

Pay when you fly

Supporting travel's recovery with flexible payment options

Introduction

The way people pay for air travel has been changing with the introduction of new digital payment methods like Apple Pay for eCommerce, but the fundamentals remain consistent. The traveler pays the airline the full fare at the time a booking is made. This traditional model provides a degree of certainty to airlines as they receive cashflow earlier, but the pressures of the pandemic have caused the industry to ask if this model can be improved upon to better meet the challenges of today's environment.

High rates of cancellation due to changing travel restrictions have introduced significant uncertainty for travelers. Should I book an expensive flight that departs in six months' time if it might be cancelled? Challenges administering refunds to travelers during the pandemic have also impacted traveler confidence, with 81% of respondents to our recent survey confirming that heightened risk of cancellation is a barrier to booking travel during 2021.

At the same time, the rise of Buy Now Pay Later (BNPL) schemes across eCommerce have seen tremendous adoption, leading to the creation of fintech unicorns like Klarna. These payment options allow the consumer to pay for a product or service in installments, offering simple, easy access to credit at the point of sale. For large purchases like travel made during a period of economic uncertainty for many consumers, such payment options are proving popular.

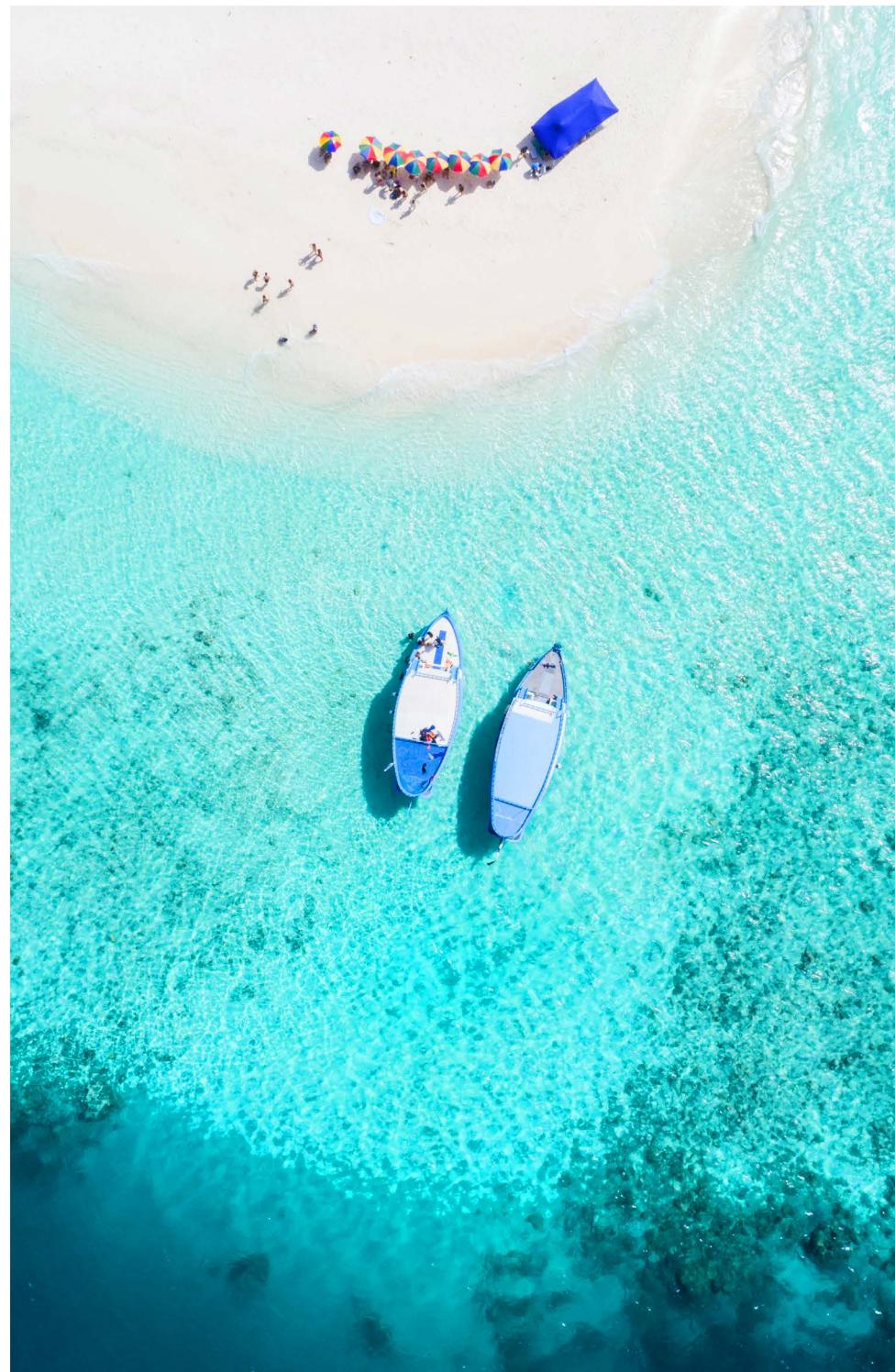
But what if we could rebuild traveler confidence and offer travelers the option to pay later, all without requiring them to enter a credit agreement? This is the promise of Pay When You Fly (PWYF) a novel payment option that several European airlines have introduced in specific circumstances.

