The State of Travel Payments Post Pandemic

16th June 2022

Airline & Travel Payments Summit 2022

Edgar, Dunn & Company

Strategic Payments Consulting

Events

Today’s Agenda

- **Impact of Covid-19 in Travel Payments**
- **Path Towards Recovery**
- **Future Payment Opportunities**
- **Q&A**

Covid-19 affected economies globally and impacted several verticals especially Travel

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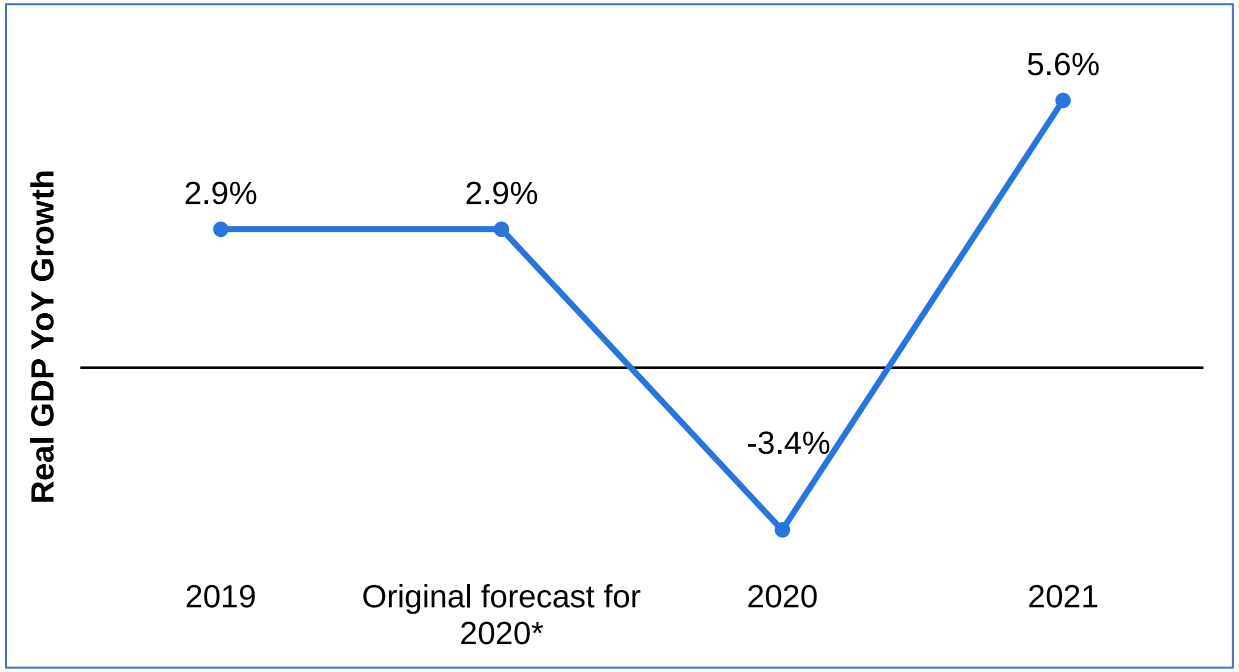
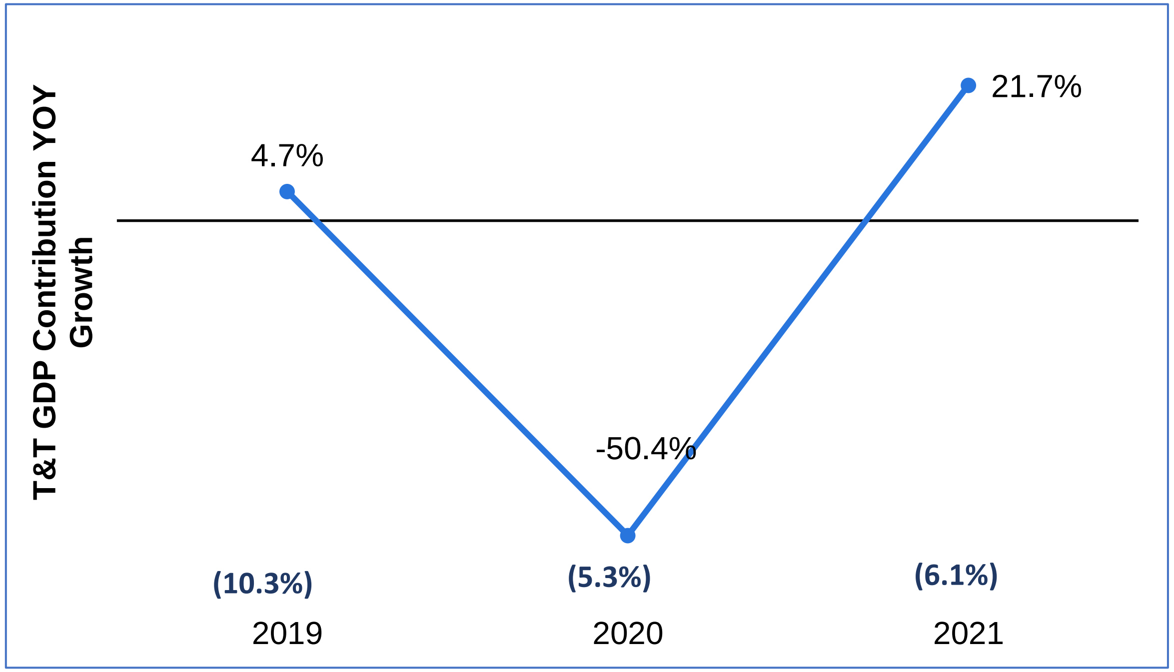
Global Real GDP Growth



