The Issues & Challenges in B2B and Pay-outs for Airlines

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27th February 2020
Context: four major trends that will impact B2B

- Changing customer expectations
  - Simple and secure payment experience
  - Availability of relevant AFOPs e.g. PayPal, WeChat Pay, iDeal

- Digital innovation
  - Real-time transfers e.g. SCT Inst
  - New distribution technology e.g. NDC
  - New technologies like API, cloud, blockchain

- Regulatory changes
  - Airline-specific “regulatory” changes
  - PSD2 / SCA
  - Open Banking / PISP

- New models / entrants
  - M&A activity (e.g. WEX / enett, WL / Ingenico, Visa / Plaid, etc.)
  - Evolving economics: PSR market review, IFR, etc.
Key B2B payments and Pay-outs use cases for Airlines

**B2B Pay-Ins**
- Corporates (e.g. Direct Connect / NDC)
- Travel Agents (e.g. Direct Connect / NDC)
- IATA BSP & ARC (Card & Cash)
- Cargo Agents (e.g. via IATA CASS)

**Pay-Outs (B2B and B2C)**
- To Travelers (e.g. refunds, compensation, etc.)
- To Suppliers (e.g. via IATA E&F)
- To other providers for Packages (e.g. Hotel, Insurance, Car Rental, etc.)
Sizing the B2B opportunity
NDC sales are expected to grow rapidly during 2020

Source: IATA, September 2019
IATA BSP and ARC process the majority of transactions for Airlines globally (out of pax revenue of $561bn)

IATA BSP and ARC Transactions, 2018
(USD billion)

<table>
<thead>
<tr>
<th></th>
<th>Card Transactions</th>
<th>Cash Transactions</th>
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</thead>
<tbody>
<tr>
<td>IATA BSP</td>
<td>$158.23</td>
<td>$82.42</td>
</tr>
<tr>
<td>ARC</td>
<td>$10.36</td>
<td>$84.43</td>
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Source: IATA, ARC
Cargo revenues exceed $100bn (but 2020 will be a tough year)

Source: IATA, Industry Statistics, December 2019
Pay-outs to passengers (e.g. compensations) estimated to exceed 5bn euros

![Airline Costs from Passenger Claims](image)

Source: European Commission, CODA and Airlines Data
Non-fuel supplier spend will exceed $600bn

Global Commercial Airline Expenses (USD billion)

Source: IATA, Industry Statistics, December 2019
High growth in ancillary revenues / packages

**Global Airline Ancillary Revenues**
(USD Billion)

- 2014: $49.9
- 2015: $59.2
- 2016: $67.4
- 2017: $82.2
- 2018: $92.9
- 2019: $109.5

$24 per passenger
(IATA predicts almost 4.6bn passengers in 2019)

3% of LCC’s ancillary revenues corresponds to Retail Travel
(e.g. Hotel, Car, Insurance)

Airlines can get 10% - 40% commissions per cross sell booking via their website

Source: CarTrawler, Amadeus
Latest initiatives relevant for the Airline sector
M&A activity among virtual card issuers
Acquisition of Plaid by Visa

Plaid is the Best-in-Class Platform Connecting Fintech Developers, Financial Institutions and Consumers

- Plaid is a financial data network that makes it easy for people to securely connect their financial accounts to the apps they use to manage their financial lives
- Provides safe, secure connections for 80% of the largest U.S. fintech apps
  - 11,000+ bank and financial services companies
  - 2,600+ fintech developers
  - 200+ million consumer accounts, including one in four people with a U.S. bank account
- Headquartered in San Francisco; Founded in 2013
- Currently ~450 employees
Continued focus of Mastercard on B2B via the introduction of Mastercard Track in 2020
Blockchain technology for airline sales

ARC Successfully Completes Blockchain PoC With United Airlines and Blockskye

Companies Create Private Blockchain for Settlement of Direct Ticket Sales
Industry-supported initiative to leverage Open Banking for Airlines

IATA Pay

Open Banking regulations that create opportunities for new payment methods are being introduced in many countries. At the same time, new mobile and peer-to-peer instant payment options are very popular, particularly with millennials. IATA Pay is an industry-supported initiative that responds to these twin developments by offering a new payment method for consumers when purchasing a ticket from an airline website.

IATA Pay test passes off successfully

16 January 2019

The new ticketing payment initiative aims to offer quicker, more secure transactions for airlines and customers.
Digitalisation of the Cargo space

About IATA

The International Air Transport Association (IATA) is the trade association for the world’s airlines, representing some 290 airlines or 82% of total air traffic. IATA supports many areas of aviation activity and helps formulate industry policy on critical aviation issues.

On March 12, 2019, PayCargo LLC announced an agreement with IATA, the trade association for the world’s airlines, to jointly offer the Air Cargo Industry an advanced and efficient payment and settlement system: The IATA-PayCargo System.

The latest announcement allows customers worldwide to benefit from the ability to make fast, online payments as well as have immediate access to settlement data.
Boost: example of B2B capabilities that are relevant for airlines

- Automated straight-through processed (STP) payments directly to suppliers
- Unlimited / enhanced remittance data to suppliers alongside payment
- Interchange pricing flexibility to buyers, suppliers, and commercial card issuers
So what?

- B2B in travel is big opportunity that will attract new players
- B2B will involve a combination of cards and non-card rails
- What will be a sustainable business model for all stakeholders?
- How to win (segment focus, features / pricing, go-to-market)?
Edgar, Dunn & Company (EDC) is a global strategy consultancy focused on payments and with a Travel practice since 2002.

**EDC: International consultancy focused on payments and on travel**

- Founded in San Francisco in 1978, the firm is widely regarded as a trusted advisor to its clients, providing a full range of strategy consulting services focused on payments.
- Travel payments practice since 2002, working with the entire travel value chain, including travel suppliers like airlines, payment networks, issuers, acquirers, technology suppliers, etc.
- If you want to discuss travel payments-related topics with us:
  
  Pascal.burg@edgardunn.com

[Map showing EDC office locations, shaded blue countries represent markets where EDC conducted client engagements.]

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London, Feb 27th 2020