PWYF sees the traveler pay a small deposit at the time of booking, typically in the region of 10-15% of the fare, to secure a reservation which is only refundable if the service is not

provided by the airline. The balance is then typically settled a couple of weeks before the flight departs. This greatly reduces risk for the traveler because they are able to lock in better prices available for advance bookings. However, in the event that the flight is subsequently cancelled before the balance has been paid in full, the traveler would only need to reclaim a much smaller amount (it is also very possible that some travelers may decide not to claim a refund for small deposits in the region of 10%).

Whilst airlines do need to adjust to receiving payment later, PWYF could encourage more bookings and because the bulk of the balance remains with the traveler until just before departure, it also has the potential to reduce the administrative burden.

It is important to highlight that many airlines will seek to offer a mix of innovative payment options to travelers. For example, whilst PWYF is likely to be popular with travelers planning travel in advance but is less suitable for last minute bookings where the risk of cancellation is already relatively low. Instead, BNPL options are likely to be more suitable for last minute bookers, who can defer payment until even well after the trip has taken place.



The need to rebuild traveler confidence

At the time of writing, the travel industry is approaching a critical period for recovery. Domestic air travel in the US has begun to pickup, 'the UK has introduced a traffic light system for international travel and the EU has announced plans to reopen borders, subject to member country approvals. As restrictions lift the industry needs to instil confidence that it is both safe and convenient to travel.

One of the most difficult challenges of the pandemic for both airlines and their customers has been the impact of mass cancellations and a persistent level of higher than usual disruption. Specifically, in the first half of 2020 mass cancellations resulted in so many refund requests that most airlines faced net outflows of cash. Even with best efforts many carriers weren't able to refund customers promptly and instead offered vouchers for future travel, which was also a technique for protecting airline cashflow.

Our research with 5,000 travelers demonstrates that refund uncertainty has had a lasting impact with travelers. In fact, 81% say that the increased risk of cancellation is a barrier to booking in 2021, with refund uncertainty (46%) and the inconvenience of the refund process (38%) top concerns.

Airlines have taken a range of measures to reassure passengers, for example EasyJet increased the flexibility of its bookings in April 2021, ahead of the summer season. Passengers can change a flight up to two hours before departure without restrictions on dates or destinations.¹ Such measures should be welcomed but can the way travelers pay play a role too?

