

RETHINK REBUILD RENEW

Travel Fintech Investment Trends 2022

Foreword

By David Doctor, Executive Vice President
of Payments, Amadeus

We at Amadeus believe in the resilience of travel. Although the impact of the COVID-19 pandemic continues to be felt by both providers and retailers, data shows a steady uptick in demand throughout 2022. EUROCONTROL's latest Traffic Scenario for the April to December 2022 period forecasts a return to 89% of 2019 volumes by August, with this level rising further to reach 92% by the end of the year.

We know from working with our customers that many travel companies are placing bets on this type of significant recovery, with the majority investing now so they can offer the best possible experience to returning travelers. One area we're seeing particularly strong investment is payments and fintech.

As the travel industry continues its digital transformation, for example with the introduction of advanced airline retailing capabilities under IATA's New Distribution Capability (NDC), the ability to remove payment friction to enhance merchandising and to improve the traveler experience is a high priority. Similarly, we've seen travel retailers like Hopper achieve extraordinary business results with its pivot to design and sell fintech services that aim to boost confidence and encourage a return to travel. The company's flight price freeze product is now taken up by around 25% of its customers – an extremely successful ancillary service.

Amadeus identified the need for continued innovation in travel fintech around a decade ago when we launched our dedicated travel payments business unit. Since then, we've grown hand-in-hand with our customers, helping them to simplify how they accept and make payments.

I was encouraged to see from our Travel fintech investment trends research that most industry players share our view. With more than 50% of respondents planning to surpass 2019 investment and a further 30% likely to match it, the key questions appear to be: what fintech capabilities are they adding, and why? Those are the questions we set out to answer in this report. I hope you enjoy our view of what's driving the travel fintech investment boom.





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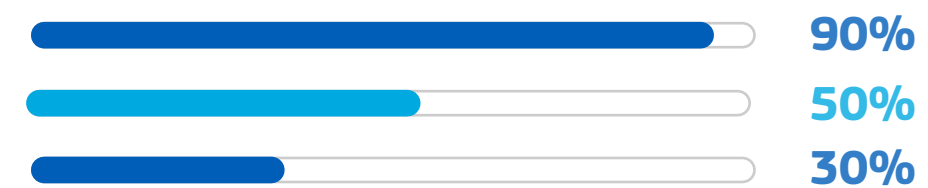
Travel fintech investment: a snapshot

To understand trends in travel fintech investment, Amadeus conducted a survey with 70 senior leaders from airlines and travel sellers in Q1 2022. The objective was to understand the pace of investment as well as the specific fintech capabilities travel leaders are seeking to develop this year.

According to the study, **70%** of travel businesses are investing broadly across their companies this year to capture an expected rebound in travel, with only **30%** opting for a more conservative strategy.



Fintech and payments were viewed as a high priority by **90%** of respondents, with **50%** of firms planning to invest more during 2022 than they did in 2019, and a further **30%** planning to match 2019 levels.





Travel fintech investment: a snapshot

When asked to rank the payments challenges they face in 2022 respondents identified these as their top challenges.



Respondents were asked to rank their fintech investment priorities for 2022 from a list of 15 options, revealing two groups of priorities – **‘existing’** and **‘emerging’**.

