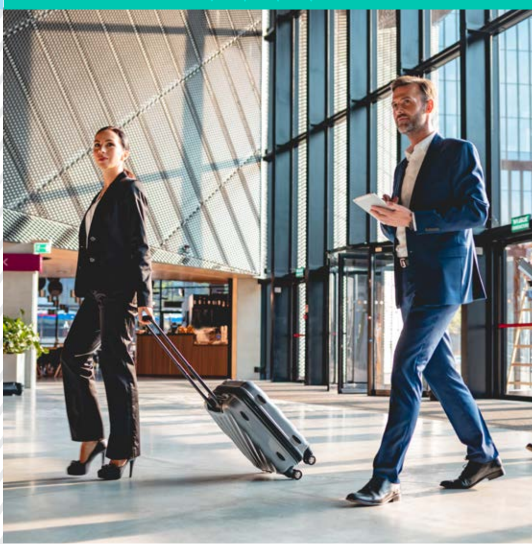
Protecting travel intermediaries from the impacts of airline failures



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How can the industry prepare for airline failures?

Airline failures have been part of the 110 year history of commercial passenger aviation.

A fundamental risk remains today: air travel's prepaid nature creates supplier default exposure, and there are no industry-wide protections despite over 1,200 commercial passenger airline failures in the past 25 years.

The stakes are high for travel intermediaries[1], their investors and directors, end travellers, and taxpayers. All of them can suffer significant financial impact and other losses when an airline ceases operations.

WEX virtual cards are a proven safeguard. Unlike bank transfers, which offer no recourse, WEX virtual cards enable fast, reliable chargeback protection, allowing intermediaries to recover funds quickly when an airline fails.

Since 2017, WEX has recovered close to US$60M via chargebacks for travel intermediaries across 14 airline failures, delivering critical financial protection to the travel industry.

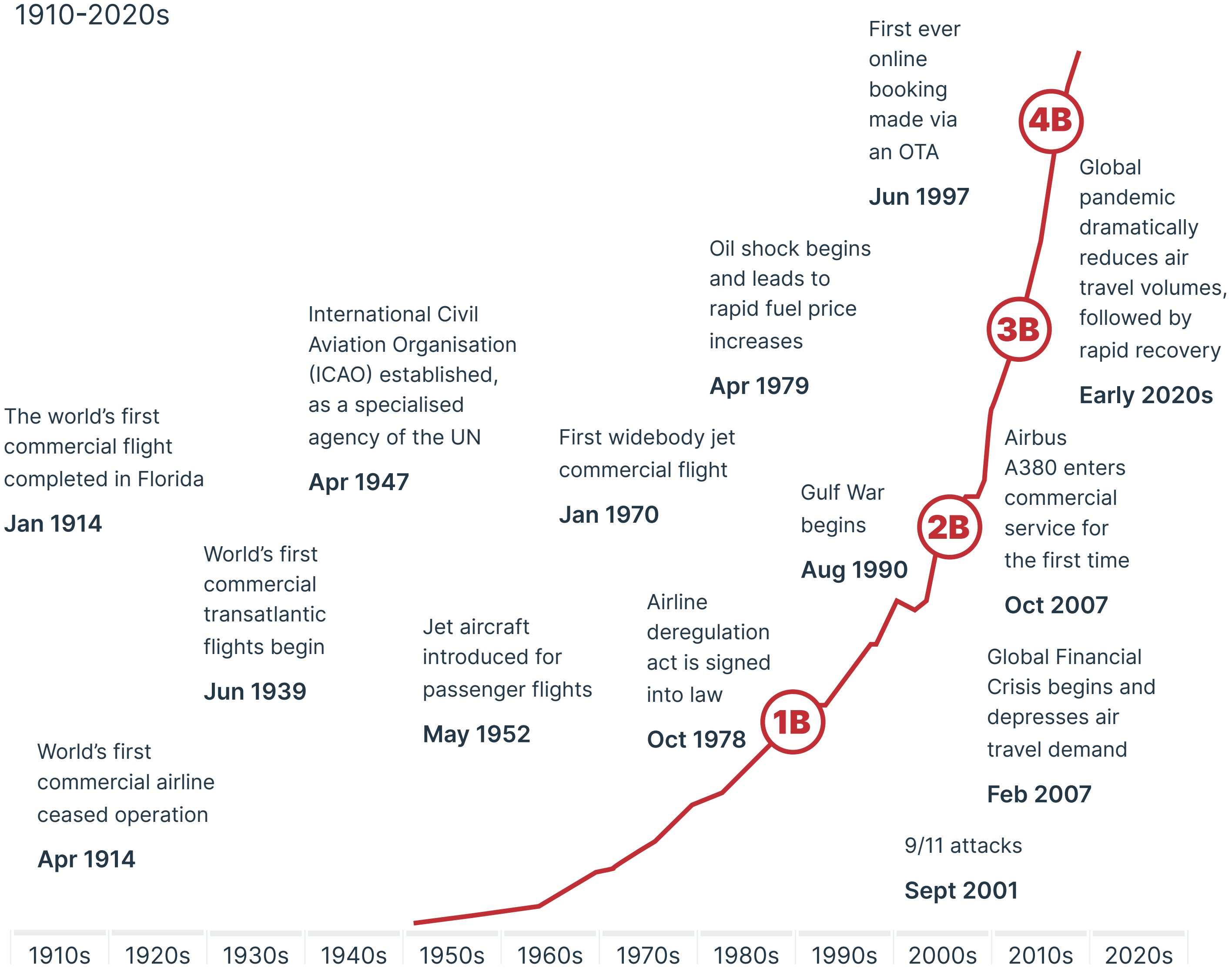
The promise of chargeback protection is important for travel intermediaries. WEX delivers on that promise and improves profitability of travel intermediaries by lowering their risk profile.