Travel & Tourism GDP Contribution Growth



(%) Travel & Tourism GDP Total Contribution

GDP experienced an unprecedented decrease as a result of Covid-19

Not all sectors are impacted at the same level

Travel & Transportation is one of the sectors more directly affected by this crisis

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Source: Statista, World Travel & Tourism Council

Short-term impacts of Covid-19 on payment stakeholders involved in Travel

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Decrease in travel expenses worldwide

Corporate
-52%
business travel expenses in 2020 as compared to 2019

Leisure / Other
-49%
leisure travel spending in 2020 as compared to 2019

Online
-50%
Tourism nights booked online in 2020 as compared to 2019

Impact on Flight Ticket Price

Short Term Impact through 2021
-35%
(on average)

Long Term Impact through 2025
+27%
(on average)

Above 2019 benchmark, assuming travel resumed May 31, 2020, for both international & domestic travel in the U.S.

Chargebacks and Refunds

Chargebacks effects
46%
of total online fraud i.e. fraudulent transactions targets the air travel industry (vs 16% and 13% for money transfer and computers/electronics respectively)

Travel agents faced high level of refund requests
Travel agent had to wait for the funds to refunded by the travel supplier before being able to refund the customer

Credit Risk and Cash Flow Issues

Credit Risk
Increase in the risk associated with the travel industry, leading to changes in the relationship with payment providers

Cash Flow Issues
The high-level of refunds and the revised conditions with payment vendors (e.g. acquirers) had a negative impact on the cash-flow of travel intermediaries and suppliers

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Source: Eurostat, IATA, Eurostat, EDC Research

Medium-term impacts of Covid-19 on payment stakeholders involved in Travel

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Changing customer expectations

Customer Payment experience

Expectation for simple, fast and relevant customer payment experience Below-par CX can impact conversion rates

Technology offers

Need to enhance digital capabilities for travellers pre- and during flight, etc.

Digital innovation

Emergence of wallet and in-app payments

(e.g., Apple Pay)

New Payment Methods

Emergence of contactless payments

New payment methods for C2B and B2B such as Instant Bank Transfers and RTP

Regulatory changes

Resolutions, Regulations and policy changes

IATA Resolutions (e.g., 890 and introduction of TIP)

Implementation of SCA (Strong Customer Authentication)

Acquirers -Review of contract clauses & commercial conditions (e.g., related to hold-backs)

Potential introduction of PSD3

Payment provider-related changes

Exits or Lower Involvement in the Travel Industry

New Entrants

Such as e-commerce acquirers / PSPs, escrow service providers, POPs, and AFOP providers