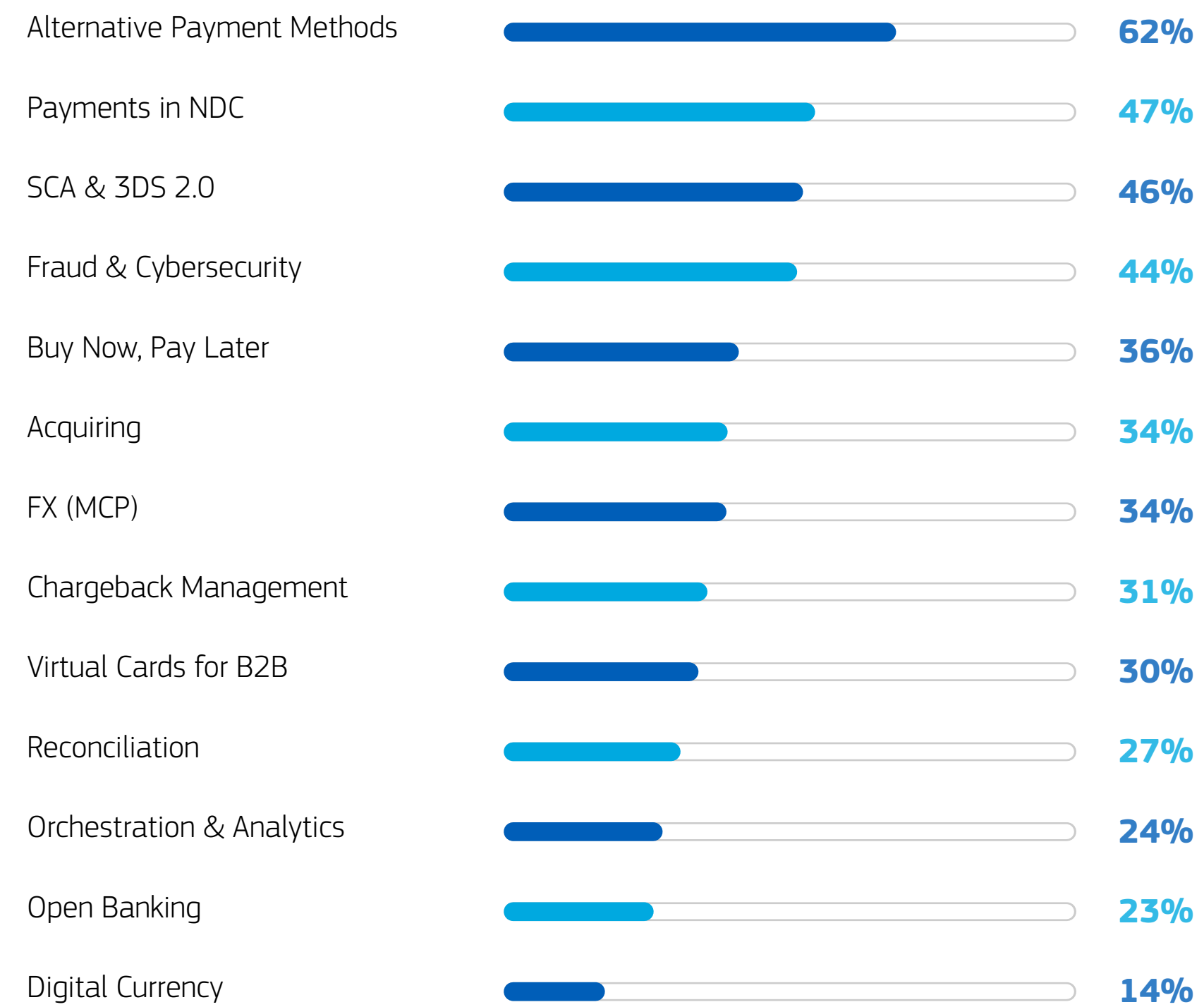
More travel companies expect to invest in **‘existing’** capabilities during 2022 with these ranked as the three top priorities.



