

Visa International Best Practices Guides

Airline Acquiring



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Airline Acquiring Best Practices Guide

Introduction

The airline-acquiring environment can be complex, risky and rife with a myriad of technical and business issues. While each country or region may have its own unique problems, there are common issues that can be addressed and corrected. This Best Practices Guide is designed to set out the major features of airline Visa payments commonly encountered in most markets. It illustrates how each challenge can affect the Acquirer, and offers suggestions on how to meet them. In order to manage considerable financial liability and process costs, Acquirers must exercise due diligence prior to signing with airlines and understand all the ramifications of airline acquiring.

Background

Acquiring airline Visa card payments presents many unique challenges. One of the most striking characteristics about airline transactions is the large variety of transaction types. Some of the typical challenges facing the airline Acquirer are:

- Airlines are truly global merchants. Large airlines generally have integrated back offices that process Visa transactions from all countries in a small number of locations.
- Airlines may be acquired cross-border. Frequently the airline Acquirer is in a different country to the merchant location.
- Airlines are large companies, with significant bargaining power, putting pressure on margins.
- Airlines have high fixed costs, and operate with low margins, which increases their credit risk.
- Multiple distribution channels are used in order to sell airline services.
- The airline may or may not be the merchant for the sale of an airline ticket.
- Airline tickets are typically bought well in advance.
- Transaction size is large.
- Transaction flows are important to understand as they affect several important Acquirer activities - ranging from IT work to Merchant Discount Fee pricing.
- Several third parties can be involved in the authorization and settlement process.
- Settlement message can reach the Acquirer weeks after the sale has taken place.
- Unique data requirements often exist.

This best practices guide is designed to set out the major issues facing the Acquirer of airline transactions, explain the implications to the Acquirer and offer best practices in dealing with each issue. There are a wide variety of situations that can be adverse to Acquirers, and Acquirers must deal with each situation and airline individually. Therefore this document is not a comprehensive guide on how to acquire airlines, but is designed to

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alert the Acquirer to the major considerations in airline Acquiring and offer suggestions for dealing with each situation.

I. Airline Visa Sales Process

This section introduces the airline transaction and explains how the airline transaction is unique. The following four major subsections are:

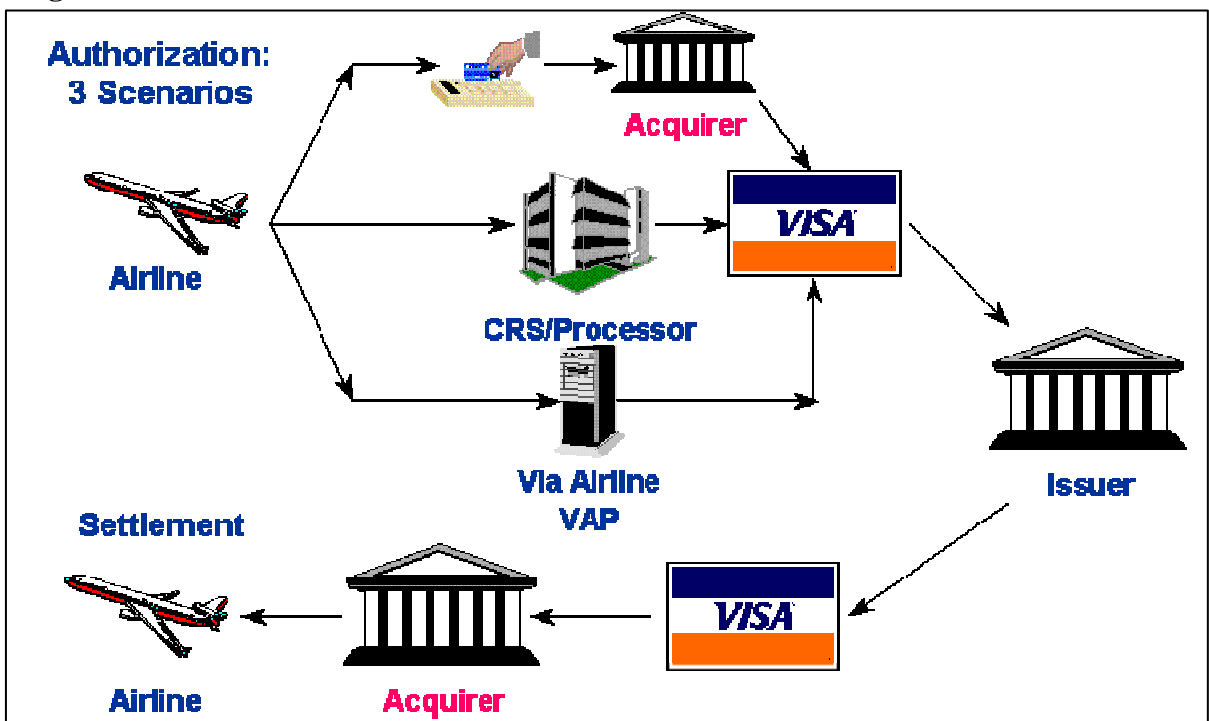
- Major sales channels,
- Unique features of each channel relevant to the Acquirer
- Role of major third parties in the airline Visa transaction
- Prepayment aspect of airline acquiring

The Channels

Airline sales are conducted through a large number of different channels. Each of these is explained below.

- **Direct Sales:** Direct sales are handled by the airline itself. Sales methods may include Mail Order or Ticket-by-Mail, Web-site or E-Commerce, Sales Offices owned by the Airline at the Airport Ticket Office (“ATO”) or City Ticket Office (“CTO”). There are also a diverse range of miscellaneous sales, e.g., in-flight duty free sales, excessive baggage, upgrades and annual membership fees for lounges.

Figure 1 - The Direct Sales Transaction Flow



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- **Travel Agencies:** Most airline tickets are sold through travel agents. Depending on the type of transaction or fare type, the airline or the travel agent may be the merchant. There are significant differences in acquiring each merchant type. While there are patterns, there is also significant regional or country specific variation. It is very important that prospective Acquirers understand what fares will have the travel agent, as the merchant and what fares have the airline as the merchant.

Fare Types –

- Travel Agent is Merchant: The travel agent is the merchant for group travel or heavily discounted tickets in most countries. These are generally sold by the airline to agents and wholesalers (called “Consolidators”) at a discount. The travel agent buys these fares, and adds a margin before offering them to the public. The travel agent is also the merchant for **Net Fares** in many countries, a fare type for more regular tickets, but where the travel agent also sells the airlines tickets on its own behalf and sets the retail price.
- Airline is Merchant: Many tickets are sold on behalf of the airline, with the travel agent often receiving a commission payment or ticketing fee from the airline. The travel agent is acting as a pure agent for the airline, and has little influence over the pricing of the ticket. Such fares are called **Published Fares** in many countries, and the *airline is the merchant* in the transaction. In some countries the airline is also the merchant for **Net Fares**.

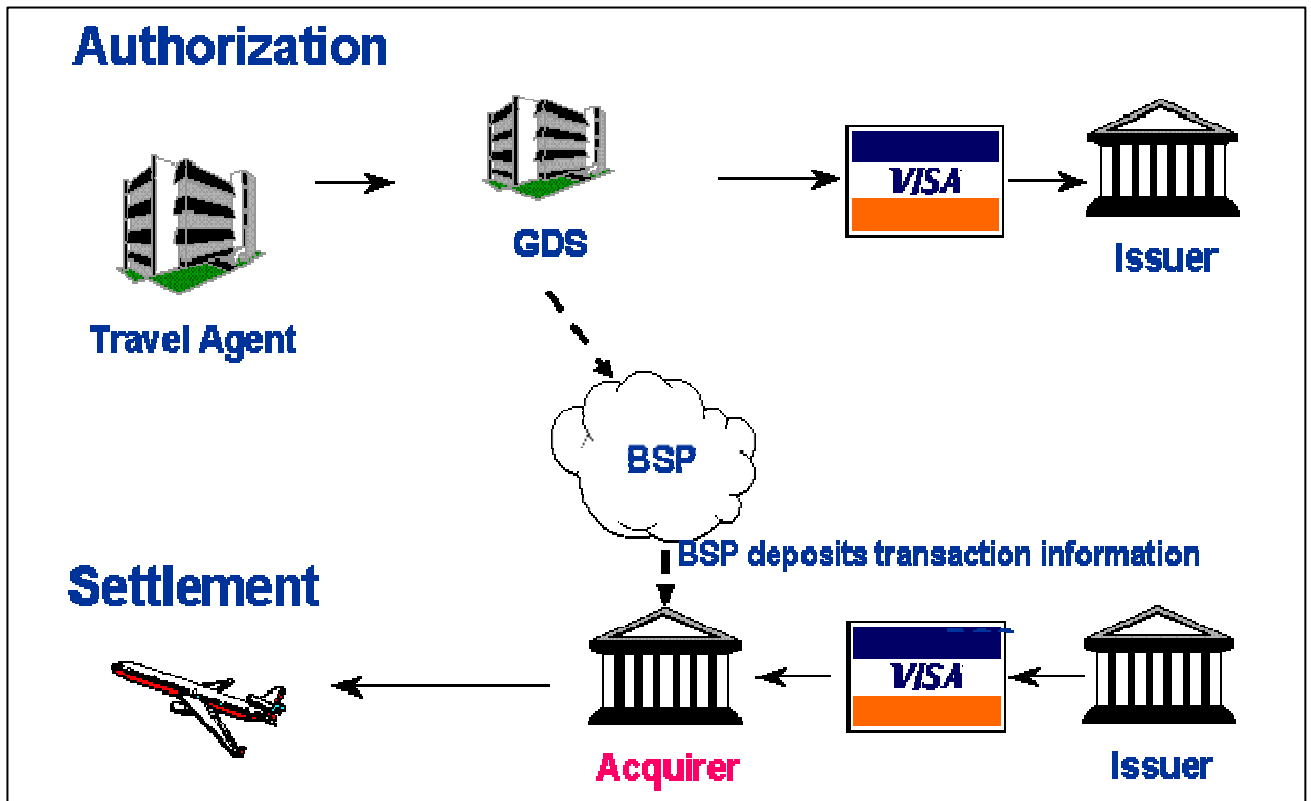
Regional note: In some Asia-Pacific countries, a hybrid transaction exists called Net Remit Credit Card (‘NRCC’). This is an extremely unique transaction in that there are two merchants. The airline is the merchant for the wholesale airfare while the travel agent is the merchant for the mark-up amount (the difference between the wholesale air fare and the retail price). The Merchant Category Code will be that of the airline.