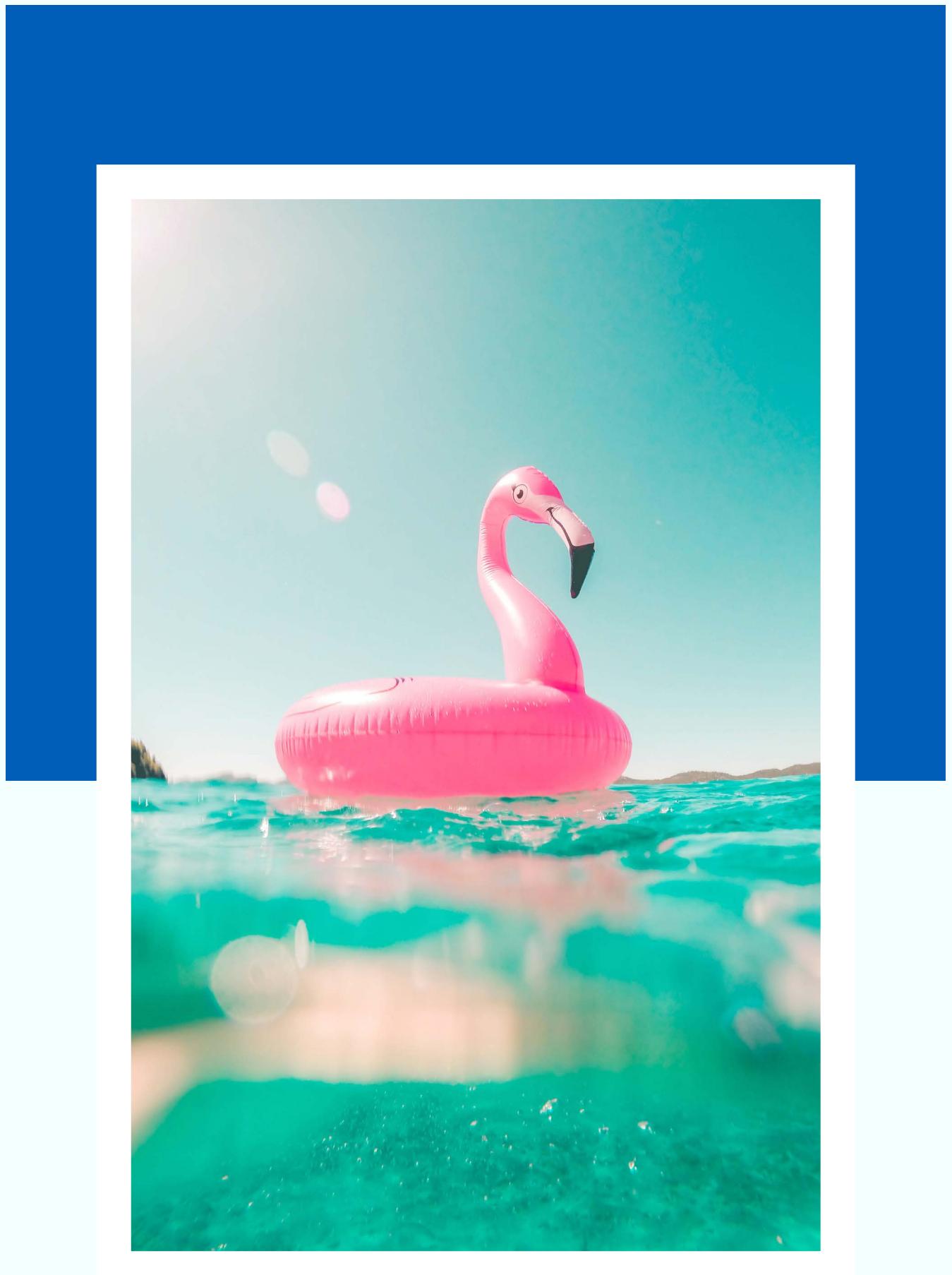
Buy Now Pay Later sweeps the industry

BNPL sees the customer enter a credit agreement for the entire fare, often with a thirdparty fintech, and then make a series of payments by installment. This could be a valuable option for cashstrapped travelers suffering the economic impact of the pandemic and could help to stimulate demand for travel.

That might be one reason that BNPL is currently being implemented by airlines across the world. More generally, the number of eCommerce transactions in North America made using BNPL are expected to grow from 0.9% in 2020 to more than 3% by 2023, according to Worldpay's Global Retail report.²

For airlines, BNPL is an obvious addition that helps to stimulate demand and also encourage travelers to make higher value purchases or perhaps to add an ancillary service. In our study, 40% of travelers said BNPL would encourage them to book travel this summer.

However, the BNPL concept is not without its drawbacks. When asked what would concern them most about paying for air travel with BNPL in 2021, travelers had concerns about: 'the refund process' (54%), 'rates of interest charged' (44%) and 'getting into too much debt' (31%). Like any credit offering, providers need to make informed risk judgements and ensure the customer has the ability to repay.





Pay When You Fly: a novel response to the challenges of the pandemic

PWYF is a novel payment option that sees the traveler pay a small deposit to make a reservation, the balance is then settled shortly before the flight departs. Unlike BNPL, the traveler does not enter a credit agreement and is not liable to pay the entire balance, instead they forgo the deposit in the event they decide to cancel.

Another key difference relates to refunds. Because travelers are not required to pay the airline until circa two weeks before departure there is no need for a refund of the full fare (in the vast majority of cases) if the flight is cancelled, greatly reducing the administrative burden. For travelers, this offers greater confidence to book without fearing a lengthy wait for funds to be returned, a benefit that may stimulate higher value bookings when thousands of Euros are involved.