Kristian Kish
Head of Insights and Growth at WEX

[1] Includes companies such as online travel agencies, travel management companies, consolidators, and other intermediaries in the global travel value chain for air distribution.

A short history of commercial aviation

Number of passengers carried by year, and key events
1910-2020s



Source: WEX Team research based on data sources including World Bank, IATA, ICAO, and others.

A brief overview of airline failures

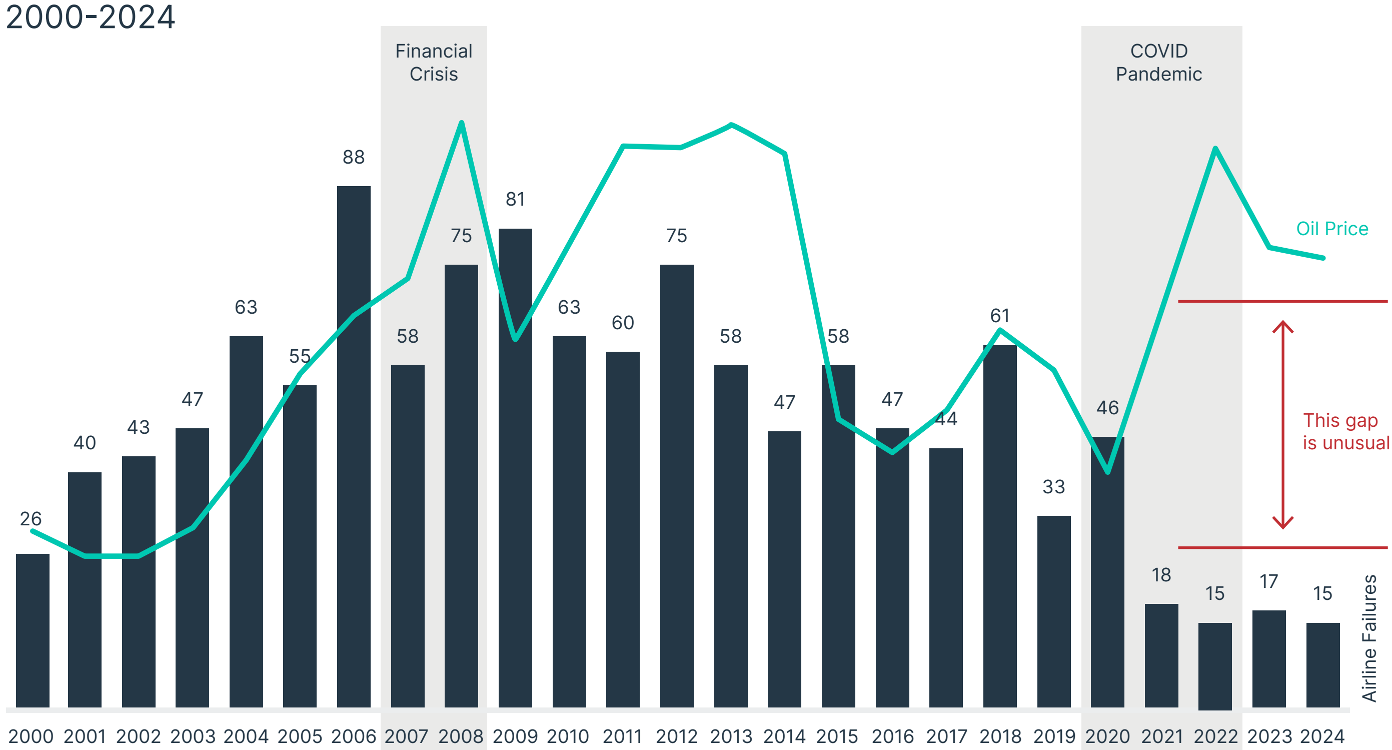
The world's first commercial passenger airline ceased operation in April 1914, after around four months of operation[1].

