance market has been in its much touted hardening of lead hull and liability prices.

It is very unlikely that there will be a repeat of the significant reductions in lead hull and liability prices witnessed on 2007/08 renewals during the first half of last year, but capacity remains high and is likely to drive some price competitiveness for 2008/09 renewals.

At the same time, 2008 has so far been a year with a relatively high value of hull losses compared to the average over the last 12 years, which will have an impact on negotiations at this point.

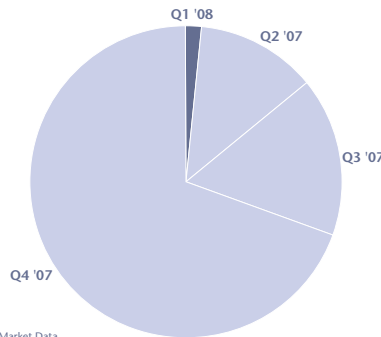
Equally, the fact that the largest loss so far this year is on the largest renewal in April complicates the picture.

On the one hand the loss underlines the potential for major losses in the airline industry, but at the same time, the fact that the loss involved no fatalities and also represents around 60% of the total hull losses for the year so far (not including attritional losses) suggests that the industry is still relatively safe.

May, while quieter than April, is expected to see 16 renewals, three of which have average fleet values of over US\$1bn. As a result, it will mean that we will begin to have a clearer picture of market direction in 2008.

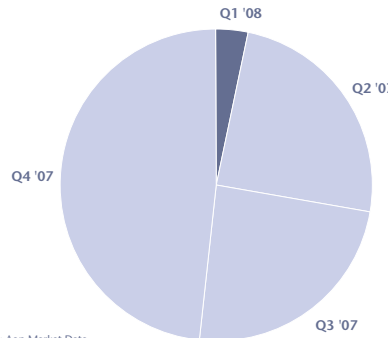
Airline	Renewal Date
Royal Brunei Airlines	01 Apr
Spicejet	01 Apr
Air Berlin	04 Apr
Germania	04 Apr
Hainan Airlines	08 Apr
Air Italy	15 Apr
Hola Airlines	16 Apr
Jet Airways	16 Apr
Arik Air	20 Apr
Air ASTANA	26 Apr
TAME	30 Apr

Airline Monthly Premium Profile



Source: Aon Market Data

Airline Monthly Renewal Profile



Source: Aon Market Data

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.

If you have any comments regarding this newsletter, please contact:

Magnus Allan: magnus.allan@aon.co.uk

For information and analysis, please contact:

Kelly Fuller: kelly.fuller@aon.co.uk

Paul Mitchell: paul.mitchell@aon.co.uk

Aon UK is authorised and regulated by the Financial Service Authority for insurance mediation services only.

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.

Average fleet values are the average value of a fleet during the entire length of the insurance programme rather than a single specific date

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.

Reproduction permitted with written authorisation.

Registered Office: 8 Devonshire Square, London, EC2M 4PL

Registered in London No.210725 VAT Registration No.480 48

© Copyright 2008 by Aon Aviation. All rights reserved. FP4568