



***CENTRAL BILLING – All You Need to Know  
2007 EDITION***

## TABLE OF CONTENT

<b>WHAT IS CENTRAL BILLING?</b> .....	<b>3</b>
GUIDING PRINCIPLES.....	3
AGREED APPROACH .....	3
COST POOLING AND ALLOCATION .....	4
<b>MIGRATION TO CENTRAL BILLING</b> .....	<b>5</b>
<b>ISS OPERATIONAL PRICELIST</b> .....	<b>6</b>
NON-IATA MEMBERS .....	6
IATA BSP CONSOLIDATOR SCHEME – IBCS .....	7
<b>CENTRAL &amp; REGIONAL MANAGEMENT FEES</b> .....	<b>8</b>
METHODOLOGY .....	<b>ERROR! BOOKMARK NOT DEFINED.</b>
CALCULATION .....	8
ANNUAL RECUT .....	8
<b>LOCAL MANAGEMENT FEES</b> .....	<b>9</b>
METHODOLOGY .....	9
CALCULATION .....	9
ANNUAL RECUT .....	10
<i>Core Processing Costs (SCUs)</i> .....	<i>11</i>
<i>SCU versus UTP</i> .....	<i>12</i>
<i>Airline HOT &amp; Additional Services Cost</i> .....	<i>12</i>

## **WHAT IS CENTRAL BILLING?**

Central Billing was introduced as a key element of the ISS transformation project in 2001. The driving factors were to improve customer service, reduce costs through consolidation of Data Processing functions, with the aim of a new global standard charging structure for BSP.

A study carried out by the consultants of KPMG, into the IATA Settlement Systems (ISS) on instructions from the IATA Board of Governors, highlighted the many inequities and inefficiencies with the BSP charging formulae in operation. The ISS Board, therefore, subsequently endorsed a project to develop a new charging structure for ISS services, which would provide a globally standard design framework and a fair and equitable charging formula for its users.

## **GUIDING PRINCIPLES**

A set of guiding principles provided the foundation for developing the new charging structure. The guiding principles required that the new charging structure should:

- Provide a globally standard design framework
- Align allocation of costs with the key cost drivers and carrier participation
- Operate on “user-pays” basis, with a significant portion of incremental costs passed on to the carriers driving those additional costs
- Take into account the service benefits received by carriers as one factor in cost allocation
- Provide transparency of budgets, cost bases and allocation methods
- Be easy for customers to understand and for IDFS Management to administer
- Ensure no carrier is in a worse position overall (financially or otherwise) given the same baseline of volumes and levels of service (as in 1998)
- Establish clear IDFS Management accountability for managing the business
- Encourage participation in the ISS by all carriers regardless of size
- Not inadvertently expose IATA's favourable tax status
- Create an environment of continuous process improvement
- Not involve any systemic cross-subsidisation of costs

## **AGREED APPROACH**

- A budget-based pricing approach under which IDFS Management, with ISS Board approval, establishes management fees and transaction prices for ISS products and services based on an ISS Board approved annual budget, with associated forecasts of costs and volumes.

- IDFS Management, with ISS Board approval, will establish management fees and transaction prices for the various products and services provided.
- Prices and fees will be based on forecasts of costs and volumes, approved budgets and business cases for special projects and investments
- Budgets, prices and fees will be reviewed by an ISS Advisory Committee and approved by the Board
- IDFS will develop a list of products and services in conjunction with restructuring and re-tendering of contracts
- Volume discounts will be shared equally among all carriers
- Non-IATA members will be charged a premium on operating costs and management fees
- IDFS will continue to charge a joining fee:
  - The fee will be standard across markets
  - Discounts may be applied for participating carriers joining all or many markets in a region
  - IDFS will set the fee at an appropriate level that does not discourage carriers from joining.

### **COST POOLING AND ALLOCATION**

The charging structure provides a budget-based pricing approach and allocation of costs using a standard allocation formula. The charging structure is supported by a billing and collection system that reflects the regionalisation and centralisation of the ISS activities and costs. The cost pooling and allocation are fully described in the following sections.

- **Central Management cost pool** – including fixed and semi-fixed costs for IDFS head office and central costs allocated from IATA.
- **Regional Management cost pool** – including fixed and semi-fixed costs for each of the IDFS Regional offices
- **Local Management cost pool** – including fixed and semi-fixed costs for each of the IDFS local offices
- **Operating cost pool** – including all transaction based operating costs such as documents and data processing

## **MIGRATION TO CENTRAL BILLING**

Migration refers to the procedure of transferring BSPs from billing Airlines locally to billing them centrally for all their usage of additional services (ASRV files) and SCU's. Furthermore it can mean the migration from one DPC supplier to another DPC supplier. This exercise is normally done as a joint effort between different divisions within IATA. The physical migration from local to central billing (or from one supplier to another) will not take place prior to a clear sign-off on the ASRV files by CB. Until such sign-off has been received all offices should continue to complete the billing for ASRV and SCUs locally.

