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# Airline Payments Handbook

A complete guide to payments in  
the air transport industry

Thomas Helldorff

# The Airline Payments Handbook : Understanding the Airline Payments World

This book puts together “all there is to know about airline payments” into a single reference guide, helping you to answer some of the most prominent payments questions:

- ▶ How do payments work?
- ▶ How do payments work in the airline industry?
- ▶ How do I define a payment strategy for my airline?
- ▶ How can I reduce my payment costs?
- ▶ How can I improve fraud and risk management?
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A complete guide to payments  
in the air transport industry

Thomas Helldorff

Payments.aero



Published by Payments.aero  
50 Bridgman Road  
London, W4 5BD, United Kingdom

info@payments.aero  
www.payments.aero

First edition published in 2012 – 1

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A catalogue record for this book is available from the British Library

ISBN 978-0-9572730-0-9 (Paperback)  
ISBN 978-0-9572730-1-6 (eBook)

Typeset and cover design by Boston Graphics, Acton, London  
Printed and bound in the UK by Blissett Bookbinders, Acton, London

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## Preface

On the first day of my MBA course the Dean of the Business School stood up and said to the assembled class: “What you will learn on this MBA course is a blinding glimpse of the obvious” and perhaps you’re feeling like me sitting in the class and hearing that, and thinking why I am studying for this degree if it is blindingly obvious? He paused at this point, and as the collective intake of breath in the room subsided, added “trouble is, most of us are blinded”.

That insight came back to me as I started to read the “Airline Payments Handbook”. After all, what is there new to know? Airlines have been collecting payment for tickets since commercial flying began and have been innovators in the online world. Surprisingly, not only is this the first comprehensive guide on the subject but there is a lot you probably don’t know (but should) as well as practical insights into leading edge strategies that can mean the difference between payments being a cost or an enabler to even great sales (and profits.)

Whether you are new to the airline payments industry or a seasoned expert, this guide hits the just the right levels of detail and insight. Covering the complex world that gets the money from passengers worldwide into airline bank accounts is no easy task and this guide offers a comprehensive road map not only for seasoned payment professionals but their colleagues in distribution, e-commerce, ancillary revenue,

revenue accounting and marketing. Investing your time in reading the guide and keeping it handy as a reference will not only make for a better experience for your customers, but also make your CFO happy as you not only add revenue but save costs too.

With this excellent and comprehensive roadmap there are no reasons for any of us to be blinded by the obvious - this is a truly illuminating guide to Airline Payments.

Michael Smith

*Chairman, Airline and Travel Payment Summit &  
Managing Partner, Airline Information*

## Acknowledgements

I wish to thank numerous individuals for their assistance in the researching, writing and publication of this book: Birgit Aflenzer, Brian Geary, Cameron Olsen, Carly Smith, Celine Helderma, Chris Leadbeater, Christopher Saab, Dan Hayter, David Smith, Eamonn O'Shea, Eoin McGillicuddy, Helen Smith, Jan-Jaap Kramer, Jeremy Dyball, Johanna Waara, Jörg Möller, Kate Sloan, Lars Bergvind, Maarten Rooijers, Manuel Brunnader, Michael Smith, Mike Smith, Miles Shah, Nadja Sittler, Neill Butcher, Patrick van der Knoop, Paul van Alfen, Peter Harvy, Philip McGriskin, Robin Philip, Rupesh Fatani, Sander Maertens, Tuly Faas, Vivienne Grace and Wendy Ward.

Two individuals deserve my special thanks: Peter Parke, whose support encouraged me to write the book and Michael Smith who helped me promote it among my industry colleagues.

The people who helped in the editorial and production process: Urvashi Patankar from Boston Graphics, Dan Petter for the logo, my editor Kathryn Potter, and for cross reading and their feedback, Emma Swinnerton and John Davies.

I am also grateful to all the sponsors who have made this project possible: Adyen, Airline Information, Air Transport Publications, Alaric, Amadeus, Continuum Commerce, CyberSource, DataCash, Elavon, FEXCO, FirstData Merchant Solutions, Headcount, Initium Onboard, Ogone, PayGate, ReD, SEB Euroline, SITA, UATP, WireCard and WorldPay.

The book, of course, does not necessarily reflect the views of any of the organisations or people who have generously provided me with all forms of assistance.

This work is the result of 13 years of experience in the airline and payment industry, many discussions with airlines, suppliers and colleagues, anecdotes, conferences and my own experiences as a passenger. It is a snapshot of the current environment and I have tried to capture it as accurately as possible.

I am looking forward to feedback, especially from you, the specialists in many of the areas that I have covered. The aim is to make this the basis of a “living document” for the airline payments community, reflecting our common understanding of the industry.

## Introduction

“Accepting payment is a core activity of EVERY business, even airlines.” This is how Ralph Kaiser, the CEO of UATP recently opened a discussion on “Managing the Evolving World of Payments”. If an airline does not receive payments, it won’t fly for very long. It is not only a core activity; it is an absolutely vital activity.

Traditionally this part of the distribution activity has been performed by travel agents. They processed the payments on behalf of the airlines and the funds arrived at the airlines’ accounts almost automatically through various systems like the IATA Bank Settlement Plan (BSP).

To reduce the distribution costs associated with distribution through travel agents and Global Distribution Systems (GDS), airlines were keen to increase the proportion of direct distribution - through call centres, the internet and more recently through mobiles, social media etc. The percentage of direct distribution has grown significantly since the early 90s and for low cost carriers it has become the core of their business models.

