AEROSPACE INSURANCE MARKET NEWS

Quarter One, 2007

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Market Overview

The full 2006 figures for the aerospace insurance market point to a slight hardening in average lead premium during 2006 when looking at original reporting currency.

This has been driven by a fairly consistent single digit premium increase in most months of 2006. There where only two months when reductions occurred, both of which took place when there were relatively few renewals.

The market continued to follow its pattern for spikes of activity early in each of the first three quarters. The final quarter, however, continues to be the second quietest in the aerospace insurance market, adding only 17% of the year's total premium contribution, compared to 43% in the third quarter.

If the aerospace market hardens slightly during 2007, the operations in our reporting criteria will breach US$1bn worth of total lead premium. It seems, however, that there may be a reduction.

Despite the relatively low level of activity, the market softened slightly during December, reflecting the high level of competition that currently exists among underwriters in the market.

The overall average lead premium softened by -3% in original reporting currency during December.

When looked at in US dollar terms, this translates to a -13% lead premium reduction for the month, highlighting the benefit of examining premium movements in both US dollar and original reporting currency terms in the aerospace insurance market.

The reductions suggest that the capacity that has entered the aviation market generally over the last six months is beginning to have an impact on the aerospace sector. It is possible that this process will accelerate during the course of 2007.

If the current rate of reduction in the airline market continues, it may be that the more stable aerospace sector becomes increasingly attractive, potentially leading underwriters to play an increased role in the sector and driving down prices.

The composition of the aerospace market has remained constant during 2006, with the manufacturing sector forming 81% of the market in lead premium terms, airports contributing 13% and service providers adding 6%.

Given the size of the manufacturing sector, it would take a significant increase in the premium of one of the other two sectors to have a serious impact on the current ratio.

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	Reporting Currency Premium Movement (% change)
Quarter 1	47	90.55	88.09	-3	+4
Quarter 2	49	276.67	278.52	+1	+2
Quarter 3	71	396.30	386.96	-2	+3
October	13	21.70	24.56	+13	+10
November	18	86.19	88.39	+3	+5
December	15	43.57	37.71	-13	-3
Full Year 2006*	**213**	**914.98**	**904.23**	**-1**	**+3**

Source: Aon Market Data
*Like-for-like data.

Sector Analysis

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	Reporting Currency Premium Movement (% change)
Airport	70	118.31	114.65	-3	+2
Manufacturer	110	742.82	735.80	-1	+5
Service Provider	33	53.84	53.78	0	+4
Full Year 2006*	**213**	**914.98**	**904.23**	**-1**	**+3**

Source: Aon Market Data
*Like-for-like data.

Airports

Despite increasing global passenger exposures, the airport sector has witnessed the smallest rise in lead premium during the year in original reporting currency and the largest US dollar reduction.

The reason for this is likely to be that the airport sector is closely linked to the airline sector, where competition and low loss levels have been driving down the cost of insurance.

The reductions at the end of the year were a break from the trend that had been in place for the first nine months, when the airport sector had consistently delivered low single digit lead premium increases.

In terms of sector developments, the US National Transportation Safety Board (NTSB) has requested the Federal Aviation Administration (FAA) enforces improvements to pilots' pre-take-off safety awareness checks. The move comes in the wake of the crash of a Comair Bombardier CRJ, which attempted to take-off from the wrong runway at Kentucky's Blue Grass Airport in August 2006 and crashed as a result.

According to the NTSB, despite several earlier FAA recommendations on runway situational awareness, standard operating procedures vary widely between operations because the recommendations are not mandatory in the US.

Meanwhile, a new international passenger terminal is to be built at India's Jaipur airport as the government continues to improve its aviation infrastructure. Hong Kong Airport has announced an open tender for a new cargo terminal, which may go live as early as 2011.

Manufacturers

Premium has risen by a relatively significant amount in original reporting currency terms, despite the recorded fall according to the US dollar results. This is mainly the result of currency fluctuations impacting the results of manufacturers such as Avio, Dassault and Liebherr.

Finmeccanica also had a significant impact as a result of adding a number of new companies to its 2006/7 policy.

The MRO sub-sector delivered around 4% of the total manufacturers sector in US dollar terms. For the full year, this sub-sector saw a +12% increase in lead premium compared with 2005 as a result of changes to two large programmes that renewed earlier in the year.

Stripping out the impact of the MRO sub-sector means that the manufacturing sector would have delivered a +2% increase in lead premium during 2006, and as a result would have been more closely aligned with the market average.