Incumbents expanding role in value chain

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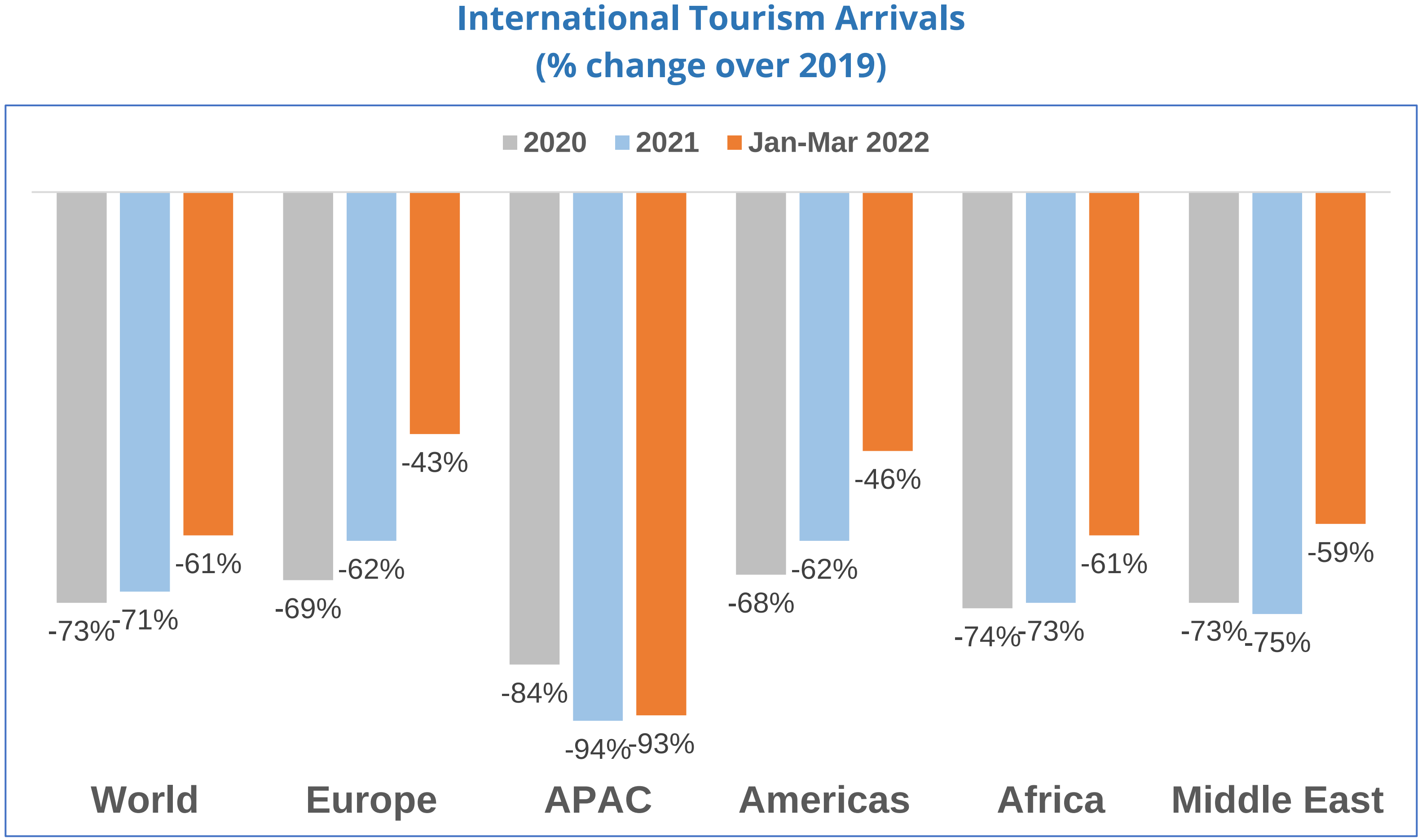
Forecast of recovery remains uneven across world regions



