

# Airline Industry Alternative Forms of Payments (AFPs) 2020





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AFPs in the Airline sector  
State of the Industry report  
2020

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Foreword

These days, digital transformation is not the only term buzzing around the industry, there are other very real and tangible changes that are happening right before our eyes. In airline payments in particular, digital transformation provides not just challenges for the sector, but also a completely new and exciting plethora of opportunities. This Alternative Forms of Payments Report (AFP) you are now reading bears witness to this revolution and gives many other illuminating insights about the key developments for the airline industry.

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# Executive summary Alternative Payments

New challenges and opportunities in the sector

The airline industry had estimated global passenger revenue of \$561 billion<sup>[1]</sup> in 2018 and passenger numbers are expected to double to 8.2 billion<sup>[2]</sup> within the next 20 years.

This robust and growing industry is undergoing significant changes in many areas, including payments. The payments industry is experiencing four major structural changes that are creating new challenges and opportunities for airlines to reduce their distribution costs and increase their passenger/ancillary revenue:

➤ **Digital innovation:** a European airline enabled one-touch in-app payments via Apple Pay as early as June 2016



- **New entrants:** the emergence of Instant Payments (real-time transfer of funds from one bank account to another), or the likes of Alipay or Apple Pay
- **Evolving regulatory environment:** such as PSD2 in Europe and changes in IATA Resolutions
- **Changes in customer expectations:** the ability to use one's preferred local payment methods

In countries such as the US, UK and France, cards are the preferred payment method. This works well for airlines as their core technology is typically card-centric: airlines' systems and processes typically require a real-time authorization and an actual card number in order to complete a booking.

However, customers in many other countries do not have bank accounts or cards and prefer to use "alternative" (non-card) forms of payment, such as Alipay in China or iDEAL in the Netherlands. In these cases, it is pivotal for airlines to decide which alternative forms of payment (AFPs) to accept in order to achieve broader market reach and higher conversion rates (and thereby higher revenue). In addition, airlines are interested in AFPs as a way to potentially lower the cost of acceptance.

To understand the current adoption of AFPs in the airline sector and future trends, Edgar, Dunn & Company (EDC) and UATP collaborated to publish this State of the Industry report. Findings from an online survey<sup>[3]</sup> and one-on-one interviews directly contributed to the formulation of this report.

EDC and UATP would like to thank the numerous airlines that took the time to share their perspective, experience, and approach to payments. We believe that this report will provide a useful insight for the industry.

This document includes the following key conclusions:

- AFP acceptance policy: where and which AFPs?**
  - **AFPs are not** "alternative" anymore, they have become mainstream:
    - 85% of surveyed airlines accept AFPs for their online direct sales, and over half of airlines surveyed accept at least two AFPs
  - **Airlines' AFP acceptance** strategy for online direct sales vary significantly across regions. Based on the online survey, the majority of airlines accept:
    - In Europe: PayPal and bank transfers
    - In MENA (Middle East North Africa): the airline's Frequent Flyer miles and cash
    - In APAC (Asia Pacific): wallets like PayPal or Alipay, bank transfers and cash
    - In the Americas: the airline's Frequent Flyer miles, their own gift cards, PayPal and other wallets, cash, and installments
  - **AFP policies are** typically set by a mix of internal departments (37% of airlines), or only by Sales / Distribution (22%) or by Finance / Revenue Accounting (17%)

- Why / Why not accept AFPs?**
  - **The vast majority** of airlines accept AFPs to assist both sides of their Profit & Loss account: 85% of airlines accept AFPs to lower merchant fees, and 80% of airlines accept AFPs to meet customer demand (thereby hoping to increase their revenue)
  - **When airlines do not** accept specific AFPs, it is due to the following: a perceived lack of customer demand (82%); a lack of internal resources (57%); and, the high cost of implementation (49%)



[1] [https://www.iata.org/pressroom/facts\\_figures/fact\\_sheets/Documents/fact-sheet-industry-facts.pdf](https://www.iata.org/pressroom/facts_figures/fact_sheets/Documents/fact-sheet-industry-facts.pdf)  
 [2] <https://www.iata.org/pressroom/pr/Pages/2018-10-24-02.aspx>  
 [3] Edgar, Dunn & Company and UATP would like to thank Airline Information for conducting an online survey among 65 respondents as a basis for the quantitative results in this report. In addition, Edgar, Dunn & Company undertook 15 face-to-face interviews with airlines across the different regions to collect their qualitative insights

What is the current payment mix and impact on revenue?

- The overall market share of AFPs for online direct sales is 28%, but this share varies significantly across regions: from 34% in Europe to as low as 14% in the Americas
- When asked whether AFPs have generated incremental revenue, a majority (60%) of airlines believe that it is the case in all or in some countries, but they collectively recognize that it is a challenging measure to estimate

Future plans for AFPs?

- In terms of focus countries for future AFP implementations, 43% of airlines will focus on Europe, and 25% on Asia-Pacific
- The top two AFP priorities for airlines include wallets in all regions, and installment and bank transfers in specific regions
- In addition to these AFP priorities, the majority of interviewed airlines are interested in enabling AFPs via travel agents by leveraging the NDC standard
- Changes in AFP market share in 3 years' time (out of online direct sales in the airline's home market) vary significantly across regions:
- Airlines expect an increase in AFP market share of +6% in Europe and +4% in Asia-Pacific, mostly driven by real-time bank transfers and by wallets

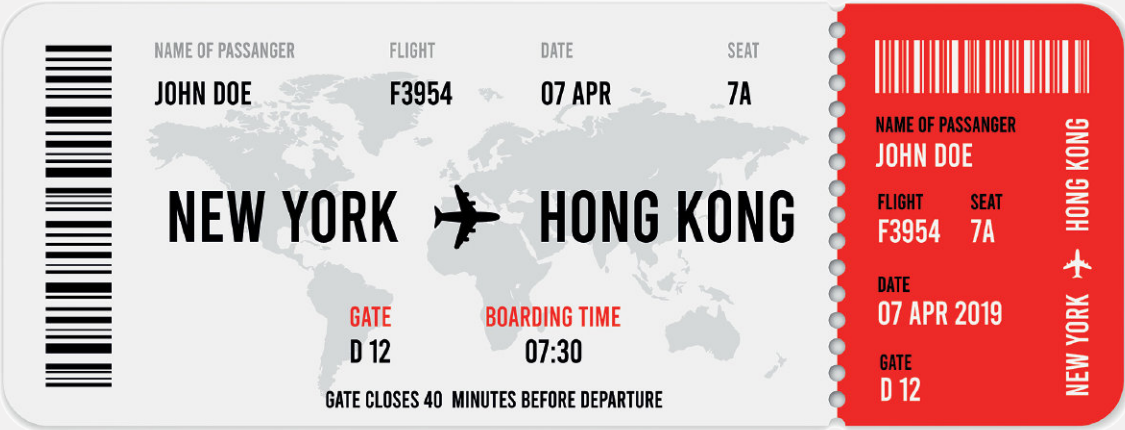
- No projected change in the Americas
- Projected decrease in AFP market share in MENA (-13%) with the overall migration of consumer spend from cash to cards

What is best practice?

- Identify who to target (segments, use cases)
- Define the appropriate AFP policy and processes
- Set up a dedicated internal payments team and the appropriate payment acceptance infrastructure
- Select a reliable and agile payment partner (most airlines are looking for a single AFP aggregator whilst specific airlines might be willing to go direct to AFPs in some cases such as in their home market)
- Set up the performance measurement

If you have any questions about this report or would like to discuss its findings, please do not hesitate to contact:

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# 1.

## AFP acceptance policy: where and which AFPs?

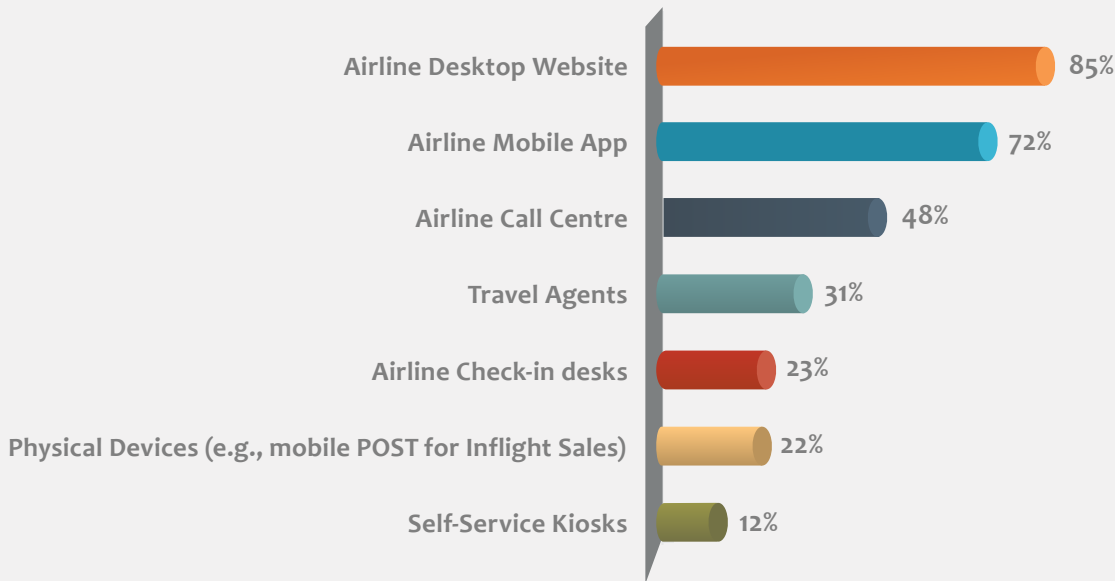
Acceptance of AFPs across channels: mostly airline’s websites and mobile apps

Airlines use multiple channels, including direct channels (e.g. airline’s own websites) and indirect channels (e.g. via Online Travel Agency or via Travel Management Companies), to sell tickets. The online survey identified through which channels airlines currently accept AFPs:

- The vast majority of airlines accept AFPs both on their own websites (85%) and on their own mobile apps
- These are large channels in which an airline has the greatest control over the customer experience and where the majority of AFPs can be enabled

- About half (48%) of airlines accept AFPs via their own call centre
- This is a (smaller) sales channel where an airline still has control but implementing AFPs is more complex or not possible
- Only a small minority of airlines accept AFPs via indirect channels or via face-to-face channels
- Indirect channels: our interviews with airlines highlighted that indirect sales relying on GDSs can only handle “cards” or so called “cash” transactions (funds are transferred from agents to airlines via ARC or via IATA’s BSPs), thereby limiting the ability to enable AFPs via travel agents. However, some interviewed

In which channels do you accept AFPs? – Total survey results



- airlines indicated that they are considering implementing AFPs for indirect sales by leveraging the NDC (New Distribution Capability) standard with direct connections to travel agents and/or via content aggregators
- Face-to-face channels: in many cases, airlines still use mag-stripe acceptance devices at check-in desks, kiosks and service counters, and they tend to focus on finding solutions for Chip & PIN transactions (instead of focusing on enabling AFPs)

### AFP acceptance policy for online direct sales

To understand the airlines’ AFP acceptance policy for online direct sales only (for their home market vs. other markets), it is important to look at it at the regional level (based on where the airline’s home market is located).