A new US$66.5m research initiative has been unveiled by Airbus and the UK government. The operation, based in north Wales, will focus on creating more cost-efficient and environmentally friendly wing technologies.

General Electric Company is to buy Smiths Group's aerospace division for around US$4.8bn, while Eaton is to purchase AT holdings, parent of aerospace fuel system maker Argo-Tech for US$695m.

Service Providers

The service provider sector remained fairly constant during 2006, although there is an expectation that it will deliver a greater level of reduction during 2007 as a result of competition in the aerospace market.

Average lead premium levels change from +11% in the third quarter to -2% average reductions in the final quarter.

Service providers during the first three quarters generally recieved increases and as before renewals, but the last two months saw some reductions. There were exceptions to this trend, including one global refuelling operation which increased its combined single limit.

December Hints at 2007 Market Direction

Despite being a relatively quiet month in terms of aerospace renewal activity, December may represent the beginning of a new trend in premium direction for the aerospace insurance market.

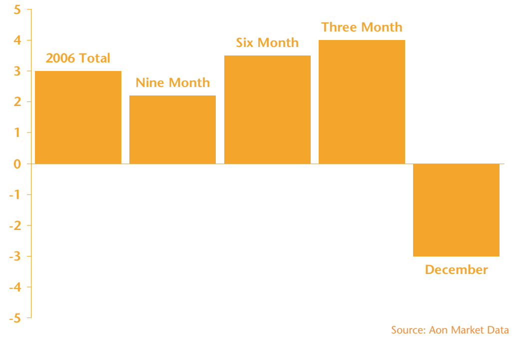
Throughout 2006, the market delivered fairly consistent single digit premium increases, in line with the trend witnessed during the later months of 2005.

In December, however, there was a -3% decline in average lead premium, driven by reductions for programmes across all aerospace sub-sectors.

While there were two programmes that received increases during December, due in the main to increases in their limits, and one programme received an as-before renewal, the remaining eleven renewals at the end of 2006 received reductions in their lead premium.

A single month does not form a change in the overall market trend. Given the level of reductions that are currently occurring in the airline insurance market however, it is possible that the overlap that exists with aerospace will cause there to be some softening of the market over the next few months.

Average Percentage Premium Movement
(original reporting currency percentage change)



Source: Aon Market Data

The fact that the December reductions were the result of changes to the majority of programmes rather than large reductions on a few isolated programmes, also adds weight to this suggestion.

The aerospace market is unlikely to emulate the airline market in terms of the level of reductions that are currently available, but the December numbers could point to the 2007 market direction.

Aon Update

Weather Difficulties Highlight Value of Derivative Products for Airports

The fog that crippled aviation infrastructure in the UK over the festive season, and the storms that have recently swept the US and Europe, have highlighted how vulnerable airport operators are to the weather.

While claims are expected to be limited as a result of the incidents, the issues created highlighted the difficulties that aviation operators can find themselves in as a result of weather conditions that are above or below seasonal norm.

Unexpected weather, be it rain, snow, fog or simply freezing conditions can increase the possibility of flight delays, diversions or even cancellations, as well as complicate airport renovation activity. An airport needs to be able to manage any situations successfully to ensure that its customers are happy with the service they receive, but bringing in staff to manage large numbers of delayed passengers can be very expensive.

It is not only headline-grabbing weather conditions that can have an impact, even minor issues can have a draining effect on the bottom line. Weather patterns that are simply one degree above or below the seasonal norm can create unexpected demand for an airport's services. As they increasingly become seen as retail outlets at the same time as travel hubs, airport organisations need to be in a position to respond quickly and effectively to changes in demand to keep airlines, tenants and passengers content.

Weather risk management insurance can offer a way of balancing any potential impact.

Implementing a weather risk management product offers an organisation some return in the event of specified weather related issues. For example, if an airport is regularly forced to close due to heavy rain, a weather risk product can offer support in the event that there are more rainy days than average.

Well implemented weather risk management techniques can help ensure that budgeted financial performance is achieved. The aviation industry faces many challenges and severe cash constraints, so the efficient management of all operating risks is paramount, and purchasing weather risks contracts can form part of this strategy.

Aon has practitioners that are experienced in structuring and executing weather risk management insurance contracts and can help minimise the impact of adverse weather on the bottom line.