A little over a decade later, in 1927, PanAm was founded. It became an icon before ceasing operations in 1991. Its failure followed financial challenges partially attributed to fuel price rises, which in turn were linked to the first Gulf War.

More recently, the Global Financial Crisis (2007-2008), combined with volatile oil prices during that period, resulted in a spike in airline failures and bankruptcies, including into 2009.

Acts of terrorism, regional conflicts, and the threat of such actions have directly or indirectly (e.g. through oil price rises) impacted airline costs, traveller demand, and other factors that then led to airline failures.

Airline failures[2] vs Oil Price
2000-2024

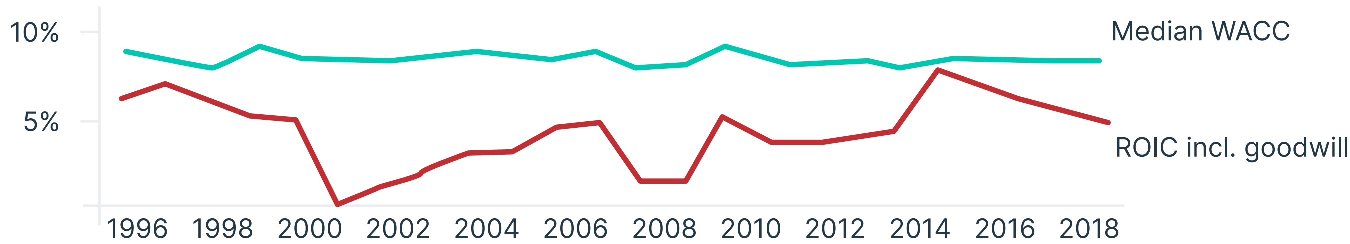


[1] https://www.space.com/16657-worlds-first-commercial-airline-the-greatest-moments-in-flight.html

[2] Airline failure data obtained from ch-aviation and limited to passenger carriers and virtual airlines (e.g. airlines that outsource most of their operations). Oil price data based on global oil price via Macrotrends.

> **Airlines were underperforming, long before the damage of COVID-19. In fact, the subsector's ROIC has been below WACC since at least 1996.**
>
> McKinsey & Co: Checking in on the aviation value chain's recovery, October 25, 2023