### AFP acceptance policies vary significantly between regions:

- In Europe, the majority of airlines also accept PayPal and bank transfers, such as iDEAL in the Netherlands. This trend can be explained by:
  - PayPal having achieved a high penetration of e-commerce in large markets like France (14% of e-commerce transaction value in 2018), UK (18% of e-commerce transaction value in 2018) and in Germany (19% of e-commerce transaction value in 2018)

- Bank transfer is the preferred payment method for e-commerce in many European countries (typically in Northern Europe). For example, iDEAL (launched by Dutch banks in 2005) represents 57% of online purchases in the Netherlands. Such success results from local consumer preferences for bank transfers; merchant preference for a “guaranteed” payment method (without the risk of chargebacks) with a low fixed fee; and implementation of credit card surcharging by local merchants to steer consumers towards iDEAL

- In MENA, the majority of airlines accept two AFPs: cash and their own Frequent Flyer Points

- In certain MENA countries, cards have a low uptake and cash is still “king”. Hence, it is important to allow customers to pay for online bookings in cash

- As airlines issue their own “currency”, it would make sense to accept their own Frequent Flyer miles for part or full payment of airline tickets. The volume of Frequent Flyer miles is substantial for large network carriers, which explains their interest in offering this payment option

- In APAC, the majority of airlines tend to accept a wide range of AFPs including PayPal and other wallets like Alipay, WeChat Pay; cash and bank transfers

- This is expected as Alipay and WeChat Pay have achieved a high penetration of ecommerce sales in China and are increasingly accepted by online and proximity merchants outside of China


- Finally, airlines in the Americas accept the largest range of AFPs including:

- Their own Frequent Flyer miles
- Their own gift cards. For example, American Airlines offers traditional plastic gift cards and virtual gift cards options for their customers

### Example of gift cards (American Airlines Website)

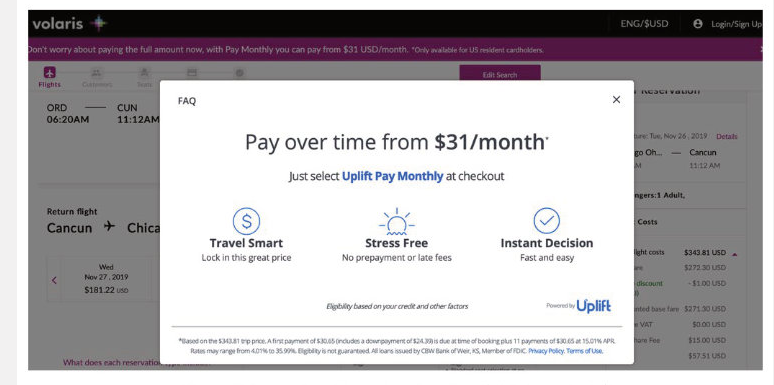
#### Two Easy Ways To Give The Gift Of Travel

The whole wide world, it comes in a card, and it's the perfect gift for anyone who loves to travel, including you. You can buy either a plastic card and have it mailed or a virtual card delivered via email. Please see below for the differences between the cards to find the right one for you. Both options allow you to send a personal message with your gift. You can use up to eight (8) Gift Cards at one time toward the purchase of a ticket to hundreds of exciting destinations throughout the world. And, with no expiration date or fees, American Airlines Gift Cards are perfect for any occasion. [Terms and Conditions apply.](#)



Plastic Gift Cards	Virtual Gift Cards
Plastic Gift Cards purchased online or over the phone (1-800-677-9555) from American Airlines offer: <ul style="list-style-type: none"> <li>• Shipping via FedEx® (shipping and handling charges may apply)</li> </ul>	Virtual Gift Cards purchased online or over the phone (1-800-677-9555) from American Airlines offer: <ul style="list-style-type: none"> <li>• Free delivery</li> <li>• Need to give a gift now?</li> </ul>

Example of installment options (Volaris website)



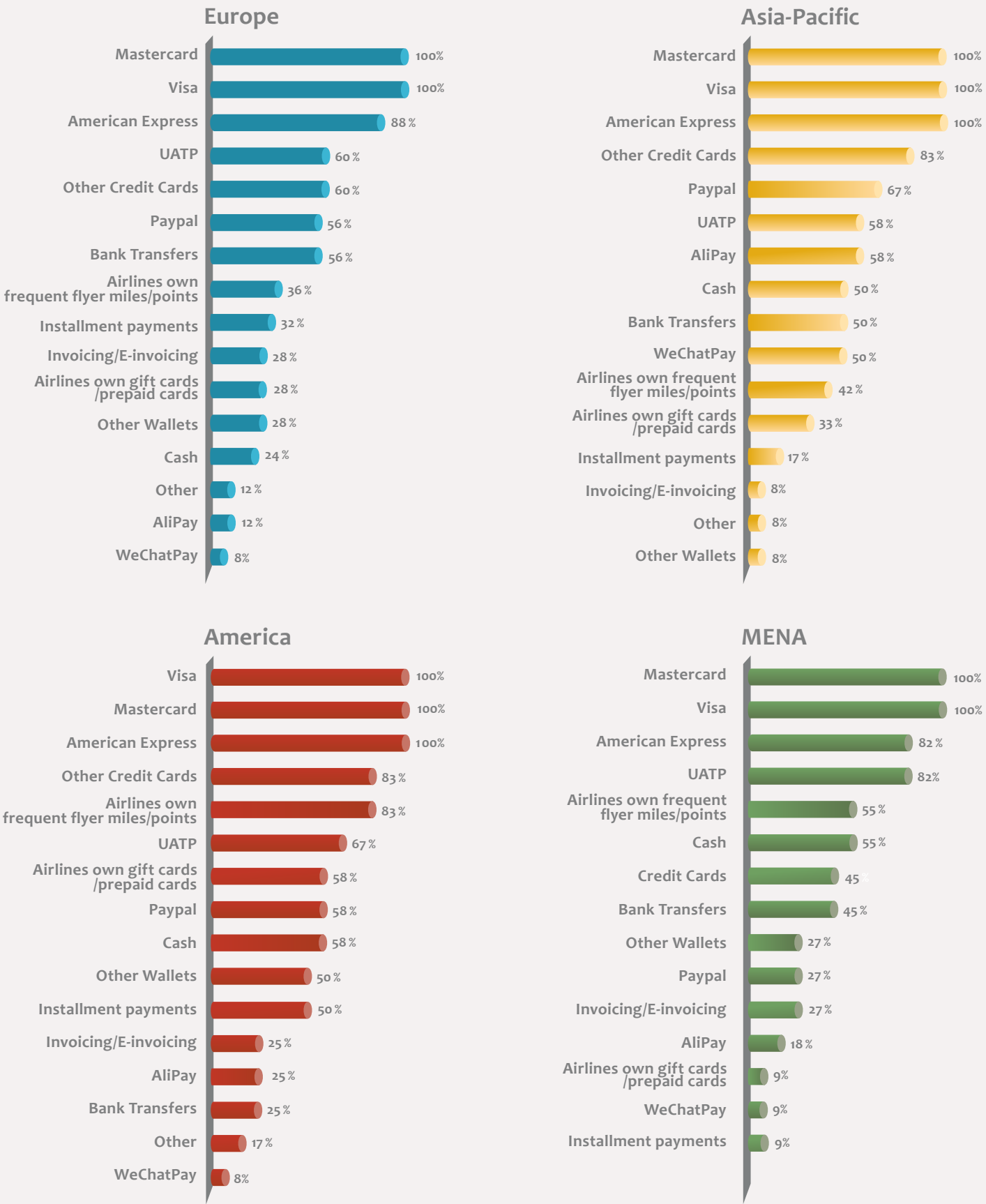
- PayPal
  - Cash
  - Other wallets
  - And installment. For instance, Volaris enables consumers to pay for a flight up front or repay over 12 months
- This acceptance of a wide range of AFPs in the Americas raises a question that the majority of airlines mentioned in the face-to-face interviews: Is too much choice a bad thing? For instance, one airline’s payment page includes 15 different categories of payment methods, with four to eight options in each category! It appears that airlines typically display the relevant AFPs depending on the point of sale: while a bank transfer option may be relevant for customers in Europe, customers accessing the airline’s webpage from Latin America would not be shown that same option. Instead, they would be shown relevant local options.

