

New Payment Systems

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This update highlights the evolution of customer and partner expectations in payment and the new systems that IATA is developing to support payment in the travel industry.

Evolution of customer behaviours



In 2015, Millennials became the **#1 source** of global income, spending, and wealth creation



76% of Millennials' financial engagements are **mobile**



68% Millennials want **instant P2P payments**

Source: Accenture US Data / Edgar, Dunn & Company



Millennials are the new major customer segment and their expectations include mobile and peer-to-peer instant payment.

IATA's Footprint on Payment



Consumer



Partners



Airlines



Travel Agent



IATA's payment activities in 2019 will focus on four areas: direct ticket sales between consumers and airlines, facilitating new payment methods, digital currency and airline remittances through travel agents.

Airline – consumer: PSD2 / IATA Pay



Looking first at consumer payments, we see that the landscape is changing rapidly. Credit cards continue to be hugely popular in the developed world, but newer payment forms are emerging as well, in the developed and developing worlds. For example, millennials want instant peer-to-peer mobile payment.

Concurrently, a new regulation in Europe, called PSD2, enables instant bank account-to-bank account payment. The UK has taken a similar approach called Open Banking and other countries are also moving in this direction. Responding to these developments, IATA is developing a prototype to support instant payments when consumers purchase tickets directly off airline websites.

The solution, called IATA Pay, will potentially go-live in 2019. For consumers, the benefit is a new payment method that does not require a credit card and is more secure than a traditional online card transaction, while airlines benefit from increased security, and also from a lower transaction cost compared to a credit card.

Airline – partners: Alternative Forms of Payment IATA Financial Gateway



Partners



Airlines



The proliferation of new forms of payment is a welcome development, particularly in emerging economies where large parts of the population may lack access to credit cards and even traditional bank accounts; but it also creates a challenge for airlines that may operate in dozens of different markets, each with its own payment forms. For example if a foreign airline wants to sell tickets in China they need to accept cards like Union Pay and mobile payment like wechat, while there may be entirely different payment options in India they need to be able to handle.

IATA has built a solution for airlines to accept payment, multi-channel / worldwide coverage / along all the customer journey. The product, called IFG, went live this year. IFG connects, on one side with the airline, and on the other side with multiple forms of payment. It makes it easy for an airline to offer any form of payment to a consumer who is shopping on its website.

Airline – airline: Cryptocurrency / IATA Coin



As I'm sure many of you know, IATA manages a number of industry financial systems through which flow billions of dollars. Among these is the IATA Clearing House, which provides on-time settling of accounts between and among airlines, airline-associated companies and travel partners. \$56.8 billion in billing transactions was processed by the ICH in 2017.

As you can imagine, there are significant exchange rate costs when these funds move across borders and it can also be time-consuming and prone to delays owing to banking regulations in different countries. In 2014, we began examining whether we could address these issues through use of a blockchain-based cryptocurrency, such as bitcoin.

In 2017 we introduced the IATA coin, a cryptocurrency, without any of the volatility risks associated with bitcoin. Since 2018 a few airlines are using IATA coins to pay their interline bills. The benefits are mainly the speed and cost of payment transactions compared with cross-border bank transfers.

NOTE: If you're interested in learning more about opportunities for using blockchain in aviation, you can download our White Paper on the subject <https://www.iata.org/publications/Documents/blockchain-in-aviation-white-paper.pdf> which is also included in the media kit.

Airline – agent: payment cost / TIP



The last area of payments I want to discuss is travel agent settlements of airline ticket sales through the IATA Billing and Settlement Plan or BSP. In 2017, IATA's BSP processed \$236.4 billion in agency remittances to airlines. This year we began rolling out NewGen ISS, which is the modernization of the BSP.

NewGen ISS features a voluntary pay-as-you-go payment solution for agents called IATA EasyPay that is based on the e-wallet concept.

In conjunction with NewGen ISS, we have introduced an initiative called Transparency in Payments or TIP. TIP is focused on providing airlines with increased transparency and control in the collection of their sales through the travel agency channel.

This is important because payment acceptance costs average around \$7 bn. annually (Phocuswright). And some forms of payment, particularly certain credit cards and so-called virtual cards can be significantly more expensive than others.

At the same time, TIP enables travel agents to take advantage of new forms of payment for the remittance of customer funds, including agents' own cards, subject to individual airline consent.

As noted, each airline makes its own decisions on what forms of payment to accept—like any business. TIP is the tool registering the airline consent and monitoring forms of payment used by agents. It's up to each airline to use this TIP structure, that gives visibility to payments, to decide on their bilateral relationship with travel agents.

Thank you

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In conclusion payment is a broad and fast changing topic, linking consumers, airlines, travel agents and payment providers. Evolution of consumer behavior and of digital solutions are provoking these changes. IATA will keep a leading role in the industry, driving these 4 payment initiatives in 2019 and beyond.

For more information on payment by IATA, see IATA website.
<https://www.iata.org/whatwedo/airline-distribution/pages/index.aspx>