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**DEVELOPING A HOLISTIC AIRLINE PAYMENTS STRATEGY**

## REALEX PAYMENTS

Realex Payments is the next generation payment services provider, distinguished from the competition by consistently delivering the highest quality in terms of innovation, reliability and service. Having worked with a number of airlines over many years, Realex Payments has emerged as a true industry leader in the airline payments arena. Further contact information for Realex Payments is on the back cover of this document.

## AIRLINEPAYMENTS.COM

Launched originally in Toronto, Canada in April 2008 and refreshed in October 2011, the web site [www.airlinepayments.com](http://www.airlinepayments.com) provides information on all the issues that pertain to strategy and payments in the airline business. Developed by Realex Payments, the site promotes the concept of a "Holistic" approach to the development of payment strategy for the airline business. The [airlinepayments.com](http://airlinepayments.com) site demonstrates this leadership by providing insightful strategic thinking in the airline payments industry.

## COLM LYON

Realex Payments founder and CEO Colm Lyon has worked in payment related businesses for over twenty five years, starting with fourteen years in the financial service sector. He is a regular speaker at payments and internet industry events across Europe and frequently commentates for press as a payments and internet industry expert.

Colm is passionate about business and in particular internet businesses. So much so that in 2009 he founded the "Internet Growth Alliance", a business led initiative to support the international growth ambitions of Irish Internet businesses. Colm is also involved in other internet start up businesses and has plans to launch a major new payment business, Carapay in late 2011. Carapay is one of the first new companies to be awarded a licence under the Payment Service Directive (PSD) which allows new companies into the European market without having a banking licence. Over the past decade, Colm has received numerous accolades acknowledging his contribution to the internet industry including;

- **In 2011** Colm received the prestigious Ruban d'Honneur in round two of the European Business Awards which promote promoting excellence, best practice and innovation in the European business community.
- **In 2009** Colm was awarded the Internet Hero Award at the Golden Spider Awards for his contribution to the Irish Internet Industry.
- **In 2007** Colm was awarded lifetime membership to the Irish Internet Association in recognition of his contribution as Chairman of the association for four years;
- **In 2005** Colm was acclaimed and awarded for his leadership and entrepreneurial spirit when he was finalist of the Ernst and Young Entrepreneur Award.

## TABLE OF CONTENTS

Why Develop A Payment Strategy?	3
A Holistic Airline Payment Strategy & Its Elements	4
Revenue Source - Selling Flights & Ancillary Services In A Multi Channel Environment	5
Payment Methods - From Local To Global	7
Controls - For Currency, Fraud & Revenue	10
Hygiene Factors - Compliance, Low Cost & Reliability	13



## WHY DEVELOP A PAYMENT STRATEGY?

The processing of payments in the airline business is no longer a commodity issue – it is strategic. Tactical decisions do not stand the test of time and decisions with respect to payment processing need to be long term.

Today, there are many elements that will influence the direction an airline will take when deciding what they will sell and how and with whom it will process payments.

No longer do airlines sell via single channels accepting one or two forms of payment – airlines are selling to people across the world via multiple channels. In addition they up-sell many ancillary goods and services from both their own inventory and those of other providers.

In order to reach new customers, new destinations and increase bookings, airlines must offer their customers the opportunity to pay in the way most convenient for them. The risks, costs and implications of these payment methods may be significant and in some cases tie up much needed capital.

On top of this there are more partners to deal with, more players and service companies emerging on the market place, compliance issues, reporting and reconciliation requirements, all in a multi-currency environment where service and reliability are as crucial as aircraft maintenance.

You need a strategy for your airline payments.

### DEVELOPING A HOLISTIC AIRLINE PAYMENTS STRATEGY

Issues such as multiple channels, ancillary revenue, dynamic packaging, bookings, local and global payment methods, charge cards, travel agents, on board sales, revenue reporting, reconciliation, internet wallets and purses, compliance, low cost, reliability, SLAs etc, all need to be taken into account. Give each a little consideration and time so you can determine the interdependencies that exist between the different elements.

We believe that this is the first step in developing a.. Holistic Airline Payments Strategy.. a process that will emphasise the importance of the whole approach and the interdependencies between each of the elements.

Once developed your strategy should help to answer questions like:

- » What products are we selling, over what channels and to where? This is to determine the payment methods needed;
- » What banking arrangements do we need to support these?
- » Do we need to use a Payment Services Provider?
- » How do I keep the costs low?
- » How will we manage fraud?
- » Will we convert currencies?

