

# Current Market Conditions

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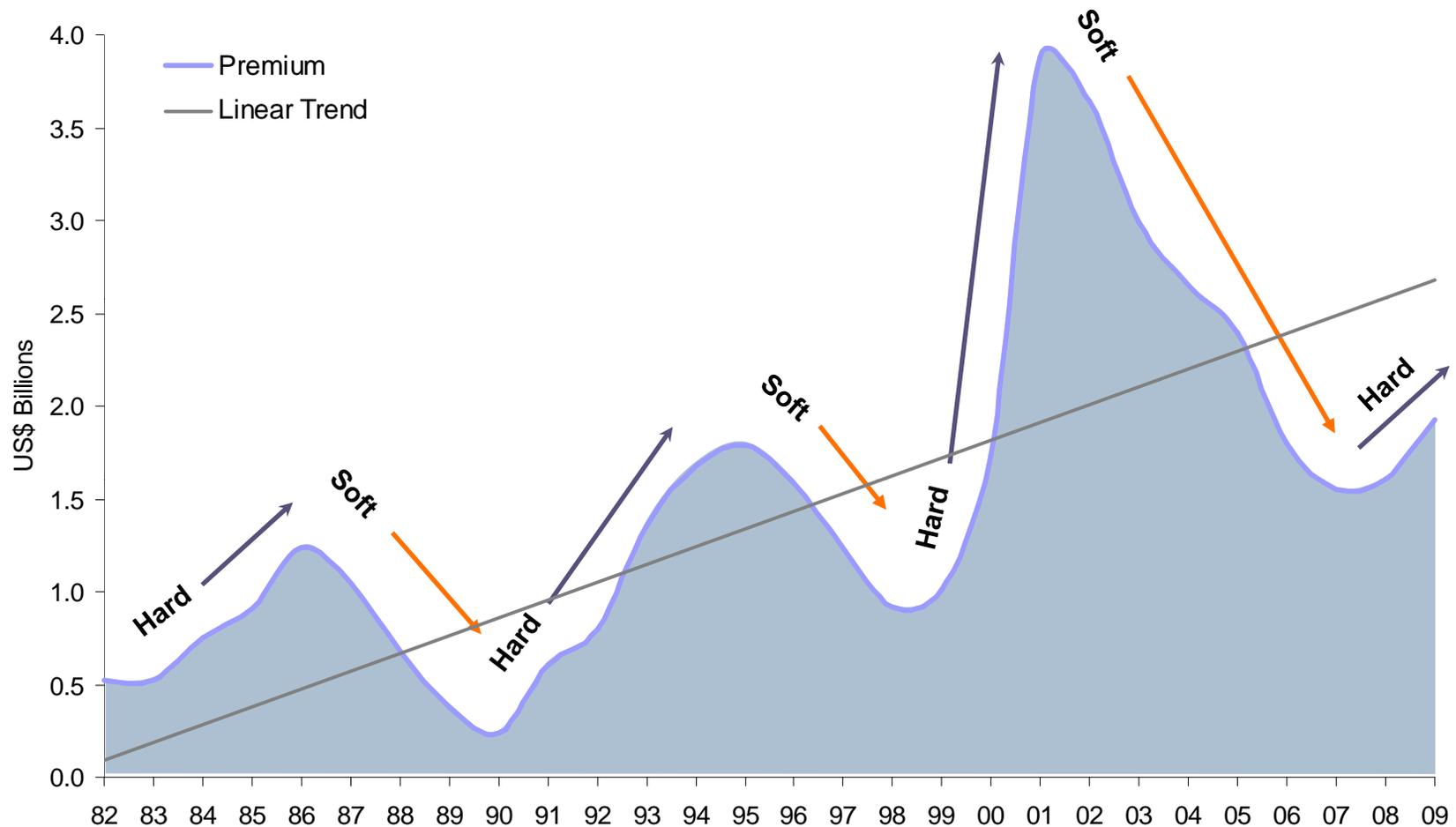
- The market has only achieved a single digit increase in premium for 2010 so far
  - This compares to +20% witnessed on average in 2009
- Excess capacity is holding back the impetus for higher increases despite the high loss levels witnessed last year
  - Claims exceeded US\$2.3bn in 2009 making it the second highest total recorded in the airline insurance industry
  - This was also preceded by two loss making years for underwriters in 2007 and 2008
- Underwriters will be looking ways to further increase premiums going forward
- If premiums in other insurance sectors start to increase due to losses capital provider may look to move their capacity elsewhere

