

# A Guideline for a new Remittance Holding Capacity and Agency Risk Management Framework

In accordance to the changes to Resolutions 812 adopted through the Passenger Agency Conference Mail Vote item A343, some important changes to the provisions of the Remittance Holding Capacity (RHC) and Agency Risk Management framework have been made effect 1 November 2020, although IATA will only enforce this new provision in February 2021.

These changes have been part of a joint consultation process with Passenger Agency Conference Steering Group and Passenger Agency Programme Global Joint Council and the strategic direction from the Passenger Agency Conference to transform the way the Agency Programme is managed, moving away from a "one-size-fits-all" approach, working towards a more dynamic and relevant scheme that is customized to each Agent.

This brief guideline is to provide agencies with an explanation on how the new framework works and some exceptions that IATA will be applying to these adopted changes, in view of the current market conditions.

# Section 1: Remittance Holding Capacity Framework

The provisions of this framework came into effect **1 November 2020** (please refer to section 3 for the exceptions). It aims to assign an RHC to Agents taking into consideration their **operational factors** (based on the Risk Status) in addition to the existing considerations of **historic sales**. To best understand how this works, we will walk you through calculating your own RHC. For that, you will need three pieces of information:

1. The Risk Status of your Agency (this does not apply to Risk Status C Agents, whose RHC stays equal to provided financial security amount as per Resolution 812);
2. The net BSP cash sales amount of your 3 highest Reporting Periods in the last 12 months;
3. Know what your "Reporting Period" is and how many days does it correspond to.

**\* Please note that this document is to provide you with an understanding of how RHC works. For the most accurate RHC value, please always consult with an Agency Risk Management expert from the IATA team!**

## Three easy steps to estimate your RHC level:

### 1. Find out your Amount at Risk:

**Amount at Risk** is calculated by multiplying the Days' Sales at Risk by the total BSP Cash Turnover of the 3 highest Reporting Periods in the previous 12 months divided by the days in reporting period and multiplied by 3.

$$\text{Amount at Risk} = \frac{\text{Total Days} \times \text{Total BSP Cash Turnover 3 highest Reporting Periods}}{\text{Days in Reporting Period} \times 3}$$

### 2. Look up the table below:

Tier	Amount at Risk (AaR)	RHC factor for Risk Status A	RHC factor for Risk Status B
1	USD0 - USD5,000,000	2 x AaR	1.5 x AaR
2	USD5,000,001 - USD10,000,000	1.75 x AaR	1.35 x AaR
3	USD10,000,001 +	1.50 x AaR	1.20 x AaR

Split your Amount at Risk based on the thresholds mentioned in the Tiers. (Remember the table is based on USD! Make sure to convert your Amount at Risk into USD first if needed.)

The first USD 5 million is allocated to tier 1, the next USD 5 million is allocated to tier 2, anything beyond that is allocated to tier 3.

Then find the corresponding multiplication factor that is applicable to you for each tier, based on the Risk Status of your Agency.

Example: **Agency A** is a Risk Status A Agent, with a total Amount at Risk of USD11 million. So, the first 5 million is allocated to tier 1, next 5 million allocated to tier 2, and the final 1 million is allocated to tier 3 as shown below:

Tier	Amount at Risk (AaR)	RHC factor for Risk Status A	Calculation for <b>Agency A</b>
1	USD0 - USD5,000,000	2 x AaR	2 x 5 million = 10 million
2	USD5,000,001 - USD10,000,000	1.75 x AaR	1.75 x 5 million = 8.75 million
3	USD10,000,001 +	1.50 x AaR	1.5 x 1 million = 1.5 million

### 3. Add everything up

Once you have the calculation for each tier that could be applicable to your Agency, sum up the amounts and this will be an estimation of your RHC value.

Example: Agency A's RHC will be: 10 million + 8.75 million + 1.5 million = **20.25 million**.

**\* Remember that you can always request IATA to adjust your Remittance Holding Capacity levels based on your distribution strategies, it is important that you plan your anticipated sales fluctuation ahead of time to ensure that there will be no disruption to your business for anticipated peaks. Contact us [here](#) to talk about it.**

## Section 2: Tiered Approach Towards Agency Risk Management and Financial Assessments

In addition to the new RHC calculation framework, the Agency programme is also evolving from treating the Risk assessment of all Agents the same, towards a more dynamic approach. This approach aims to create different layers of assessments based upon the operational size and sales of an Agent, to apply assessments that are accordingly.