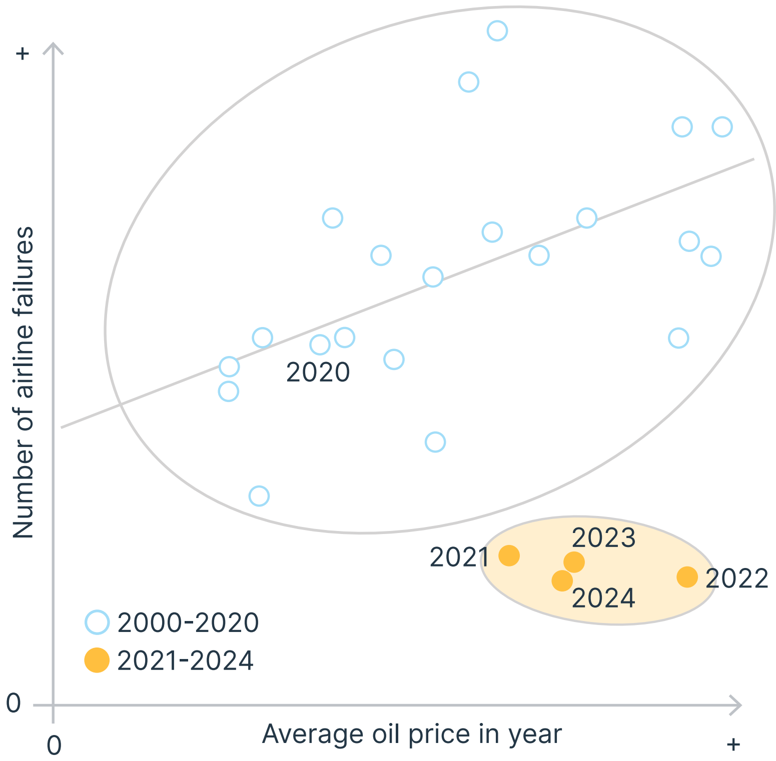
Airline industry ROIC including goodwill vs. median WACC
1996-2018



WACC (Weighted Average Cost of Capital): WACC represents a company's average cost of capital, weighted by the proportion of debt and equity in its capital structure.
ROIC (Return on Invested Capital): ROIC measures how efficiently a company generates returns from its invested capital.
Source: https://www.iata.org/en/iata-repository/publications/economic-reports/aviation-value-chain/.

2021-2024 had fewer than expected airline failures

Airline failures[1] vs Oil Price
2000-2024



Airline failures were correlated with oil price increases from 2000 to 2020. This makes sense, given that fuel costs are one of the highest sources of costs for airlines, and one over which airlines have limited control.

However, from 2021, airline failures have remained low, despite increases in oil prices and other factors which should have placed the industry under financial stress.

[1] Refers to scheduled passenger carrier airlines only.

Why did failures decrease?

Governments released US$243B aid globally to airlines to assist them during the pandemic. Much of the aid arrived in loans or loan guarantees, which helped airlines stay afloat. Some airlines were also able to restructure debt, including via Chapter 11 (or similar) bankruptcy processes. And in addition, almost all airlines reduced their workforce.

Once the recovery started, some airlines changed their operations to refocus on more profitable routes and faster recovering segments (e.g. leisure vs business) and benefited from increased fares as demand growth outstripped capacity recovery.

In some cases, airlines were also able to lock in lower fuel costs for a time through hedging, although benefits from such efforts are likely to have now expired.

Can the trend of fewer failures continue?

> **From 2012 to 2019, despite a favorable environment of strong economic growth and low fuel prices, airlines were bleeding US$17B in economic profit a year, on average. Of the 122 carriers we studied, 77 percent were value destroyers.**
>
> McKinsey & Co: Taking stock of the pandemic's impact on global aviation, October 31, 2022

Some signs point to 'yes'...

Governments who loaned money to airlines during the pandemic now have an incentive to keep those airlines operating to protect their loan repayments.

This may take the shape of protectionist measures or other efforts that favour selected airlines and likely result in higher fares for passengers.

Additionally, supply constraints in the value chain, such as delays in aircraft deliveries, may constrain capacity and therefore push ticket prices higher in the short term.

As an example, 2023 and 2024 were strong years for airlines, but ~3% net profit margins[1] are unlikely to meet long term investor expectations.

... but they are unlikely to endure

Individual airlines can't continue to lose money and continue to operate long term. Eventually they will fail.

Measures which protect one airline may come at the (indirect) expense of another, leading to some airlines failing.

New airlines starting up may amplify competition and depress margins in an industry that delivered just over US$6 net profit per passenger in 2024[1].

For example, Mexicana, which ceased operations in 2010, has been restarted under the management of Mexico's army. Global Airlines, founded by a former banker turned influencer, plans to compete with British Airways on London to New York routes using a single A380[2].

[1] https://www.iata.org/en/pressroom/2024-releases/2024-06-03-01/.
[2] https://www.economist.com/business/2023/08/31/from-social-media-stars-to-the-mexican-army-everyone-wants-to-run-an-airline.

There are different ways that an airline can fail

How an airline fails is important. This is generally dependent on the applicable jurisdiction and the reason for failure, and can determine the impact on travel intermediaries, travellers, and other stakeholders.

