

**T2<sup>®</sup>**  
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# From Distribution to Payment

February 2023

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## THE FACTS

At the start of the year Amadeus launched the spin-off of its payments division into the company Outpayce<sup>1</sup> which has applied to the Bank of Spain for an eMoney license. It stated that if the license is granted it will focus on several payment initiatives, firstly *'pre-paid virtual card issuing within its B2B Wallet solution, which travel agencies use to pay travel providers such as airlines and hotels.'*

At the end of November, Sabre<sup>2</sup> announced the purchase of the company Conferma Pay in August 2022 as well as a recent partnership with Mastercard. It also hopes to offer virtual cards within the travel industry with the goal *'to accelerate the use of virtual cards for business-to-business (B2B) travel payments.'* It also stated that as part of the agreement *'Mastercard will make a minority investment in Conferma Pay,'* which will be subject to closing conditions.

## THE ANALYSIS


Airlines are currently at a pivotal point of transition to an Offer-Order-Settle-Deliver environment. Although technology companies in the industry have made headway in recent times with regard to Offer and some progress on Order, the modernisation of Settle and Deliver are still a way off.

In the area of 'Settle' in particular there are many antiquated processes and technologies that are in dire need of update, particularly with regard to B2B payments between airlines and between airlines and other partners.

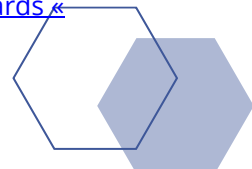
The move to distribution modernisation means that airline, GDS and travel agency payment and settlement processes will need to evolve as airlines push for more sales through NDC connections and hope to manage payments from and to a wider network of partners.

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<sup>1</sup> <https://amadeus.com/en/insights/press-release/amadeus-applies-emoney-license-payments-becomes-outpayce>

<sup>2</sup> [Sabre, Conferma Pay and Mastercard Join Forces to Power the Travel Economy with Virtual Cards](#) 

[Sabre](#)  
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As a consequence of this modernisation GDSs are also facing a decline in income as airlines push for cheaper distribution fees linked to NDC. This leaves the GDSs with the need to seek additional revenue streams. Amadeus and Sabre already offer technology services to airlines and other travel industry players and payment is an adjacent “vertical” that could provide additional revenue opportunities. It also complements both companies’ existing distribution and technology verticals. At the same time legislation being brought in by government bodies to fight fraud, such as PSD2 strong customer authentication, is making it more complicated to process B2B payments.

Payments within the airline industry is a complicated area that tends to be under-resourced. As a consequence, many airlines struggle to understand the associated opportunities and risks.

The majority of B2B airline payments via accredited travel agencies are currently handled by BSP and ARC, the ticketing settlement organisations that are held and regulated by IATA and nine US based airlines respectively. These industry bodies also accredit travel agencies to sell airline products around the globe. Reporting on agency ticketed transactions is a major part of their service offering.

From an airline standpoint, settlement via BSP and ARC is often the preferred method to deal with agency payments. These bodies generally offer an acceptable level of risk at a favourable cost. This can, of course, differ from market to market and different airlines may take a different view of risk versus cost even within the same market. Other forms of payment that are currently popular between airlines and agencies include agency credit cards, customer credit cards, virtual cards and IATA Easy pay.

Travel agencies, on the other hand, have different needs<sup>3</sup>. Agencies need to offer a smooth, secure payment process on the front end to the traveller whilst concealing the need to reconcile with multiple suppliers in the back end. Services often include products from several different providers in one sale. Agencies also need to be able to offer credit to service their customers.

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<sup>3</sup> <https://upintheair.aero/wp-content/uploads/2022/08/Up-in-the-Air-Infographics-Scorecard-B2B.jpeg>  
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The GDSs are banking on virtual credit cards (VCCs/VCNs) as an attractive solution for the agency. Each virtual card has an individual number that can be used once and reconciled back to separate travel suppliers, fitting in with an agency's current back-office processes. They can also be linked with financing options and would, perhaps more importantly, offer a rebate back to the agency. The providers typically charge a fee of around 2-3% to the supplier each time a virtual card is used. Some of this fee may be shared with the agency in a model which will be very familiar to followers of the GDS industry.

According to Paul Van Alfen at Up in the Air Travel Payment Consultancy, it seems that Amadeus and Sabre are taking different approaches to this opportunity. *'By expanding their role in the payment value chain, the GDS's are looking for new revenue streams. This is already done by, for example, offering sophisticated B2B payment orchestration to agencies, solutions that help optimizing and streamlining the selection of pay-out products based on eg. country, currency, pricing/rebate, cashflow and protection provided against airline insolvencies. By moving further up the chain and becoming a virtual card issuer, Amadeus will earn revenue from the Interchange component of the merchant service fees, charged by the acquirers to the airlines, giving access to a significant bigger slice of the pie.'*

Conversely Travelport is exiting the payments business, having finalised the sale of its payment arm eNett to Wex, a company that specialises in B2B payments across a wide variety of industries at the end of 2020 for a reported \$577.5 million.<sup>4</sup>

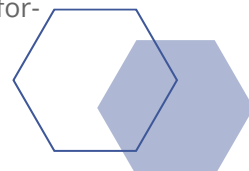
## THE SPECULATION

It is clear that payment is an area that is seeing a lot of innovation.

Currently, the benefits of using Virtual Credit Cards appear more in favour of the travel agency than the airline. However, there may be certain airlines, markets and use cases where using VCCs makes sense. Virtual card payment solutions can allow for

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<sup>4</sup> <https://www.travolution.com/news/travel-sectors/air/wex-and-travelport-agree-577-5m-deal-for-payments-tech-division-enett/>  
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integration into TMC back-office systems, which in turn means that agencies and their corporate customers could benefit from better quality data for spend analysis. This could lead to improved financial control. Together with the reduction in fraud and additional rebates there is a clear advantage for agencies to use VCCs instead of BSP/ARC.

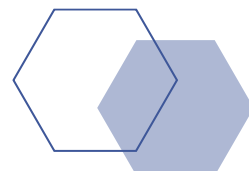
Some airlines will want TMCs and travel agencies to move towards Open Banking, where costs for the airline may be cheaper and in certain markets may be the preferred method of payment by consumers. However, the benefits and incentives for TMCs and travel agencies to use other forms of payment such as VCCs may be stronger. Travel agencies may be more incentivised to push their 'high value' customers through VCC payments as they will receive a kickback from the VCC provider, that partially offsets their costs for processing the pay-in from the end customer.

In effect, it would seem Amadeus and, to some extent, Sabre are taking their classic middleman approach and hoping to create another 'two-sided business model' between travel agencies and suppliers, taking a cut along the way.

However, airlines also have ambitions of becoming retailers. To this effect they will need to be able to sell other partners' products and therefore could see a stronger benefit in using the VCC model. There may also be some benefit for airlines to use VCCs with new sellers of airline tickets, as a safe and secure way to sell seats to a wider audience other than IATA/ARC credited agencies, but this of course comes with its own risks.

Airlines need to be aware of VCCs and in which instances it would benefit them to accept this additional form of payment, especially if they grow in importance as a result of being pushed by the GDSs.

Payment is often an area where airlines lack expertise but it is becoming increasingly important to better understand the risks and opportunities.





*T2RL Travel Technology Research Ltd is an independent sourcing and research company that specializes in airline technology and distribution. Based on data since the year 2000 it has tracked industry trends for airlines as well as their IT providers, distribution partners, and customers. All parties use its research to make informed business decisions to meet current and future needs. For further information, visit our website at [www.t2rl.com](http://www.t2rl.com).*

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