



Transforming IATA's BSP

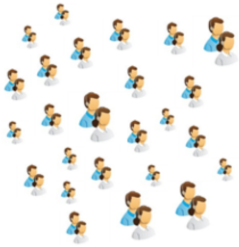
2017



BSP Created in the era of Paper Tickets and Regulation

1971

- ❖ Mainly brick & mortar travel agents with local operations



- Stringent Rules
- Strict Governance
- Inflexible Agency Risk Management
- Limited Payment Methods

- ❖ Mainly flag carriers with strong positions in their local markets



Legacy Carriers

Since its launch in 1971, IATA's Billing and Settlement Plan (BSP) has successfully facilitated the distribution and settlement of funds between travel agents and airlines safely and securely.

However, the rules for the BSP were established in an era of paper ticket stock, brick-and-mortar travel agencies, limited payment methods and a highly regulated airline industry. These rules no longer address the diverse and complex needs and risks of airlines and travel agents today.



Modernizing the BSP

Before NewGen ISS

- One-size-fits all.
- Same risk management processes for all agents.
- Inflexible approach.
- Limited payment methods.



After NewGen ISS

- Agent chooses accreditation model relevant to business need.
- Risk Management that mitigates risk exposure.
- New payment solutions in the BSP.
- New financial security options.



NewGen ISS is bringing the BSP settlement system into the modern world by delivering simplified processes, lower costs, better protection of funds, new payment methods and a choice of agent accreditation models*.

*IATA accreditation authorizes travel agents to sell international and/or domestic tickets on behalf of IATA member airlines. It also allows access to IATA's Billing and Settlement Plan (BSP) in countries where BSPs are operational.



NewGen ISS

➤ IATA will deliver a more relevant, secure and customer-centric Passenger Agency Program through the following NewGen ISS initiatives:



The key initiatives under NewGen ISS are as follows:

1. Agency Accreditation Models:

The objective is to achieve a more relevant agency program and to facilitate agency participation through:

- A range of accreditation models that can better fit agent needs—not all agents are the same
- Introduction of a simplified set of rules

2. Risk Management / Remittance Holding Capacity:

In order to create a more secure environment, NewGen ISS introduces a more dynamic risk management where the agent's risk profile determines their cash conditions. This includes the introduction of Remittance Holding Capacity (RHC), or maximum threshold for agents' outstanding monies at risk.

3. Introduction of a IATA EasyPay, a new payment method in the form of a pay-as-you-go e-wallet.

4. Introduction of Global Default Insurance, an alternative financial security to bank guarantees.



Agency Accreditation Models

| | | |
|------------|--|--|
| GoLite | <input checked="" type="checkbox"/> Cash <input checked="" type="checkbox"/> CC <input checked="" type="checkbox"/> IATA EasyPay | <input type="checkbox"/> Remittance Holding Capacity <input checked="" type="checkbox"/> Financial Assessment <input checked="" type="checkbox"/> ADM/Chargeback Security |
| GoStandard | <input checked="" type="checkbox"/> Cash <input checked="" type="checkbox"/> CC <input checked="" type="checkbox"/> IATA EasyPay | <input checked="" type="checkbox"/> Remittance Holding Capacity <input checked="" type="checkbox"/> Yearly Financial Assessment <input checked="" type="checkbox"/> Financial Security / Default Insurance |
| GoGlobal | <input checked="" type="checkbox"/> Cash <input checked="" type="checkbox"/> CC <input checked="" type="checkbox"/> IATA EasyPay | <input checked="" type="checkbox"/> Remittance Holding Capacity <input checked="" type="checkbox"/> Quarterly Assessment of Parent <input checked="" type="checkbox"/> Parent Guarantee incorporated into PSAA <input checked="" type="checkbox"/> Financial Security / Default Insurance |

➤ Agents may voluntarily convert across models as their business evolves, while maintaining their IATA code(s).

