AEROSPACE INSURANCE MARKET NEWS

Quarter Four, 2007

Market Overview

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The first three quarters of the year appear to suggest that the aerospace insurance market has been gradually softening, with average reductions in lead premium of -1% in the first quarter, -6% in the second and -10% in the third.

The third quarter numbers have been influenced however, by changes at a couple of August renewals. This includes Smiths Industries' aerospace arm, which has been sold to General Electric, and only had an airport security products placement for its 2007/08 renewal as a result.

The final quarter is likely to witness the same effect. The results that we have collected for October so far have been influenced by a major European airport that moved US$100m public/products liability coverage into the non-aviation market, for example.

Factoring these changes out of the reporting currency percentage changes, and the figure for August would have been -13% and for October to-date would be -7% in reporting currency, far more in line with the high single digit average reductions that have been recorded so far this year.

There are still just under thirty programmes expected to be placed before the end of the year, and November is the year's third most active month in terms of premium, so there is still room for some changes in the average liability percentage premium movement.

Around 90% of the expected number of renewals have now taken place, however, providing a fairly clear guide to how the premium numbers for certain sectors and regions will look at the end of the year.

Overall, the percentage premium movement average per renewal in the aerospace insurance market during 2007 has fallen significantly compared to 2006. Last year, it rose by +2.6% compared to 2005, while this year, to date, the average premium per renewal has fallen by -8.3% in reporting currency.

The diversity of the aerospace insurance market means that data that covers the whole of the market in this way should be treated with a significant element of caution, however. Drilling down into the data shows the markets are approaching each sector, region and operation size in different ways.

For example, while premium for the limited number of Africa-based programmes rose by +15% so far this year in reporting currency, Europe fell by -7% and Asia and the Americas fell by -8%.

Equally, the treatment that aerospace programmes receive can also depend on their size. Looking at the market segmented by liability limit, the industry's larger organisations have fared significantly better than the smaller operations.

Programmes with a liability limit of US$1bn or more have enjoyed double-digit reductions in their premium compared to last year. Those with a liability limit of up to US$499m, meanwhile, have only seen their premiums fall by around -3%.

Making sense of the complexity of the market can be difficult, but it highlights the benefits that professional risk management can deliver. As part of this process, this edition of the aerospace newsletter focuses on regional as well as sector breakdowns.

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	RC* Premium Movement (% change)
May	12	31.51	23.03	-27	-4
June	19	50.51	45.20	-11	-7
July	49	289.03	253.84	-12	-8
August	10	60.35	49.95	-17	-20
September	11	33.69	34.57	+3	-11
October (to-date)	6	11.27	10.15	-10	-16
2007-to-date	**190**	**767.36**	**686.58**	**-10**	**-6**

Source: Aon Market Data
*RC: Reporting Currency
Numbers on a like-for-like basis

Sector Analysis

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	RC* Premium Movement (% change)
Airport (YTD)	62	108.12	107.46	-1	-6
Manufacturer (YTD)	93	609.35	537.92	-12	-4
Service Provider (YTD)	35	49.69	42.08	-15	-12
2007 (YTD)	**190**	**767.16**	**687.46**	**-10**	**-7**

Source: Aon Market Data
*RC: Reporting Currency
Numbers on a like-for-like basis

Airport (including ATC)

Of the 62 airports and air traffic control programmes (ATC) that have renewed so far this year, only 12 have seen their premium increase. Of the increases, eight were double-digit, driven mainly by limit changes or increases in the number of operations included in an insurance programme.

There have been 26 double-digit reductions, reflecting the close links between the airport sector and the airline insurance market, which has witnessed average lead premium reductions of around -15% during 2007 so far, driven by competition and relatively low long-term loss levels.

There are only around eight more airport renewals expected to take place by the end of the year, so there is little reason to expect a major shift in the final position for 2007.

The sector is dominated by European operations, which make up 36 of the 62 renewals that have taken place to date. This would suggest that there is potential for further consolidation in the region's airport operations.

The 18 ATC operations have seen fairly consistent reductions. Only one of the ATC programmes saw its premium increase, while 13 have had single digit reductions and four have seen their premiums reduce between 10% and 15%.