# Current Market Conditions

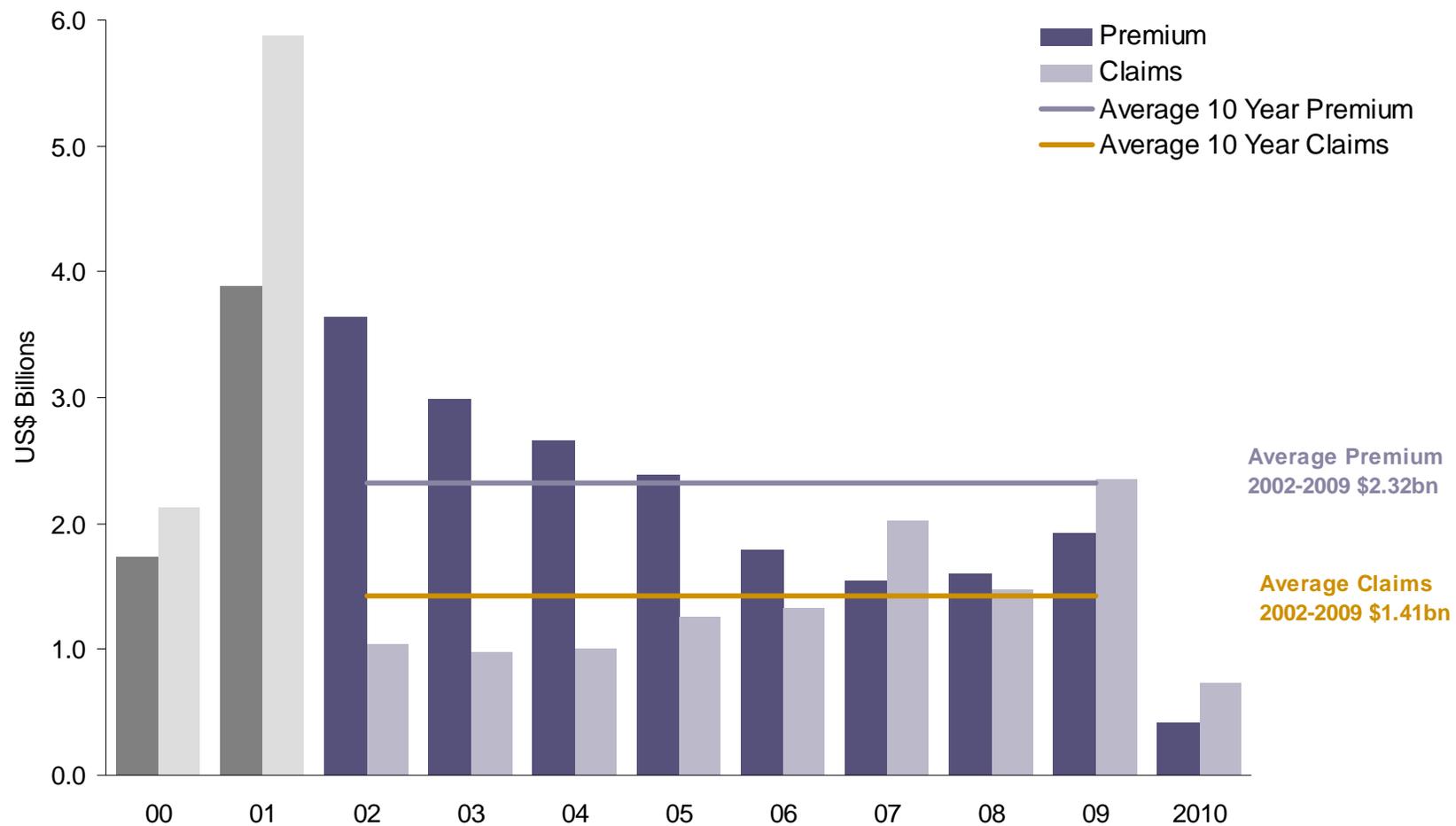
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- Market conditions have evolved throughout the year
- In early 2010 the hull and liability market was still achieving double digit average premium increases
  - The Q1 average was +13%
- Despite 2 major losses in Q2, the pressure of competition from excess market capacity meant the average premium increase was only 7%
- Early indications show that Q3's average premium movements will be flat
  - And with predicted exposure growth this suggests that the real cost of insurance is actually falling
- With losses for the year below long term averages and excess capacity available for most risks this trend is likely to continue