The NewGen ISS framework distinguishes between the accreditation requirements versus how the agent participates in the BSP, namely which forms of payment are available to the agent.

Agents will be able to choose the accreditation model most applicable to their business, and then convert across models as their business evolves.

How the agent participates in the BSP defines the level of associated risk and determines the applicable risk management conditions.

GoLite (Standard Accreditation – No Cash Facility)

- A new simplified accreditation for agents who do not require a cash facility and will issue tickets only via IATA EasyPay or credit card. Since there is not the same related risk of default, the agent will have limited financial requirements beyond the obligation to provide a minimal financial security to cover the risk associated with credit card sales and ADMs.

GoStandard (Standard Accreditation with Cash Sales)

- This option resembles most closely accreditation as it exists today. The key differences are the introduction of IATA EasyPay as a new form of payment, and the implementation of a Remittance Holding Capacity for agents' BSP cash sales*.

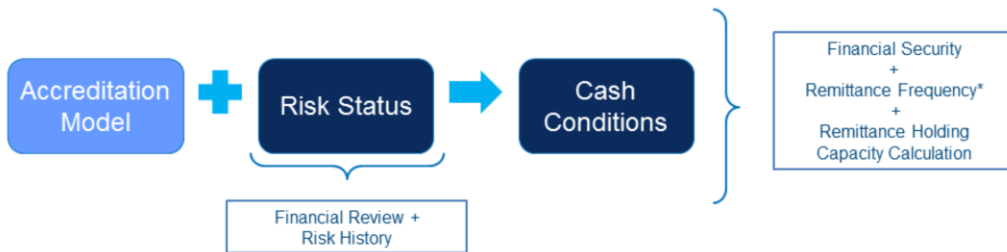
GoGlobal (Multi-Country Accreditation)

- This will offer agencies operating in multiple BSPs a simplified accreditation and risk management process. The agent will meet one set of global requirements in compliance with any local legal requirements. The entire agent group would be subject to an aggregated Remittance Holding Capacity and, if required, the parent would also provide financial security covering the sales of all its locations.

*Cash sales are ticket sales in which the travel agent receives payment directly from the passenger (by any method the agent allows). The agent holds those monies in trust on behalf of the airline until an established remittance date, when the funds are remitted to the BSP and then from the BSP to the airline. Card sales are ticket sales on the customer's credit card, processed on the merchant agreement of the airline. Payment is received directly by the airline from the applicable credit card processor.



Overview of risk management model



* Only applicable for countries with multiple remittance frequencies.

Agents may choose to participate in the BSP with or without a cash facility. Only those agents participate with a cash facility will be required to undergo a financial assessment.

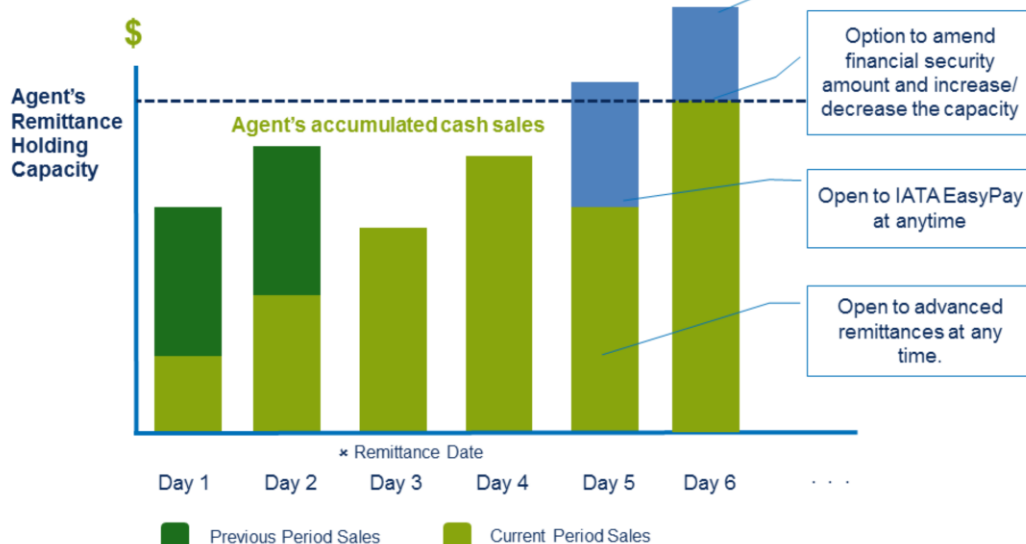
The new risk management framework will operate under the following key principles:

- The criteria applicable to perform the financial assessment of travel agents will be related to the accreditation model the agent has selected.
- The historical performance of the agent in the BSP related to its ability to pay and capacity to comply with financial requirements will be factored into the applicable risk management conditions.
- All agents that choose to participate in the BSP with a cash form of payment (i.e. ability to issue cash sales) will have a monetary limit to cash sales or 'Remittance Holding Capacity' (RHC). The applicable RHC will be calculated based on the agent's risk status, historical BSP cash turnover and remittance frequency.



Managing the Remittance Holding Capacity

- A monetary threshold to the agent's outstanding cash sales (monies at risk) will be established for all Agents with a Cash Facility.



With NewGen ISS, IATA is establishing a Remittance Holding Capacity (RHC) for all agents with access to a cash facility. In real-time, IATA will then monitor agents outstanding cash sales versus the established threshold.

When an agent reaches its RHC, BSP cash sales will be restricted until a remittance is received and the agent again falls below the maximum threshold.

Agents will be notified when they reach a certain percentage of their capacity (50%, 75% and 90%), so as to be able to take applicable actions.

Importantly, the agent can continue issuing tickets using IATA EasyPay or the customer's credit card as the form of payment.

In addition, the agent can remit monies to the BSP in advance of the remittance date to re-open the related capacity. Furthermore, by providing additional financial security, an agent can increase their RHC.

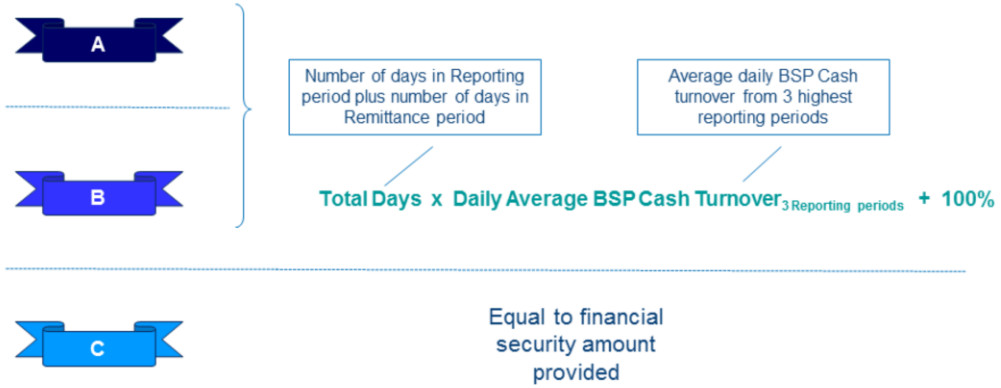
Similar rules have been established in other industries for companies selling their products and services through a distribution network, this is not unique to the air industry.



Remittance Holding Capacity Calculation

Risk Status

Remittance Holding Capacity





IATA EasyPay

A new industry payment method:

- 'Pay-as-you-go' e-wallet solution
- Alternative to cash and credit card form of payment
- Voluntary for agents to use
- Funds secured at time of issuance (no chargebacks)
- Settlement to airlines in 48-96 hours



IATA EasyPay is a voluntary alternative payment system for travel agents to issue tickets through the BSPs.