First, an airline's flight operations may cease abruptly. For example, airlines in the UK normally go into administration rapidly when they are insolvent. This can lead to scenes of passengers who have already boarded being ushered off the plane, while passengers already on holidays or business trips are left stranded.

Second, restructuring with continuing operations are common in some jurisdictions and bankruptcy options, such as Chapter 11 in the USA or similar processes in France and Germany. These processes allow for renegotiation of a range of terms with suppliers and other stakeholders. Flight disruptions in such events can vary.

Importantly, the financial health of airlines is often opaque to travel intermediaries and to end travellers, so they are not well placed to identify and control the associated risks.

Monarch

Sudden failure, with passengers offboarded and 110K travellers stranded, mostly around Europe. It was the fifth largest airline in UK.

JET AIRWAYS

Five year process for what had been the largest airline in India from (initially) partial suspension of flights through to liquidation.

ANSETT AUSTRALIA

Sudden failure of Australia's second largest airline at the time left people stranded on planes that failed to depart and no staff arrived for work.

PAN AM

Eleven month process from declaring bankruptcy to ceasing operations for what had been referred to as "The World's Airline" and was a cultural icon.

This year [2024], airlines in aggregate will earn a 5.7% return on invested capital and that's well below the average 9% cost of capital. […] we remain squeezed between a fiercely competitive environment downstream and the oligopolistic upstream supply chain's lack of competition […] and on top of that sits onerous regulation.

So there is **plenty still standing in the way of a sustainable industry level profitability.**

Willie Walsh, IATA Director General, 80th IATA Annual General Meeting (AGM) and World Air Transport Summit in Dubai, June 2024

No industry level protections

There are various schemes which seek to lessen the impact of airline failures for specific groups, but these are often limited in scope or have not been shown in practice to reduce the level of financial risk carried by airlines and the financial impact of airline failures on the broader travel value chain and beyond.

Some literature refers to such schemes as “insurance” but these schemes are really just levies on travellers. They fall short of being insurance for three reasons. Firstly they generally don’t attempt to price the specific risk posed by an individual airline. Secondly, they don’t incentivise a reduction of financial risk level of any individual airline or the industry overall. Thirdly, they impose the cost on the traveller, not the party best placed to lower the financial risk, which is the airline. This is distinct from insurance, which seeks to price actual risk, place cost on those positioned to reduce the risk, and therefore incentivises risk reduction.

And what’s more, coverage for specific airlines may be removed from some schemes at different times.

Examples of individual protection schemes

ATOL (Air Travel Organiser’s Licence) is a UK specific scheme which protects package holidays that include flights, and can protect flight-only bookings via travel agencies but only in specific and relatively narrow sets of circumstances. ATOL is funded by a £2.50 fee per passenger and covers repatriations and refunds if an ATOL protected company ceases trading. The ATOL protected company is the one required to provide refunds to travellers in the case of a supplier failure.

Aviation Consumer Protection is a US specific regulation which seeks to protect air travellers. It doesn’t provide comprehensive failure protection, but covers issues like overbooking, delays, and cancellations.

Danish Travel Guarantee Fund is a Denmark specific scheme which provides broad protections for travellers. Flight-only bookings are covered if the travel has been embarked upon and the traveller has a valid document to return to a Danish airport. The scheme is funded by a fee per traveller or booking, and the fee can vary.

IATA Rescue Fares are an option for airlines to provide discounted fares to passengers stranded by an airline failure. Participation by airlines is voluntary, time limited, and subject to capacity. Travellers who have paid for travel but are yet to commence their trip are not generally covered.

Chargebacks are not like a bankruptcy process

What is a chargeback?

Chargeback rights provide a mechanism for payers, via card issuers, to dispute and reverse transactions made through major **four party credit card schemes** (e.g. Mastercard, Visa) if the goods or services are not delivered as expected and paid for. (Note that three party schemes offer a mechanism that is structurally different.)

Chargeback rights deliver the underlying financial protection and risk mitigation, but chargeback rights do expire.

This means chargebacks must be submitted before the expiry date, with supporting paperwork completed, to be eligible to recover funds.

Is this like a bankruptcy process?

No. The funds are not recovered from the remnants of the failed merchant, and there is normally no court process involved in chargebacks. The return of the funds is the responsibility of the acquirer, in line with card scheme rules. (The acquirer may seek redress from the merchant, but that doesn't directly influence the result.)