**Who sets the Airline’s AFP acceptance policy: two types of Airlines**

It is important to understand who sets the airline’s payments acceptance policy, as it may influence the objectives that are pursued. Our findings identified significant variation between airlines regarding ‘who’ has influence over the AFP acceptance policy:

- Approximately one third of airlines (37%) involve multiple internal departments when setting their AFP acceptance policy:
  - These departments typically involve Finance, Revenue Accounting, Sales / Distribution and the Payments team (in cases where a dedicated Payments team exists within the airline)
  - Our face-to-face interviews confirmed that a best practice is not only for tier 1 / tier 2 airlines to have a dedicated payments team (i.e. with the internal expertise to identify and evaluate options), but also to ensure the involvement of relevant internal departments in payments decisions. Collaborating with internal departments ensures that the AFP acceptance policy will meet customer expectations and deliver positive impact on revenue, whilst generating a positive business case and avoiding any significant increase in manual back-office work for reconciliation
- There are then two types of airlines:
  - Sales-driven airlines: 22% of survey respondents indicated that the AFP acceptance policy was solely driven by Sales / Distribution. In these cases, the choice of AFPs is mostly driven by competitive pressure or by perceived customer demand with a view of generating incremental revenue
  - Back-office driven airlines: 17% of respondents stated that Finance / Revenue Accounting drive single-handedly their AFP acceptance policies. This is typically the case when there is no dedicated payments team, and when the airline is mostly or only focused on reducing its total cost of acceptance and is therefore, implementing AFPs as a way to reduce card fees and/or as a way to reduce their dependence on cards
- Finally, approximately a quarter of surveyed airlines do not have an explicit AFP acceptance policy or rely solely on their payment suppliers (e.g. their payment gateway or card acquirer)

Which type of payment methods do you currently accept for your online direct sales?



> Face-to-face interviews confirmed that airlines are increasingly developing a formal AFP acceptance policy as it is harder to obtain the required IT and operational resources to implement new AFPs (and thereby deliver in a timely fashion) if internal resources or payment partners do not have any visibility about the upcoming priorities

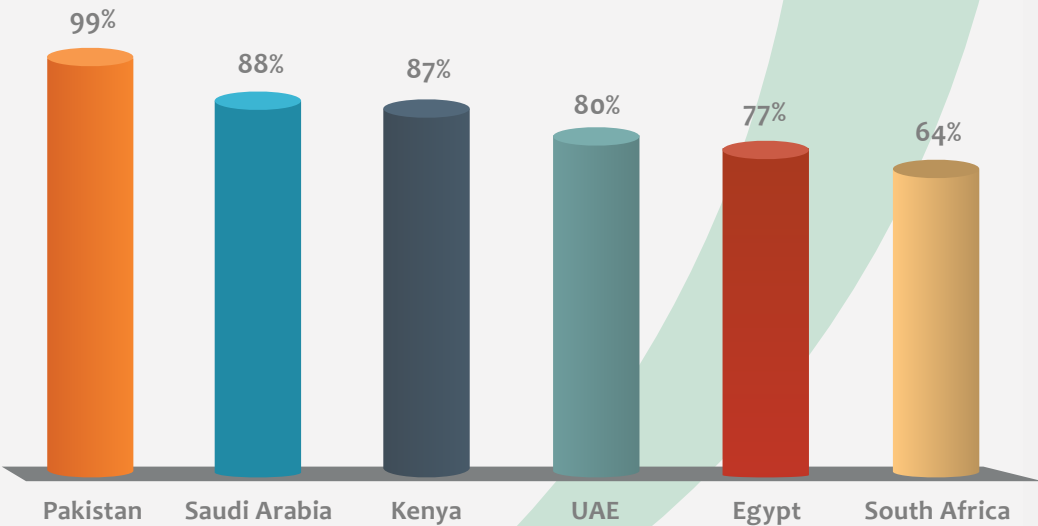
Key take-aways / conclusions

AFPs have become “mainstream” as the vast majority (85%) of airlines accept AFPs for their online direct sales. AFP acceptance strategies vary significantly across regions, but these airlines typically accept AFPs such as wallets (e.g. Alipay or PayPal), bank transfers, cash, installment, or other forms of payment (e.g. airline’s Frequent Flyer miles, airline’s gift card).

However, interviewed airlines highlighted a major hurdle to implementing these AFP acceptance strategies: the slow time-to-market when implementing new AFPs (up to nine months for one large airline to implement one AFP!). This slow time-to-market can be explained by a sub-optimal payment acceptance architecture (e.g. up to four IT vendors might be involved in such an implementation), lack of internal resources for project management, below-par capabilities at their payment gateway, etc. All airlines should address this slow time-to-market by pursuing the best practices highlighted at the end of this report. Otherwise they run the risk of missing new payment opportunities and of becoming disintermediated.

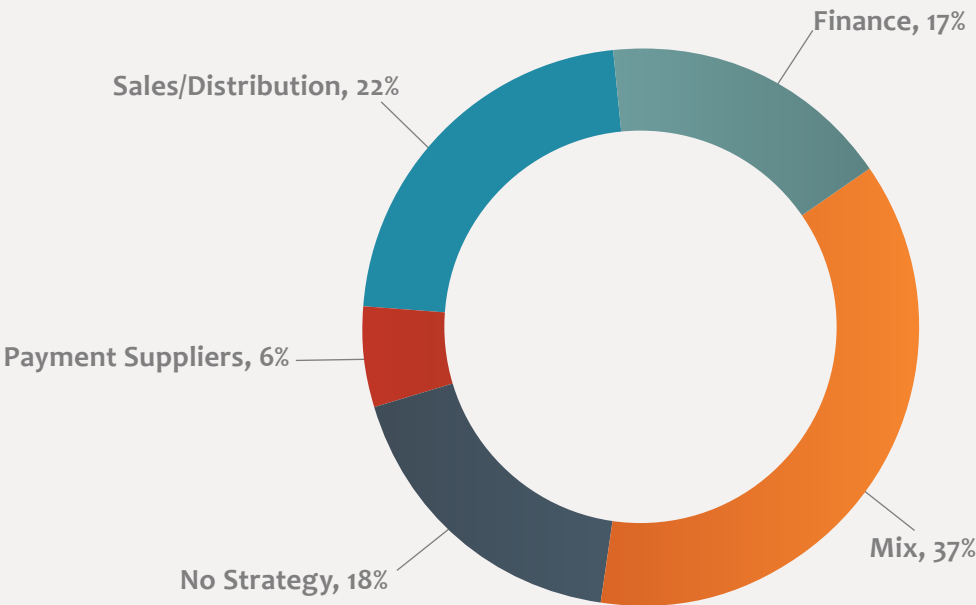
“ It is important to think market by market and implement the AFPs according to the consumer demand... ”

Volume of transactions paid in cash in MENA, 2019 (%)



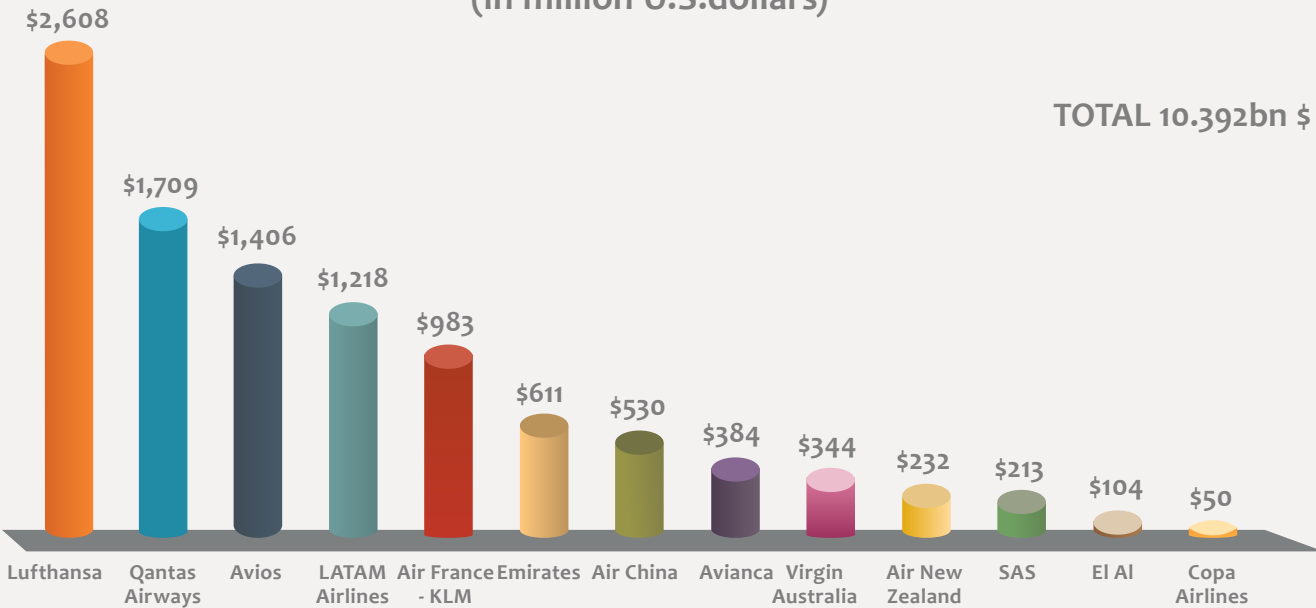
Source: Statista

Which department determines your AFP Strategy ?