In accordance to the changes adopted by the Passenger Agency Conference's Mail Vote item A343, Agents that progress with an Amount At Risk beyond USD 5 million will be subject to undergo additional quarterly financial assessments that will entail a wider assessment on multiple facets of the company to ensure an operationally sound company strategy is in place, and the appropriate level of Financial Securities to counterbalance any additional risk identified through these assessment. The cost of going through this additional assessment will be borne by the Agent.

Note that if Agents pass the additional assessments, no changes will be made to their Financial Security amounts. (Please refer to the Remittance Holding Capacity framework to learn more about the **Amount at Risk** concept).

In all cases, the existing annual Financial Assessments as established in your respective Local Financial Criteria will continue to apply to all Agents.

### Why is IATA changing its approach towards its Risk Management framework?

The targeted approach ensures that appropriate assessments take place at different intervals allowing IATA and Agents to be able to identify at an earlier stage, potential risk factors and struggles that an Agent may face in the near future and have the opportunity to ensure that their Accreditation status will not be impacted from one day to another, fostering better connection between IATA and its Agency community to prevent undesirable terminations and losses of Accreditation.

### What is the difference between the Local Financial Criteria and the criteria for quarterly assessments?

The Local Financial Criteria (LFC) is established by each market's local governance group called the Agency Programme Joint Council (APJC), which is composed of an equal representation by Agents and Airlines operating in the market. The purpose of having these LFC, is to ensure that IATA is assessing each Agent under locally agreed conditions that are appropriate to the market's situation. In accordance to the Passenger Agency Conference Resolutions, each APJC should review these criteria at least once a year, and as frequently as they see appropriate.

On the other hand, as Agents expand their operational scope and increasing their cash sales volumes, their operations may start to deviate from simple local operations and have other competitive advantages commercially gained through their strategies. This may include (but not limited to) sales to other markets, additional lines of businesses, consolidating the sales generated by sub-agents or having the company listed on the stock market. At this point, the LFC may not be comprehensive enough to review Agents of such scale, as the assessment is conducted once a year – where major changes may be implemented in the company during the year that brings drastic impact to the company, and in addition to that, there is an expectation that the company's structure becomes closer to one that resembles an international entity. You can see the framework of this assessment from [here](#). In case Agents have doubts about the financial definition of some of the criteria, the IATA team will be happy to support you with any questions you may have.

### How does this impact the Agency community?

This approach has little or no impact to the vast majority of the existing IATA Accredited Agents based on our analysis on the past and current sales history.

However as Agents start to scale up their businesses in the future, and additional elements of organizational risks may come with the expanded operations, there are progressive steps to ensure that growing IATA Accredited Agents are able to strategize and maintain their scale at a financially and operationally sustainable manner, to remain within the Agency Programme ecosystem.

For Agents that are already operating at a large scale, we will be carefully assessing the impact to each Agent. We are mindful that the situation may be different for each company, and the [IATA team is available to discuss](#) with your appropriate business units to explain the steps and changes applicable to your specific case. Since this is a major change towards the planning of your accounting and operations.

### **Can an Agent that has an Amount at Risk beyond USD 5 million do anything to be exempted from the additional reviews?**

Yes. The objective of the quarterly reviews is to provide an avenue for Agents to prevent having to put up any additional Financial Security as their business grows, if they can confirm a sound operational and financial situation in their company. However, we understand that it may be burdensome to go through more frequent reviews and preparing the required documentation. An agent can consider the following course of actions that will mitigate the impact of RHC reduction:

1. Make an advanced payment
2. Provide an additional Financial Security amount
3. Move to the Most Frequent Remittance Frequency in the applicable BSP
4. Balance the usage of the different form of payments (Cash, Credit Card, IATA Easy Pay, Alternative Transfer Methods)

## **Section 3: Exceptional Conditions for 2021**

Understanding that the industry is experiencing unprecedented conditions, the Agency Administrator has obtained recommendations from the Passenger Agency Conference Steering Group (PSG) and the Passenger Agency Programme Joint Council (PAPGJC) to provide exceptional considerations as per the below:

### **1. The effectiveness of the changes**

Whilst the Resolution changes came into effect 1 November 2020, IATA will not be reinforcing the application of the new RHC calculation and the changes to the agency risk management framework until the beginning of February 2021. This is to ensure that our systems are ready to accommodate to the special exception you will see in the next point.