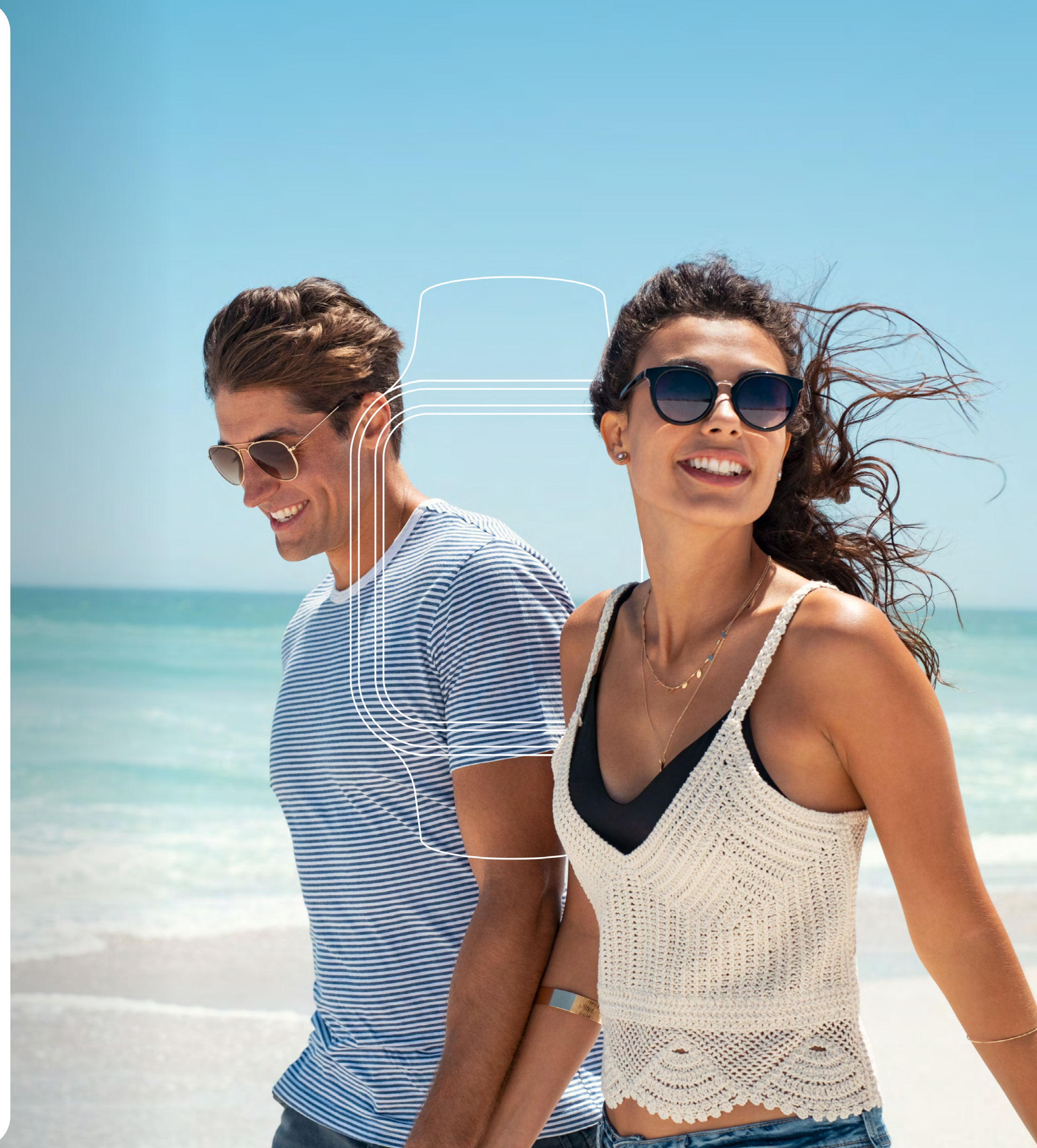
However, a second group of **‘emerging’** priorities also scored highly, completing the top half of the priority list.



Which payment capabilities are you planning to implement or improve in 2022?*



* % of survey respondents who selected that option as a payment capability to implement or improve in 2022



A vibrant tropical lagoon scene with crystal-clear turquoise water. In the foreground, a person is swimming away from the viewer. The water is surrounded by dark, jagged limestone cliffs. In the background, a traditional outrigger boat is anchored near the shore, and another smaller boat is visible further back. The overall atmosphere is serene and idyllic.