“ For example, it is essential to offer iDEAL in Netherlands or AliPay / WeChatPay in China European airline ”

Loyalty program liability of selected airlines in the world as of 2018 (in million U.S.dollars)



Source: Statista



## 2. Accepting AFPs: Why or Why Not?

Airlines accept AFPs to assist both sides of their P&L

### Why do airlines accept AFPs?

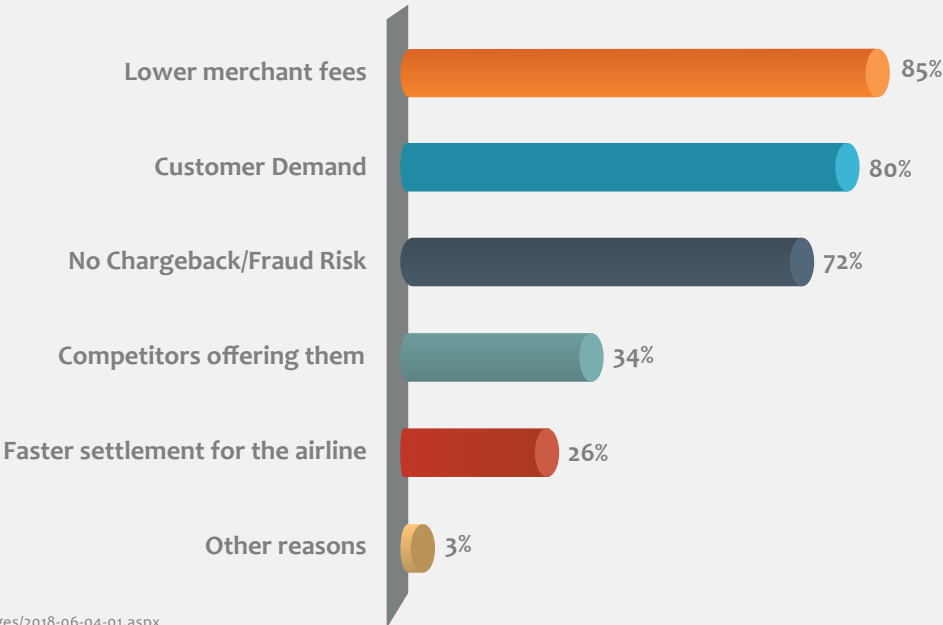
The online survey also set out to understand why (or why not) airlines accept specific AFPs. There are three key reasons for accepting AFPs:

#### Total survey results

- Nearly all airlines (85%) cite “lower merchant fees” as one of the main reasons for accepting AFPs:
- Net profit margins are typically low in the airline sector. According to IATA<sup>[4]</sup>, the net profit margin for the airline industry was close to 4%, in 2018

- According to UATP<sup>[5]</sup>, the typical cost for an airline to accept cards is in the range of 2%-3%
- Face-to-face interviews confirmed that airlines see value in accepting cards but are keen to accept AFPs that would charge a fixed and lower fee than cards
- A very high percentage (80%) of airlines also cite “customer demand”:
- Face-to-face interviews indicated that airlines use multiple sources to ascertain the level of customer demand for AFPs: internal sources such as call centre requests,

What are the main reasons driving you to accept AFPs?  
 Rank top 3 in order of importance with 1 being the most important reason

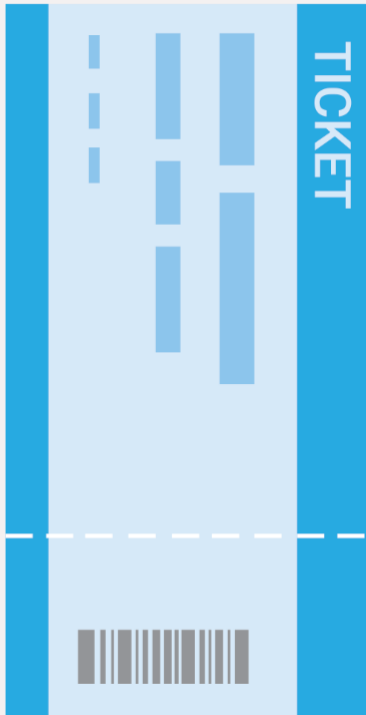
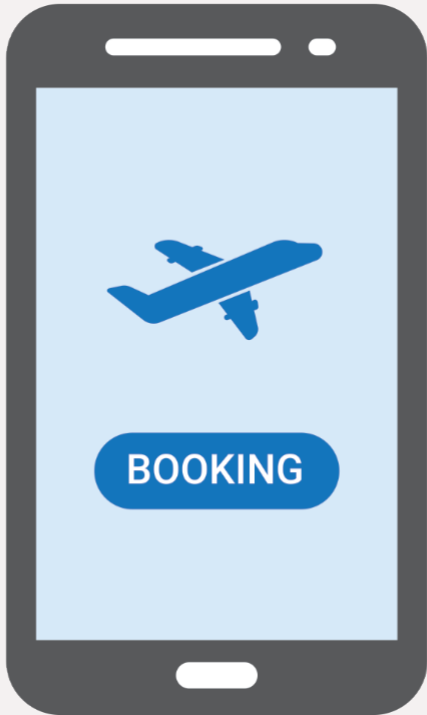
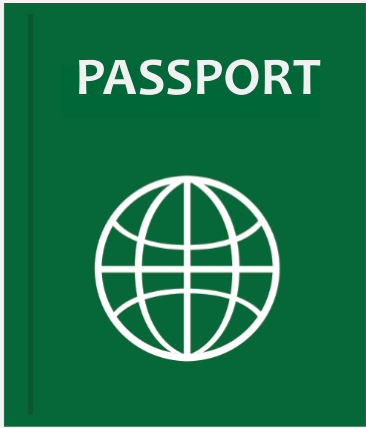


[4] <https://www.iata.org/pressroom/pr/Pages/2018-06-04-01.aspx>  
 [5] <https://cf.uatp.com/files/uploads/PDF/UATP%20White%20Paper%20May%202014.pdf>  
 [6] [https://www.cybersource.com/content/dam/cybersource/2018\\_Airline\\_Fraud\\_Report.pdf](https://www.cybersource.com/content/dam/cybersource/2018_Airline_Fraud_Report.pdf)

“  
 To implement a new AFP, it needs to generate incremental sales and cannot be more expensive than cards  
 European airline

- ”
- requests from local Sales offices, informal discussions with peers via trade associations / industry events, advice from external consultants, etc.
  - The typical objective is either to support market entry (e.g. by starting to accept a local payment method when an airline

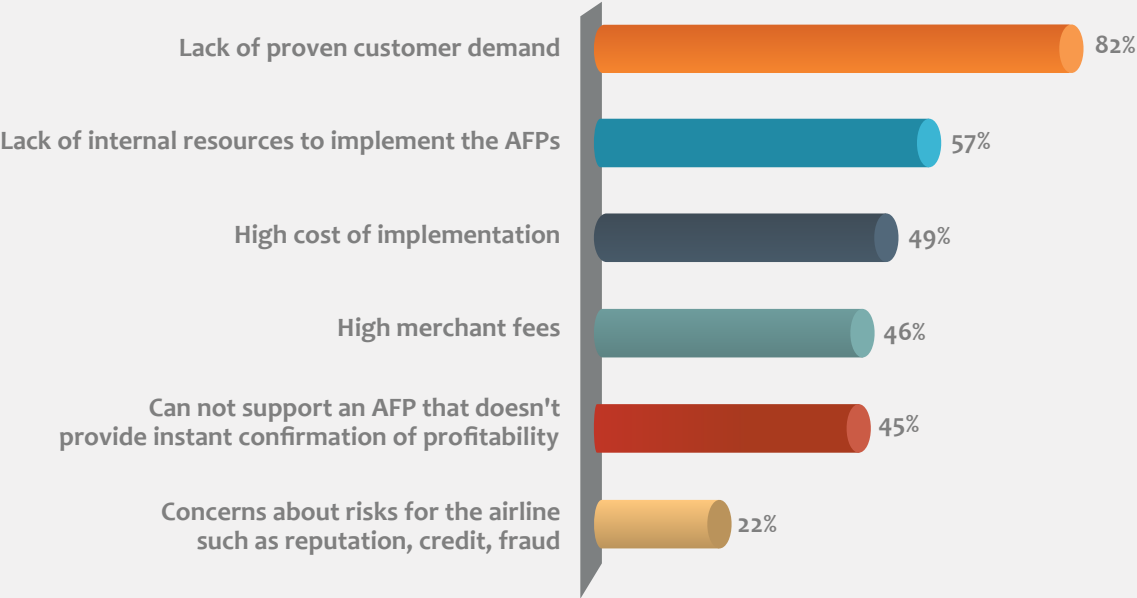
- starts flying into a new country) or to increase conversion rates in specific countries
- The third main reason (72%) is “no chargeback / fraud risk”:
- Airlines sell a product that is attractive to fraudsters. According to CyberSource,<sup>[6]</sup> airline revenue loss due to fraud was estimated at 1.2%, in 2018
- As such, it is important for airlines to accept AFPs that limit or completely avoid any fraud risk and that avoid chargebacks that generate manual work
- Face-to-face interviews often mentioned the case study of iDEAL in the Netherlands as an example that meets all of the above requirements, and that has penetrated over 50% of e-commerce sales in the Netherlands





What are the main reasons why you do NOT want to adopt specific AFP's ?

Rank top 3 in order of importance with 1 being the most important reason



Why do airlines choose not to accept AFPs?

There are numerous reasons why airlines do not accept AFPs:

- For the large majority of airlines (82%), the lack of proven customer demand is the main reason for not accepting specific AFPs
- Most airlines undertake some kind of research (e.g. benchmarking of other airlines or of other key e-commerce merchants) in order to evaluate the potential customer demand prior to implementing any AFP
- Other airlines take a “trial and error” approach by doing A / B testing (i.e. measuring the conversion rate among one group of 50% of online shoppers that see the new AFP vs. the other 50% that do not see the new AFP) or by closely monitoring

the results after a full implementation.