Manufacturer (including MRO)

The manufacturer sector is the largest of the three sectors in the aerospace insurance market, but has seen the lowest proportion of programmes renewed at this point in the year, with just under three quarters of the year's expected number of programmes placed so far.

Just under a quarter of the renewals that have taken place have seen their premiums increase, while just under half have seen double-digit reductions, reflecting the high level of competition that there is for manufacturing programmes in the current environment. Six have had reductions of over 25%.

The manufacturing sector suggests that the aerospace insurance market is continuing to soften somewhat. At the end of the second quarter, the average premium decline in reporting currency was -1%, but this has now softened to -4%.

This is not a massive change, but the sector still has a relatively large number of programmes to be placed and the airline market continues to decline rapidly. As a result, it may be that the sector will soften further as the end of the year approaches.

There is little impact of the maintenance, repair and overhaul (MRO) programmes on the overall manufacturing sector. The MRO programmes are included in the manufacturing sector because of their similar risk profile, and the 11 that have renewed so far this year have enjoyed an average reduction of -7%.

Service Provider

The service provider sector, which has pretty much completed its activity for 2007, has been the biggest beneficiary of the soft market conditions, with a -12% average lead premium reduction year-to-date. This is being driven by the markets differentiating between the short tail nature of losses in this sector compared to the manufacturers.

It is the smallest sector in the aerospace insurance market according to Aon's reporting criteria, but the reductions in the service provider sector have been relatively consistent throughout the year.

Only three of the programmes have seen their average lead premium increase during 2007. All of these are refuellers, the same industry sub-sector that had all four of the increases in the service provider sector during 2006.

That said, there have been 26 refueller renewals year-to-date, so the increases only amount to around 15% of the activity. Their impact is more than balanced by four of the refueller programmes that have received reductions of over -20%.

Of the nine service provider renewals that are not refuellers, seven have had double-digit reductions, highlighting the current soft market conditions.

One of these has seen its premium fall by nearly 75% as a result of the sale of its main aerospace business and only having an airport security placement on its 2007/08 programme.

Regional Analysis

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	RC* Premium Movement (% change)
Africa (YTD)	4	4.54	5.68	+25	+15
Americas (YTD)	66	413.80	368.02	-11	-8
Asia (YTD)	30	29.73	27.94	-6	-8
Europe (YTD)	83	313.58	279.98	-11	-7
Middle East (YTD)	7	5.70	5.96	+5	+6
2007 (YTD)	**190**	**767.36**	**687.58**	**-10**	**-6**

Source: Aon Market Data
*RC: Reporting Currency
Numbers on a like-for-like basis

Africa

Africa is the least active region in the aerospace industry. Reporting currency premium has risen by +15% compared to the 2006/07 renewals, one of only two regions where the total amount of lead premium renewed in the insurance market has risen.

The increase has been driven by one of the region's four renewals which has had an extra programme added to its policy compared to last year.

At this point in the year, 54% of the insurance premium in the region is focused on the airport sector, with manufacturers representing 29% of activity and service providers representing 17%.

There is still a major African service provider due to renew in December, which will change the proportions somewhat.

Americas

Nearly 90% of expected renewals have taken place in the Americas, but only around 80% of the expected premium has renewed, highlighting the size of the 2007's remaining renewals.

At this stage in the year, 94% of the activity has come from the manufacturers sector, although by the end of the year this proportion is likely to have fallen to around 80%, diluted by both airport and service provider renewals.

Of the 66 renewals that have occurred so far this year, 50 have received lead premium reductions, 10 of which were greater than -20%.

Asia

Asia has renewed the smallest proportion of its expected programmes so far this year, with a further 25% of the year's total number of programmes expected to renew in the run up to the end of the year.

Having had the third lowest average increase in reporting currency lead premiums in 2006/07, Asia has now had the joint highest reduction of any of the regions, -8% compared to last year.

The majority of the rest of the Asian renewals in 2007 are expected to be in the airport sector.

Europe

With 95% of the expected European aerospace programmes now placed, the -7% average lead premium reduction compared to the 2006/07 renewal period is likely to be fairly final for the year.

Of the 83 renewals recorded so far this year, 66 have received reductions, and a further four have received the same renewal price as last year.

Of the 13 remaining renewals, only two were increases of over 20%, the first of which, an airport, saw its loss ratio rise significantly, while the second, which saw its premium rise by nearly 200%, significantly increased its limit.