RETHINK

Improving today's processes

The study revealed several payment processes that travel companies are currently grappling with. In certain cases, the pandemic highlighted the need to rethink how the industry can better manage these areas of the business, with SCA & 3DS 2.0; Fraud & Cyber Security as well as Chargeback Management all key investment areas.

Working through SCA teething issues

Upgrading to new industry standard authentication protocols (3DS 2.0), in order to handle new Strong Customer Authentication (SCA) requirements to increase the security of online payments, remains a major focus across the industry. This is encouraging to see as SCA became mandatory across Europe during March 2022 meaning that all in-scope transactions must now be subject to strong authentication unless they are exempt. Moreover, on 5th April 2022, the European Banking Authority (EBA) published its Final Report on the SCA Regulatory Technical Standards necessary amendments.

Early data shows that SCA seems to be working well, with overall gross levels of e-Commerce card fraud falling by approximately 30% across the EEA since its introduction, according to Mastercard. However, there is still work to be done in travel as the industry doesn't appear to have benefitted to the same degree as other sectors, and for airlines the fraud rate actually increased slightly despite the introduction of more stringent authentication checks.

There are also increasing signs that issuing banks are no longer prepared to accept fraud liability for in-scope transactions that haven't been subject to SCA. Throughout the course of 2021, hard declines of such transactions rose to 15.2% in December, from less than 10% at the beginning of the year, as issuers tightened their positions. The implication is that for any travel company still unable to apply 3DS 2.0 and without an SCA strategy, your business may soon be impacted.

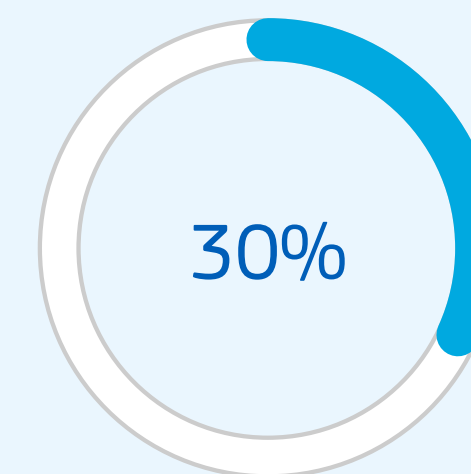




RETHINK: Working through SCA teething issues

The travel industry is also affected by problems applying the Transaction Risk Analysis (TRA) exemption to payments over €100, meaning more payments fall in-scope of SCA than really need to. For example, in the UK, TRA was used to ensure 90% of payments could proceed without challenge prior to SCA, but this number has now fallen to around 70%. Similarly, SCA success rates are much lower for in-app than browser-based purchases because users are forced to manually navigate away from the app to perform SCA. Fortunately, the card schemes are working on new features to address both these issues in the near future.

However, to date, fears of a cliff edge with large-scale issuer declines of payments where SCA isn't performed haven't come to pass. The travel industry, with its more complex authentication scenarios involving sales through third parties and higher than average Card Not Present transactions, was previously viewed as the sector most likely to suffer interruption to commerce due to the change. In fact, authentication success and approval rates are now at the same level as before SCA was introduced.



Since SCA's introduction, overall gross levels of e-Commerce card fraud are falling by approx. 30% across the EEA

Tackling the chargeback challenge

A chargeback is the formal process initiated when a cardholder disputes a transaction – often leading to the cardholder being reimbursed directly by their issuing bank that obtains the funds from the merchant's acquirer, by way of the card schemes.

High levels of disruption and strained industry refund processes have led to significant growth in chargebacks during the past two years. According to this study, 70% of travel businesses saw a significant increase in chargebacks with this form of dispute increasing by 50% during the pandemic in 2021 when compared to 2019 averages, and by more than 100% for a significant minority of travel companies (20%).