## A HOLISTIC AIRLINE PAYMENT STRATEGY & ITS ELEMENTS

The development of the strategy is progressed by considering four core building blocks – Revenue Sources, Payment Methods, Controls, and Hygiene Factors. These four are useful headings under which analysis may be completed, questions asked and hopefully clear requirements will emerge. For each core building block sub headings are suggested for further clarification.



Before getting into the detail of these let's define a holistic airline payments strategy...

Strategy determines defining what it takes to win – do you know what it takes to win in the airline payment processing business?

What would an airline payments strategy statement look like?

"To offer our customers the widest range of appropriate payment methods in a low cost, revenue earning environment.

More specifically – we wish to accept numerous payment methods across multiple channels, with optimised currency management, inherent fraud and risk management, with centralised reporting, consolidated data, in a compliant, low cost, reliable environment."

## REVENUE SOURCE - SELLING FLIGHTS & ANCILLARY SERVICES VIA MULTI CHANNELS

Sales of flights and ancillary products occurs via multiple channels – online, telesales, airport, on board, travel agents – the payment processing requirements of these should be considered upfront.

Developing a matrix of what you sell via what channels, similar to the example below, seems like a very basic starting point, which it is. But the process immediately supports the concept that both seat sales and ancillary revenue opportunities are channel agnostic. For example, one should offer seat selection across all channels, while offering dynamically converted currencies and scoring the transaction for fraud.

Channels	Online	Telesales	On-Board	Airport	Travel Agents
Flights	Yes	Yes			
Insurance	Yes				
Car Hire	Yes				
Hotel	Yes		No		
Seat Selection	Yes				
Etc.					

Every channel brings its own challenges..

- » Selling online is global and requires key decisions – banks, payment methods, payment provider, fraud management, currency management etc.
- » Telesales tends to be more localised and requires similar key decisions;
- » Airport sales, for bag fees, seat selection etc. may require customer present technology;
- » Selling on board is generally not integrated and often requires manual intervention and batch processing.

For many airlines the travel agent remains a very significant channel via which seat bookings and increasingly, ancillary services are sold via the GDS. In the normal course these transactions will be reported and accounted for via BSPs or ARC, with the payment processing an integral part of the process. For the airline, the ability to extract and consolidate this card payment data through one payment gateway is vital. This enables them to avoid the need to support numerous local agreements with financial institutions which brings its own challenges both in terms of costs and in the form of a more fragmented revenue accounting process.

Selling ancillary products and services via multiple channels is central to most airline strategies – this includes pre, during and post booking and at all subsequent points of connection with the customer. On board sales transactions are generally processed off-line and many airlines invest heavily in on board solutions to manage these sales. In order to gain the benefit from these large investments specific payment solutions are required to manage challenges in relation to encryption, card acceptance, batch processing and fraud management.

An airline will look to up-sell internal inventory (e.g. seat selection, change PNR) and partner inventory (hotel, car hire). These may be present as a dynamic package and the payment processed inline (part of one transaction) or after the booking as a separate transaction. Airlines need to be mindful of this and note the impact on fees if their merchant category code is impacted. This process may also involve you processing payments on behalf of your partners and subsequently having to transfer funds to them.

Other payment related issues to watch in the context of payment processing for ancillary revenue are:

- » The PNR data set – could include all details and needs to be available online in one location;
- » Support issues around processing voids and refunds if you have processed the initial transaction – e.g. you've sold a customer a hotel and now they wish to cancel it.
- » Ancillary revenue must be channel agnostic – e.g. selling bag fees online as well as in customer present situation.

For comments on the process of currency conversion see the section on Currency Management.



## PAYMENT METHODS - GLOBAL CREDIT CARDS, LOCAL PAYMENT METHODS, INTERNET WALLETS, CHARGE CARDS & PRIVATELY ISSUED CARDS

So you want to get paid?

Getting paid is what it's all about. And there are many ways in which you can be paid. Multiple payment payments, currencies, channels, providers and issues to be managed.

A good starting point is to agree the payment methods you wish to accept across what channels and then sanity check each of these against what you are selling via each channel – e.g. seat selection at the kiosk might only require Visa and MasterCard payment methods but online several other payment methods might apply.

Payment Method Examples	Online	Telesales	On-Board	Airport	Agents
Global Cards: Visa MasterCard					
Local Payment Methods: IDEAL Cyber Plat ELV UK Maestro Carte Bleu Dankort					
Internet Wallets: PayPal Bill Me Later					
Charge Cards: UATP Diners AMEX					

### Global Credit Cards

The online payments business has been dominated by the global credit card schemes – Visa and MasterCard. While current trends suggest that there will be more players and more payment methods in the online market space the importance of the global schemes will remain.