Depending on the results, these airlines only maintain the new AFP in one channel (e.g. in the mobile channel but not the desktop website) or start accepting the new AFP across all channels

- Over half (57%) of airlines report a lack of internal resources to implement AFPs
- In some cases, this refers to a lack of legal (for contracting) or of project management resources. But in most cases, this refers to a lack of IT resources (e.g. to make the required changes to the internet booking engine) within the airline
- To partly address this issue, a small number of airlines have included a few IT resources solely dedicated to payments within their payments team

- Nearly half of the airlines report a “high cost of implementation” (49%) or “high merchant fees” (46%)
- High costs of implementation tend to be more of an issue among airlines that do not have or do not want to leverage a payment gateway (i.e. need to build a direct integration with an AFP), or cases when multiple external IT suppliers need to be involved. Specific airlines reported that it took them over six months to implement a single AFP, thereby generating a high cost of implementation (both in terms of internal time spent by airline staff and in external expenses with IT providers)
- Face-to-face interviews highlighted the fact that “high merchant fees” was an issue in geographies like Europe where interchange fees for consumer cards are capped (at 0.2% for debit cards and at 0.3% for credit cards), and in instances where the airline projected the AFP transactions would be mostly in substitution to these “low cost” card transactions (and would not generate incremental sales)
- The final reason for not accepting specific AFPs is that 45% of airlines stated that they cannot or do not want to accept AFPs that do not provide instant confirmation of payment
- In some face-to-face interviews, airlines indicated that they have an internal system

limitation related to their PSS that requires “immediate fulfillment”

- However, it appears that it is more often a commercial decision by airlines that do not want to keep any booking in a “pending” status: as such, they do not want to implement any AFP that would require a one to two day window for the customer payment to be settled. One example of a payment method that requires this “pending” status is Boleto Bancario in Brazil where customers have to pay for the airfare in person at a local convenience store and receive a confirmation number to enter online before being able to complete the booking

Key take-aways / conclusions

Most airlines implement AFPs not only to lower merchant fees (85% of airlines) but also to meet customer demand (80% of airlines) and thereby optimize conversion rates. However, interviewed airlines indicated two pain points that limit their interest in specific AFPs:

- The inability for airlines to conduct A / B testing on their direct channels thereby preventing these airlines from testing the real sales impact of AFPs before committing to a full implementation
- And the challenges related to back-office operations such as handling refunds, automating reconciliation, providing analytical reports, etc. For instance, one European airline indicated that one AFP required the airline to contact customers by phone to process refunds, and experienced significant mismatches between their Payment Service Provider's (PSPs) remittance report and the actual AFP settlement

AFP providers need to address these two challenges if they want to capture a share of airline revenue. Otherwise they will struggle to penetrate this airline market that is expected to double in the next 20 years.

“

we terminated a real-time bank transfer option in a Nordic country due to low transaction volume and due to poor conversion rates. These poor conversion rates were driven by technical integration issues with this AFP

”



# 3. What is the current payment mix and impact on revenue?

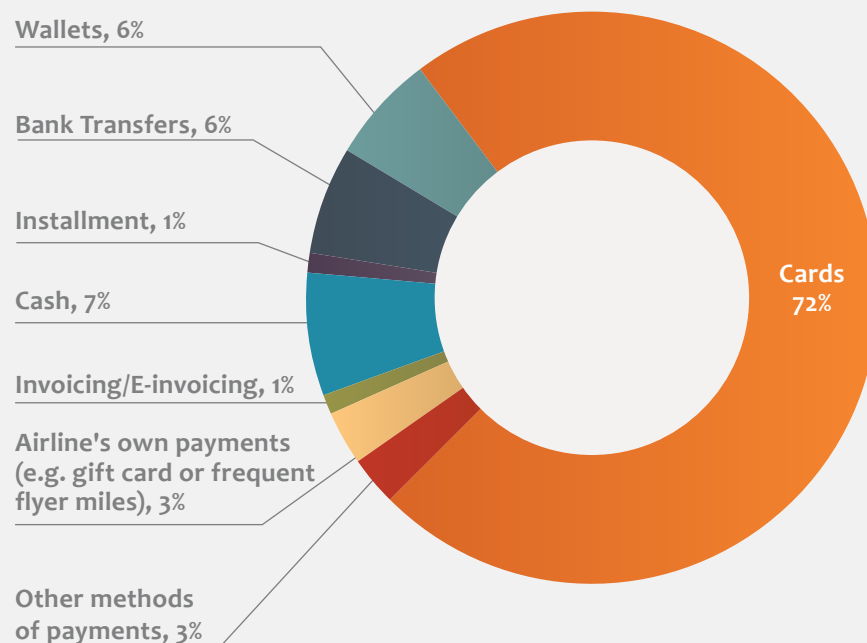
## Payment mix for online direct sales

### Payment mix for online direct sales – Overall results

After reviewing the airlines' AFP policy and reasons for accepting AFPs, it is important to understand the level of AFP adoption. The online survey asked airlines to provide the breakdown of online direct sales in their home market by form of payment:

➤ The online survey confirms that the airline industry is still a very card-centric industry as cards (including debit cards and credit cards) represent 72% of online direct sales in the home market:

### For online direct sales in your home market, what is the current split between Cards and AFPs?



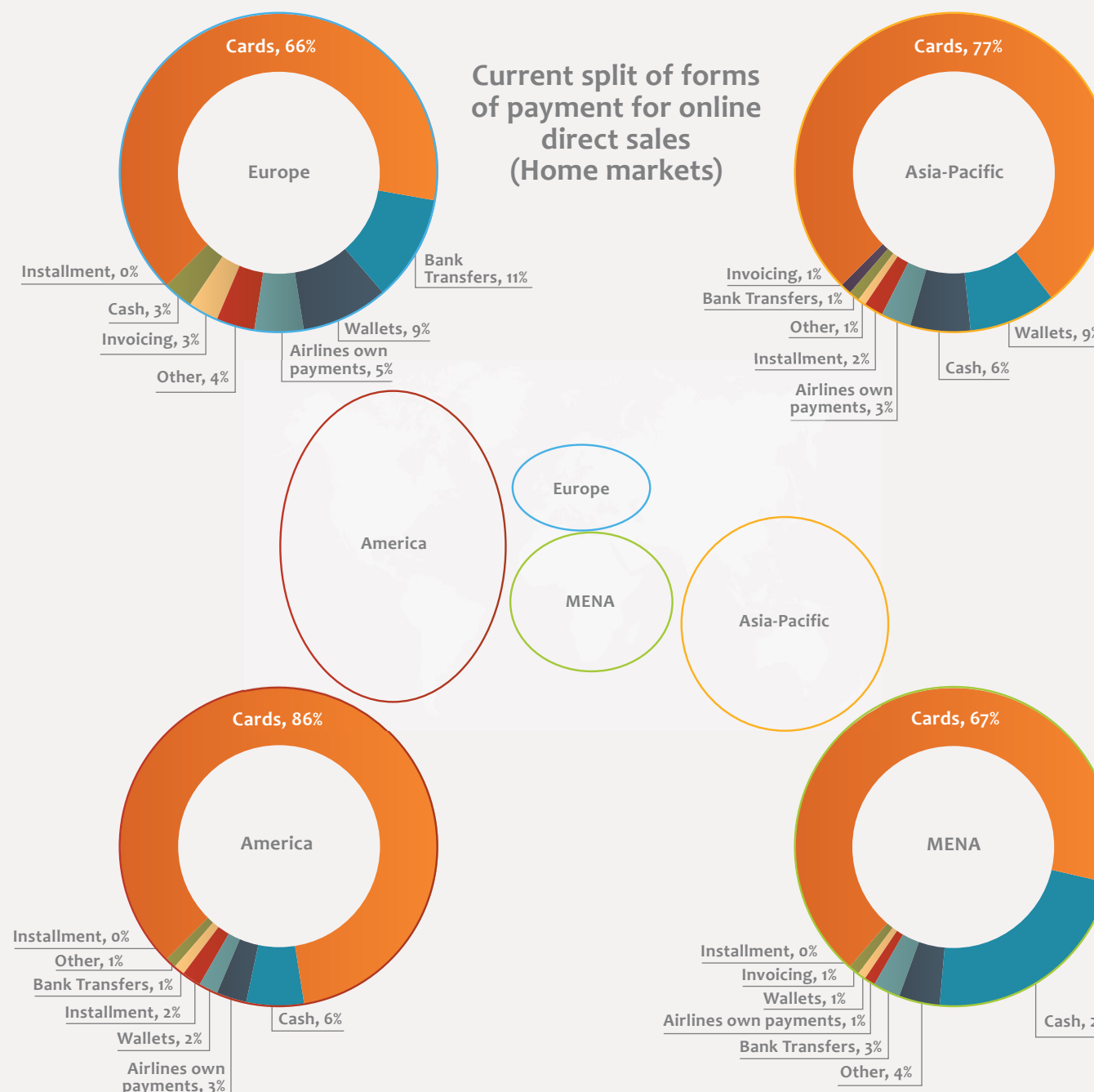
[7] [https://www.economie.gouv.fr/files/sondagecsa\\_synthese.pdf](https://www.economie.gouv.fr/files/sondagecsa_synthese.pdf)

- There is a wide variance of card penetration rate between regions, varying from 15% at the lowest in a country in East Africa to 100% in certain European countries
- This is mostly driven by a strong consumer preference for cards in specific countries: for example, 71% of French consumers<sup>[7]</sup> indicate that their card is their preferred payment method
- The remaining 28% of online direct sales is split among four main AFP types:
  - Cash (e.g. at CTO or via third parties): 7%
  - Wallets (e.g. PayPal, Alipay): 6%
  - Bank transfers (e.g. iDEAL): 6%
  - Airline's own payments (e.g. gift cards or frequent flyer miles): 3%
- Other AFPs remain marginal so far:
  - Installment payments (e.g. Uplift): 1%
  - Others: 3% that include other forms of payment such as SEPA direct debit and even cheques!