According to our research with travelers, if airlines offered a PWYF option, 62% would be prepared to book travel in summer 2021. The benefits that most appealed were 'no need to go through the refund process' (43%) and 'The money stays in my bank until I travel' (38%). In fact, PWYF was the most popular way to pay, outscoring both BNPL and traditional pay at booking by a significant margin.

Increasing value per passenger

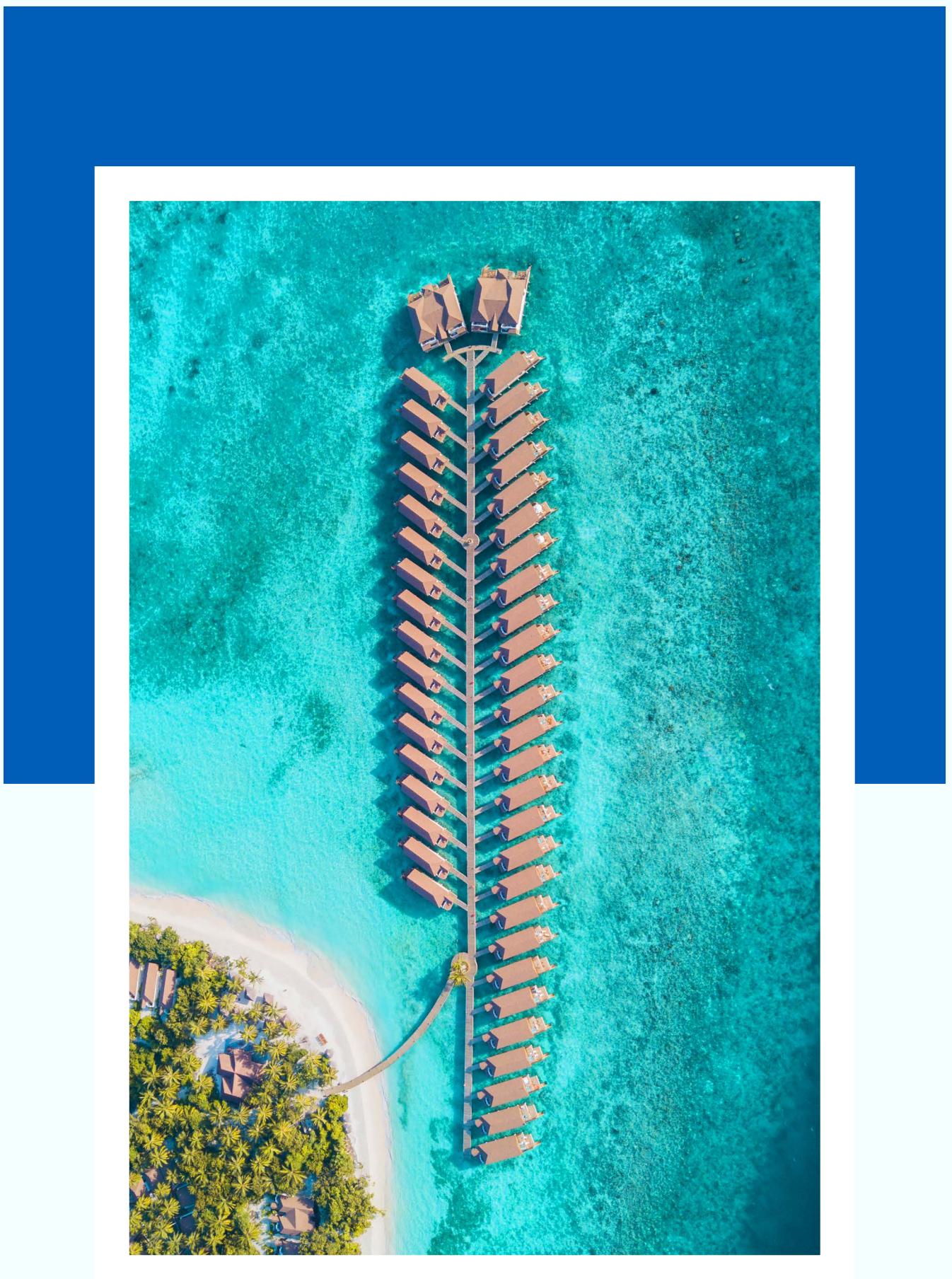
PWYF could represent significant change for airlines that would need to consider the cashflow shock involved with receiving payment later. However, our research shows that there could be opportunities to increase yield.