For businesses selling online the acceptance of global scheme cards is central to the payments strategy. Linked to this are several key considerations:

- » The processing of credit card transactions for bookings and ancillary products attracts a percentage (ad valorem) charge from the financial institution that will settle these transactions. This fee will vary from region to region and is usually made up from several elements – interchange (what the financial institution pays away to the card schemes) plus a margin for risk and profit. In negotiating this fee it's crucial to understand the make up and some financial institutions may quote on an "interchange plus" basis – this may suit an airline's needs. If an airline is selling into different regions – i.e. there are inter and intra region sales then the fee may vary depending on the source (origin) of the card. A blended rate may be on offer from the financial institution.
- » The region in which the airline is based will also impact the fee – for example a US airline is likely to have higher interchange and hence fee rates than a European carrier.
- » To manage the "risk" associated with acquiring credit card transactions, financial institutions are commonly seeking deposits (usually equivalent to the level of unflown revenue exposure generated) or alternatively seeking to release funds as the "passenger flies". Either way these approaches tie up valuable free cash reserves with a potential to negatively impact the capital

adequacy of the airline's business.

Consider using more than one financial institution, spread your own costs and risks and maximise access to the lines of credit that are made available. By using a payment exchange (such as Realex Payments) you can gain easy access to multiple financial institutions and often create a more competitive situation.

## Local Payment Methods

The Internet may be global but much remains local. Across many country borders domestic payment systems remain and often dominate offline and online sales in those regions and/or countries. So much so that accepting the local payment method may become a mandatory need if one is to sell in that region.

However accepting "local payment methods" can add a layer of complexity that can make their processing in the first place a poor decision. They can give rise to additional local banking arrangements, different fraud requirements and reconciliation all of which should be taken into account. In the end it's advisable to aim towards "Appropriate Payment Methods" rather than local.

### Push Vs Pull

Some payment methods are based on the seller "pulling" the funds – e.g. credit cards, debit cards, direct debits. As these are pulled by the seller from the buyer, the buyer will often retain rights – depending on rules pertaining to the payment method. On the other hand a "push" payment – such as an online bank transfer is initiated by the buyer who pushes the funds to the seller. In this case the transaction may be non-refutable and guaranteed to the seller.

When implementing any payment method, always establish the fraud liability and refund processing. Is airline itinerary data included in the process? Also consider the impact on the booking experience – does the payment method involve leaving the airline site to authenticate or push the funds – if so will this impact the rate of dropped sales?

Finally determine the development and operational costs and compare this to the increased sales.



## Internet Wallets

Over the past number of years alternative online payment methods have gained significance. Right now the relevance of these to the airline industry is beyond dispute. Many airlines are accepting PayPal, BillMeLater and others as core payment methods. However the applicability of each method to an individual airline will be determined on an individual basis given each situation.

Like all payment methods, internet wallets come with their own considerations:

What is the profile of the customer base to which you are selling – do the demographics of that base match those of the internet wallet customer base?  
What are the costs involved and if there is any displacement of bookings from one payment method to another – will this cost you or will you gain from this?  
Who is liable for fraud and how is this managed?  
How and when will you be funded?  
What is the reconciliation process and is airline data included?  
If there is a mismatch between the transaction currency and the currency of the wallet, who controls the FX?



## Charge Cards

Always popular in the airline sector, these are almost identical to the credit card processing. Typically an airline will contract directly with the charge card organization – Diners, AMEX, UATP etc. and processing can be completed directly or possibly via the financial institution that is processing your global cards. Currency conversion is not as common with charge cards.

## Privately Issued Cards

In the case of an airline that has a pure online strategy, there may be significant sales achieved through the travel agents booking flights on the airline's website for their package deal customers (as this is the only channel the airline provides). In this instance it is also possible that the airline could issue its own private 'closed loop card' to travel agents on either a pre-paid or post paid basis. These cards can then be used on the website to purchase flights. Such an approach avoids any percentage based fees and it is also attractive to travel agents who complete high volumes of online bookings on an airline's web site.

## CONTROLS – CURRENCY MANAGEMENT, METHODS FRAUD MANAGEMENT, REPORTING & RECONCILIATION

### Currency Management

Selling flights and ancillary products is a global business. Sometimes a customer will be from a different currency region to that of the airline, e.g. a US based airline selling to a person living in Europe. In these situations an airline will often wish to sell in multiple currencies. In businesses where there are outgoings (costs) in foreign currencies, then being settled in these currencies may be convenient so that you can pay local suppliers in their own currency.