Among other benefits, IATA EasyPay will:

- Provide a “pay-as-you-go” solution for agents
- Be economical, with a low cost per transaction (~0.53 USD)
- Provide an additional payment method, not replacing any of the existing ones

IATA EasyPay is currently live and being piloted in Norway, Iceland, Finland and Sweden with additional markets to follow.



Global Default Insurance (GDI)

New Financial Security Option

- A standardized global default insurance policy brokered by Aon and Marsh to a top credit risk insurance company, Euler Hermes, and made available for travel agents to be insured under on a voluntary basis
- Key Features:
 - ❖ *Strong, flexible & reliable coverage for Carriers*
 - ❖ *Increased flexibility for Agents, with no collateral requirements*
 - ❖ *Alternative to Bank Guarantees and other acceptable Financial Securities (this will not replace DIPs) → Agent choice on which to obtain*
 - ❖ *Can easily be adjusted by Agents given the introduction of Remittance Holding Capacities*
- Agents can apply for GDI online and at no cost via Euler Hermes' dedicated portal or by contacting IATA's brokers Aon & Marsh



Global Default Insurance (GDI) is a new type of financial security option. It is not intended to replace or exclude other security types, such as local default insurance programs (DIPs).

IATA has established the framework for introduction of this additional financial security type, but IATA is not the one providing insurance. Pricing is set directly between the Insurer and the Agent.

The objective is that for agents, Global Default Insurance will present a cost effective and flexible alternative to bank guarantees and other types of security.

For airlines, the objective is for the insurance solution to provide strong and reliable coverage with certainty of claims in the event of a default.

GDI has been launched in over 20 markets and will be progressively rolled out across all BSPs by the end of 2018.



NewGen ISS Delivers Greater Value to Agents and Airlines

Travel Agents

- Relevance through Business Choice
- Greater Flexibility
- Agents can evolve easily across models
- Financial Security options

Airlines

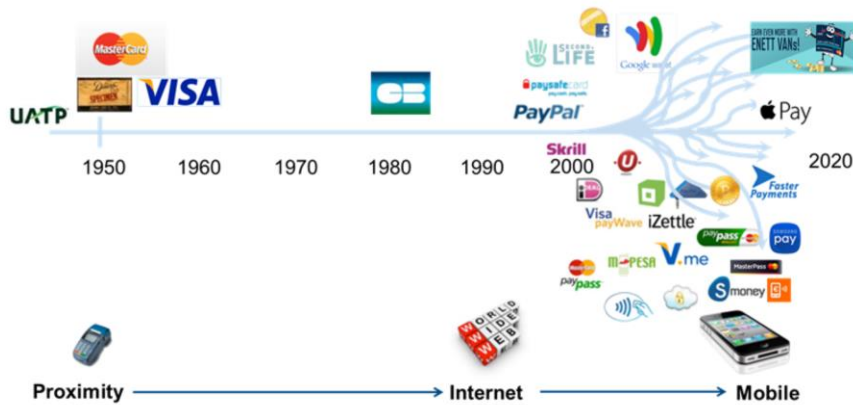
- A more secure environment
- Risk Management that mitigates default losses
- Options to distribute securely through a wider array of agents

In sum, NewGen ISS offers both travel agents and airlines options and benefits not available under the existing structure.



Transparency in Payments

The Payment landscape is rapidly evolving



The current landscape for payment services has changed dramatically over the past years, and new players and payment solutions are emerging which offer travel agents new options to remit customer funds to airlines.

This was addressed at the 2017 PAConf through the launch of an industry initiative called Transparency in Payments (TIP).



Transparency in Payments

Current Landscape

- **Increased Airline Costs**
 - Payment acceptance costs avg. \$7bn per year (Phocuswright)
 - Up to 3% per transaction
- **Lack of Airline Visibility**



- **Blanket prohibition under old Resolution**
- **Lack of Agent choice**



IATA has worked with key industry stakeholders including airlines, travel agent representatives and GDSs in the creation of TIP.