What's the WEX difference?

WEX's expertise ensures fast and reliable chargebacks, typically recovering **100% of in-scope chargebacks within weeks** of an airline failure. During bulk chargeback events, such as those from airline failures, it is important to work with an experienced provider so as not to risk losing potentially recoverable funds.

14 x US$500K+ recoveries by WEX since 2017...

Thomas Cook Airlines
$32.0M recovered

airberlin
$4.5M recovered

Germania
$4.4M recovered

VIVA
$4.0M recovered

Lynx AIR
$2.3M recovered

Monarch
$2.3M recovered

atlasglobal
$1.6M recovered

Flyr
$1.6M recovered

COBALT
$4.5M recovered

flybe
$1.3M recovered

AIGLE AZUR
$1.0M recovered

XL airways
$0.8M recovered

Primera Air
$0.7M recovered

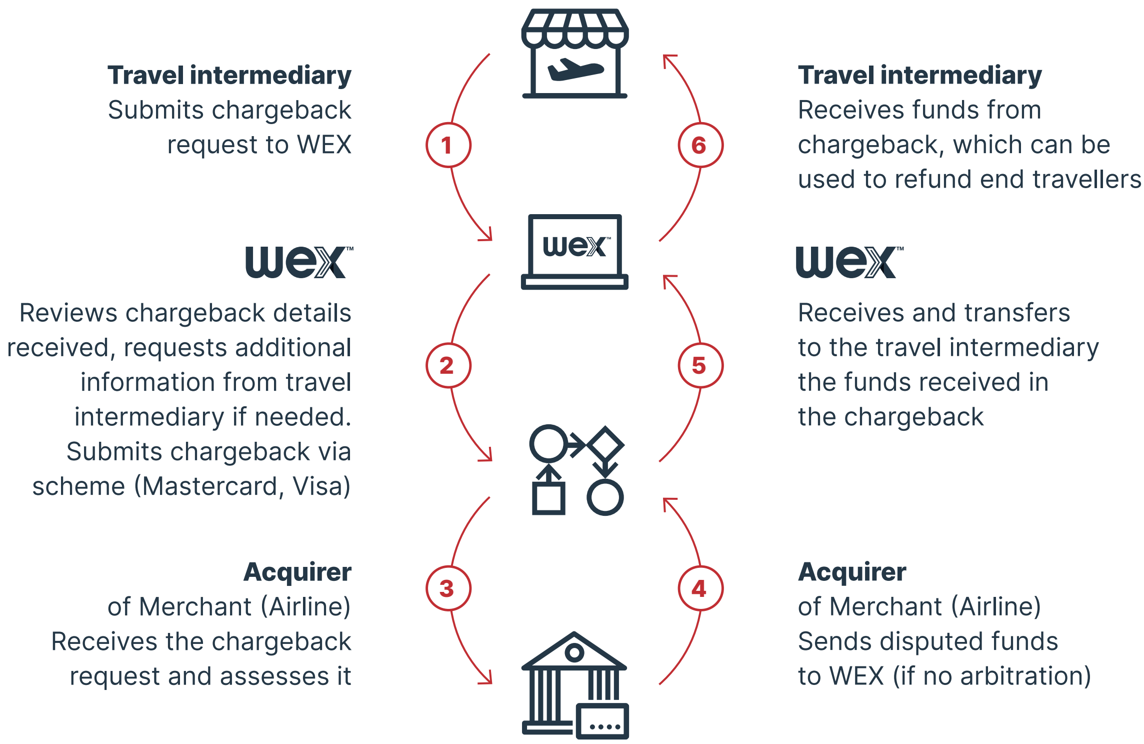
wow air
$0.9M recovered

WIND JET
$1.0M recovered

...and our first US$1M recovery, from 2012

Overview of the WEX chargeback process

Chargebacks typically follow the flow shown below[1]. Importantly, the merchant itself is not required to be operational or cooperative in the process, as the acquirer is the party responsible for returning the funds.



[1] There can be some variability in the process based on the reason for the chargeback request, available supporting evidence, complexity, supplier actions, arbitration and other factors.

Are airline failure chargebacks different?

In short - yes!

Such chargebacks are different for two main reasons: quantity and the likelihood of winning.