### Payment mix for online direct sales – at the regional level

It is important, however, to analyze the payment mix at the regional level (based on the location of the airline's home market) as results vary significantly across regions:

- Not surprisingly, cards achieved the highest penetration for online direct sales in the Americas at 86%



- The top 3 AFPs in this region are cash (6%) and the airline's own payments (3%)
- Face-to-face interviews indicated that certain airlines had initiated pilots / implementations involving wallets and installment options, hence these two categories might be slightly under-stated (as reported numbers refer to 2018)
- More surprisingly, cards achieved the second highest penetration (77%) for online direct sales in the Asia-Pacific region:
- Wallets like Alipay achieve "only" a 9% penetration and 6% for cash

- This might be explained by some Asian countries that still have a strong preference for cards such as Singapore, and some Asian airlines only recently started accepting wallets such as Alipay
- Cards achieved a similar penetration for online direct sales in Europe and in MENA each (66%), however the AFP split is very different across these two regions
- In the MENA region, cash achieves a 23% penetration, followed by bank transfers (3%)



In Europe, the top AFPs are wallets (9%), airline's own payments (5%), and invoicing (e.g. in countries like Germany whereby consumers can pay at a later stage) and cash (3% each)

### Impact of AFPs on sales

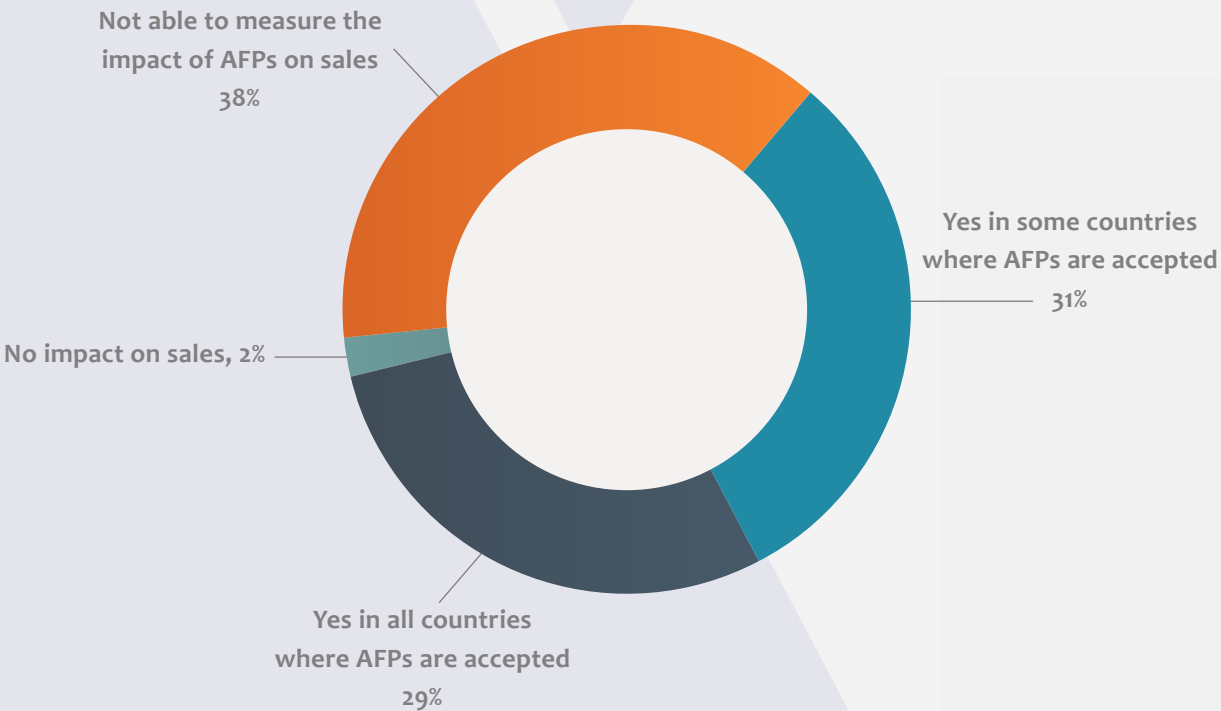
The top of mind question raised in nearly all face-to-face interviews is: whether / when AFPs have generated incremental sales for airlines?

- The majority (60%) of airlines found that AFPs generated incremental sales either in all countries or at least in some countries
- This could be expected, as most airlines tried to focus on implementing AFPs that meet customer demand with the hope of generating incremental sales
- However, it confirms that it is not a blanket statement, and that it is typically country specific

The online survey therefore asked airlines the specific country/countries where AFPs generated incremental sales, and there are three countries that emerge (China, Netherlands and Sweden)

- However, there is still worked to be done in order to properly measure the impact of AFPs: 38% of airlines cannot measure the impact of AFPs on sales
- Unlike leading e-commerce merchants, airlines appear to undertake fewer A / B tests in order to measure the actual impact on conversion rates
- Without the usage of A / B testing, interviewed airlines are in the process of identifying the right KPIs to enhance their ability to measure the impact of AFPs

### Has the implementation of AFPs generated incremental sales?



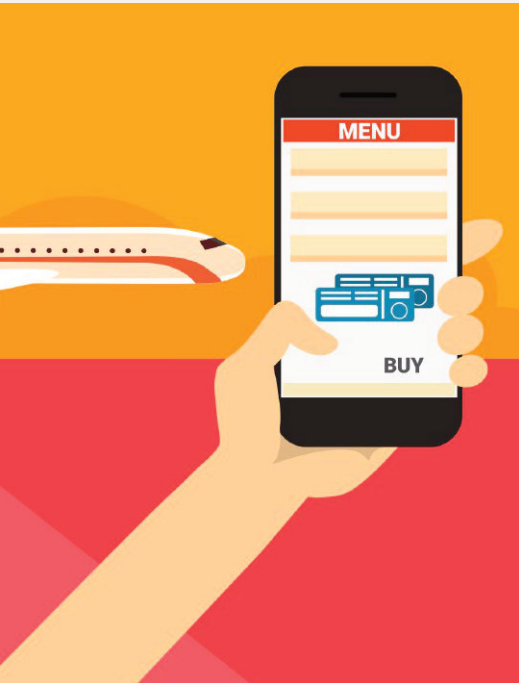
### Key take-aways / conclusions

AFPs have already achieved a fairly high penetration of online direct sales (from 34% in Europe to 14% in the Americas) in a very card-centric industry. And these AFPs are helping: 60% of airlines indicated that these AFPs have generated incremental revenue in all or in some countries.

However, it is difficult to measure incremental revenue. For instance, one airline set up an internal working group to design a process and KPIs to measure the impact of AFPs on sales. It is clear to them that an airline must accept IDEAL in the

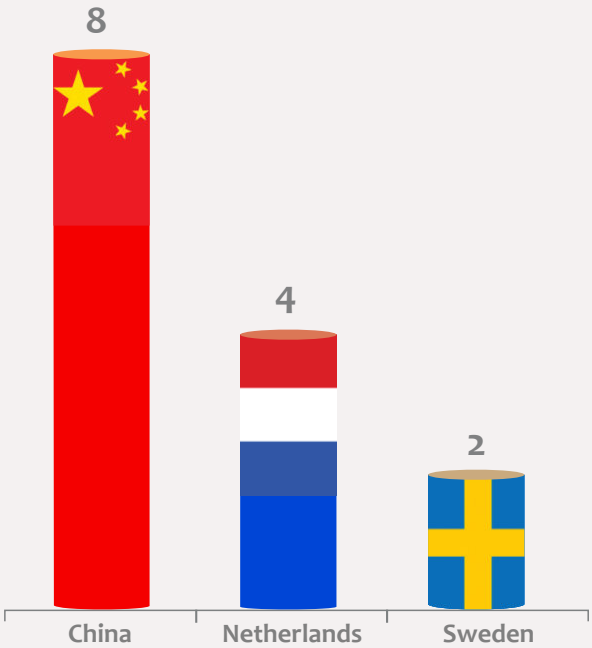
Netherlands, but it is very hard to quantify its impact on sales.

Airlines and their payment partners need to do a better job to quantify the impact of AFPs on market reach and on conversion rates.



“  
 Without data, you are just another person with an opinion...  
 W. Edwards Deming,  
 American scientist  
 ”

### Top three countries with incremental sales (count of responses)



### Other countries with incremental sales (other responses)

Europe		Asia-Pacific
✈ Bulgaria	✈ Poland	✈ Australia
✈ Belgium	✈ Germany	✈ India
✈ Romania	✈ Slovakia	✈ Japan
✈ Czech Republic		
America		Europe
✈ Mexico		✈ Kenya
✈ USA		✈ Ethiopia
		✈ China

# 4. What are Airlines' future plans regarding AFPs?

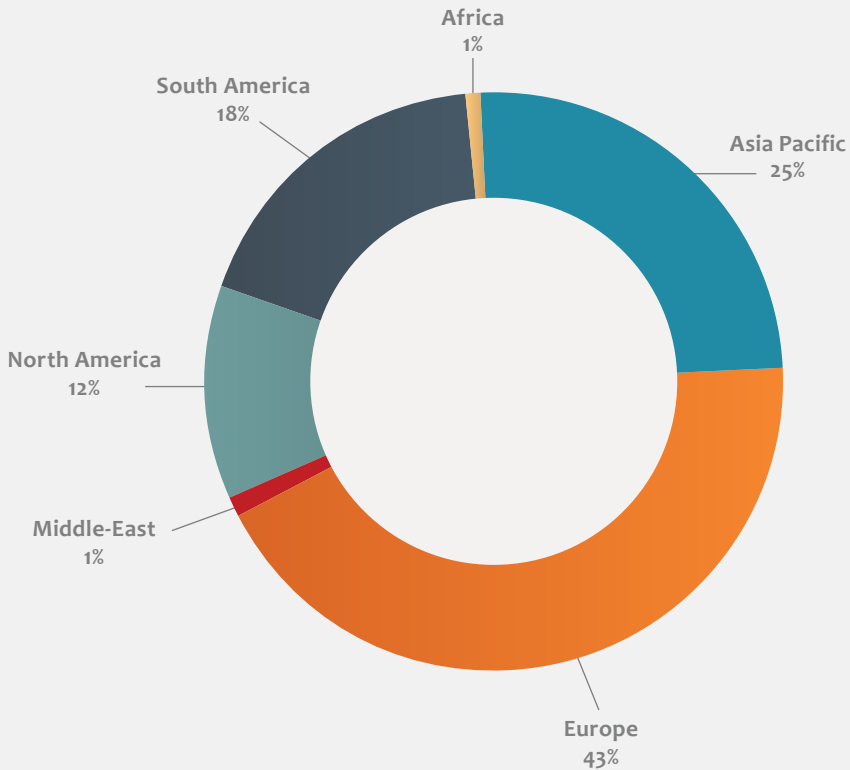
In which countries will airlines focus on implementing AFPs in the future?

Our online survey asked in which countries airlines will start accepting AFPs over the next 2-3 years:

- There are three priority regions for airlines:
  - Europe (43%)
  - Asia Pacific (25%)
  - South America (18%)
- These priorities are based on a combination of factors:

- Face-to-face interviews indicated that interviewed airlines are looking at AFPs in Europe as they believe that instant bank transfers in the Euro zone (see “Overview of instant bank transfers”) might provide an interesting new alternative to cards, as well as installment options or wallets
- The interest in Asia-Pacific seems to be primarily driven by the intention to implement Alipay and/or WeChat Pay (see next section) for those airlines that have not yet implemented these AFPs

For your online direct sales in which continent will you begin to accept AFPs over the next 2-3 years where you don't already accept them?