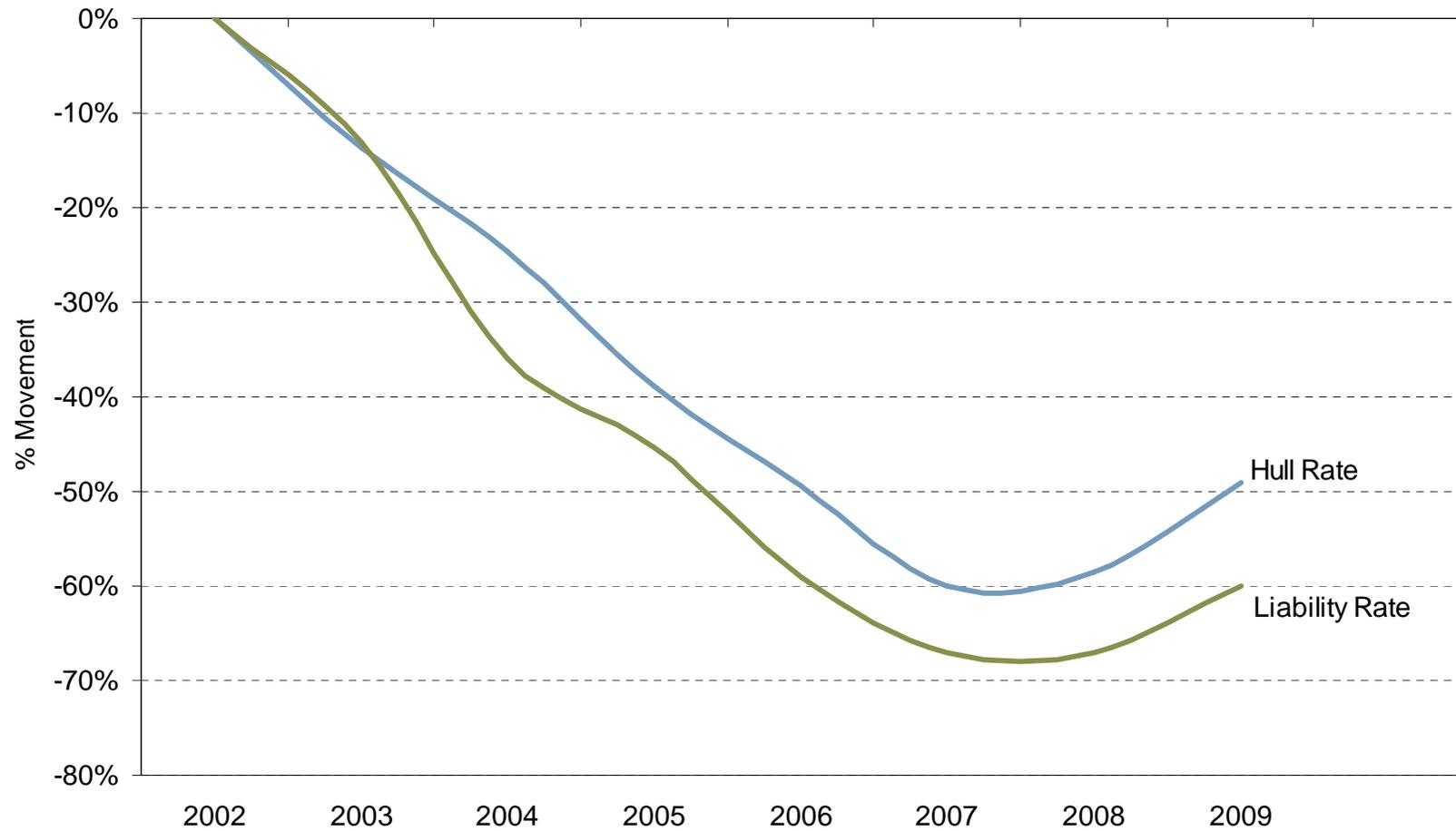
# Airline Insurance Industry Cycle: Airline Hull/Liability Premiums 1982-2009