This led one in three firms to increase headcount to manually process chargebacks during the pandemic, a period where operational roles were often being reduced. Around a quarter of respondents admitted that their companies can't handle the increased burden and are currently unable to respond to or challenge chargebacks, effectively paying out on every occasion whether they are liable or not.

This should be of particular concern when chargeback management firm Chargebacks 911 estimates that around two-thirds of all chargebacks are actually 'friendly fraud', where merchants shouldn't be held liable. Friendly fraud occurs when a customer makes a purchase with a credit or debit card and then disputes the charge with their bank, despite the fact that they don't have a legitimate reason to do so. There have been reports of travelers submitting chargebacks in situations where they haven't received the signature cocktail during a flight or when the flight was 'unreasonably turbulent'. When Thomas Cook fell into administration in 2019 and travelers were repatriated on charter flights, some passengers submitted chargebacks because the aircraft model differed from their originally scheduled aircraft.





The goal is to reduce the estimated \$190 average cost for handling a chargeback

With this study suggesting that chargeback levels remain elevated even now as more travelers have become aware of the option, it's important the industry is able to better automate the dispute resolution process. The goal is to reduce the estimated \$190 average cost for handling a chargeback, whilst also being able to effectively challenge instances of friendly fraud and quickly settle legitimate disputes.

One way the industry is working to rethink chargebacks is through automation powered by improved information visibility. Often the key to swiftly concluding a dispute is transparent access to information – was the flight delayed? By making certain information more visible via APIs, e.g. booking and payments information, there's an opportunity to automate and significantly improve this increasingly important back-office function.



REBUILD

Capturing near-term opportunities

In addition to rethinking today's processes, this study also suggests that travel companies are investing now to add new fintech capabilities that improve the traveler experience and capture the ongoing rebound in travel spend. Large numbers of firms are betting on capabilities like Payments in NDC; Buy Now Pay Later and Multi-Currency Pricing according to the survey.

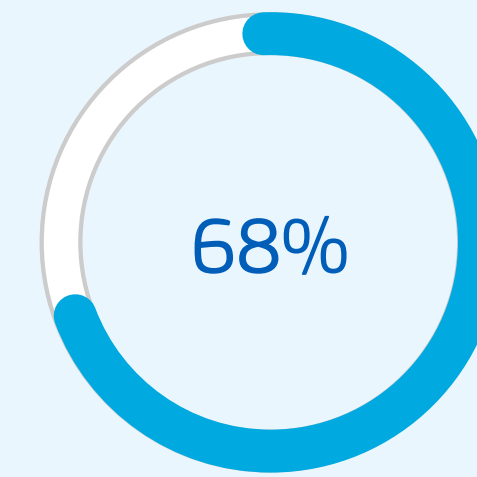
Buy Now Pay Later: the new standard in travel?

Offering travelers the option to pay for travel in a series of installments based on a rapid credit assessment is quickly becoming the norm in travel. Buy Now Pay Later (BNPL) is already a widely accepted payment solution in other sectors with data showing that by 2024 around 10% of all e-Commerce sales in the US will be made using BNPL, up 300% since 2018.

This new payment solution is particularly well suited to travel which has a high average basket size representing a significant up-front investment on the part of the traveler. Of course, travel companies aren't banks and assessing credit-risk is a complicated task, so specialist providers have gained significant traction by offering plug-and-play BNPL capabilities for the sector.

Not only do these specialist providers assess the traveler's credit score, and therefore ability to pay the installments, but they may also offer models where they assume the consumer default risk as well as providing the fare to the merchant at the time of booking.





said they would be likely to spend more overall on their trip if BNPL was offered

There are several scenarios where travelers choose to use BNPL. Imagine a couple deciding to upgrade to a business class experience for their honeymoon by spreading the cost across 12 monthly installments for a one-off fee at the time of booking. In addition, there is also evidence that many travelers who can afford the initial up-front cost still choose to spread the payments to preserve their free cashflow. In cases of emergency, such as a trip to see family, BNPL can facilitate a trip that otherwise might not have been possible.