Nearly two thirds of renewals that have taken place year-to-date have come from the manufacturing sector. This proportion will have dropped by the end of the year, by which time there are expected to have been a few more airport renewals.

Middle East

The Middle East is the second smallest region in terms of lead premium and renewals the aerospace insurance market. Like Africa, average lead premium has increased for the 2007/08 renewals, building on a +10% increase witnessed during 2006/07.

The increase in average lead premium has been driven by a single airport programme which has seen its premium rise by nearly 70% as a result of a significant increase in its limit.

If this programme is factored out, average lead premium for the region falls by around -7%, much more in line with global average.

Fourth Quarter Aerospace Renewals

Airports	Renewal Date
Airports of Thailand Public Co Ltd	1 Oct
Eurocontrol	1 Oct
Manchester Airport	1 Oct
Macau International Airport	13 Oct
Adelaide Airport	31 Oct
Portuguese Airports	1 Nov
Serco Group	1 Nov
Worldwide Flight Services (Vinci)	1 Nov
Infraero	4 Nov
NAV Canada	16 Nov
Air Traffic Management Bureau of CAAC	30 Nov
Bristol Airport	1 Dec
Copenhagen Airports	1 Dec
Newcastle International Airport	1 Dec
Romanian Air Traffic Services (ROMATSA)	1 Dec
The Government of Dubai	1 Dec

Service Providers	Renewal Date
PTT (Petroleum Authority of Thailand)	1 Oct
Aviapartner	1 Nov
QSLP	1 Dec

Manufacturers	Renewal Date
BBA Group	1 Oct
BT Group	1 Oct
Fuji Heavy Industries	1 Oct
Precision Castparts Corporation	1 Oct
Standard Aero	1 Oct
TAT Industries	1 Oct
Hewlett-Packard Company	31 Oct
Elbit Systems	1 Nov
Esterline Technologies	1 Nov
FMC Corporation	1 Nov
General Dynamics	1 Nov
HAESL	1 Nov
HEICO	1 Nov
Israel Aerospace Industries	1 Nov
Loral Space and Communications	1 Nov
PPG Industries	1 Nov
Rolls-Royce	1 Nov
Honeywell International Inc.	14 Nov
MD Helicopters	18 Nov
Ishikawajima-Harima	22 Nov
Garmin	30 Nov
Safran Group (previously SNECMA)	30 Nov
Singapore Technologies	1 Dec
STARCO	1 Dec
Stork N.V.	1 Dec

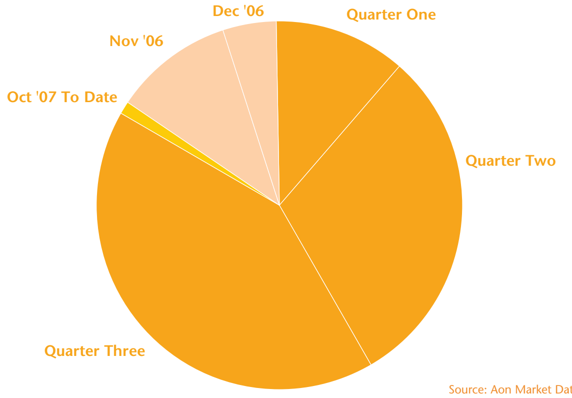
The final quarter is the second smallest of the year in terms of both premium and renewals. Last year, quarter three was nearly three times the size of the final quarter in terms of lead premium, and there is little reason to expect a significant change once we reach the end of 2007.

Unusually for the aerospace insurance market, where the first month of each quarter tends to show a spike in activity, November is expected to deliver the lion's share of activity. Last year, the month saw the renewal of programmes with more premium than October and December put together, and 2007 is unlikely to be any different.

November's activity is mainly driven by the manufacturing sector, which has a very active November and includes the renewal of two of the largest aerospace manufacturer programmes.

Once the November renewals are placed, the year should come to a fairly gentle end. January then begins the cycle once again and is the fourth most active month of the year. That said, the first quarter is the quietest of the year in terms of lead premium, and in 2006 only delivered around 10% of the total annual premium. As a result, the direction of the aerospace insurance market is unlikely to become clear before April 2008.

Aerospace Premium Renewal Profile



Source: Aon Market Data

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

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