- And the interest in South America is spread across multiple potential AFPs including country-specific domestic forms of payment

## Looking forward, which specific AFPs will be implemented?

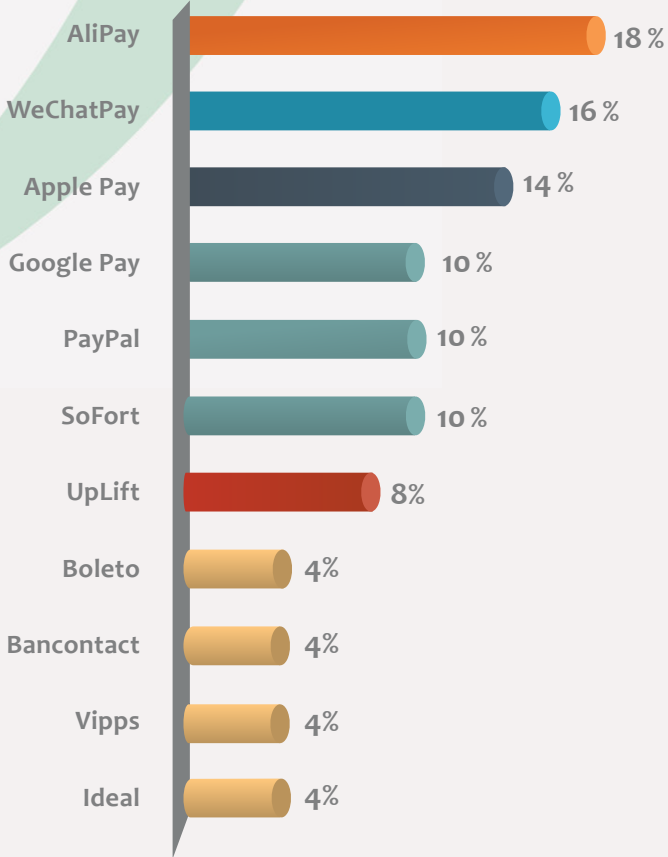
In addition to the countries where airlines will focus, the online survey also asked which specific AFPs will be implemented over the next 2-3 years:

- As mentioned in the previous section, interviewed airlines are interested in implementing AFPs in Asia-Pacific, specifically Alipay and WeChat Pay (18% and 16% respectively)
- Most of these airlines have already decided to implement these wallets, and the remaining question is “how to implement?” (i.e. via which payment gateway / connection and with the support of which internal resources)

- As mentioned in the pain point section, specific airlines indicated implementation timelines of 6-9 months to implement such wallets, typically among airlines that do not use payment gateways or that have internal constraints related to project management resources or to their back-office processes (e.g. revenue accounting processes to ensure high level of automated reconciliations)

- The other priority wallets include Apple Pay (14%), Google Pay (10%) and PayPal (10%)
- Most face-to-face interviews confirmed a strong interest in such wallets, especially to improve conversion rates via mobiles
- However, interviewed airlines question which wallet(s) will remain “fit for purpose” in the long term. These airlines question whether some of these wallets will reach the critical mass globally and others question strategic aspects (e.g. concerns whether these wallets will leverage

Which additional AFPs do you plan to start accepting in the next 2-3 years?





customer relationships and data to engage in commercial activities that might disintermediate airlines)

➤ Other AFPs of interest include a wide range of options, typically focused on specific countries:

- Sofort for Germany
- UpLift for the USA
- Boleto for Brazil
- Bancontact for Belgium
- Vipps in Norway
- And iDEAL for the Netherlands

➤ Beyond the specific AFPs mentioned above in the online survey, face-to-face interviews highlight three other AFP-related priorities that airlines will look at closely over the coming 2-3 years:

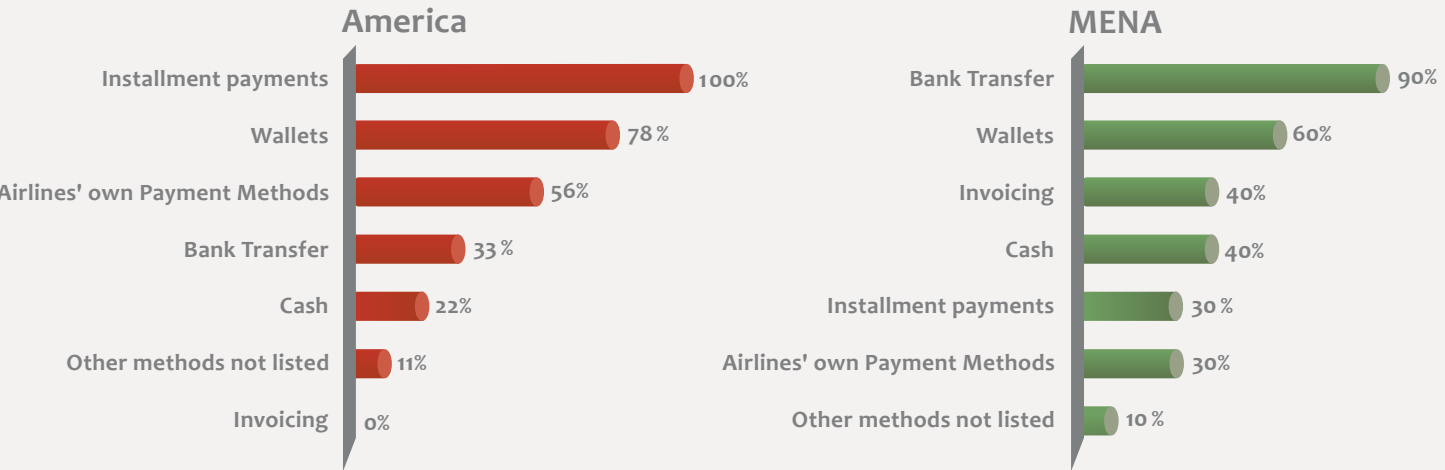
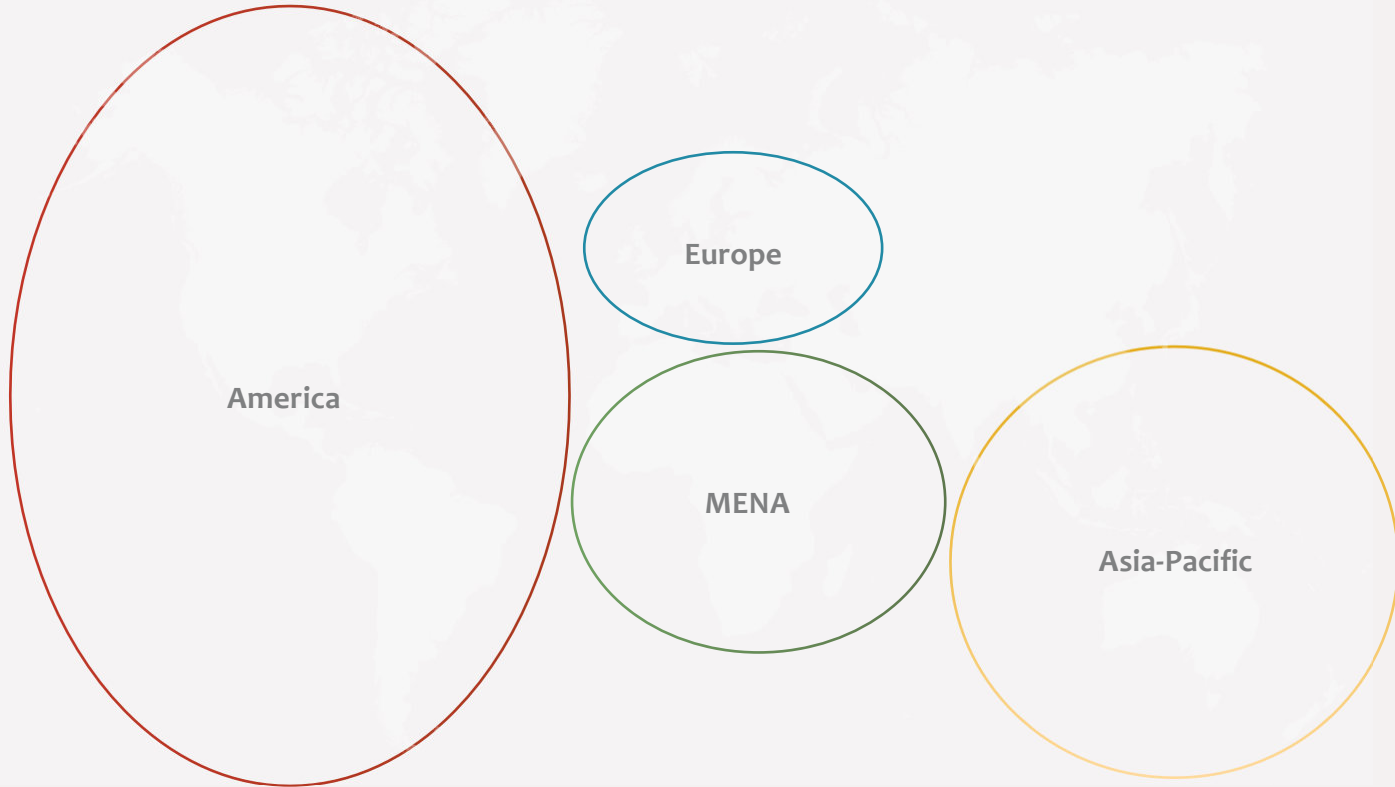
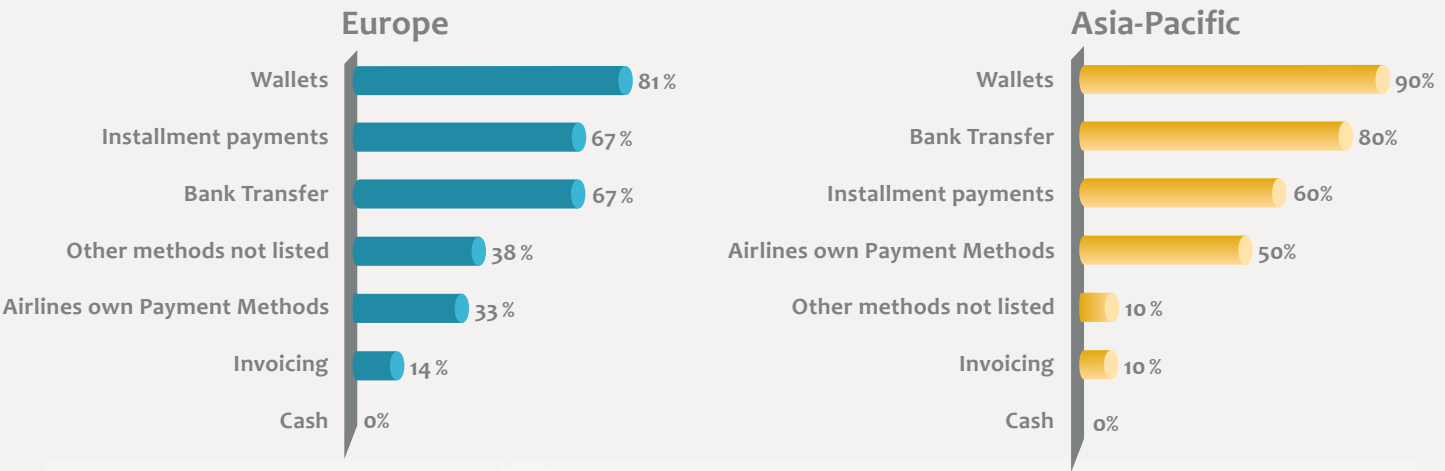
➤ Forms of payment that could leverage the emergence of real-time bank transfers (e.g. recently in Australia, in Hong Kong, underway in the Euro zone with SCT Inst,