Travelers told us that they would be willing to spend an additional 36% on travel this summer if PWYF options were available, suggesting this payment option could help carriers drive higher value sales.

Similarly, 49% of travelers that said they would be more likely to purchase an ancillary service like a meal or airport transfer when using PWYF, compared to just 6% that said they would be less likely. Travelers told us they'd be most likely to purchase seat selection (45%), meals (41%) and larger baggage allowance (38%).

Another key challenge faced by airlines during the pandemic has been short booking windows, as travelers wait until the last minute to make a booking.

Although our research suggests that the added confidence PWYF instils might be able to help, by encouraging travelers to book earlier. On average, if PWYF was available, traveler said they'd be prepared to book six months ahead of departure.





Deposits: how much is too much?

One of the key aspects of PWYF is the payment of a deposit at time of booking, which is nonrefundable if the traveler decides to cancel. For the traveler this can be thought of as a hedge against cancellation risk – if they decide not to fly perhaps due to changing state of the pandemic at destination, they lose this money. However, they don't risk having the vast bulk of the payment sitting with the provider.

For airlines, the deposit is best thought of as a cancellation fee. A relatively small amount that covers the costs associated with a booking cancelled by the passenger. But how much should airlines ask for as a deposit?

We asked travelers how much they would be willing to risk as a deposit and the mean average was 8.7% of the full booking cost. However, 31% were willing to pay a deposit representing more than 10% of the total booking cost.

Like most payment options, PWYF will be more appealing to certain demographics than others. A family of four booking a holiday may not wish to make a €4,000 payment at the time of booking if there's a risk this money may not be returned for several months. An individual traveler making a short haul booking for €100 might be happier to wait for the refund or a time when they could use a voucher.

European flag carrier: low-cost online deposits

A European flag carrier has taken the lead with a 'Pay When You Fly' (PWYF) option, allowing travelers to make a flight reservation, which also includes a hotel or car hire, by paying a small deposit and then settling the complete balance a few weeks before travel. The airline asks for a deposit in the region of 15% and the traveler decides when they settle the balance, the only requirement is that the entire balance is settled three weeks prior to departure. The option appears to be available for any booking that combines a flight with either a hotel or car hire.

European full-service airline: PWYF for corporate customers

A major European full-service airline has experimented with PWYF since it introduced the scheme for a large corporation in 1997 and the option was made available to more of the airline's highest spending corporate clients. Following the impact of the pandemic, the airline took the decision in March 2021 to expand the payment option for all corporate clients across European point-to-point and transfer flights with several airlines in the group. The move supports its corporate customers, so they only need to pay for flights that actually take place and with this model, payment is only triggered when the flight actually departs.

Create a profit-boosting payments strategy today. Take the road to recovery with Amadeus. [amadeus.com/payments](https://www.amadeus.com/payments)

About Amadeus

Travel powers progress. Amadeus powers travel. Amadeus' solutions connect travelers to the journeys they want through travel agents, search engines, tour operators, airlines, airports, hotels, cars and railways.

We have developed our technology in partnership with the travel industry for over 30 years. We combine a deep understanding of how people travel with the ability to design and deliver the most complex, trusted, critical systems our customers need.

We help connect over 1.6 billion people a year to local travel providers in over 190 countries. We are one company, with employees distributed across 70 offices. We have a global mindset and a local presence wherever our customers need us. Our purpose is to shape the future of travel. We are passionate in our pursuit of better technology that makes better journeys.

Amadeus is an IBEX 35 company, listed on the Spanish Stock Exchange under AMS.MC. The company is also part of the EuroStoxx50 and has been recognized by the Dow Jones Sustainability Index for the last eight years.

About the research

Research was carried out by Opinium on behalf of Amadeus during May 2021 based on a survey with 5,000 travelers*, drawn in equal numbers from France, Germany, Malaysia, the UK and the US.

*Respondents traveled at least three times a year before the pandemic.

¹<https://travelweekly.co.uk/news/air/easyjet-extends-booking-flexibility-to-boost-confidence-in-summer-travel>

²<https://eu.usatoday.com/in-depth/travel/news/2021/05/02/southwest-vacation-payment-buy-now-pay-later-vrbo-affirm-uplift/7294465002/>