- The pace of recovery remains slow and uneven across world regions
- International tourism rebounded faster in the first quarter of 2022
- 63% of experts from the World Tourism Organization (UNWTO) believe **the Travel sector won't fully recover until 2024**
- **Business travel remains negative while leisure travel picks up faster**: Business travel recovery has been extremely divergent, with SMEs showing a faster recovery

Source: World Tourism Organization (UNWTO)

Domestic and international load factors are over 90% of the pre-pandemic levels in April 2022

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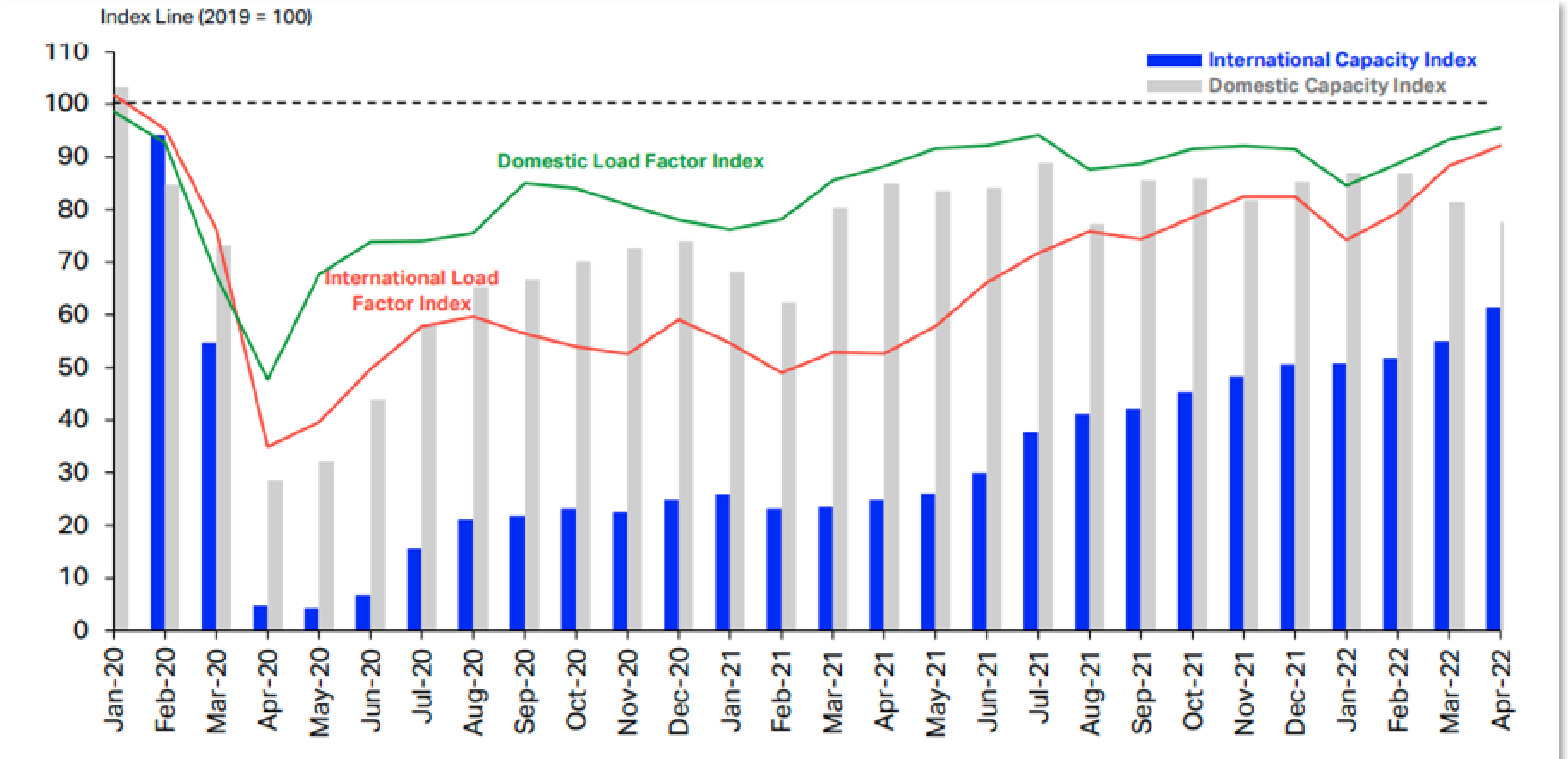
Load Factor and Capacity Index, by travel



Source: IATA Monthly Statistics

- Passenger load factors have recuperated faster than the offered capacity
- Domestic load factor has been higher than international load factor since the Covid-19 pandemic but the difference has decreased recently
- The domestic capacity index has decreased in early 2022, while international capacity continues to increase

How can payments contribute to the recovery?

