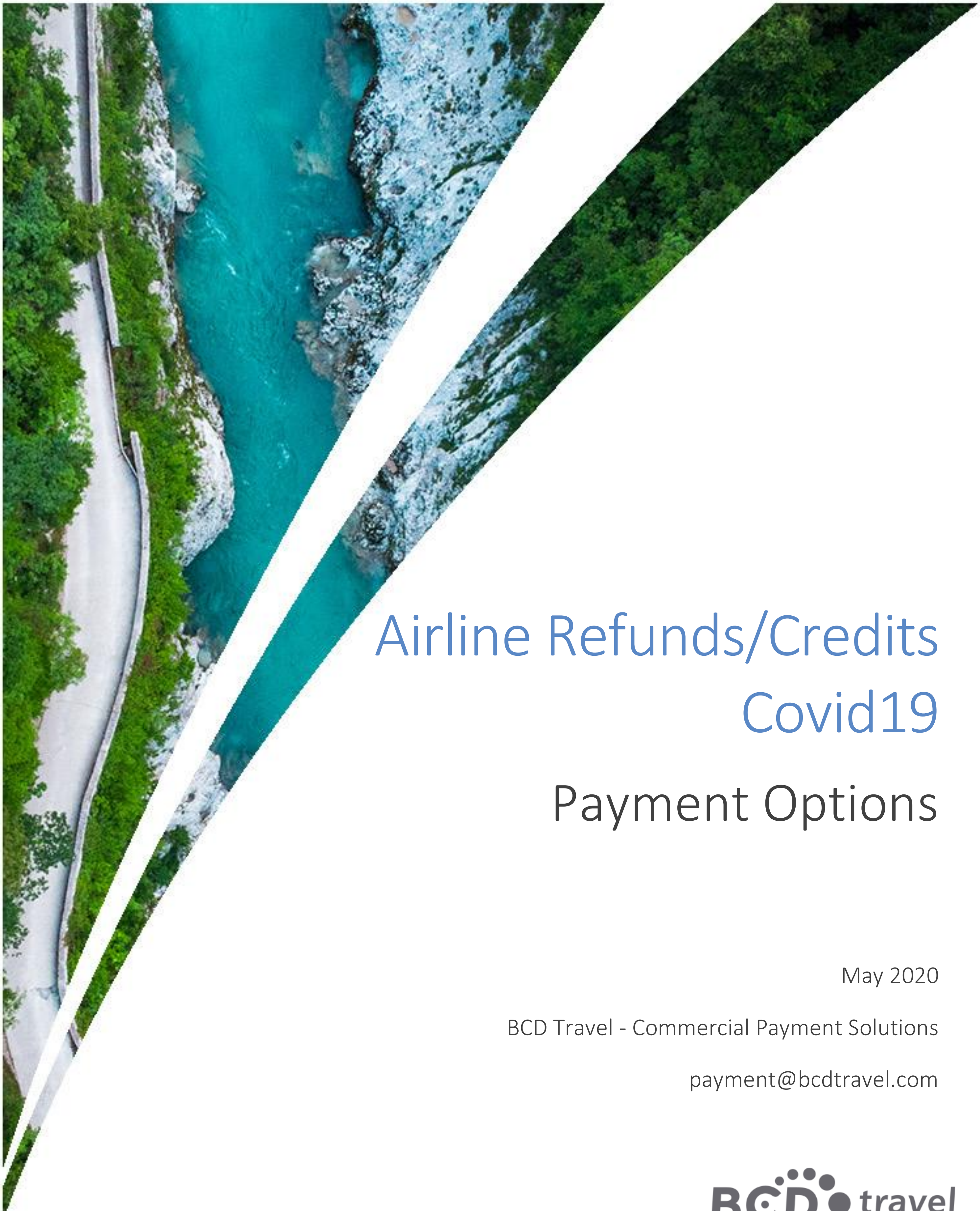

Airline Refunds/Credits Covid19

Payment Options

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Airline Refunds/Credits – COVID19 Options

Background

Since COVID19 was classified as a global pandemic, airlines have canceled thousands of flights due to government travel bans, global and local health restrictions or low consumer demand.