It is important to note that this guide only deals with transactions where the airline is the merchant to the transaction, and the discussion below does not, unless otherwise stated, refer to transactions for which the travel agent is the merchant.

Travel Agent sales may be face-to-face transactions, telephone or Internet (card not present)

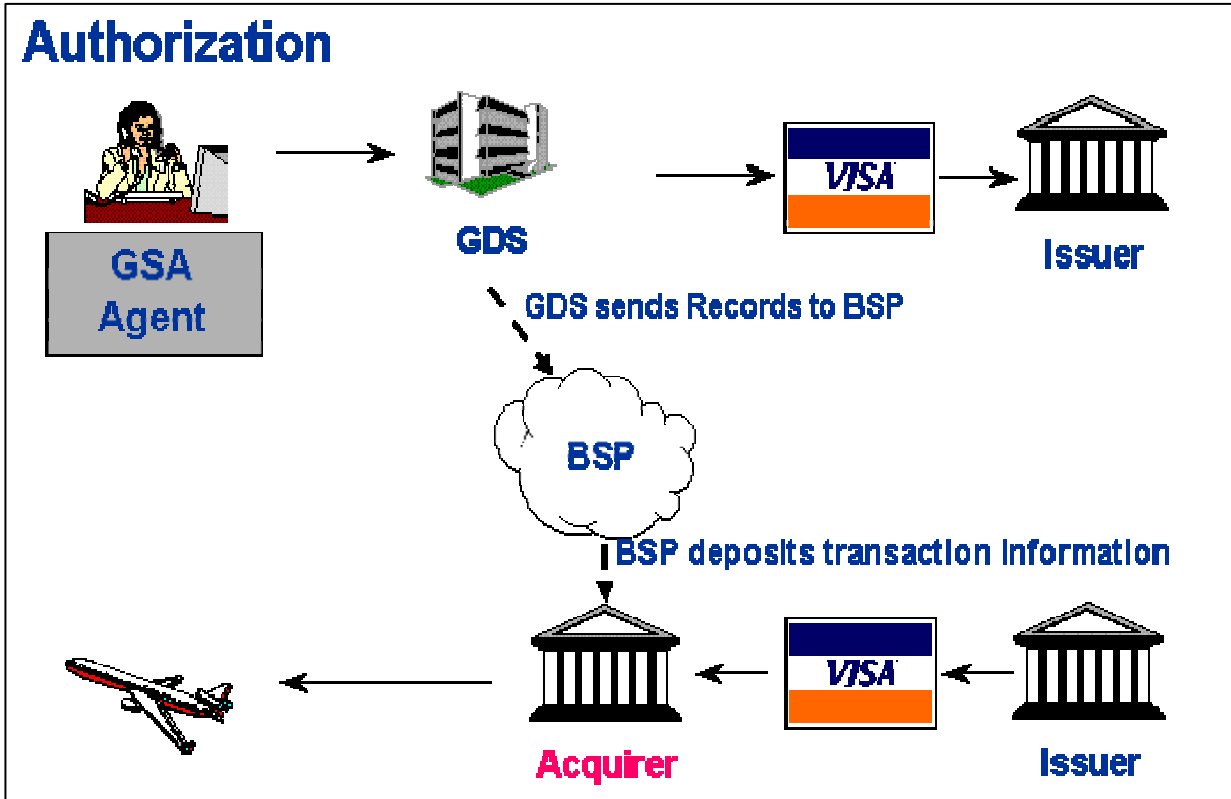
This Travel Agent Transaction Flow is illustrated in Figure 2 below.

Figure 2 – Visa Transaction Flow, Travel Agency Sale (Airline is Merchant)



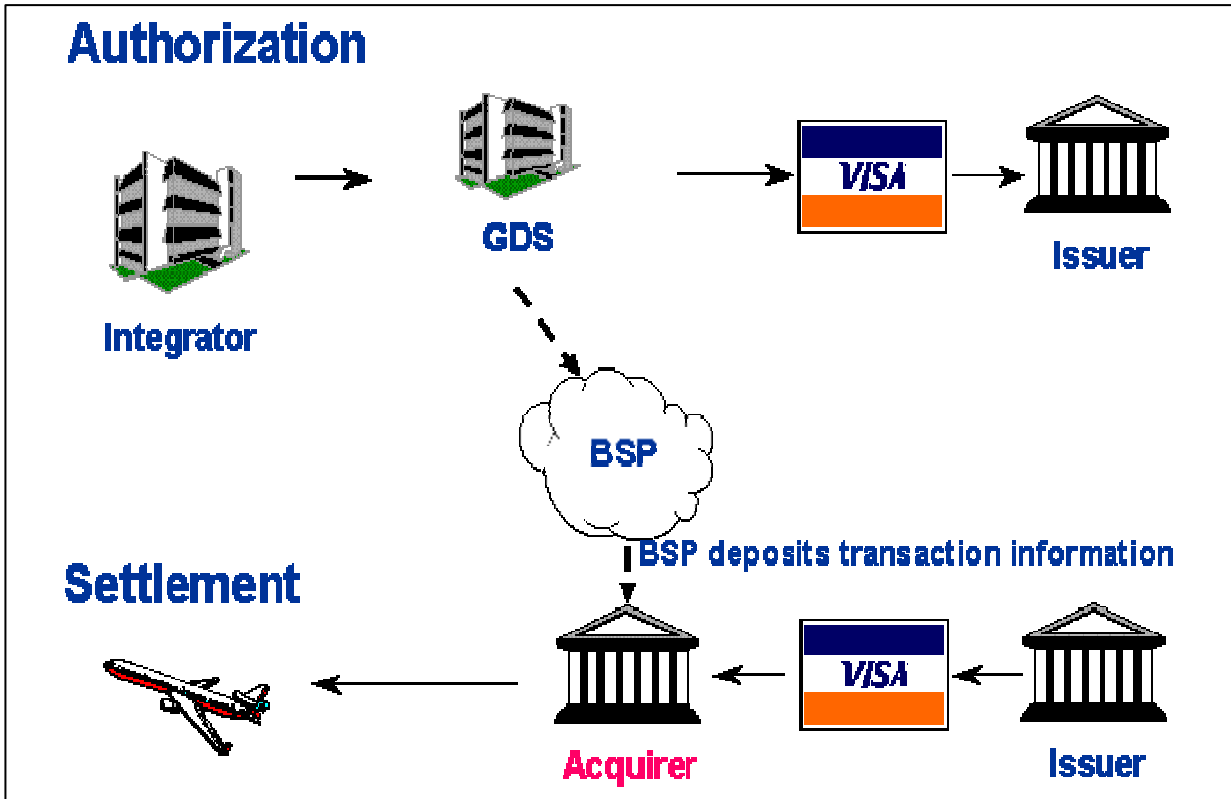
- **General Sales Agents (GSAs)** are third party vendors contracted to sell services by the airline, generally substituting as the airline’s sales office in countries of low volume. A GSA will sell airline services face-to-face, or through the Internet (card not present) to parties in various countries. Sales originated by GSAs may be manual or paper-based and originate in multiple currencies. (See Figure 3: GSA Transaction Flow). The merchant to the transaction will typically be the airline.

Figure 3 – Visa Transaction Flow, General Sales Agency Sales (Airline is Merchant)



- **Integrator Sales:** These may originate from third party travel companies like **Travelocity, Expedia, Priceline, Airplus, or Orbitz**. Sales originating at these sources are often handled like a travel agent. The reporting and billing of sales from these sources are handled through a Global Distribution System (GDS - see below explanation) with which they have a contract. Sales can be from numerous countries and in multiple currencies. (See Figure 4).

Figure 4 – Integrator Sales – Visa Transaction Flow (Airline is Merchant)



Visa Transaction in Each Channel

The channel will greatly affect how Visa transactions are processed. The major features of each channel type are described below.