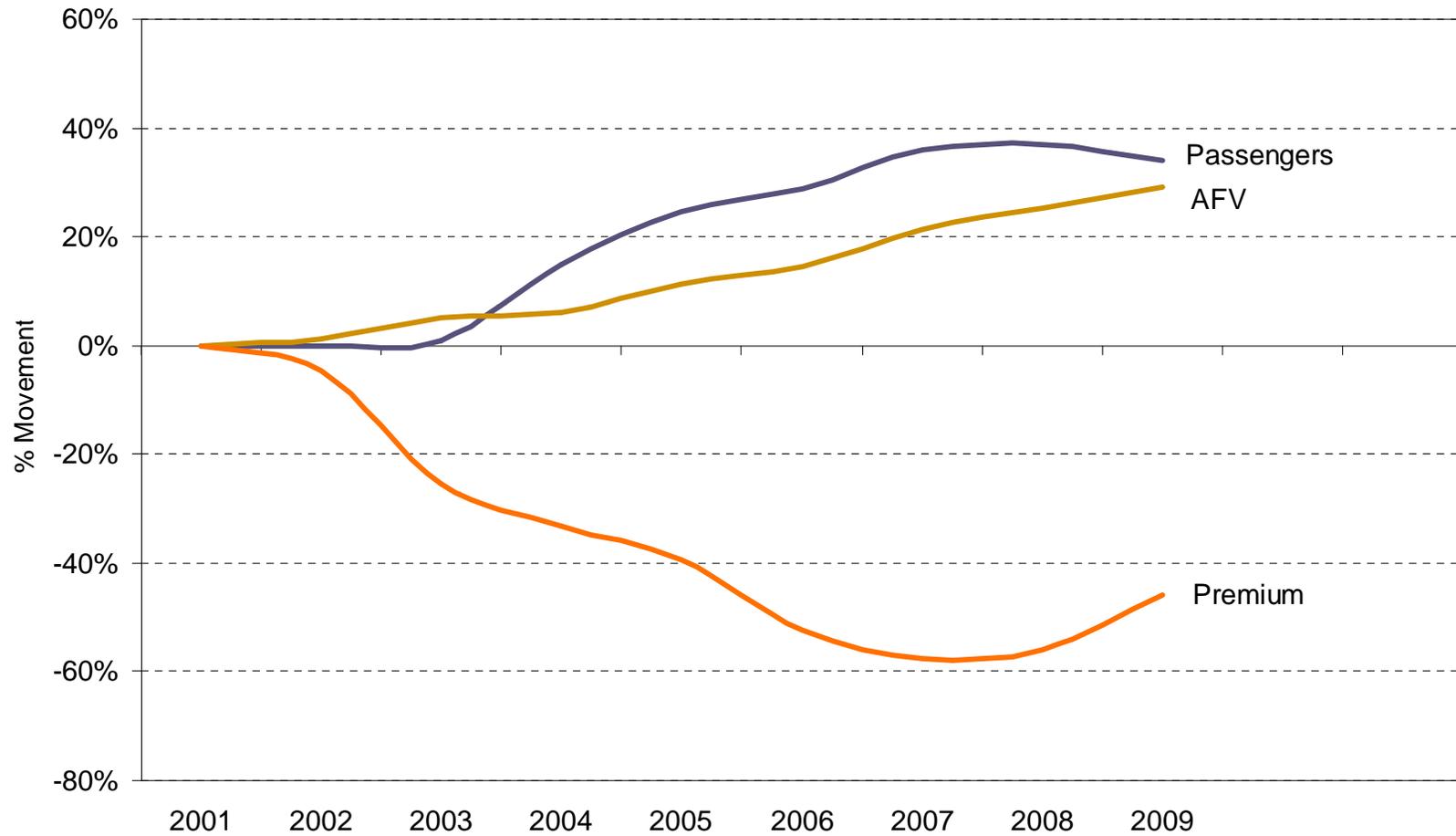
# World Airline Premium and Claims 2000-2010