### **The role of the DPC**

The DPC is responsible for agreeing to the targeted migration dates for the BSP remaining. The DPC is also responsible for providing a list of all additional services that are being provided to the BSP participants in question as well as they will have to confirm that all services provided match services provided for in the CB system. The DPC is responsible for providing test files to CB in order to be able to validate the accuracy of these files and in the end to enable a sign-off of these files.

### **The Role of IDFS Information Systems**

The responsibility for this section is to negotiate with DPCs to agree on SLA content as well as on prices for services provided to Airline participants. On top of this the department is also responsible for interfacing with other stakeholders in agreeing on target dates for migrating BSP offices to central billing

### **The role of the regional offices**

The regional offices have the managerial responsibility over the BSP offices within their area and are thus responsible for making sure that the information flow and the agreed procedures are being adhered to.

From some regions, a DPMG member has been selected. The role of this person is to function as a DPC interface.

## ISS OPERATIONAL PRICELIST

The ISS operational price is being produced by the CB team and published annually to all airlines (HQs) participating in BSP as well as forwarded to all internal stakeholder within IDFS and CPC.

Based on the established cost pooling, standard allocation formulae and budget-based pricing approach, the Price Lists comprise of:

<u>Fees &amp; Charges</u>	<u>Publication</u>
<b>Central &amp; Regional Management Fee</b>	To be provided <b>Centrally</b> by IATA to each carrier separately in relation to the BSP operations in which it participates in the relevant IDFS Operating Regions, in US Dollars.
<b>Local Management Fee</b>	To be provided <b>Centrally</b> by IATA to each carrier separately in relation to the BSP in which it participates, in Local Currency or US Dollars as applicable <sup>1</sup> .
<b>Data Processing Prices</b>	<u>BSPs Regional Data Processing Charges</u> : to be published <b>Centrally</b> by IATA for each BSP and Service Type currently provided by the BSP concerned, in US Dollars.
<b>Joining Fees</b>	Listing of Joining Fees (JFs) by country. In 2007 JFs are also based and determined on the rate of ET readiness of a carrier (on discretion of the RDs).
<b>SCU costs</b>	<u>SCU cost for data processing</u> : to be published <b>Centrally</b> by IATA for each BSP.

### **NON-IATA MEMBERS**

It was agreed with ISSAC that non-IATA airlines participating in ISS operations continue to pay a 50% surcharge on STD and DP charges. In addition there may be an additional management charge levied locally e.g. to third parties participating in BSP (on discretion of the IATA regional director).

## **IATA BSP CONSOLIDATOR SCHEME – IBCS**

The IATA BSP Consolidator System (IBCS) is a partnership between IATA and General Sales Agents (GSA) organisations that have a global reach, i.e. that are represented in a minimum of 20 BSP markets. The aim of IBCS is to harness the resources of those GSA to facilitate wider participation of all scheduled airlines in the global BSP network, by allowing BSP membership on a variable cost basis.

Historically, on a cost/benefit basis, not all BSPs have been economically attractive to every carrier.

BSP costs have typically been lowest when ticket volume is high, and considerably more expensive when volumes are small – owing to the fixed costs of joining/running fees that are prorated among BSP member carriers.

The IBCS program provides an opportunity to profitably participate in marginal market BSPs with negligible capital risk. It is especially geared to airlines seeking to develop incremental revenues from those markets, and small and start-up carriers looking to widen their distribution reach at low cost.

Main features of the IBCS program:

- IBCS participants pays 2.50 USD per SCU transaction
- No BSP joining fee
- No LMF or C&R fee
- No STD consumption charges

## CENTRAL & REGIONAL MANAGEMENT FEES

### **CALCULATION**

**Central Management Costs** allocated to each region based upon

- Equally by region (50%)
- Number of transactions (30%)
- Carrier markets (20%)

**Regional BSP Management** Costs allocated to participants based upon

- Carrier markets (50%)
- Number of transactions (50%)

### **ANNUAL RECUT**

The recut exercise is being conducted annually after the actual ISS central & regional costs have been determined. For the calculation of airline refunds/recharge the above mentioned calculation will be applied, this time using actual costs and actual participation and transaction volumes.