Travel Agent is the Merchant

- **Travel Agent Sales** –while the travel agent will typically use a GDS to book and ticket the sale, the credit card transaction is typically handled through a Point-of-Sale Terminal. The way Visa transactions are handled by the Travel Agent is similar to the way most retailers would handle the transaction.

Airline is the Merchant

- **Direct sales** activity is originated by an airline and not a third party source. These are commonly through point of sale terminals or airline integrated sales systems. Airlines in some countries, especially the United States, utilize **Computer Reservation Systems (CRS)** or **Global Distribution Systems (GDS)** to handle reservation, authorization, accounting, reporting, and billing of sales transactions. A CRS is typically a proprietary system owned and designed by the individual

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airline. Some airlines sub-contract handling of direct sales and seat management to a GDS, whose role is described in detail below. (Note: the terms GDS and CRS can be used synonymously, but are used in this document as per the definition found in the glossary.)

- **Travel Agent and Integrator Sales** typically are consolidated, formatted, and authorized through an automated GDS.

Travel Agents and Integrators will almost always use the services of an electronic GDS to process Visa transactions – keying the Visa account number into the GDS system when the airline is the merchant. The Visa authorization is generally directly through a GDS using its own Visa Access Point (see glossary) or a VAP made available through a Visa Member. GDS hands the reservation file containing Visa numbers to the Billing Settlement Plan ('BSP'). The BSP has a designated processor, which then passes the settlement file to the Acquirer. There are well over sixty (60) BSPs operating worldwide, which are increasingly consolidating airline transactions geographically.

Regional Note: In USA, the GDS hands the file to Airline Reporting Company ('ARC') which functions in a similar manner to the BSP.

Regional Note: For NRCC fares, the transactions of the two merchants (travel agent and airline) are handled by the GDS and BSP. The BSP's processor passes the settlement file to the Acquirer.

Regional Note: In some countries the BSP passes the settlement file to the airline, which then passes the file to the Acquirer.

In a small number of cases, the travel agent has a direct reporting relationship to the airline. In that case, the airline will include those sales with its Direct Sales file transmission.

- **General Sales Agents (GSA)** submit sales drafts directly to airlines on a weekly or monthly basis. Sales drafts are typically paper-based and have been authorized by the GSA via telephone. Sales drafts are then mailed to the airline back-office for billing and accounting. The airline will key the sales drafts into an electronic format supplied by the CRS or GDS. The GSA file will be transmitted to the Acquirer with the airlines Direct Sales. These transactions are often in multiple currencies, so the airline will contract with the Acquirer for the currency in which it wishes these transactions to be settled. In many cases, the airline will use SITA to communicate with the GSA. SITA may directly seek authorization on behalf of the GSA using a sponsored VAP.

To achieve better understanding of the airline transaction process, the following outlines common business practices used by all airlines in selling their services via a Visa card.

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Role of Third Parties in the Airline Visa Payment System

GDS

Who are GDS?

There are four primary Global Distribution Systems ('GDS') providers to the airline and travel agent industries. They are **Amadeus, Galileo, Worldspan, and Sabre**. In addition there are some regional companies, many of which have their processing done by one of the big four. Apollo in the Americas is an example, while Abacus in South East Asia is another.

The Role of the GDS

The GDS companies market their capabilities to travel agents around the world. The GDS will check seat availability against many airlines' inventories. Travel agents contract with GDSs to take reservations and perform other functions such as reporting. They rely on GDSs for authorization of fares where the airline is the merchant. For example, the travel agent enters Visa number into the GDS system. The GDS obtains authorization for either single or multiple tickets using a dedicated VAP. Member banks generally sponsor VAPs. This allows direct access to VisaNet, wherein authorization requests are sent directly to the Issuer. The GDS then hands the PNR file (Passenger Name Record containing credit card billing information) off to the BSP, which then performs settlement calculation and interfaces with the Acquirer. Depending on the country, this may be directly or via the airline.

As pointed out above, airlines typically have taken the responsibility to bill Visa transactions on behalf of travel agents, so the airline contract will include provisions to process these sales and pay the fees associated with them.

Travel agencies that do not contract with GDS providers will submit Visa sales to a Billing Settlement Plan (BSP).

Billing Settlement Plan (BSP)

Who is the BSP?

The Billing Settlement Plan is an organization under the aegis of the International Air Transport Association (IATA), and controlled by the airlines of each country that is responsible for settlement of airline payments.

What Role Does the BSP Play?

The BSP determines amounts to be settled in an airline transaction, handling the Visa transaction, determining how much airlines should pay each other where there is a multi-carrier ticket, and often calculating amounts owed between airlines and travel agents.

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The BSP is generally the entity that deposits Visa transaction records with the Acquirer.

In the credit card process, the GDS hands the settlement file to the BSP, which then either passes this to the Acquirer for settlement or to the airline to pass onto the Acquirer.

The BSP is vital to ensure that multiple airline tickets are settled properly. The merchant will generally be the airline that flies the first leg. The BSP calculates payment between that airline and all other airlines contained in the same ticket.

Regional Note: In the US, ARC, a company run by the Air Transport Association (ATA), is the entity responsible for carrying out the role normally assigned to the BSP.

Third Party Web Sites such as Expedia, Travelocity and Orbitz, are linked to CRS/GDS providers as well. For example, Expedia uses Worldspan, Travelocity uses Sabre and Orbitz uses Galileo. Airline contracts will include the processing of billings from these sites. The CRS/GDS and Acquirer establish file layout and submission requirements for Visa transaction processing.

Prepayment or “Delayed Delivery”

Acquirers should recognize that airline merchants commonly sell access to their services prior to such service being provided. This practice is called a “delayed delivery” or a prepayment of services.

Acquirer Contingent Liability

Delayed delivery transactions create a potential liability for the total value of the sales that have not yet been flown by the airline. Airlines typically account for unflown flight segments as unearned revenue and make provisions for unearned revenue in their accounting statements. Liability to provide service for sales not yet flown rests with the merchant.

Visa Acquirers are financially liable for chargebacks under VIOR. The Acquirer is the Financial Institution whose acquiring BIN was used to enter the transaction(s) into the Visa Interchange Network. In the event of a business cessation of any duration (bankruptcy, strike, government or regulatory authority action), the Acquirer may face a significant liability for chargebacks for non-receipt of service for flight segments unflown and paid for by Visa.

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Average Days Outstanding

The average number of days airline tickets are pre-purchased will vary with the airline and the season. A typical number of days outstanding varies between 15 to 30 days. As individuals tend to buy tickets further in advance of the date of travel than a business, the number of days outstanding will rise before major holiday periods and other typical tourist seasons.

II. Airline Processing Requirements

This section deals with processing requirements of an airline transaction from the Acquirer's perspective.

It gives an overview of the typical requirements of an airline Acquirer or processor. It outlines the cross-border acquiring environment, rare for non-airline merchants outside the EU Region. This section then discusses in more detail processing requirements for:

- Authorization
- Merchant Currency Codes
- Settlement
- Enhanced Data

Overview

As seen above, airlines utilize a broad number of distribution channels and processes to bill credit transactions. Once an Acquirer of Visa transactions is chosen by an airline, third party processors (CRS/GDS and BSPs) are designated by the airline to work with the Acquirer to determine merchant numbers for segmenting sales sources, proper file formats, and timeframes for submission of billing files.

Manual or paper sales drafts are relatively few in numbers, however an Acquirer should be able to key sales drafts provided by the merchant.

The following are typical requirements of an Acquirer by an airline merchant:

- **Authorization** - Familiarity of Visa authorization and settlement file data elements for airline merchants
- **Monitoring** - Ability to monitor for compliance with Visa requirements
- **Processing** - Ability to receive multiple file transmissions from Integrator partners on several different schedules
- **Reconciliation** - Reporting and balancing of daily file submissions by sales source including:
 - Transaction number
 - Sales amounts
 - Refund/Credit activity

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- Chargeback activity
- Visa-rejected items (non-billable)
- **Settlement**
 - Multiple currency sales may be submitted by the carrier
 - Country: – Airline transactions are unusual in that the Visa International Operating Regulations (VIOR) allow airline merchants participating in the International Airline Program to deposit transaction receipts with their Acquirer outside the country where the transaction took place (cross-border acquiring). Many major airlines process Visa transactions from several countries in a single or small number of locations.
 - Timing: – Direct sale transactions generally settle daily. Timing of indirect sales, which settle via the BSP or ARC, will vary by country, ranging from daily to monthly. IATA is working to bring all BSP Visa settlement to daily billing. - *In some countries cash settlement will remain once weekly even when Visa settlement moves to a daily cycle, creating a distinct cash flow advantage for Visa sales.*
 - Settlement capability in multiple currencies may be required (multi-currency processing and settlement or foreign exchange processes need to be in place to properly service larger airlines).
- **Expense Management** – Given the unique airline processing environment, Acquirers should be careful to:
 - Monitor data transmission by source to ensure the best Interchange rates are being obtained.
 - Monitor data by sales source to assist an airline in identifying the source of data non-compliance.
 - Copy fulfillment is best served by deploying on-line tools to help advise merchants of requests for copy thus allow them the ability to respond on-line.
 - Chargeback Management is also best served by deploying on-line tools for notification of merchant of Chargeback and giving them the ability to respond on-line.