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The travel payment ecosystem is rapidly changing and creating new challenges related to customer experience, digital innovation, payment providers, regulation and others

- Merchants within and outside of the travel industry are increasingly leveraging best practices to reduce payment costs, increase revenues as well as protecting cash-flow

Payment Flexibility
- Exploring alternative payment models (e.g., pay at time of check-in, subscriptions, prepaid accounts)
- Installments, "on hold" booking, travel vouchers, etc.

Generation & Protection of Revenues
- Optimisation of card approval rates using smart routing
- Co-brand cards / prepaid cards offering
- Acceptance of alternative payment methods in non-card markets

Payment Orchestration Platforms
- Reduction of payment costs and mitigation of risks
- Increase of card approval rates, support expansion into new markets

Payment Fraud Prevention
- 3D-Secure and strong customer authentication
- Improving payment fraud controls
- Optimizing fraud-related approach and costs

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Travel merchants to follow a customer-centric approach

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Following the example of best-in-class e-commerce merchants, it is key to place the customer at the centre of the payment strategy

Examples of Emerging Trends

Airline Retailing

Airlines are trying to put the customer at the centre of the shop, order and pay ecosystem by offering:

- Personalization
- Enhanced customer experience: travellers demand for seamless user experiences
- Servicing: NDC End to End flows with real value chain collaboration and full servicing
- New itineraries: interoperability across carriers to enlarge multi-brand offer & new itineraries

Bleisure

Some employee segments are increasingly looking to leverage business trips to involve leisure time. Especially due to the increase in remote working which has proven that employees can do their job from different locations

- However, before introducing bleisure travel in the travel policy, businesses need to define the boundaries of this type to travel related to:
  - Duty of Care
  - Booking rules (i.e. who books what?)
  - Expense rules (i.e. who pays for what?)
  - Tracking and Communication rules

Industry-wide efforts will be key to develop new payment opportunities in Travel

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Developing a holistic payment strategy to support the recovery from the Covid-19 crisis will require the involvement of multiple stakeholders within the payments value chain

Issuers | *Payment Networks* | *Travel Intermediaries* | *Travel Associations* | *GDSs* | *Travel Merchants* | *Acquirers*

A successful payment strategy includes a foundation and three key pillars

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Payment Strategy

Generate and protect revenues while controlling costs

Internal Team

Right internal team / coordination

Technology

Modern payment technology (not only uptime, but also speed, agility)

Payment Partners

Relevant payment partners

Local providers to optimize fees and approval rates

Data Foundation

Data visibility to monitor / manage payments (e.g., card approval rates across channels)

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Edgar, Dunn & Company (EDC)

Independent Global Financial Services and Payments Strategy Consultancy

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Founded in 1978, the firm is regarded as a trusted advisor by its clients, providing a full range of strategy consulting services, expertise and market insight, and M&A support

EDC has been providing consulting services to a wide variety of clients including:

- Stakeholders in the travel industry including airlines, IATA, hotels, travel agencies, GDSs, issuers and acquirers focused on travel, etc.
- BigTech, social media platforms, and marketplace facilitators
- European banks, lenders, Fintechs, payment companies
- All major international card schemes and many domestic card schemes
- Influential payments providers and processors
- Leading merchants across verticals

EDC Office Locations

EDC Key Metrics

Fintech & Payments … Strategy & M&A	**Seven offices** locations worldwide	**Independent** - owned and controlled by EDC Directors	**+1,800** projects completed	**+250** clients in **55** countries and **6** continents

If you have any questions, please feel free to reach out

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