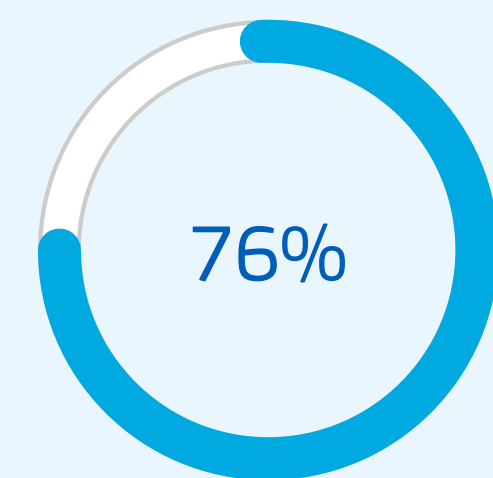
For travel companies, BNPL helps to improve the traveler's booking and payment experience whilst increasing conversion and boosting ancillary revenue opportunities. According to Amadeus' Pay When You Fly research¹, 49% of 5,000 travelers surveyed said they would be more likely to book an airline ancillary service and 68% said they would be likely to spend more overall on their trip if BNPL was offered. As we continue through 2022, it appears that BNPL is likely to become a de-facto payment option offered alongside other card-based or alternative payment solutions.

¹ <https://amadeus.com/en/insights/research-report/pay-when-you-fly>

Multi-currency pricing: The end to unexpected FX charges

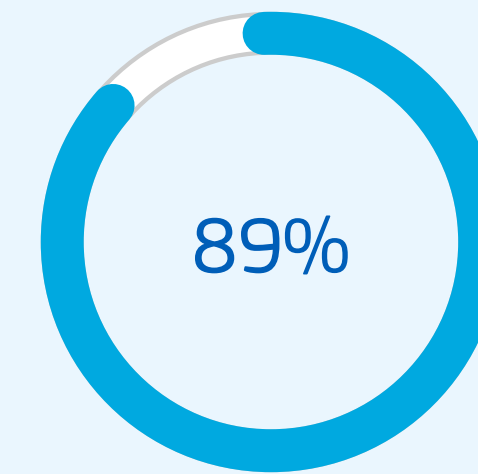
A priority for around a third of travel companies this year is the pricing of services in multiple currencies. Today, if travelers book a flight or travel package using a non-native website it's highly likely they are presented with the price in a foreign currency that's unfamiliar to them. This can lead to anxiety, basket abandonment and also forces travelers to navigate away from the page while they use sites to manually convert the price.

According to a recent Amadeus study, more than a third of respondents have paid between 3-10% of the total cost of a flight to make the payment in their own currency, with 14% having been charged more than 10% of the total flight cost. The vast majority of travelers (76%) reported unexpected foreign exchange (FX) charges when purchasing a flight.



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of travelers would select one airline over another if given the option to pay in their preferred currency

Using a dummy airline website, Amadeus worked with psychological research firm Innovation-bubble to study travelers' conscious and subconscious reactions to different levels of FX fees. According to the research, travelers begin to notice FX fees when they reach 3% of the total ticket price, with 'alarm bells' beginning to ring as the fee approaches the psychologically important threshold of 5%.

That's why a growing number of travel companies are interested in simplifying this experience by presenting their services in a currency the customer understands. Multi-currency pricing, whereby the traveler can select their preferred currency to settle the payment on the airline's website, also allows the travel company to assume greater control over the foreign exchange transactions to which its customers are exposed.

For example, rather than a financial intermediary completing an FX transaction and adding its own conversion spread (which is often only apparent to the traveler when they receive their bank statement), the travel company can work with an FX provider to enable the traveler to pay in their native currency, with greater transparency of the FX cost provided. This drastically improves the transparency and convenience of the traveler's shopping experience and also allows airlines to gain traveler trust and loyalty, which can be a big differentiator. The same Amadeus study confirmed that when all other factors are equal, 89% of travelers would select one airline over another if given the option to pay in their preferred currency.