Cross-Border Acquiring

Visa International Operating Regulations allow for airline merchants to export transactions that originate in one country and have them processed (acquired) in another country. The allowance for this practice has existed through the Visa International Airline Program ('IAP') since 1992.

To qualify, an airline must fly internationally. Airline Acquirers that wish to cross-border acquire must submit a business plan to Visa International for each airline and each country in which cross-border acquiring will take place. This enables Visa to advise Acquirers on local market conditions and cross-border acquiring, and also serves as registration.

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For more details on the rules affecting cross-border acquiring of airline transactions, please refer to the International Airline Program Guide and Visa International Operating Regulations Volume 1, or your local Visa office.

Airlines with or without international flights usually sell tickets in multiple countries, in many more countries than they fly. They will often process payments for all countries from a small number of points, and may chose a single Acquirer for each country or a single Acquirer to cover multiple countries.

While the VIOR allow transactions to be exported from all countries, the local settlement systems or local laws may prevent an overseas Acquirer from exporting domestic Visa transactions. Please consult your local Visa office for details about specific countries of concern.

Transaction Country

Visa rules determine the transaction country by the merchant location where the tickets are sold.

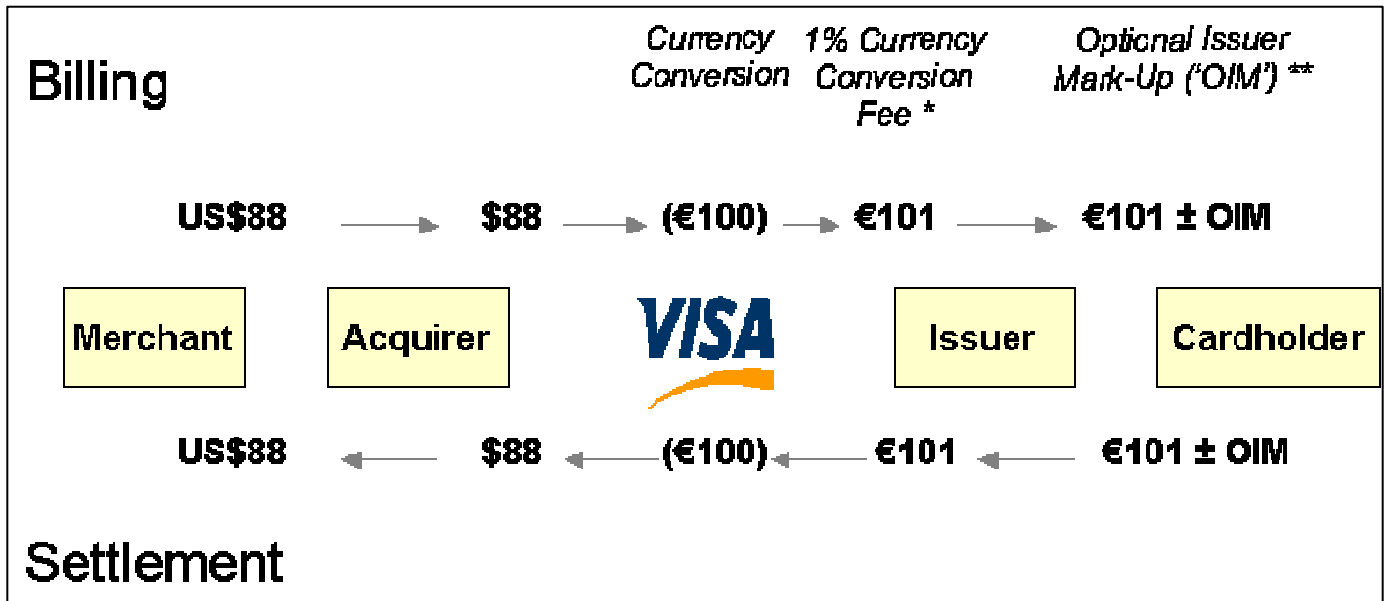
Some examples are set out below to illustrate where the merchant is located and what Operating Regulations (rules) and interchange reimbursement fees would apply:

- *Scenario 1:* Merchant, Acquirer and cardholder are situated in US. Transaction is US domestic. US rules and Interchange Reimbursement Fee ('IRF') rates apply.
- *Scenario 2:* Merchant and cardholder situated in the US, but the Acquirer is situated in UK. Transaction is US domestic. US rules and IRF rates apply.
- *Scenario 3:* Merchant and Acquirer situated in Australia, but the cardholder is in Japan. Transaction is A/P Intra-regional, A-P rules and A-P intra-regional IRF rates apply.
- *Scenario 4:* Merchant is in Australia, cardholder in Japan and Acquirer is in UK. Transaction is A-P Intra-regional. A-P rules and A-P intra-regional IRF rates apply.
- *Scenario 5:* Merchant is in Switzerland, cardholder and Acquirer are in Brazil. Inter-Regional transaction. VIOR rules and Inter-regional IRF rates apply.

Multi-Currency Processing

All airlines selling tickets across borders sell in multiple currencies. Sales information can be submitted for processing via data communications lines to any Acquirer/Processor in the world. The Acquirer must have the ability to process any of the 171+ currencies recognized by Visa and to clear them into BASE II in the original transaction currency. This ensures that cardholder statements reflect the proper currency and chargeback risk is not increased. Visa settles with the Acquirer in their normal settlement currency. Visa International handles conversion of multiple currencies to the Acquirer's currency of settlement.

Figure 5 - Visa multi-currency processing process



Notes to Figure 5

* *1% Currency Conversion Fee subject to exceptions for Intra-Regional transactions*

** *OIM may be added by VisaNet or the Issuer*

Assumptions of Figure 5

- *US Dollar merchant; US Dollar Acquirer Settlement BIN*
- *Euro Cardholder Billing Currency; Euro Issuer Settlement BIN*
- *Currency conversion rate: €1 = \$0.88*

Single Currency Settlement

Airline merchants requiring single currency settlement can have the Acquirer process all transactions through a Center Identification BIN (CIB) and BIN designated in that currency. If the settlement currency is the Acquirer’s normal settlement currency, no special arrangements are needed. If the settlement currency is not the Acquirer’s usual settlement currency, the Acquirer would need to obtain a CIB for the new currency unless it uses a VSS VAP and has been set up for multi-currency settlement. In the VisaNet Settlement Service (VSS) VAP scenario multiple currencies can be settled through a single BIN therefore the need for multiple CIBs is eliminated (contact your local Visa office for multi-currency settlement details).

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Multi-Currency Settlement

Airlines sell tickets in multiple currencies, with US dollars being a preferred currency since fuel and airport fees are usually billed to airlines in US\$ around the world.

Airlines may wish to receive settlement in several key currencies to support their global financial needs. Multi-currency settlement can be provided in two different ways:

1. Foreign exchange trading: - Acquirers may choose to settle with Visa in single currency settlement as described above, then through foreign exchange trading, buy and sell currencies to provide the settlement currencies required by the airline.
 - A. properly run foreign exchange business can be profitable for Acquirers.
However, foreign exchange trading is beyond the scope of this document.
2. Multi-Currency Settlement through Visa: – As mentioned above Visa offers multi-currency settlement through a single BIN for Acquirers that are using VSS VAPs for settlement. Visa currently recognizes sixteen different settlement currencies as provided below in Figure 6.

Figure 6 –Settlement Currencies

Updated as of January 2002 (euro Conversion)	
■ Australian Dollar	■ New Zealand Dollar
■ Canadian Dollar	■ Norwegian Krone
■ Danish Krone	■ Pound Sterling
■ euro	■ South African Rand
■ Hong Kong Dollar	■ Swiss Franc
■ Indian Rupee	■ Swedish Krona
■ Japanese Yen	■ Singapore Dollar
■ Malaysian Ringgit	■ US Dollar

Airlines can choose any or all of the sixteen Visa settlement currencies. It is suggested that Acquirers choosing to settle airline merchant transactions in multiple currencies be prepared to obtain settlement BINs in the currencies requested. Processing transactions that originated in a particular currency and processing them through a BIN in that currency will eliminate the foreign exchange process.

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National Net Settlement Service

Many countries use Visa's National Net Settlement Service (NNSS) to ensure domestic transactions remain within the originating country and are settled between the Issuer and Acquirer in local currency. In order to prevent chargebacks for improperly handling these transactions, airlines should consult with Visa Members and/or Visa Regional offices as to the best way to handle domestic transactions in the following countries: Canada, India, Indonesia, South Korea, Malaysia, Thailand, Sri Lanka, Pakistan, Philippines, Macao, Mauritius, United Arab Emirates, Kenya, Saudi Arabia, Czech Republic, Hungary, Romania, Seychelles, Slovenia, Russia, Poland, Egypt, Zimbabwe, Kazakhstan, Latvia, Croatia, Macedonia, Yugoslavia, Bulgaria, Bosnia & Herzegovina, Bolivia, Brazil, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico (not all Members participate), Organization of Eastern Caribbean States (OECS), Paraguay, Peru, Venezuela, Bahamas, Jamaica, Trinidad, Barbados, Colombia & Chile (only one participating Member), El Salvador, Honduras, Belize, Nicaragua, Cayman Islands (Debit only).

