



IT PAYS TO KNOW.

THOUGHT LEADERSHIP SERIES – PART THREE

# TRAVEL AGENCY AND AIRLINE PAYMENTS.

**We're seeing more innovation in B2B travel payments. It's a key reason why it's now just as important for both airlines and agents to have a B2B travel payments strategy that complements their B2C one.**

To ensure a sustainable model, and one that benefits all parties in the travel value chain, agents and airlines need to work closer than ever before. Our Travel Agency and Airline Payments thought leadership series explores how streamlining B2B travel payment strategies, and working together for mutual benefit, can help both parties stay financially sustainable and better navigate the road to recovery.

Here's Part Three.



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**Both parties need to act now and start the conversation on payments, to ensure a financially sustainable and resilient industry in the future, and to maximise recovery growth post COVID-19.”**

Anthony Hynes  
Executive Advisor



# AIRLINES AND AGENTS MUST CONSIDER THE ENTIRE TRAVEL VALUE CHAIN.



## To build a resilient travel industry...

As we approach the end of our journey in this series, it's clear why having a B2B travel payment strategy for air matters. And how important it is for airlines and travel agents to work together as partners to challenge the existing B2B travel payments landscape.

In this final installment, we show how complementary airline and travel agent B2B travel payment strategies benefit the whole travel value chain, and what makes this change so necessary right now.



## To reduce risk for all participants...

The impact of an airline's B2B travel payment strategy goes beyond customer experience. We've witnessed the industry having to adopt the retailing model and, as a result, travel agents need the merchant model to make that work.

However, if the merchant model is not implemented properly, it can create unnecessary costs and risks for all participants in the travel value chain.



## To protect their common customer – the traveller.

These impacts include the traveller, the airlines' and agents' common customer, who they are both trying to protect.

While some costs and risks can be offset purely by the agent acting as the merchant on the inbound customer payment, this alone is not sufficient.

Let's explore this further to understand the indirect impact of an airline's B2B travel payment strategy on the traveller's payment experience.



**Throughout history, crises like COVID-19, while adversely affecting an industry, have also been the driver of innovation and change ... many will apply new technologies to facilitate immediate responses, but these could pave the way for longer-term strategies that improve overall resilience and competitiveness.”**

Accenture, March 2020.

# AIRLINES SHOULD CARE ABOUT AN AGENT'S B2B TRAVEL PAYMENTS STRATEGY. HERE'S WHY.



## Reducing the risk of fraud.

Acting as the merchant allows travel agents to offer choice of payment method and provide a seamless and more efficient payment experience. But they also look after, and are exposed to, risks and costs such as fraud and supplier default.

By adopting the merchant model, travel agents can control how they reduce the risk of fraud and mitigate its impact. This is not possible if they merely pass the customer payment through to the supplier.

This has allowed agencies to look at fraud more holistically and implement a fraud technology framework. A framework that comprises a wide range of technologies catering for all the B2C payment methods they offer, plus the ability to address localised fraud trends.

On the other side of the transaction, they're able to choose a payment method for their travel suppliers that is fraud free. Imagine the scale of fraud, and the amount of fraud ADMs<sup>1</sup>, if all current BSP cash transactions became customer credit card pass throughs? But what if, instead, we worked together to create a world without fraud ADMs? It'd be a win-win for everyone.



## Payment and default risks.

There is also agent payment risk for the airline, and risk of supplier default for the agent and the traveller. These two risks have long been a challenge in legacy B2B travel payment systems for air, which the industry is continuously looking to solve. The payment methods a travel agent chooses to pay its airline partners, or any other travel supplier, should offset at least some of these costs and mitigate risks.

The bottom line is that when agents and airlines work together, they can align their B2B travel payment strategies and agree on a solution that not only protects them, but also the traveller. This is in the interests of all parties. Otherwise the travel agent's financial position is weakened, creating additional and unnecessary risk and cost for everybody.



**Travel companies should seize this reset moment to embrace and preserve their crisis-induced agility and nimbleness for the long trip ahead.”**

**McKinsey & Company report – the travel industry turned upside down. Sep 2020.**



## It's time to evolve.

If there is such risk across the whole travel value chain, why don't all travel agents and airlines have a B2B travel payment strategy? And why aren't they already working with each other? When these discussions do happen, they are myopic and typically focus only on the impact to the airline and the travel agent, not the impacts of those decisions on the traveller.

This is often because payments are seen as a complex topic, and because some airlines don't see why existing legacy payment systems, created in the 1970s, aren't the only solution. Whatever the case, it's clear now is the time for those conversations to change and focus on the bigger picture.

<sup>1</sup> Agency Debit Memos: For card transactions, these can be used by airlines in the IATA BSP (or Debit Memos in ARC) to recover monies under a fraudulent transaction.