# Hull and Liability Rate Movements 2002-2009



# Exposure versus Hull and Liability Premium Movements 2001-2009

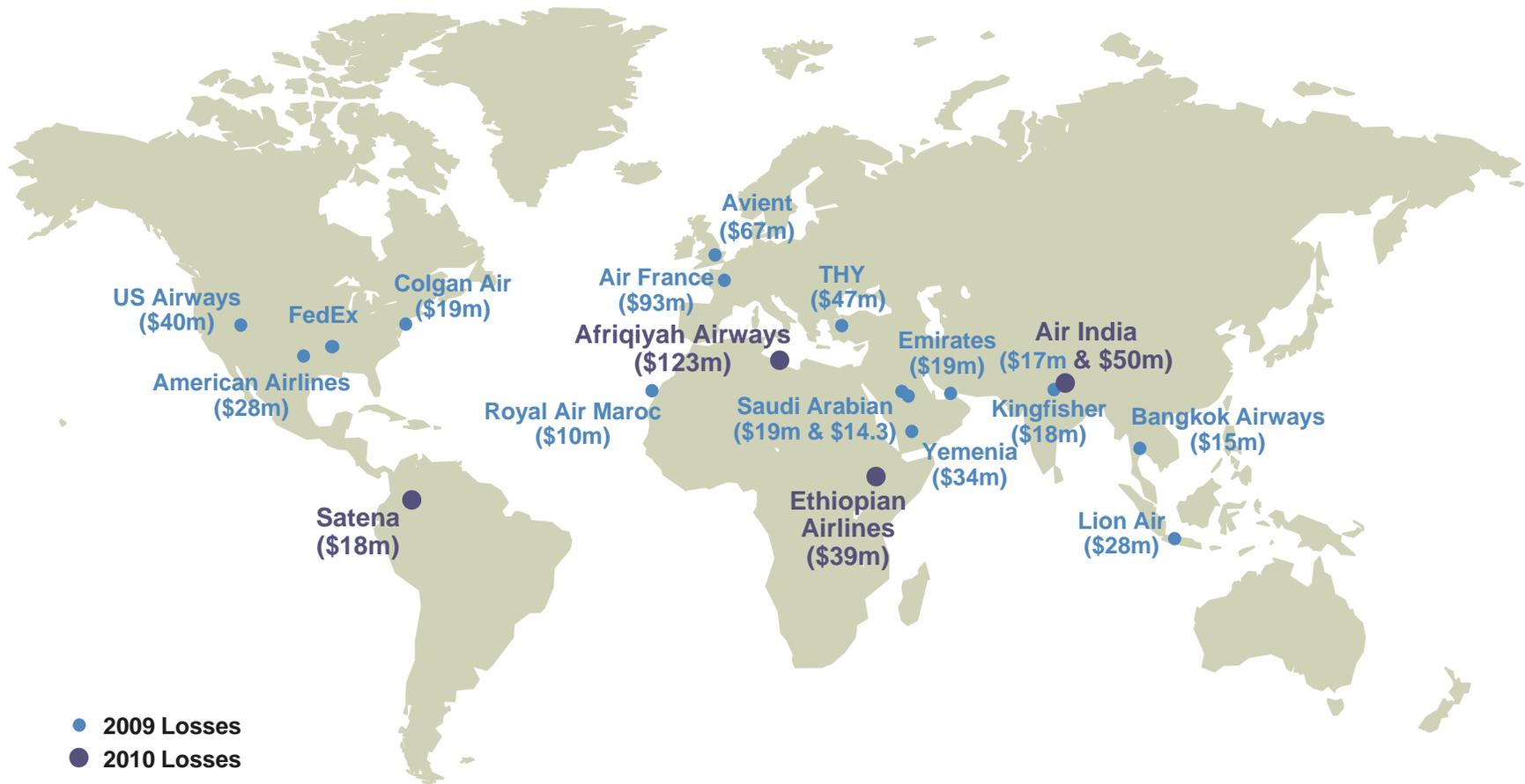


# Losses

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- Despite three major losses so far this year (Ethiopian, Afriqiyah and Air India) claims levels are below the average levels seen between 1996-2009
- 2009, however, was one of the highest years for claims ever witnessed in the airline insurance market