Airlines were quick to celebrate the savings made in this way, but this victory brought its own challenges, which many airlines around the world are still trying to get their heads around:



**Being responsible for taking payment direct from the customer.**

Travel agencies and traditional airline ticket offices had great flexibility when it came to taking payments, as even customers who had no banking relationship and no access to any sort of card-based payment methods could still purchase tickets – with cash. However, cash does not really work with these new, remote direct distribution channels, or through a call centre, over the internet or via a mobile phone.

So, what forms of payment are available to your customers? How would you sell flights online in a country with limited credit card usage?

**How can my customers pay?**

All of a sudden this has become a major question. As airlines want to enter new markets and reach new, emerging customer segments, they need to be familiar with local payment behaviours and the payment methods relevant to that market.

But every payment method works slightly differently, is governed by various national rules and regulations; requires integration of additional partners and triggers adjustments to internal procedures. The risk and fraud potential have to be understood and financial flows adopted. All this has to be achieved within a very regulated and complex technical and organisational environment, as airlines typically are.

**Taking payments is a complex and challenging task.**

It involves multiple entities both inside and outside the organisation and as it is not really the core business of an airline, it is very often not fully understood.

The economic downturn that started in 2008 and the resulting need to further reduce every cost element within the airline business tabled another uncomfortable fact:

## **Taking payments is not only complex, it is also expensive.**

Payment costs can be the biggest distribution cost element after GDS fees. Merchant fees of up to 3% are not uncommon, manual handling, and high fraud and fraud related costs can add anything up to 4% on top of that. Many of the payment related costs are still not fully understood by the airlines, as they occur in different parts of the organisation and are not always directly attributed to the distribution business case.

These are only some of the challenges that those involved in payment processing often face. And they very often wish they had some

## **HELP!**

### **The Airline Payments Handbook – Understanding the Airline Payments World**

This is what this book is all about: Help. It is an attempt to put together “all there is to know about airline payments” into a single reference guide, helping you to answer some of the most prominent payments questions.

- **How do payments work?**
- **How do payments work in the airline industry?**
- **How do I define a payment strategy for my airline?**
- **How can I reduce my payment costs?**
- **How can I improve fraud and risk management?**
- **How can I manage and reduce the complexity of payments?**
- **How do I select my suppliers?**
- **How do I structure a payment implementation project?**

For those new to airline payments, it is a perfect first step to a better understanding of this topic and a great reference book for ad hoc “What is that?” and “How does that work?” questions. For all those who work or “have to work” with payments, without it being their primary field of expertise, this book will be a welcome step-by-step guide through the challenges that the world of payments brings with it. For the advanced

payment reader, it is a superb reference guide for “best in class” payment handling and a source of inspiration for improvements in their day-to-day business.

The guide is divided into four parts: Payment Basics, Payments in the airline industry (distribution channels and back-office processes), “Your Payment Project” and a Supplier Directory.

### **Payment Basics – How does it all work?**

The first part of the book focuses on payment basics, giving the history of payments and the development of payment methods from coins and cash through to credit cards and alternative payment methods like contactless and mobile payments. It examines the individual elements of a payment transaction and the costs and players involved in making that transaction happen. It also discusses the relevant legal frameworks, industry standards and compliance rules such as the Payment Card Industry (PCI) Standards. It analyses the risk management aspects for dealing with payments, looks at the responsibilities and risks of each of the players, payment fraud, fraud scenarios and fraud prevention tools. This part concludes with an analysis of the major institutions and organisations relevant to this industry.

### **Payments in the Airline Industry – A Channel by Channel Analysis and Back-office Processes**

The second and third parts apply the information from the first chapters to the airline industry. They provide analysis of the various distribution channels, discuss the challenges of traditional channels such as travel agencies, call centres and ticket desks versus newer, direct distribution channels e.g. e-commerce and mobile. It also gives a window into on-board retail transactions, on-board telephone authorisations and emerging ‘Chip & PIN’ payments at kiosks. Each of these channels requires their own approach as the underlying infrastructure and the environment in which payment is taken varies greatly. They further investigate the airline back-office processes that are required to support the payments processing within the airline, such as order screening, transaction corrections, charge-back processing and transaction reconciliation and accounting.

### **My Payment Project – A Step-by-Step Guide**

The fourth part provides a blue-print for an implementation of a payment project, offering step-by-step guidance through the set-up of such a project. It helps you to define a payment strategy for your organisation balancing (often opposing) requirements from various internal departments. It gives you tools to evaluate existing and potential new suppliers and understand their product offerings and pricing strategies. It draws up an outline implementation plan and explains its execution, touching on support process adaptations, testing and on-going monitoring processes.

The book concludes with a directory of contact details for a variety of industry players and suppliers including payment service providers, acquiring banks, fraud management solution providers, currency conversion experts, consultants, conferences and media.

The web-site to the book will provide further, up-to date information about this topic:

**[www.payments.aero](http://www.payments.aero)**

**[info@payments.aero](mailto:info@payments.aero)**

## Part V. Supplier Directory

This section contains a listing of suppliers with a strong focus on the airline industry. It is divided into the following categories:

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Please visit our web-site for more up-to-date information:

**[www.payments.aero](http://www.payments.aero)**

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