Global airlines are liable for $35 billion in refunds for tickets sold but not flown according to IATA (1). This unprecedent amount ultimately needs to be refunded either as cash or as vouchers by the airlines to consumers, corporations and travel agencies. Not unexpected, most airlines simply don't have the needed cash for refunds due to virtually the halt of travel and nearly non-existence of business generating revenue. But they are not standing still. Many are acting and applying for government support to survive the next months and manage their running costs for plane leasing, loan payments and human resources. Carsten Spohr, CEO of Lufthansa, stated the airline is burning €1M per hour. Other airline executives have made similar statements on the extent of their losses.

While it is understandable that airlines cannot easily afford to pay back the massive glut of unused tickets, it's also understandable that travelers, corporations and travel agencies need the refunds as they too are facing uncertain financial futures.

More than ever, different angles need to be considered to find the solutions that work best for everyone involved. The financial need, operational impact and the longstanding relationship with certain airlines must all be taken into consideration.

The following document will highlight some options but should not be taken as the single source of truth. Every case may be different and there is not one solution that solves all the intricate needs and challenges for everyone. The intention is to highlight the different scenarios and the impact on airlines, corporations and agencies.

In the US, the legal recourse was clarified in a paper issued by the U.S. Department of Transportation stating that if the airline (not the traveler) cancelled the flight, the airline must offer a refund. However, there is leeway to offer vouchers and credits if the customer is willing to accept the terms.

If there were no changes to the flight and it operated as expected but the traveler cancelled, there is no obligation by the airline to refund. Click here for additional details on the US legal decision.

In Europe, the EU commission also stated that airlines need to refund flights cancelled at the discretion of the airline. Click here for details.

(1) March 2020

Refund options

Cash refund to original form of payment

Traditionally the refund process is initiated by a travel agent via the GDS/BSP. The credited amount will appear within a few days on the card used as the original form of payment. This process has been adjusted by some airlines and instead of the simplified automated process, agents are now required to complete forms manually and send them to the airlines. This manual approach can extend the timelines for refunds to be processed. All US carriers are continuing to allow processing through the GDS while the European/foreign flag carriers are implementing the more manual processes.

<u>Impact analysis for airlines/ corporate clients</u>

<table>
<tr><th colspan="2">Airlines’ impact</th><th colspan="2">Corporates’ impact</th></tr>
<tr><td colspan="2">For airlines, offering a cash refund to the original form of payment has a direct impact on cash-flow. There is also a risk that the refund is spent on another airline when travel resumes.</td><td colspan="2">For corporate clients, a full refund organized on the original form of payment is an option to consider. Corporate clients could get their money back quickly.</td></tr>
<tr><th>Pros</th><th>Cons</th><th>Pros</th><th>Cons</th></tr>
<tr><td>• Strong travelers’ satisfaction</td><td>• Direct impact on cash flow
• Refunded cash could be spent on another airline
• Complex manual process</td><td>• Positive impact on cash flow
• Accurate card Management Information System (MIS) data
• The refunded cash can be used for other passengers and other carriers/ transports</td><td>• Potential negative impact on your card rebate as your total card transactions volume might be lower
• Airfares potentially more expensive when rebooked closer to the departure date</td></tr>
</table>

Voucher based refund

Instead of refunding cash, airlines can opt to refund unused tickets via a credit voucher. As an incentive to accept a voucher instead of cash, carriers can offer a higher voucher value than the original ticket price. While that is appealing, it is important to take into consideration an airline's solvency, administration of vouchers, travel insurance applicability, tax processing and card reporting data accuracy. Another point to consider is that a voucher may be issued to the traveler, not the corporation unless the airline is allowing for name changes.