## LOCAL MANAGEMENT FEES

### METHODOLOGY

Local Management Fees (LMFs) are based on the budgeted management cost pool (basically the total fixed costs less other income earned such as agent fees and penalties). The cost pool is allocated across the carriers by reference to their participation in the BSP in accordance with the charging formula set out to the airlines via memorandum (communiqué nr. 2/7/10)

### CALCULATION

**Local BSP Management Costs** allocated to participants based upon

- carrier market participation (50%)
- number of SCU transactions (50%)

The total **management cost pool** associated with a given BSP is derived from the approved budget for each BSP. As per Communiqué 2 the approved formula for determining LMF's is as follows:

- 50% based on Carrier Markets
- 50% based on Transaction Volumes
- less Hinge Account Interest allocated across participating airlines on the basis of Cash Transaction Value Settled (Communiqué 5)

**Hinge Interest** - In the case when interest is earned on the settlement amount before the actual settlement is done the interest is accumulated in the "Hinge Account". As per Communiqué 5 treatment of Hinge Interest is as follows:

- Hinge Account Interest and similar income streams will be allocated across participating airlines on the basis of Cash Transaction Value Settled.
- For the purpose of determining the Local Management Fee, the Cash Transaction Value Settled for a reference 12 months period will be used.
- A final reconciliation and adjustment will be effected based on actual income, actual participating airlines and Cash Transaction Value Settled for the year, based on the ISS audited accounts for that year.

**Carrier Markets** - is the number of airlines participating in given BSP market. For example if a BSP has one market and 10 airlines participating in it there will be 10 BSP markets. Some BSPs have more than one market (BSP that cover regions with more than one country) in this case if there are 10 airlines in country A and 5 in country B the total BSP markets in BSP AB will be 15.

## **ANNUAL RECUT**

The recut exercise is being conducted annually after the actual ISS central & regional costs have been determined. For the calculation of airline refunds/recharge the above mentioned calculation would be applied, this time using actual costs and actual participation and transaction volumes.

### Core Processing Costs (SCUs)

**Core processing** relates to the data processing of tickets or other related transactions as outlined in below table. These costs are different from additional services cost that are non-core services and relate to statistics or e.g. Hand-off (HOT) tape information.

A Standard Charging Unit (SCU) equates to one transaction passing through the Data Processing Centre (DPC) and included on the BSP Agent and Airline Billing Reports.

Below is a listing of documents that will be counted as **ONE** single SCU.

The only exception is where a primary ticket has one or more tickets issued in conjunction. In that case only the primary ticket will be counted as **ONE** SCU (transaction).

Transaction Code	Transaction Description
ACMA	Agency Credit Memo
ACMR	Refund Credit Memo
ACMS	Agency Credit Memo, manually reported, captured by Processing Centre
ADMA	Agency Debit Memo
ADMS	Agency Debit Memo, manually reported, captured by Processing Centre
ARVM	Agent Refund Voucher - manual
CANX	Cancelled Document
MCOM	Manual MCO Sale
MDnn	Miscellaneous Document – Automated
MMnn	Manual Multiple Purpose Document
MPnn	Multiple Purpose Document – Automated
RCSM	Commission Recall Statement
RFNC	Refund of Cancellation with Reversal
RFND	Refund
SPCR	Settlement Plan Credit
SPDR	Settlement Plan Debit
SSAC	Sales Summary Adjustment Notice (e.g. Canada), or Minor Adjustment Notice (e.g. UK and IE) - due to agent
SSAD	Same as SSAC, except - due to airline
TASF	Travel Agency Sales Fee. This SCU is not charged to the airlines.
TKTA	OPTAT Sale – Automated
TKTB	OPATB Sale – Automated
TKTM	Ticket Sale - Manual
TKTT	Electronic Ticketing Sale – Automated
XSBM	Excess Baggage Ticket - Manual

## **SCU versus UTP**

When the Transformation project started in 2001 one of the key objectives was to agree a definition for a “unit of transaction” (commonly called UTP). There were numerous different definitions existing in the various BSP field offices. A common definition was agreed and was stated in communiqué 2 – and called an SCU so as to avoid any confusion with UTP. Each DPC was then to charge us on the new SCU basis. All DPCs did with the exception of T Systems (only operates in Germany) and ADP. The latter was more of a problem as they cover > 60% of our market (exc China). BSP still frequently refer to SCU as UTPs.

## **Airline HOT & Additional Services Cost**

**Airline HOT and Additional Services Cost** are service which are not related to DPC core processing (i.e. ticket SCU processing) activities. These services encompass the following services:

- ⇒ Hand-off tapes (HOTs)
- ⇒ credit card processing;
- ⇒ invoicing or manual activities such as data entry;
- ⇒ sorting of documents and manual reporting;
- ⇒ special reports;
- ⇒ other additional services

All of the above services are published in the ISS Operational Price List and communicated to the airlines and all other stakeholder