For other currencies (e.g. more remote or lower volume currencies where an airline has no outgoings) it may be appropriate that the airline is settled in their base currency. Operating several base currencies is also an option. So an airline may decide to sell in twenty currencies and be settled in three. Be mindful of the channels and payment methods in which certain currencies will apply – not every currency will apply to each and every payment method.

When the currency of the customer and the transaction are not the same (e.g. the customer is in Paris, Europe booking an internal flight with a US airline selling in US Dollars) there exists an opportunity for the airline to control the foreign exchange.

The process of Dynamic Currency Conversion (DCC) is now common in the airline sector – given the high degree of currency mismatch. Many travel/holiday types of businesses experience this.

DCC is an easy to implement process that retains control with the booking experience. It involves determining the currency of the payer and offering them the opportunity to pay in their own currency. It can be implemented across all channels and relevant payment methods. The service may be available from your financial institution or a third party currency management specialist.

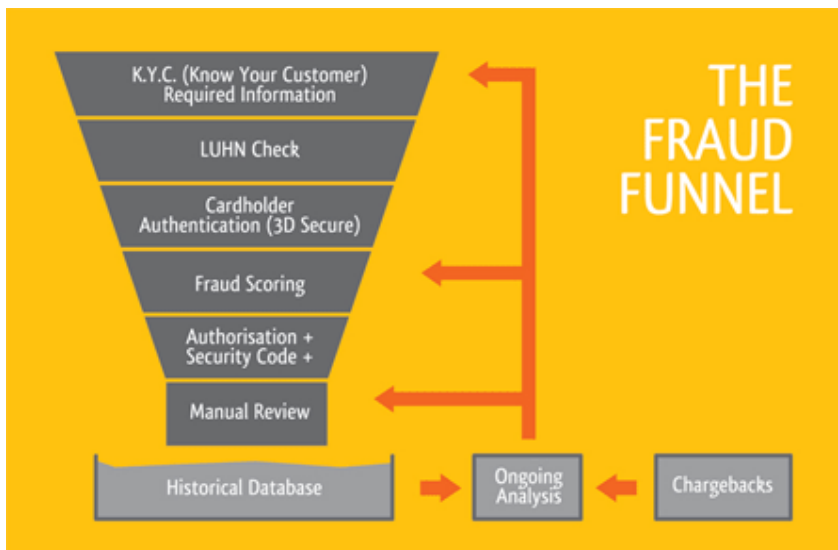
Also, consider that DCC revenue on a hotel booking could be higher than the income given the large ticket size! Finally be sure to capture all the relevant details of any converted bookings (transaction currency and amount, FX rate and payer currency and amount) to aid reporting and query management.



## Fraud Management

When selling in a customer not present environment, a business is very often exposed to the risk of fraud. Each payment method and each channel brings its own level of risk and hence exposure. In order to address these risks, controls are required. With these controls additional costs can emerge all of which should be taken in to account when deciding your online payments strategy. Either way fraud is an issue that must be managed.

Fraud can be classified into different headings which may make it easier to decide on the controls – stolen cards/identity, made-up card and account numbers, 1st party fraud and internal fraud.



At Realex Payments we have used the "fraud funnel" to help identify the controls needed at each stage:

- » From gathering as much information as possible (without compromising on the booking process);
- » Ensure validation checks are completed on all accounts and (not just) card number data;
- » Where possible consider the implementation of authentication processes such as 3D Secure (Verified by Visa and MasterCard SecureCode). As well as reducing risk by way of liability shift these processes can reduce the cost of processing.
- » Furthermore, 1 in 3 online European transactions are now Verified by Visa, with €1 in every €4 spent online with Visa is Verified by Visa authenticated (Visa Europe, 2010)

- » When implementing authentication be sure to understand any implications of the customer being temporarily redirected from your site to another and then directed back – watch time outs and measure any dropped sessions at this stage. From a development perspective the same framework developed for 3D Secure could support bank transfers and the authentication element of PayPal transaction for example.
- » Analyse and score all transactions for potential fraud – looking through automated black-lists/white-lists, matching the data – IP addresses, country of issue and exploring patterns – e.g. this email has been used with five other credit cards. No single check will confirm fraud but each can lead to better identification of potential fraud.
- » Even with processes like 3D secure in place, always seek authorisation as this confirms funds are available and where possible include the security code (usually 3 or 4 digit) and address check (where applicable).
- » With some transactions isolated from the core manual intervention may be required – these must be kept to a minimum.