etc.) combined with Open Banking-type of regulations and with the “request to pay” functionality. It is likely that certain airlines will pilot such options in specific countries among use cases such as consumers with frequent flyer accounts (but potentially also among business travelers)

➤ Installment payments not only in countries where there is a local “tradition” of installments (e.g. Brazil), but also in other geographies such as specific European countries

➤ Enabling AFPs via travel agencies, most likely by leveraging the NDC standard. Ideally these airlines would like to accept the same range of AFPs across direct and indirect channels: it has been a source of frustration for the majority of interviewed airlines that cannot easily enable AFPs via travel agencies

What are the top 3 payments methods (excluding Cards) that will have the greatest potential to drive airline revenue over the next 2-3 years in your HOME MARKET?



Which AFPs will have greatest impact on home market revenue?

As airlines are increasingly focused on leveraging AFPs to grow revenue, the online survey also asked which AFPs will have the greatest potential to drive airline revenue over the next 2-3 years in their home market:

➤ **Wallets are in** the top 2 AFP priorities across all regions:

➤ Asia Pacific: wallets are the number 1 priority with 90% of airlines selecting wallets as having the greatest potential to drive airline revenue over the next 2-3 years

➤ Europe: wallets as number 1 (81% of airlines)

➤ Americas: wallets as number 2 (78% of airlines)

➤ MENA: wallets as number 2 (60% of airlines)

➤ **Other priorities include:**

➤ Installment payments in the Americas (100% of airlines) and in Europe (67%)

➤ Bank transfer in MENA (90%) and in Asia Pacific (80%)

The above survey confirms that there are a lot of growth opportunities for providers of such AFPs in the coming years:

➤ Face-to-face interviews indicated that the majority of airlines are in the process of evaluating or piloting new wallets (but recognize the fact that not all wallets will be successful even if they are launched by leading brands), and are especially interested in implementing installment options and/or real-time bank transfer options (as well as enabling these AFPs via travel agent channels)

Projected share of AFPs among online direct sales in 3 years' time?

Lastly, the online survey asked airlines to project the market share split between Cards and AFPs in three years' time for the online direct sales, in their home market. Projections vary significantly from one region to another:

➤ **Airlines in Europe** and in Asia Pacific expect an increase in the AFP market share:

➤ Europe: increase in AFP market share of +6%

➤ Asia Pacific: +4%



➤ **No change in** the Americas

➤ **And expectations of** a decrease in AFP market share of -13% in MENA

Face-to-face interviews helped to explain these major differences by region and highlighted a different key driver for each region:

➤ **Europe: airlines expect** that the emergence of real-time bank transfers in the Euro zone (especially in Northern Europe and in the DACH region) is likely to provide an attractive alternative to cards, along with the continuing growth of wallets and other AFPs

➤ **Asia Pacific: airlines** expect that the main driver will be the increasing penetration of established wallets such as Alipay and WeChat Pay, the fast growth of newer wallets such as PayTM in India, and the potential success of wallets provided by Southeast Asian companies like Grab, or Go-Jek in Indonesia)

➤ **The Americas: in** the near term, most airlines expect that consumers will continue to use their preferred airline co-brand card or their existing credit card. However, the recent (or underway) implementations of wallets or of installment options might impact these future projections in this region

➤ **MENA: projections are** the opposite in the MENA region: most airlines expect that card penetrations will increase as the overall consumer spend might increasingly migrate from cash to cards (either via debit cards in the countries that have / are launching domestic debit card schemes or via cards based on the international card schemes)

Key take-aways / conclusions

Airlines expect an increase in AFP market shares in Europe and in Asia (+6% and +4%, respectively). In addition to implementing wallets across all regions, interviewed airlines indicated three AFP-related priorities:

➤ **Real-time bank transfers**

➤ **Installments**

➤ **Enabling AFPs via** travel agent channels (most likely by leveraging the NDC standard)

AFPs providers and PSPs should work in collaboration with airlines and airline industry stakeholders to enable high-priority AFPs across all channels.





# 5. What are the best practices related to AFP implementations?

## Setting targets, policies, teams and measures

Based on interviews with airlines and on a review of best practices across other leading-edge merchants such as OTAs and e-commerce merchants, this study identified the following best practices to ensure an efficient and effective implementation of AFPs in the airline sector:

### Identifying the appropriate target segments and use cases – Who ?

As with any decisions impacting the airline's "product", airlines need to ensure at first that they are focusing on the appropriate segments and use cases:

- **For instance**, a majority of interviewed airlines undertake their own market research and leverage external sources (e.g. industry reports, consultants) to prioritize the countries, specific segments and use cases that are most relevant for AFPs
- **This means that** an airline might implement AFPs for specific customer segments via its mobile app and potentially not in other channels (or vice versa)

### Defining the appropriate payment acceptance policy and processes – What ?

The next key decision is to define which AFP(s) to accept:

- **There are obviously** multiple criteria to consider, including customer demand, competitive situation, capex and opex considerations, etc.

- **And this should** ideally be validated via A / B testing when it is possible, or at least reviewed after implementation in order to fine-tune the AFP acceptance policy over time

### Setting up an internal team dedicated to managing payments and the appropriate payment acceptance infrastructure – How (internally) ?

Based on face-to-face interviews and other work undertaken by EDC, it appears that the majority of airlines have set up a dedicated internal payments team to manage payments:

- **This might involve** as little as one Full Time Equivalent (FTE) and can reach up to 40 FTEs in some cases. The key requirement is to ensure that there is a minimum level of internal expertise to make the appropriate policy decision, and to manage internal and external resources involved in on-going payment operations and in AFP implementations
- **In addition**, leading airline have or are in the process of setting up the appropriate payment acceptance infrastructure to enable functionalities such as smart routing of transactions, automation of processes such as reconciliation, etc.

### Selecting best-in-class payment partners – How (externally) ?

Most airlines work with one (or more) payment partners to enable AFPs. The key requirement is to select a partner that is reliable and agile, so airlines can improve their time-to-market, test and learn, and avoid generating customer friction or internal back-office inefficiencies.

### Measuring payment performance (not only monitoring costs) – Are we getting there?

A minority of interviewed airlines are still solely focused on only reducing payments-related costs. As a result, their key performance indicators (KPIs) mainly cover acceptance costs such as total amounts of merchant fees. Clearly it is important to reduce costs in an industry with thin margins such as the airline industry.

However, feedback from face-to-face interviews with airlines and best practices among e-commerce merchants, confirm that this is only half of the story. It is important to monitor a wider set of

KPIs because these provide vital clues to how the overall Payments function is performing. These KPIs will be different for each airline but might include drop-off rates, usage patterns over time, approval rates by country, response times, number of attempts, etc.

### Key take-aways / conclusions

This report has clearly identified that AFPs have become mainstream in the airline sector, and will carry on gaining market share, especially in Europe and in Asia. However, both airlines and AFP providers / PSPs need to step up their game:

- **Airlines need to** pursue the best practices highlighted above so that they can benefit from new payment opportunities without being disintermediated
- **Providers need to** adapt their AFP products and processes so that the AFPs can be implemented across all channels and can meet the specific requirements of the airline industry





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**UATP is a global corporate travel payment solution owned and operated by the world's airlines.**

The network consists of major airlines that issue charge cards accepted by thousands of merchants around the world for air, rail and travel agency payments. Corporations worldwide use UATP cards to purchase and track travel.

UATP offers easy-to-use data tools, DataMine® and DataStream®, which provide comprehensive account details for accurate travel management.

UATP also connects airlines to Alternative Forms of Payment which can expand reach and generate incremental sales globally. UATP's alternative forms of payment partners include Alipay, CellPoint Digital, EBANX, GiroSolution, Givex, Latitude, Limonetik, Citcon, Fly Now Pay Later, Paymagnet, PayPal, Paysafe, PayU, Planet Payment, SafetyPay, SVS, TransferTo, Trustly, Uplift.

UATP has also partnered with WEX which will allow UATP corporate account holders To pay for hotel stays through, PAXVIA, the WEX Virtual Credit Card Solution (VCC).

**For more information see: [www.UATP.com](http://www.UATP.com)**



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