NNSS exists to ensure Members have a way of clearing domestic transactions with distinctive local market criteria's while also allowing them to settle in local currency. Furthermore, NNSS allows Members the benefits of having standard authorization data and settlement information, as well as standardized rules as they adopt Visa regulations.

Authorization

As noted above, many authorizations do not pass through the Acquirer. Many airlines, integrator Value Added Resellers (VARs), and travel agents obtain authorization for credit transactions through their CRS/GDS providers.

GDS Authorizations

Stand Alone VAP

Each CRS/GDS has an electronic link into the Visa network through a VAP coded to its system. The authorization will not pass through the Acquirer when any of the third party authorization providers are used.

SITA VAP

If a VAP is not used, the CRS or GDS may have a link to the SITA network VAP. Authorization service via the SITA VAP can be contracted by an airline CRS or GDS. (See Figure 5: Airline Authorization Transaction Flow.) SITA is a real-time international communication link created and owned by the airlines. SITA acts as a VAP for some GDS providers (Galileo, for example) and handles authorization requests by several minor airlines and for outlying offices of major airlines.

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The Authorization Message – The Nominated Acquirer

The authorization message is unlikely to refer to the Acquirer when provided by a , GDS or SITA for transactions originating outside the USA. The authorization message will typically name SITA or a GDS as the Acquirer, not the actual Acquirer, and the Acquirer BIN will be shown as the BIN belonging to the sponsor of the VAP. Visa International is working to correct this situation but it is not expected to be accomplished in the near term due to the systems requirements this would impose on the third party authorization providers.

Authorization Code

Authorization code will be stored in the Passenger Name Record. Assigning and storing the code is generally an automatic process. However, it is possible for a travel agent to input the Issuer's authorization code manually. In some countries (although rare) this is the principal method of entering the authorization into the PNR. As we all know, manual input is prone to error, so it is the least desirable process.

Manual input generally takes place when there is "multiple transaction sequencing." Multiple transaction sequencing occurs when a CRS/GDS request a single authorization for multiple tickets (multiple tickets for a family traveling together or for a company lodge account) and populating the multiple transaction sequence field. As each ticket is processed as a single transaction, it will result in the same authorization code being used for each ticket composing the multiple transactions.

Methods for an Acquirer to Receive Authorization Information

Records of the authorization number are contained in the electronic file passed to the Acquirer from the BSP. In addition, Acquirers can receive authorization records through regular delivery of TC33 records supported by Visa.

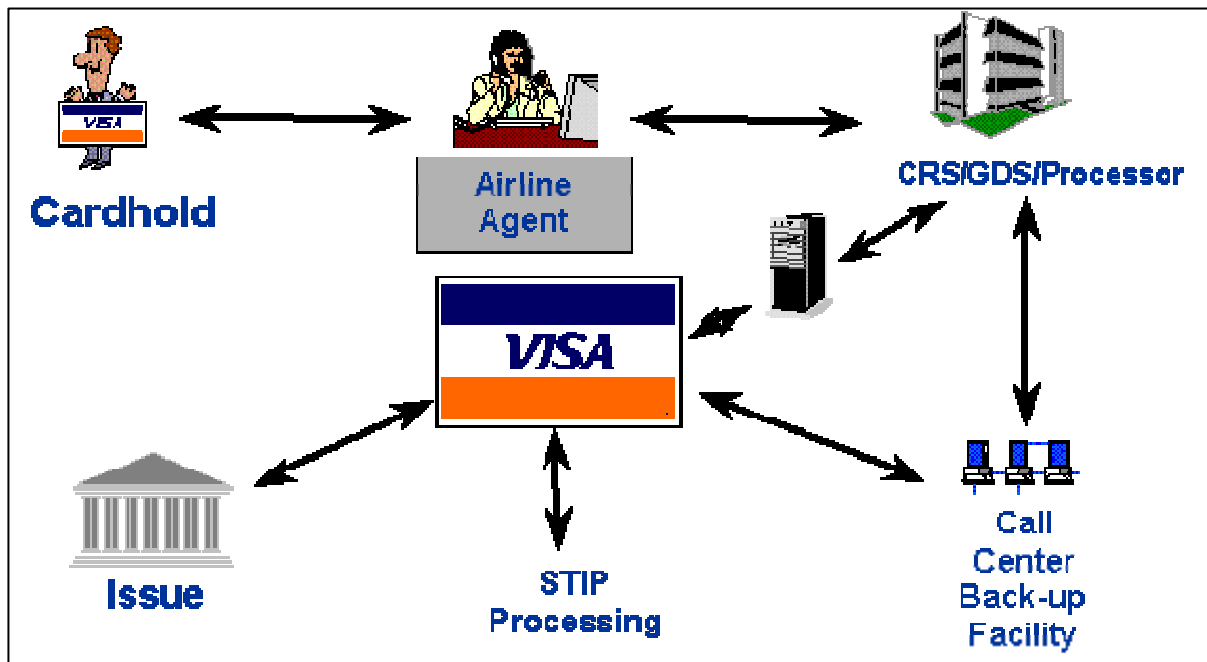
TC33 record is delivered by subscription only. Unfortunately, availability of TC33 will be restricted to the following two situations:

1. At the time of writing, TC33s are not available if the airline uses two Acquirers for its indirect sales (sales made through a travel agent) in the same country. Although a rare occurrence, the reason for this is that there is no way to identify which transactions belong to which Acquirer. However, if all the involved Acquirers in a particular country agree to sign confidentiality agreements, Visa is capable of sending duplicate copies of all TC33s to all of the Acquires in a specific country.
2. Merchant Category Code 4511 airlines cannot receive TC33s, except in countries where there is a single Acquirer of all 4511 airlines.

For more information, on receiving TC33 authorization records, please contact your local Visa office.

The Figure 7 below shows the authorization process in detail in the most typical transaction, where the transaction is handled by a third party (in most instances a travel agent).

Figure 7 – Detailed Map of Authorization Process



Currency of Authorization

While not an error, it should also be noted that authorization is often sought in US\$ using the GDS' exchange rate, rather than the local currency.

Errors in the Authorization Record

For historical reasons, GDS authorization information may contain inaccuracies. Country codes in particular are not always accurately coded.

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Acquirers should work with each airline merchant and its CRS/GDS provider to get accurate and timely authorization data. Since the CRS/GDS provider is used to obtain and capture authorization data, it must be used as the first source for a solution. Acquirers will have no direct contact with the GDS, and should ensure their airline seeks correct data on their behalf. CRS/GDS providers must code their systems to transmit appropriate airline authorization data to the VAP when requesting an authorization. If this is not done, TC33 inaccuracies can occur which affects authorization related Chargebacks and refund credits to merchants.

Authorizations not Controlled by GDS

A small percentage of airline credit transactions are not controlled by a CRS/GDS process. Direct sales of some airlines' tickets are through a point-of-sale device. In-flight sales, Airport Clubs, General Sales Agents (GSAs), and certain remote travel agents process sales via paper. Authorization from these sources is usually obtained via the point-of-sale terminal by calling a local authorization center. While this system is straight-forward, problems do exist. Detailed information regarding the underlying transaction will be difficult to obtain as point-of-sale terminals are usually not capable of transmitting airline specific data, and voice authorizations are prone to human error when giving an appropriate merchant category code (MCC) identifier.

Back Up Authorization

Visa International call centers or local call centers often provide back-up authorization. Telephone authorization is the primary method used if a CRS or GDS is not available electronically.

Merchant Category Codes

As a T&E merchant, major airlines have their own MCC. Acquirers must be able to send that MCC in all VisaNet messages. Airlines that do not have a unique MCC, carry the MCC of 4511.

Enhanced Data

Definition

Enhanced data is passenger itinerary and other information required by commercial cards for reporting to the subscribing company. It is an important element in competing for corporate card volume.

Visa Policy

Most Visa regions have the policy of encouraging or mandating the passing of enhanced data as part of the TC05 clearing record. This affects the processing requirements of the airline Acquirer. Enhanced data may be required to qualify for preferential domestic

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airline interchange rates. The ticket number is required in the last thirteen (13) positions of the merchant name field to qualify for the international airline rate.

Data Source

Enhanced data is available in the BSP file. Most airlines are also capable of making the data available to their Acquirers for both direct and indirect transactions.

Acquirer Requirements

The Acquirer is required to locate required data fields within the incoming record and populate the Visa TC05 message in assigned places.

The most elementary and commonly required enhanced data is the 13 digit airline ticket number. The ticket number is actually slightly longer but surrounded by 0s. It is accommodated in the Visa TC05 in the last 13 places of the merchant name field of the TCR0. In order to accommodate both the merchant name and the ticket number in the same 25-byte name field, it is necessary to truncate the merchant name. Required abbreviations are found in the Appendix C or the Visa International Operating Regulations Volume 1.

In some regions, Acquirers are obliged or encouraged to supply fuller data. The next stage beyond the ticket number is referred to as “Level 2” data – basically the first four legs of travel including certain detail. This is accommodated in the TCR3 of the TC05. Full data, referred to as “Level 3” data is accommodated in TC50s, a message format adapted to the purpose, and sent separately to the TC05. Both the TC05 and the TC50 must contain information to allow matching by the Issuer.