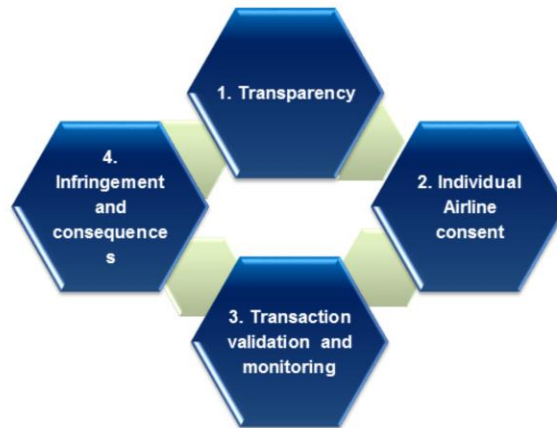
The objective of TIP is to introduce a global industry initiative focused on providing airlines and travel agents with:

- An increased transparency and control for each player,
- An efficient framework and tools to enable travel agents and airlines to bilaterally agree on usage of alternative transfer methods (such as agent's cards / agent's VANS) for travel agency sales
- A resolution framework which is adapted to regulatory and market conditions



Transparency in Payments

TIP Principles



The TIP framework for BSP sales is based on four key principles:

- **The first principle is Transparency:** providers of Alternative Transfer Methods will need to enlist with IATA, and provide relevant information about their products by **enrolling their products**. Travel agents and airlines will have access to this information
- **The second principle is Individual airline consent:** each individual airline will have the possibility to review enrolled products and provide its individual consent to accept or not Alternative Transfer Methods. This consent can be done at different levels of granularity (by country, enrolled product and agent) depending on airline's commercial and legal policy
- **The third principle is Transaction validation and monitoring.** To ensure that the TIP framework works soundly, there will be two steps of validation.
 - **First, upfront validation** whereby the airline consent is checked before the ticket is issued
 - **Then post-ticketing monitoring** This means that all BSP transactions will be monitored by IATA after ticket issuance in order to detect potentially non-compliant transactions and reported to each airline
- **The fourth and last principle is related to Infringement and consequences.** In case of infringement to their consent policy,

airlines will follow up directly with the travel agents on a bilateral basis. If there is a pattern of abuse, the case will be brought to the Travel Agency Commissioner, who is a neutral arbiter created by Resolution of the Passenger Agency Conference and supported by IATA Member airlines and travel agency association members who sit on the Passenger Agency Program Global Joint Council, providing oversight relevant to airline and travel agency relationships.



Transparency in Payments

TIP Benefits



- **Transparency & control**
- **Airline consent policy management**
- **Compliance Monitoring**



- **New ways of remitting funds to airlines**
- **Enrolment of own cards**
- **Airline consent database**

TIP will provide airlines with:

- Resolution framework to ensure transparency and control for each individual airline
- Tools to manage airline consent policy
- Tools and reports to monitor compliance with each airline's consent policy

TIP will provide travel agents with:

- Resolution framework to provide access to alternative transfer methods, based on airline individual consent
- Tools to manage the enrolment of an agent's own card, and consult the airline consent list



NewGen ISS & TIP

Timelines

- Today – Pilots of the NewGen ISS initiatives
- March 2018 – Progressive roll-out of NewGen ISS & TIP begins
- End 2019 – Worldwide implementation of NewGen ISS & TIP



Pilots of the NewGen ISS initiatives are underway in a first set of pilot markets.

In November, the Passenger Agency Conference (PACConf) adopted Resolution changes which will allow the implementation of NewGen ISS and Transparency in Payments effective from March 1 2018.

Starting from then, NewGen ISS and TIP will progressively roll out in waves to all BSPs worldwide. This is expected to take approximately 2 years.



For More Information

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Thank you!