  - Claims reached over US\$2.3bn, the second highest total seen
- This follows 2007/8 which had the first and second highest claims totals since 2001 respectively
  - 2007 losses exceeded premium income for the first time since 2001
  - 2008 claims were below the premium income for the year but would have been a nett loss to underwriters when costs are taken into account

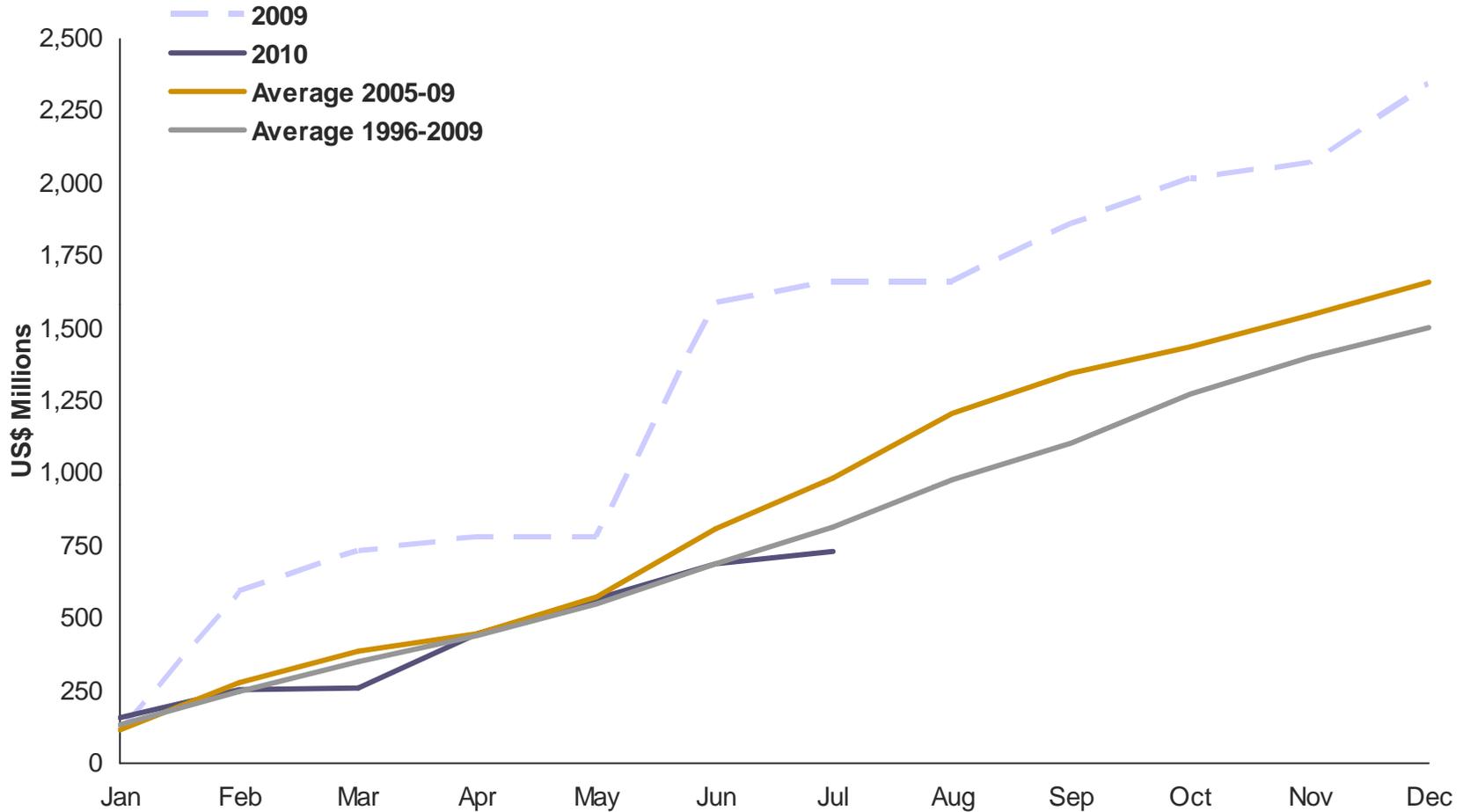
# 2009/10 Airline Losses: Nett Hull losses in Excess of US\$10m Shown