In regions where Level 2 or 3 data is required, Acquirers must be capable of sending the TCR3 and/or the TC50. The data formats of these are set out in the appendix.

For more information on the Visa enhanced data policy in each country, please contact your local Visa office. For more information on enhanced data processing, please refer to the Visa Enhanced Data Service, Member Interface Specification also available from your local Visa office.

III. Acquiring Cost Drivers in Airline Transaction Processing

This section seeks to set out the major costs in Airline Acquiring. The costs of Airline acquiring are typically higher than transaction Acquiring in almost any other industries and it is important that the Acquirer take this into account before entering into a contractual relationship with an airline. Major processes, actions that an Acquirers need take and an indication of the costs of each activity are reviewed below.

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In making pricing decisions and in maximizing efficiency, it is important to understand the major costs and steps that can be taken to reduce them.

Authorization

Since the airline and its CRS/GDS contract are directly responsible for authorization connectivity, the Acquirer may have few direct financial obligations. Acquirers should test settlement files for airline authorization data being populated in the appropriate fields. Also, the Acquirer should be involved with Visa to ensure that VAPs (all VAPs involved in the authorization process for a particular airline) have been coded correctly reflecting the Acquirer's BIN, thus ensuring that the TC33 files are directed properly to the Acquirer. Taking these steps at the time of conversion will help the merchant obtain the best possible interchange rates in the US, as well as reduce Chargeback risk in all countries.

Outside US and UK, CRS/GDS systems do not support certain Visa programs like Address Verification Service (AVS), Verified by Visa (VbV), CVV2 authentication and 3-D Secure, although they are taking steps to incorporate the technology in some regions at the time of writing. Acquirers must understand their level of involvement in implementation, testing and actual use of these systems.

Interfaces to Sales Sources

Airline Direct sales and Travel Agent distribution channels have established billing file formats. Acquirers must be cognizant of the various sources of those files, and be prepared to take timely file feeds from each source and in multiple currencies if required. The scope of work involved is technical in the setup and conversion of file formats to be received. It is also important to understand that the airline must inform all sources that the Acquirer is authorized to receive the appropriate files on the airline's behalf.

Airline Interface

Authorization and transaction files for direct airline transactions will come from a number of sources. The Acquirer must understand the cost of accepting different formats on different schedules, and should try to dictate the format and timing.

The airline merchant and, where applicable, its CRS will consolidate sales activity from its Direct Sales sources usually each day. It is suggested that the Acquirer and merchant work together to keep these files segmented under separate merchant identifier numbers. Ticket sales originating at the airport, city sales offices, telephone reservation and airline-owned web sites should be consistently authorized and include consistent data for processing. The Acquirer should test files at the time of conversion to ensure this occurs.

Airport club sales and in-flight sales are typically transactions for memberships, food and retail products. The airline will require assistance from the Acquirer to automate the authorization and consolidation of these sales often through point-of-sale terminals with a retail software application. The Acquirer should be aware that in-flight sales are

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commonly regarded as high-risk transactions, may not be authorized and therefore pose a higher chargeback risk. Certain transaction limits should be agreed to with the merchant. Also, the daily or periodic transmission of sales data from the terminals must be established with the airline, which will typically request the Acquirer to take direct transmissions from these devices. Reconciliation procedures need be worked out with the airline.

GSA Interface

Manually keyed sales from GSAs are often 30-60 days old when they are received by the airline. The airline will key these sales drafts into an electronic format, which will be submitted by the CRS/GDS to the Acquirer, or passed to the Acquirer in paper. These transactions are usually voice authorized and due to their age, will pose higher chargeback risks, and may obtain poorer interchange qualifications than other CRS/GDS electronic transactions submitted to the Acquirer.

BSP Interface

The settlement file for indirect airline sales through travel agents (i.e., transactions that are generated through a GDS) will be sent by the GDS to the Billing Settlement Plan (BSP). The BSP processor will then transmit billing files to the appropriate Acquirer.

BSPs use a common file format and are capable of transmitting files directly to the Acquirer in this format. Acquirers must ensure their systems are capable of receiving the billing file in this way, as generally this is the most cost effective way for an Acquirer to receive settlement files for multiple airlines or multiple countries. An airline will sometimes insist that files be routed though the airline from the BSP and that the airline itself passes the billing file to the Acquirer. The cost of setting up the interface will vary according to the method of file transmission.

Sales that come through the BSP process are often older than most Acquirers are accustomed (in many cases, BSP settles weekly, a week in arrears, bi-monthly or longer in a few countries). Where the agent does not interface with a GDS, the transactions are manually keyed into a billing format by the BSP.

Enhanced Data

Please refer above for additional detail.

In many countries, the inclusion of the ticket number into the last thirteen (13) positions of the merchant name field is required for all or at least some transactions and may be required to receive the best rate of interchange. In some regions, full passenger itinerary records are required to be sent through Base II.

Several elements should be considered when calculating the expense in delivering enhanced data, including, but not limited to, processing systems development to accept

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and map the data to an appropriate place in the Base II record, communications expense and expanded data storage needs.

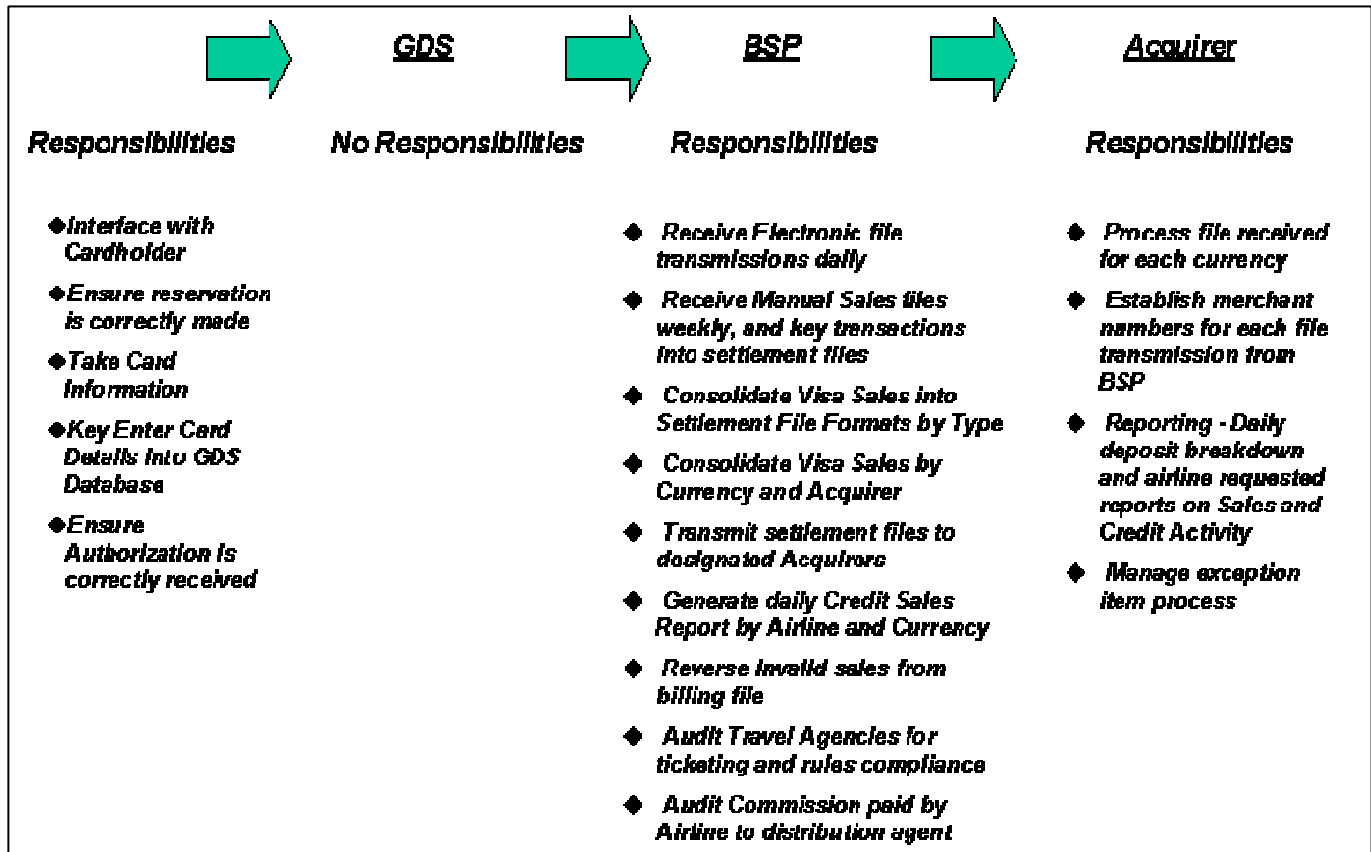
As mentioned before, the passenger name is accommodated in the last thirteen positions of the merchant name field. The expense to map this data into the merchant name field should not be trivialized but is relatively minor compared to other enhanced data requirements. Full itinerary data is carried either on a TCR3 of the TC05 record or on a separate TC50 record, with a link to the underlying transaction record. Few Acquirers are capable of sending this information today, and considerable development work would most certainly be necessary to accommodate these data requirements.

For more information on the needs in the relevant countries, please refer to your local Visa office.