A flood of chargebacks tends to result from the failure of an airline, even if the airline is not of global size. This means that a virtual card issuer must be ready to process and submit a very large quantity of properly reviewed chargebacks to the scheme involved. Virtual card issuers which lack this ability can miss the chargeback window and lose the chargeback rights for their customers.

Airline failures typically result in a chargeback on the basis of “goods or services not received”. This is a relatively clear cut reason in scenarios where the airline has ceased operations and the travel paid for has not begun or is incomplete. This typically results in a higher (100%) chance of winning if the chargeback is in fact valid and was submitted on time with all of the required accompanying documentation.

WEX has a history of winning 100% of chargebacks in the case of airline failures.

WEX protects travel intermediaries

Travel intermediaries…

The primary beneficiaries from chargeback protection are travel intermediaries as they stand to recover funds paid for goods or services not delivered.

With a recovery rate of 100% in the case of airline failures, WEX chargeback recovery is better and faster than any typical bankruptcy process. Those bankruptcy processes may be the last resort for travel intermediaries who choose to pay via a variant of bank transfers.

Directors and management of travel intermediaries may therefore seek to control risk by leveraging WEX virtual cards.

…including investors and lenders

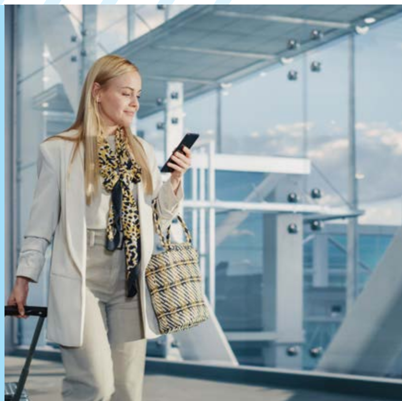
The failure of a very large airline, without chargeback protection, could severely impact, or even risk the survival of a travel intermediary[1].

Even smaller airline failures can severely impact financial outcomes of travel intermediaries and therefore can impact their investors, lenders, and acquirers[2]. Acquirers may increase fees and delay payouts, lenders may demand higher interest, and investors may require an additional risk premium if the intermediary is not protected.

Chargeback protection via WEX virtual cards means funds can be recovered, protecting investors and lenders.

[1] The financial impacts on the travel intermediary may be such that it too fails, especially if it is in turn liable to deliver refunds to end travellers or is subject to inbound chargebacks from end travellers.

[2] This is because of the various obligations within the value chain and the challenges recovering funds from a failed supplier without chargebacks. Additionally, the flow on effect from an airline failure impacting a travel intermediary can also impact other airlines and suppliers in the industry utilised by that travel intermediary if the intermediary itself faces financial difficulties as a result of the original airline failure.



WEX can also protect travellers and taxpayers

End travellers are protected

A travel intermediary that can recover funds via chargeback protection from WEX virtual cards can refund money to and otherwise assist end travellers, whether or not they have actually commenced the travel for which they paid.

Conversely, travellers who are customers of a travel intermediary that pays its airlines with bank transfers may be dependent on the financial ability of the intermediary to provide refunds.

End travellers who paid the intermediary by credit card may also request chargebacks from the travel intermediary, leaving the intermediary exposed.

Taxpayers face less cost and risk

Taxpayers, through their government, can be the saviours of last resort for stranded travellers. The cost of mass repatriation can be severe.

For example, the failure of Monarch was assessed to have cost UK taxpayers GBP40.5M[1], mainly due to repatriation costs for 110K stranded passengers.

Yet the umbrella of chargeback protection extends beyond the travel intermediary, its investors, and customers to cover taxpayers. This is because funds recovered via chargebacks can be used by the travel intermediary toward repatriation costs of stranded travellers, thereby reducing the contribution sought from taxpayers as helpers of last resort.

[1] UK Department for Transport - Airline Insolvency Review final report.

Lower risk and improved profitability is possible with a WEX virtual card

Strengthen investor and lender confidence
Financial stability plays a critical role in securing favorable financing and investment. Airline failures can create major financial losses for travel intermediaries, leading to cash flow uncertainty, increased borrowing costs, and investor concerns.