**Total Hull/Liability Losses**  
 2009 (including minor losses) – US\$2.343bn  
 2010 (including minor losses) – US\$0.733bn

# Cumulative Loss Graph 2009

(Including minor losses)



# Aviation Hull War Market

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- The hull war market seems to be hovering around parity with only slight average reductions being witnessed
- 2009 had an average premium movement of -5%
- Around 160% capacity is still available on current top value requirements
- Coverage can include wide-bodied aircraft hull values in excess of US\$250m
  - But in 2009 the total market hull war premium was just over US\$110m
- Premiums have been influenced by the US Homelands Security Bill
  - i.e. US carriers insured by government
- Despite recent low levels of premium the hull war market has remained profitable for underwriters
  - 2001-2009 saw profit in excess of US\$948m
  - 2003-2009 saw profit in excess of US\$1,133m

# Excess AVN52: Third Party Liability

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- Premiums are now at their lowest level since the introduction of this cover and reductions are now minimal
- Premium levels are significantly short of the maximum insured limits
  - Limits of US\$1 billion or more being covered for an estimated total market premium of around US\$200 million in 2009
- The Excess AVN52 market has yet to suffer an insurable loss
- The market created in the wake of 9/11 has had the largest percentage fall in premium levels since the highs of 2002
  - An influx of capacity and competition has driven premiums down from US\$1.5 billion in 2002
- Some hull and liability underwriters are evidencing appetite to increase sub-limits to US\$250m

# Insurance Market Concerns

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- Increased liability awards
  - “Forum Shopping” from plaintiff attorneys to achieve maximum award levels
- Runway incursions
- Weather derivatives including volcanic eruptions

# Volcanic Impact?

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- The Icelandic volcanic eruption earlier this year had a major impact on the aviation industry
- Insurance implications were negligible however
  - The reduced passenger numbers will have little impact in adjusted premiums
  - No insurance coverage for lost revenue and passenger compensation

# Service Providers Market Conditions

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- The smallest of the aerospace sectors
  - 40 out of the 233 renewals monitored by Aon in 2008
  - Generating only 6% of the overall aerospace market premium
- The sector continues to receive the best treatment from the aviation insurance market
  - 2009 has an average reduction of -13%
  - Average premium reductions in 2008 were -6%
  - This is reflective of the short-tail nature of the claims in this sector

# Premium and Claims: Service Providers

(As declared for the 2009 renewals)