Settlement and Reporting

Airlines book sales by sales source and currency at the time they are reported to them. The CRS will report all sales activity to the airline daily. The BSP will report sales activity periodically. Both sales sources will report sales activity in synch with transmitting billing files to the Acquirer. The airline will anticipate reporting from the Acquirer (deposit and expense breakdown data) in like manner. The important thing to keep in mind is that the merchant needs to identify payment and expense with each sales source. This will assist the airline in identifying where errors exist in point-of-sale procedures, which will minimize chargeback risk and keep a customer satisfied with the airline's service. (See Figure 8: Roles of Parties in Depositing transactions into VisaNet). The amount of information reported to the airline will affect the cost to the Acquirer.

Figure 8 – Roles of Parties in Depositing transactions into VisaNet



As noted above, some airlines will have the BSP file routed to them before handing it onto the Acquirer. In these cases, less information needs to be reported by the Acquirer to the airline. Generally speaking, airlines expect the following information reported regularly:

- Daily deposit data by sales source and currency
- Breakdown of transaction volumes (number and amount)
- Breakdown of Fees by sales source and currency (Interchange and Processing)
- Authorization activity (voice, dial, electronic) if fees are unbundled
- Exception item breakdown by sales source and currency

Reporting and Chargebacks

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Acquirers should consider the cost to support reporting requirements, copy fulfillment, and chargeback volumes.

Building automated support mechanisms to provide these services is a consideration as the Acquirer may be able to work with the merchant and obtain compensation to help them build and pay for the infrastructure. Certain third party software vendors have products that can be evaluated to provide automated capabilities as well. Staff can be added to handle this in a manual environment, however mailing costs, human limitations and training may lead to higher costs in supporting the merchant. Many Acquirers have developed capabilities to provide merchant reporting, chargeback and copy fulfillment requests via a website. Through these facilities the airline is able to download their reports, retrieval requests and chargebacks on a daily basis. The airline is then able to scan supporting documentation off-line and fulfill requests for copies and chargeback rebuttals on a timely basis. Doing so has led to higher customer satisfaction and lower costs in chargebacks and handling paper.

Interchange

Interchange is an Acquirers largest cost. An Acquirer's ability to price its services will largely be determined on how well it qualifies airline transactions for the best interchange rates. Each sales source can be different as variables change such as availability of data, timing of submission, authorization availability and how transactions are entered into BASE II for settlement.

Rates and qualification criteria vary widely by country and Region. The following briefly outlines the four main rates generally available to an Airline Acquirer.

Airline Rate

In some countries transactions may qualify for a lower rate of interchange specific to airlines. Airline rates generally have specific qualification criteria, which may include data and timing. Each Acquirer should be familiar with these variables.

Electronic Rate

Outside the USA, most POS terminal transactions will qualify for the electronic rate. However, as a percentage of all airline transactions very few take place at a point-of-sale terminal.

Standard Rate

Missing data and timing qualifiers will usually revert airline transactions to the highest interchange rate, the standard rate.

Commercial Cards

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Airline transactions have a high propensity to commercial cards (for some airlines as much as 60% of sales volume). Commercial card transactions attract a different, often higher, rate of interchange for all international transactions and for domestic transactions in some countries. Where commercial card rates exist, they take precedence over all other rates.

As noted above, interchange is assessed based on the location of the merchant and cardholder, regardless of where the Acquirer is situated, and will not be affected by whether the transaction is acquired cross-border.

For more specific information on rates, the qualification criteria and the VisaNet edits for each rate, please contact your local Visa office.

Risk Management: After an initial risk analysis is completed, it is prudent to have ongoing reviews of the airline merchant and its processing activity on a regular basis. In order to protect Acquirers from financial loss due to a cessation of business by an airline, Acquirers must be prepared to dedicate resources to monitor some or all of the following:

- Financial health
 - Cash Flow and Liquidity (cash flow is critical to the airline business)
 - Cost components outside of the airline's control
 - Aircraft financing (leases, progress payments on ordered aircraft)
 - Insurance (hull and liability)
 - Fuel (effects of price fluctuations)
 - Current Labor Issues (status of any current negotiations)
- Debt-to-Equity analysis
- Unflown flight liability analysis
 - Create a measure of the airline's average outstanding amount of advance ticket sales
 - Understand refund or credit policies
 - Impact of fare sales and seasonal nature of business will create fluctuations in unflown amount
- Monitor Processed files
 - New locations and currencies
 - Point-of-Sale procedures
 - Data integrity
 - Exception item activity
 - Reason codes of chargeback items should be followed

IV. Merchant Approval Considerations

Airlines are large companies, operating on thin margins and with high fixed costs. It is important that the airline Acquirer carefully consider a wide range of factors before

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committing to a merchant contract. This section sets out the major factors an Acquirer should consider.

Overview

It is recommended that the Acquirer have a formal analysis and approval process for the purpose of determining whether acquiring for a particular airline is financially viable and the business requirements to support the merchant are manageable. A financial analysis of the merchant's business is critical in order to determine its short- and long-term financial viability (See Attachment A: Credit Approval Evaluation Process).

Acquirers risk having to meet chargebacks if the airline ceases flying, if refundable tickets are not redeemable on other airlines, and if the airline does not have the resources to meet its contractual obligations to the Acquirer.

Determining the financial health of an airline is important due to the liability created by its advance sales policy. This creates a contingent liability of millions of dollars in an unsecured environment, which can create a large risk exposure to an Acquirer if not properly managed.

Recommendations:

- A financial review and risk analysis process needs to be established for airline merchant prospects by staff responsible for such matters.
- It may be prudent to prescreen potential or promising merchants in order to help focus sales efforts.
- An internal business process review should be conducted to determine if the Acquirer is able to provide necessary support for the merchant's requirements.
- A committee or an internal review board should be established to review the results of the financial analysis, internal risk assessment, and business capabilities analysis in order to determine whether the Acquirer should move forward in doing business with the airline, or to establish conditions for moving forward.

Other factors to consider:

- Consider each individual merchant's exposure to other areas of your business (lending, credit card programs, treasury management services, etc.). Airline Acquirers are often large financial institutions with large credit lines to airlines from the commercial lending or treasury departments of the bank. If multi-currency settlement is required, consider the exposure from changes in exchange rates.
- What are the total number of delayed delivery clients acquired by your institution and the cumulative financial exposure to the Acquirer of that group as a whole.
- Chargeback-to-sales ratio: as discussed later, airlines can generate high rates of chargebacks, much of which is beyond the control of the Acquirer. Ensure a good understanding of the airline's history in this regard.

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- Operations impact: Supporting airline merchant Visa requirements, reporting, copy fulfillment and chargeback management can be cost and labor intensive.
- Merchant obligation: Airline should provide timely financial data each month to keep Acquirer informed of airline's financial viability (cash flow, liquidity, bond ratings, unflown sales liability). It is important to understand during the evaluation process what data will be available, as well as the timeliness and reliability of the data. Acquirers are strongly recommended to have dedicated personnel to monitor the receipt and evaluation of this data on a fixed and timely basis.
- Advanced sales: Acquirer should be prepared to monitor unflown flight amounts and be able to assess adequate reserve levels as these fluctuate with seasonality, as the economy fluctuates and as the airline's financial health improves and declines.

Reserve or Hold-Back creation:

As part of the merchant agreement the Acquirer should include the ability to impose a method to cover the potential risk of processing airline transactions. Creating a reserve amount or "holding back" funding is common practice among large airline Acquirers. The Acquirer must consider refusing airline merchant processing if the merchant will not provide adequate risk protection for the Acquirer.

Successful airline Acquirers have developed capabilities to calculate and monitor the potential risk of processing airline transactions. Consideration must be given to develop the necessary systemic support to calculate risk amounts, develop and understanding "triggers" that will initiate the creation, increase or decrease of reserve accounts, as well as staffing required for monitoring the merchant's on-going financial performance.

Pricing

In addition to normal consideration of Acquirer preferences as to risk and profit, consideration should be given to the full costs of operational support incurred by the Acquirer for processing an airline merchant. This is outlined in full in the previous section (Section III). For example:

- Relatively low transaction volume
- Relatively high average ticket
- Systemic and human resources required to support and monitor liability of the airline
- Support to monitor financial performance of the airline
- Operational costs of supporting:
 - Reporting and Accounting
 - Multi-currency processing, settlement and BIN requirements
 - Chargeback and exception item processing

V. The Contract

The contract is extremely important to ensure the roles of the Acquirer and airline are clearly set out and to empower the Acquirer to take financial action, if required, to mitigate its risk. This section sets out some of the things that must be agreed with the airline merchant.

Chargebacks

It is vital to clearly set out rules relating to chargebacks to ensure the airline understands all related issues. The bulk of airline sales are not handled directly by the airline but rather are handled by third party processors employed by the airline. Accordingly, it is important that the contract explicitly set out that the Airline be responsible for all chargebacks.

Handling chargebacks for an airline is different than most other merchant segments because the Acquirer may not have airline chargeback information available, e.g., authorization files. The contract should set out the agreed process for handling a chargeback, including time limits within which each party must act.