RENEW

The future of travel fintech

In addition to the capabilities travel companies are embracing today, fintech also presents longer-term strategic opportunities.

At Amadeus, we expect travel and fintech to become more deeply intertwined as travel companies begin to offer regulated financial products that play to the loyalty advantage travel brands have established over many years.

If you consider that the Air Asia Group recently rebranded to 'Capital A' to better reflect its mission to become a diversified 'digital travel and lifestyle group', it's clear many innovators in our industry see the potential. In fact, ¹Capital A is targeting 50% of its revenues from non-aeronautical services as soon as 2026 and fintech plays a major role.

The company ²recently raised \$100m for its digital challenger bank 'BigPay' that offers debit cards, money transfers and insurance products with plans to launch credit and savings offerings targeted at SMEs. According to Google trends, ³BigPay is already the most searched for digital bank in Malaysia.

And the list of examples just keeps growing. ⁴Booking.com recently hired 400 experts for its newly created fintech division with a view to simplifying the payment experience across its brands. And with OTA innovator ⁵Hopper recently revealing that travelers buy 1.7 of its fintech ancillaries on average, representing an additional \$42 spend on top of the average \$355 flight purchase, it's clear that some of the brightest travel leaders are investing heavily in the coming together of travel and fintech.

At Amadeus, we are particularly interested in the embedded finance trend, where a regulated entity makes it simple for both travel providers and their customers to access and use branded financial services without the complexity of securing a banking license or meeting regulatory requirements, like KYC (Know Your Customer) checks, as applicable.

¹ https://capitala.airasia.com/misc/agm_deck_28062020.pdf

² <https://www.fintechfutures.com/2021/08/malaysian-challenger-bigpay-raises-100m-to-fund-asian-expansion/>

³ <https://newsroom.airasia.com/news/bigpay-ranked-as-the-most-searched-for-digital-bank-in-malaysia>

⁴ <https://www.finextra.com/pressarticle/88432/bookingcom-creates-fintech-unit>

⁵ <https://www.hotelnewsresource.com/article119010.html>





RENEW: The future of travel fintech

But the coming opportunity extends beyond the retailing of fintech. As new digital identity technologies come online, such as Amadeus' own Traveler ID service, we see an opportunity to deliver an invisible payment experience across every step of the traveler journey.

Imagine a traveler arriving at the airport and identifying herself using biometrics at the kiosk. If she then decides to buy fast-track security and lounge access – both can be paid for simply by presenting her face at the kiosk.

In this scenario, the traveler's face becomes her boarding pass, passport and payment method in one digital proof. When arriving at the destination airport, the traveler picks up her car rental and is able to collect the keys by presenting her face at a vending machine. After all, it's a token for her passport and booking, so why not also her driving license?

At the hotel, the guest can use biometrics to check in, to open the door to her room and even to access and pay for additional services like the gym or pool. Next time the traveler plans a trip, she identifies herself via the airline or agent's app using Face ID on her smartphone and the payment experience is 'invisible' when she purchases her next trip.

With identity stored on the traveler's phone – either white-label as part of an airline app, or within Apple Wallet – travel companies can also reduce compliance risk as they no longer need to store as much sensitive passenger data.

At Amadeus, we view payments as more than a standalone component. It's essential to the overall traveler experience, and the future we're investing in includes invisible payments at every step of the traveler's journey.

For more information on our solutions visit [amadeus.com](https://www.amadeus.com)

About the research

The Travel fintech investment trends research was conducted in Q1 2022 using an online survey that was completed by senior leaders at more than 70 large airlines and travel agencies. 60% of respondents represent travel companies with annual revenue in excess of €1B and a further 40% were drawn from companies with annual revenue over €500m.

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