By using WEX virtual cards, travel intermediaries can recover funds quickly, mitigate cash flow risk, and demonstrate strong financial discipline. This has direct financial benefits:

- **Lower borrowing costs** – Lenders may offer better interest rates on credit lines and loans, as reduced exposure to airline failures makes the business a lower-risk borrower
- **Higher valuation and investor confidence** – More predictable cash flow and reduced financial distress can lead to a lower risk premium demanded by investors, increasing the company's valuation and attractiveness
- **Stronger credit profile** – By reducing unexpected financial shocks, companies using WEX virtual cards may improve their creditworthiness, securing more flexible financing options

Protect cash flow and liquidity
Airline failures can tie up large sums of prepaid capital, leaving travel intermediaries struggling to recover losses. Traditional bankruptcy proceedings can take months or years, creating liquidity challenges.

WEX virtual cards ensure that funds are recovered swiftly—typically within weeks—providing a significant cash flow advantage over traditional bankruptcy processes. This minimises working capital strain, allowing travel intermediaries to preserve liquidity, maintain financial flexibility, and avoid operational disruptions.

Reduce financial risk exposure
Prepaid airline tickets inherently expose travel intermediaries to supplier default risk. Without chargeback protection, a single airline failure can result in substantial financial losses.

WEX virtual cards provide a built-in safeguard, allowing chargebacks to automatically reverse payments for undelivered services. This protection:

- **Stabilises the balance sheet** by minimising unexpected financial losses
- **Reduces exposure** to supplier insolvency, ensuring greater financial predictability
- **Strengthens financial resilience**, making the company more secure in volatile market conditions

Where to from here?

Airline failures remain an ongoing risk for travel intermediaries, investors, and travellers alike. Despite temporary relief from government support in recent years, the underlying vulnerabilities in the industry persist.

Relying on a patchwork of individual protection schemes is not enough to prevent significant financial impacts.

WEX virtual cards offer a reliable safeguard by ensuring rapid recovery of funds. Typically, 100% of in-scope funds are recovered within weeks in the case of an airline failure.

This protection extends beyond travel intermediaries, benefiting their investors, customers, and even taxpayers by reducing the financial fallout from airline disruptions.

With WEX, you mitigate risk, maintain business continuity, and protect your stakeholders when it matters most.

Now is the time to act to secure your business against future disruptions.

Connect with WEX to explore how virtual cards can seamlessly integrate into your existing processes, protect cash flow, and provide peace of mind in a changing travel landscape.

WEX is the global leader in B2B travel payments with virtual cards

WEX operates at scale

~50%

share of global B2B travel payments with virtual cards[1]

WEX is a trusted partner in the travel industry

8 of 10

world's largest travel intermediaries are WEX virtual card users[2]

WEX maximises value chain benefits

350+

airlines paid with WEX virtual cards since Jan 2022

WEX informs the industry with travel payments insights

$100B+

USD in annual volume of WEX virtual card B2B payments[3]

WEX protects the industry

$4B+

USD in refunds and chargebacks processed by WEX since January 2022

[1] Based on our current share of the global B2B VCN payment market.
[2] Based on 2024 TTV actuals or recent expectations and estimates.
[3] FY 2024.

WEX virtual card acceptance by airlines

Travel intermediaries and airlines have long worked together to achieve mutually beneficial outcomes in travel distribution, and WEX continues to work closely with both parties to inform B2B payments related decisions. Such decisions should be a core component of commercial distribution discussions and agreements to ensure outcomes across the value chain are balanced and informed.

A modern approach to intermediated distribution, via the merchant model and with WEX virtual cards for B2B payments delivers multiple benefits:

- Delivers guaranteed payments to airlines for valid transactions
- Mitigates financial risk through reliable chargeback protection
- Optimises cash flow with faster payment processing
- Enhances traveller payment flexibility to drive sales
- Streamlines operations with automated reconciliation
- Strengthens financial sustainability across the ecosystem

The shift towards NDC-based distribution models further emphasises the need for holistic consideration of payment options. Airlines that elect not to accept virtual cards in B2B payments may constrain demand for their inventory, especially in non-home markets. They are also likely to be left with avoidable fraud costs, payment delays, and financial risks by using legacy payment systems designed and built decades ago for a world that the travel industry has since outgrown.

A modern, sustainable travel ecosystem depends on collaboration across all players in the value chain, including in B2B payments.

Explore how WEX virtual cards can benefit your business.

Contact our team to continue the conversation.

CONTACT US