On an ongoing basis be sure to review the database for other patterns, study any fraud that has occurred and use this to refine and update the rules and processes you have to detect fraud in the first place – fraud management is an ongoing process and not a once off implementation.

## Reporting & Reconciliation

	Online	Telesales	On-Board	Airport	Agents
Payment Methods:	V,M Etc.				
Controls					
Fraud: CVV 3D Secure Fraud Scoring Blacklist Time To Flight					
Currency: Sell In Settle In					
Reporting:					

Centralised reporting and reconciliation is only as good as the data and the interface provided. In order to build a consolidated reporting environment, it is a prerequisite that the data model used is extensive across all payment methods and channels. A sample data model is illustrated above.

A key strategic requirement is to have a single source for all payments data across all financial institutions, currency processors, payment methods, channels etc. This provides a single auditable and consolidated view of all the payments. It is the hub that links the bookings and ancillary sales you have made with the lodgements received from the various financial institutions who ultimately settle your transactions.

Having this data accessible in one location will reduce the cost of query resolution and enable actions like refunds to happen in an automated fashion.

For this to be effective, the data model must be extensive i.e. if the currency has been converted or the transaction rejected because of a fraud rule, all this information must be available in one single source, with the ability to search, find and report using meaningful references – e.g. PNRs. Staff

should not need access to sensitive data in carrying out these functions, thus ensuring compliance to relevant industry standards.

Once your data model is right not only will the reporting be better but also your ability to automate fraud rules will be enhanced as the more information you collect and have, the better the fraud rule.

As the matrix shows keep a track on the controls – fraud, currency and reporting needs across each channel and payment method.

## HYGIENE FACTORS – COMPLIANCE, LOW COST, RELIABILITY

### Compliance

Today, non compliance can put a business out of business. Organizations have constant needs to ensure compliance with legislation, local requirements and contractual commitments.

Within the payment processing space, many transactions now occur over the internet, which is a public network, and as a result standards are evolving all the time. The Payment Card Industry Data Security Standards (PCI-DSS) grew out of the Visa and MasterCard security standards and it has now become a global benchmark. While it pertains to card payment methods we recommend that it is extended to all payment methods that you process – so apply the same encryption and access controls to bank account numbers as you do to credit card numbers.

The other major concern is data privacy. In many countries there are very strict laws governing data privacy, so know your responsibilities here. While it is useful and necessary to retain transaction data remember that you now collect a lot more data from your customer than in the past – email, IP addresses, postal addresses etc. Customers have rights that will ensure you will not use this information for anything other than the purpose for which it was given to you and that you will protect it.



## Low Cost & Reliability

The cost of selling and processing payments can be expensive. In a notoriously low margin business that is constantly challenged by volatile fuel prices, cost control is crucial.

When looking at the cost of processing payments create a strategy that allows you to optimize the opportunity by reducing costs and where possible earning any additional revenue for yourself.

In studying our airline base we have found that up to 96% of the cost of processing a payment transaction can relate to the percentage fee charged by the financial institution. It is therefore wise to consider separating the Financial Institution service from the payment processing service as it allows competitive focus on the core costs as well as opening access to alternative payment methods that can be a lower cost.

Reliability in the airline business is critical. Flights must leave on time and maintenance is essential. It's important to bear in mind that reliability is also essential in the payment processing business.

Ensure availability and uptime are based on a track record of delivery – talk to existing clients. Understand the service culture of the organization. Build Service Level Agreements around response times and settlement deadlines – after all this is how and when you get paid.

Service & Reliability		
06:27	LONDON	ON TIME
06:58	HAMBURG	ON TIME
07:24	GLASGOW	ON TIME
08:15	PARIS	ON TIME
08:46	BOSTON	ON TIME
09:05	TORONTO	ON TIME

*"When we at Aer Lingus embarked on a transformation programme we needed to find a payment processing company who not just understood our business but could help us transform the very core of our payment processes. We found Realex Payments."*

Brendan Rice, Head of Distribution, Aer Lingus

*"For several years now we have used the payment processing services of Realex Payments and they have consistently proven to be utterly reliable in the delivery of constant service—we are delighted."*

Steve Hoy, General Manager, Eastern Airways

*"Aer Arann is a user of the Open Skies system from Navitaire. In 2003 we went looking for a payment partner that would provide us with rapid connectivity to our bank and be flexible to the extreme - we found all this and more in Realex Payments."*

Fergal Barry, Commercial and Financial Director, Aer Arann

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*"An online payments strategy for an airline needs to be holistic – it must take into account all the elements and their interdependencies so that as a whole it will succeed."*

Colm Lyon, Founder & Managing Director of Realex Payments



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