Based on some merchant agreements, airlines must put a credit against the original form of payment.

Impact analysis for airlines/ corporate clients

Airlines' impact		Corporates' impact	
For airlines, offering a voucher is another alternative that ties travelers to the airline and the voucher can only be used during a specific timeframe.		For corporate clients, a voucher is an interesting option especially when more value is offered.	
Pros	Cons	Pros	Cons
• Strong travelers' satisfaction • Limited impact on cash flow • The voucher can only be used with the airline booked initially • The airline can define validity rules	• No new revenue generation when travel comes back	• The value of the voucher is likely to be higher than the original booking	• The management of vouchers could be expensive • The voucher can only be used with the airline booked initially • Some vouchers could be issued with the travelers' name instead of the corporate's name • Some vouchers could be at risk due to the airline's financial situation or due to the potential length of the sanitary crisis (travel freeze) • Inaccurate card Management Information System (MIS) data that only shows the original booked data • The credit card travel insurance may not apply to the future issued ticket

UATP card refund

Some US airlines offer a refund on their self-issued UATP cards (United, SouthWest, American and Delta). Instead of crediting the original form of payment (AMEX, VISA etc.) they issue a UATP card in the name of the corporate client and put *all* the open tickets onto this card. So far, we've seen this option used by the 4 airlines mentioned but the product is available for every airline globally. But only for payments of the issuing airline.

As noted with the voucher option, based some merchant agreements, airlines are only allowed to put a credit onto the original form of payment so the legal basis for having a ticket originally paid with an AMEX and now credited to a UATP card is questionable.

Impact analysis for airlines/ corporate clients

Airlines' impact		Corporates' impact	
UATP cards help airlines manage their cash flow while keeping future commitment of travel dollars. And again, it is important to take into consideration an airline's solvency, administration of card funds and insurance applicability.		For corporate clients, UATP cards could be a good option if future travel is planned. Some limitations should be considered (check below details).	
Pros	Cons	Pros	Cons
• Positive impact on cash flow • The funds can be used only with the initially booked airline	• The airline may need to set-up the UATP card function • The airline may need to build a reserve in their accounting books for these funds	• No impact on your card rebate because there is no credit on the original card	• UATP are restricted to the issuing airline (Is the airline still flying to the destination? Or at higher costs?). What happens if the airline goes under? • Inaccurate card Management Information System (MIS) because only the original booking data is shown • The funds need to be managed by the corporate clients. There could be challenges assigning the correct amounts to the right cost centers or legal entities as the data on the UATP statement is limited in terms of customer reference fields. • The credit card travel insurance may not apply to the future issued ticket

Credit card chargeback
ARC is not processing charge backs in the US during the COVID-19 pandemic

If a ticket was paid by credit card, the cardholder can raise a chargeback request usually within 3 months due to “goods or services not delivered”. The card issuer must contact the merchant and ask for a proof of delivery. If the merchant cannot provide the appropriate proof, the card issuer appropriates the funds from the merchant and credits the card. Note, this may result in an agency debit memo (ADM) which usually has a surcharge attached.

Impact analysis for airlines/ corporate clients

Airlines’ impact		Corporates’ impact	
For airlines, this option can potentially create a reconciliation challenge. There is a need for a control mechanism checking that chargeback tickets don’t get refunded at a future date.		For corporate clients, a charge-back is an easy option to get some cash back. Note, some documentation might be required by the issuer to prove the flight was cancelled by the airline.	
Pros	Cons	Pros	Cons
	• Impact on cash flow • Reconciliation challenges to avoid a double refund (via charge back and voucher/refund)	• Positive impact on cash flow	• Administrative effort required

This paper was prepared by the BCD Travel Commercial Payment Solutions team to show options. It is not intended to cover all aspects of the topic. It is based on our current understanding, but as we know, the situation is very fluid and can change daily, and the opinions might change over time.