Aon's experienced professionals are able to assist by analysing the correlation between profits and adverse weather, supporting a clients' decision as to whether weather risks can be an effective product for them.

If you would like further information about how weather risk management techniques can support your operation, please contact your Aon representative or aviation.aerospace@aon.co.uk

Quarter One Aerospace Renewals

Airport Related	Renewal Date
Dublin Airport Authority	01 Jan
ENAV	01 Jan
Flugmalastjorn (Iceland CAA)	01 Jan
German Air Traffic Control Organisation	01 Jan
German Airports	01 Jan
Malaysian Airports	01 Jan
Slovak ATC	01 Jan
Vienna International Airport	01 Jan
Zurich Unique Airport	01 Jan
Belgocontrol	03 Jan
DHMI Turkish State Airport	18 Jan
AENA Spanish Airports	30 Jan
Aeroporti di Roma	01 Feb
UCCEGA Airports	01 Feb
Irish Aviation Authority	01 Mar
TBI PLC	01 Mar
Beijing Capital International Airport	05 Mar
CAAC	05 Mar
Russian ATC	15 Mar
Athens International Airport	28 Mar
BAA Plc.	31 Mar
Birmingham International Airport	31 Mar

January 1 is one of the busiest days in the aerospace renewal calendar, with around 45% of the first quarter's renewals commencing that day.

While all the data is not yet available, even if it turns out that the December average lead premium reductions were not the start of a new trend for the aerospace insurance market, it seems likely that the market will soften as 2007 progresses.

The key reason for this is the introduction of a swathe of new capacity into the aviation insurance markets. Many of these new organisations will look at the consistent returns in the aerospace market and may attempt to take advantage of the opportunities available in the aerospace sectors.

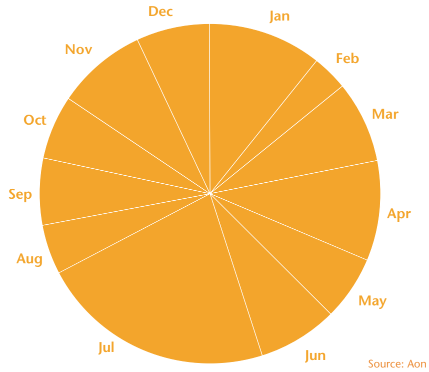
At the same time, the underwriters currently active in the aerospace market may begin to reduce prices as a pre-emptive move.

The picture will not become clear for some time, however. The first quarter of the year is expected to deliver a relatively small number of renewals, and as a result, the aerospace insurance market direction is unlikely to become defined before April, the second most active month of the year from a premium renewal point of view. In 2006, the first quarter only contributed 10% of the lead premium annual total.

Manufacturers	Renewal Date
Avio	01 Jan
Panavia Aircraft	01 Jan
Ruag Holdings	01 Jan
Ultra Electronics	01 Jan
Decrane Holdings	22 Jan
Doncasters Group	01 Feb
GAMECO	01 Feb
Edo Corporation	15 Feb
B/E Aerospace	28 Feb
Garmin	28 Feb
Alsalam Aircraft Company	01 Mar
BASF AG	01 Mar
Goodyear	01 Mar
Harris	01 Mar
Hexcel Corporation	01 Mar
Indra Sistemas	01 Mar
ITP	01 Mar
Sonaca	01 Mar
Contran	15 Mar
Thales (France)	20 Mar

Service Providers	Renewal Date
Caltex Australia Limited	01 Jan
Chinese Petroleum	01 Jan
ENI Spa Companies	01 Jan
Galp Energia/Petrogal	01 Jan
Tamoil/Oilinvest	01 Jan
Total Fina Elf	01 Jan
BP	01 Mar

Aerospace Monthly Renewal Profile, 2006



Source: Aon Market Data

If you have any comments regarding this newsletter, please contact:
Steve Doyle, Global Practice Manager, tel: +44 20 7216 3914, email: steven.doyle@aon.co.uk; Magnus Allan, Industry Journalist, tel: +44 20 7086 1277, email: magnus.allan@aon.co.uk
For information and analysis, please contact:
Kelly Fuller, tel: +44 20 7668 9589, email: kelly.fuller@aon.co.uk; Paul Mitchell, tel: +44 20 7216 3641, email: paul.mitchell@aon.co.uk

Our criteria for inclusion is accounts with any of the following: a combined single limit (liability limit) of over US$650m; premium of over US$2m; top 50 airport groups by revenue; top 100 manufacturers.

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