# SO, WHY HASN'T EVERYONE MADE THIS CHANGE?

## HOW ARE YOU THINKING ABOUT PAYMENTS?

 **The impact on you**  
 **Legacy systems are the only solution**  
 **Increased risk of fraud and default**

**GREATER COSTS AND RISKS ACROSS TRAVEL VALUE CHAIN**

 **Payments are complex**  
 **Cash is locked away**  
 **We operate in isolation**

OR

 **Impact on the traveller**  
 **Benefits of modern, innovative systems**  
 **More control over mitigation strategies**

**SEAMLESS, EFFICIENT AND PROTECTED PAYMENTS**

 **Payments are an opportunity**  
 **Make cash work for you**  
 **Partnering for mutual gain**

### Early bird gets the benefits.

Some airlines and agents do understand the impact of not adapting their B2B travel payments strategy to the retailer model, or of not having a strategy at all.

These industry leaders look at B2B travel payments differently. They see B2B travel payments as an end-to-end payment process that takes into account the traveller, agent and airline and consider discussions on payments as part of their overall commercial discussions.

To experience the full benefit, this approach needs to be adopted by the entire travel value chain.

### Indirect distribution and payments.

Linking distribution and payments, to give travellers a better payment experience, has long been a priority for airlines' direct distribution. Not only have these innovative airlines invested in payment choice, but also in payment security, like 3DS and SCA. That same connection needs to be made between indirect distribution and payments, as it becomes even more important when travel agents are added into the mix. As with direct distribution, payment needs to be treated as the last step to enabling distribution. Then airlines and travel agents will work more closely together to find solutions that work for both their businesses and the traveller.

Some airlines and travel agents have found that working together can result in both businesses finding a solution that also makes their cash work for each of them, rather than locking it up. This can be due to a reduced need for credit insurance or bank guarantees, or because they can achieve faster cash flow.

### Learn from experience of others.

The airline industry can also benefit from learnings in other parts of the industry. The need for commercial agreements around B2B travel payments has already been recognised in hospitality. For example, HEDNA's Open Payment Alliance Standard, which is being advanced through an early adopters program, promotes more flexible payment terms between travel agents and travel suppliers.

Traditionally, the fragmented hospitality payments landscape has lagged behind the more consolidated B2B travel payments for air landscape. HEDNA's new initiative may see hospitality leapfrog the airline industry. It's an approach to B2B travel payments that encourages commercial collaboration and payment innovation, and that benefits the entire travel value chain.

# IS THERE MORE REASON TO CHANGE NOW?

## Yes, opportunity is knocking...

COVID-19 has heightened the risks related to B2B travel payments, forcing airlines and agents to rethink their payment and distribution strategies. But, in reality, the challenges we've looked at in this series existed pre COVID-19, and change was already needed then.

Many industry commentators already viewed the market as oversaturated, with unsustainably high levels of competition for both agents and airlines. Some even predicted a 'race to the bottom', where price and unbundling of fares became the main ways to compete. This created a hyper focus on direct costs, without further thought about the bigger picture and any indirect costs and risks.

While some of these aspects remain, the situation today allows for a potential market reset. Many travel businesses have no choice but to take a step back, and rethink how they do business in a smarter, more efficient and collaborative way. This has created room to move and a chance to evolve strategy, which we're already seeing with airlines expanding their NDC channels.

## ...will you answer?

In this re-building phase, airlines and travel agents can re-design their commercial strategy, so it takes these impacts into account in a post COVID-19 world. And the good news is that we're starting to see airlines and travel agents make the change.

It's no longer just about the agent or airline, it's about the entire travel value chain. This is an opportunity to embrace a different way of working, and collaborating.

Airlines who consider their indirect as well as direct distribution and travel payments strategies will become more agile and able to optimise all their distribution channels.

Especially since we have seen agencies like OTAs demonstrate an ability to adapt to change and react to consumer demands in the post COVID-19 world, making the customer experience even more seamless<sup>2</sup>.



## Time is of the essence.

COVID-19 has demonstrated the importance of resilience for travel businesses. The only way for the travel industry to be resilient and to be better prepared for future upheaval, is for the entire travel value chain to work together and find financially sustainable solutions. While B2B travel payments are only one piece of that puzzle, they have become a critical one.

If the industry continues as is, we will face the same challenges the next time a global event impacts payments. Without change, all participants in the travel value chain will be at risk.

So, what are you waiting for? Examine your payment and distribution strategies, and how they impact the whole chain. Now is the time to start a discussion with your travel agent or airline partners. The power to change and shape the travel payments industry is in your hands.

<sup>2</sup> "Google says COVID boosted OTA usage in APAC", Mitra Sorrells, Phocuswire, October 26, 2020.

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