### **2. Sales Data used to determine the RHC for 2021**

IATA will not be applying the "Amount at Risk" formula for 2021 as described in [section 1](#).

Instead, the amount that will be applied for the RHC calculation will be based upon 50% of the 2019 sales, to allow for a more rationale amount to base the RHC calculation upon. The portion is calculated based upon the IATA Economic's forecast of the size of the industry by 2021 and will be reviewed regularly to ensure that it remains relevant to the changes in the industry next year.

To get an idea of what this means, below is **an illustrative example**:

If the IATA Economic's forecast for 2021 anticipates that the passenger sales revenue is expected to be at 50% of its size compared to 2019.

Based upon the 2019 sales data of the Agent, and applying the formula as described in section 1 of this document, if a Risk Status A Agent had an Amount at Risk in 2019 of USD100,000, then the Amount At Risk of this Agent for 2021 would be  $USD100,000 \times 50\% = USD50,000$ . Subsequently, the RHC for this Agent in 2021 RHC will be  $USD50,000 \times 2 = USD100,000$ .

On the other hand, if an Agent had an Amount at Risk in 2019 of USD11 million, using the same example from [section 1](#) then the Amount at Risk for 2021 would be  $USD 11 \text{ million} \times 0.50 = USD 5.5 \text{ million}$ .

In this case, applying the RHC framework explained in section 1 of this document, the calculation would work as explained below:

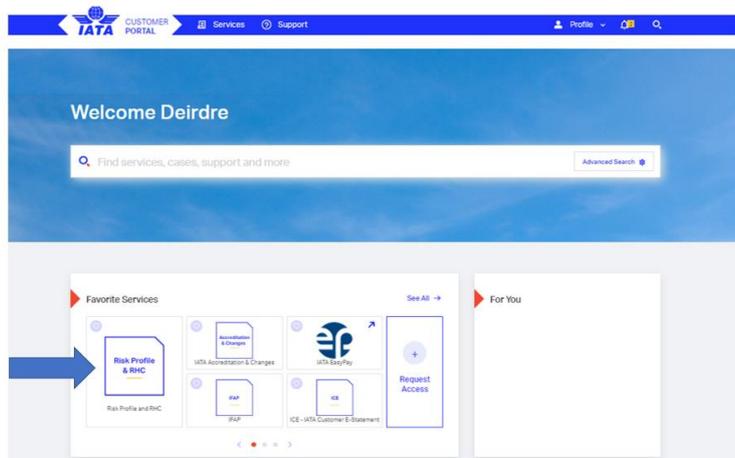
Tier	Amount at Risk (AaR)	RHC factor for Risk Status A	Calculation for example above
1	USD0 USD5,000,000	2 x AaR	2 x 5 million = 10 million
2	USD5,000,001 USD10,000,000	1.75 x AaR	1.75 x 0.5 million = 0.875 million
3	USD10,000,001 +	1.50 x AaR	not applicable

This Agent's RHC will be: USD 10,000,000 + USD 875,000 = **USD 10,875,000**.

### 3. Communication of new RHC levels

You should expect to receive an email from IATA providing you with information about your RHC level for 2021, between 1-3 February 2021.

Due to the vast amount of IATA Accredited Agents, the exact date and time will depend on the location of your agency as our systems will be updated gradually across the three days to ensure system stability, so that your RHC is updated accurately. Once the system is updated, a notification with the new RHC level will be sent to the email address of the IATA Customer Portal users in your Agency, who are subscribed to the *Risk Profile & RHC* service online, you can find a screenshot of this service below:



### 3. Other Exceptions

In the past few months there have been a series of exceptions approved and applied for IATA Accredited Agents across the globe. For Agents to have a clear overview, we have been consolidating these changes in a COVID-19 Agent Toolkit, which is available [here](#). Please make sure to check for an updated version on our website from time to time. We usually upload a new version once a month as soon as there are any changes that impact Agents.