Finally, handling chargebacks is a cost to the Acquirer, requiring staff time and resources. Large chargeback volumes also increase the Acquirer's contingent liability in case of merchant failure. The contract should include penalties if the chargeback-to-sales ratio exceeds a pre-specified amount and should also allow for taking of reserves (discussed below) at certain chargeback rate triggers.

Information Requirements

In order for the Acquirer to accurately assess the risk of the airline and its contingent liability on an ongoing basis, the contract should oblige the airline to supply required data, and/or grant permission for other parties (such as major creditors and the BSPs) to supply other data required for these assessments to the Acquirer.

Some things to consider include:

- Independent ability to calculate potential risk amount at any given time (can be as high as 45 days of sales activity before providing service).
- Ability to calculate financial strength of merchant at any given time (cash flow and liquidity are critical for an airline to continue its business)
- Merchant and Acquirer communication is open and cooperative (even with privately held airlines)
- Status of airline union contracts
- Status of airline issues with government or regulatory authorities

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Potential and current Acquirers must understand that their risk increases under any circumstance that shuts down or limits an airline's ability to fly. The most common of those circumstances are labor strikes, government limitations placed on the airline's ability to fly passengers and business discontinuance due to financial problems. The Acquirer must have access to information from the airline on a regular basis to evaluate the possibility of these events occurring. The Acquirer must also know exactly what its exposure is to advance funding of sales (unflown miles) as well.

Money Reserves or Holdback

Reserve or holdback language must be added into the contract with the merchant, allowing the Acquirer to set up a fund to guard against the risk of financial loss if the airline ceases or curtails business. If this happens, the travelers that purchased refundable tickets with a Visa card are likely to charge back the transaction for non-delivery of service if the ticket cannot be used on other airlines. If the airline is no longer a viable business, it is the Acquirer's duty to meet each chargeback on behalf of its merchant.

Addressing a money reserve in the contract may be contentious with the merchant, however, the Acquirer must remember that the cash flow of the airline can change significantly with a change in economic circumstances, and that as a merchant with high prepayments, it presents a significant financial risk to the Acquirer to meet chargebacks on unflown tickets if the airline ceases business.

Suggested Items

Contractual items to protect the Acquirer includes:

- Trailing chargeback activity: - Should an airline merchant decide to move its Visa processing to another Acquirer at the end of the contract period. The Acquirer should have an ability to create a chargeback reserve prior to the merchant moving its business.
- Total or a percentage agreed to clause in the contract covering the "unflown sales liability" as calculated by the Acquirer (the amount and method are based on the Acquirer's risk assessment of the airline).
- Reserve funds should always be in an account in the name of the Acquirer (undisputed ownership), until funding is made to the merchant's account or when reserve funds are paid to merchant (end of contract or if risk is reduced/eliminated).

Staged Implementation

It is important to agree to a staged implementation of reserves – that is, a number of escalating trigger points at which a larger amount of reserve becomes due.

This will be more palatable to an airline and more likely to be accepted into the contract. It will also serve to better protect the Acquirer, ensuring the reserves adequately cover the contingent liability.

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The contract should be careful to avoid creating a situation where the payment by the airline only becomes due when the airline is close to collapse. The required payment in such a situation is usually large and the airline may no longer be financially healthy enough to make the payment. Worse, such a payment may be the event that triggers the airline's bankruptcy.

Contract Period

Short contract periods can be employed by the Acquirer to discontinue processing in the event of an increase in risk. Some Acquirers employ year-to-year contracts, or termination clauses that allow either party the ability to terminate the agreement within shorter timeframes upon written notification.

While this is an effective risk management device, the Acquirer should balance risk mitigation needs against the business and relationship advantages that can be achieved with a longer contract.

Termination

Contractual clauses that lower risk by defining terminating events may be added to the contract. For an airline the following should be considered:

- Objectionable sales activities without prior notice: - gambling, high-ticket in-flight sales, merchant refuses to adjust point-of-sale processes that cause higher chargeback risk.
- Change of control of merchant: - sale of merchant may change its financial profile and increase unflown liability to the Acquirer.
- Failure to fund necessary reserve amounts: - Failure to fund an initial requirement to reserve or a rise in reserve requirement should be a contract penalty or termination event.
- Failure to provide timely information necessary to monitor risk: – Triggering event for penalty or termination of contract.
- Material Adverse Affect: - Triggering event to raise or lower reserve amounts or to change funding delays.

VI. Risk Mitigation

As discussed above, creating reserves or performing a hold-back on funding of a delayed delivery merchant's settlement funds should be established in the contract with the full understanding of the airline merchant. This section sets out suggestions on how to accomplish such a methodology to create a reserve or holdback. This section also sets out suggestions for monitoring the airline risk.

Monitoring the Airline's Financial Position

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The following represent areas of financial analysis that should be reviewed when determining the financial viability of the airline. In the context of creating triggering events that would affect the Acquirers risk, changes in these calculations when viewed over agreed-to timeframes should be directly tied to how reserve amounts are calculated or how funding is timed.

Net Worth

Net worth is usually a measure of total assets minus total liabilities. A negative number is one indication of the inability of the airline to continue as an on-going business. However, many airlines can operate with a negative net worth, so it should be used in conjunction with other triggering events.

Liquidity

Liquidity is a measure of the airline's cash and short-term cash equivalents. Cash is crucial for an airline to continue its operation. The cash flow and liquidity needs of the airline must be understood by the Acquirer and provided by airline management to the Acquirer on a regular basis. A drop in these numbers increases potential risk that an airline may be headed for financial trouble.

Bond Ratings

Independent agencies rate the financial strength of companies in order to determine borrowing costs to the particular company. Ratings agencies are extremely important in determining the interest rates that financial institutions will charge for companies to borrow capital or issue bonds to generate cash. Lower bond ratings make borrowing more expensive, and also require companies to pay higher interest when issuing bonds to investors. Many Acquirers tie increases and decreases in reserve amounts and payment timing directly to bond ratings. The fact that firms with risk analysis expertise independently evaluate bond ratings makes this method one of the methods of choice of Acquirers. Acquirers should note, however, that bond ratings are done infrequently and may not immediately reflect sharp movements in the risk profile of airlines.

Methodology for Creating Reserves

Creating reserves or performing a hold-back on funding of a delayed delivery merchant's settlement funds should be established in the contract with the full understanding by the airline merchant. A calculation methodology should be in place in order to determine the reserve amount. The following suggests how to accomplish such a methodology to create a reserve or hold-back.

Calculating Unflown Liability

The Acquirer must create the ability to assess the amount of risk it has to the delayed delivery of services compared to the funds paid to the airline. Obtaining this information can be accomplished by relying on the airline to provide the Acquirer with accurate data

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about unflown miles. The Acquirer also may choose to create an internal method of calculating potential risk exposure as well. Both processes are recommended.

The Acquirer should choose to develop the ability to monitor unflown flight segments independent of the airlines ability to provide that information to the Acquirer. The airline settlement files from its various distribution sources can be used to do so. The BSP file can contain most of the relevant booking information. Although sometimes well after the ticket is issued, it does serve as an independent check on similar information received from the airline. The Acquirer should ensure it receives at least the following from the BSP:

- Date of sale
- Amount of sale
- Date that travel begins

The purpose of capturing this information is to monitor the amount of sales not yet flown by the airline. It can also be used as an adequacy test on any reserve amounts withheld from the airline. The dates and amounts of each transaction must be captured from each settlement file submitted on behalf of the airline. Programming will be necessary to calculate the amount of time between the date of first travel and the current date. If the date of first travel is prior to or equal to the current date, Acquirer liability equals zero for that transaction relative to the cardholder having flown (there could be other disputes as with any merchant). If the date of first travel is after the current date, then the Acquirer is liable for the full amount of the transaction should the airline be unable to deliver the service.

Date of Travel \leq Current Date = \$0 Liability

Date of Travel \geq Current Date = \$ Full value of ticket liability

Non-refundable tickets generally do not create liability. Non-transferable (refundable) tickets will definitely create liability. In addition, the Acquirer must understand the likelihood of refundable, transferable tickets being honoured by other carriers if the merchant ceases business.

All transactions that have liability must be aggregated and, if multiple currencies are involved, be converted into a common currency. These transactions are then reported as the current risk amount to the Acquirer for “unearned flight sales liability.”

Some transactions do not have date information in order to independently calculate liability. The Acquirer should consider creating a factor to assign to these transactions. A program may be written to monitor the number of days between the sale date and the date of first travel for the transactions that include the proper date information. This is the “**turn day factor**.” The turn day factor can be assigned to all transactions that do not include adequate information in the settlement file. This turn day factor should be updated according to seasonal changes in days outstanding, and added to the processing date in order to determine a “pay date,” or a day in which liability is reduced. This will provide a method to the Acquirer to ensure all transactions are accounted for.

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The methodology noted above will assist the Acquirer in determining the amount of risk due to “unearned sales” funded to the merchant. This process allows for the Acquirer to determine a pay date for each ticket, and quantify the contingent liability of based on the average amount of time between the date of sale and the date of first travel. Should a reserve be necessary, this calculation can be used to determine the appropriate amount of reserve required.

Forms of Reserves

As discussed, the merchant agreement should require the establishment of a reserve in a number of situations, against which the Acquirer can draw if the merchant cannot honour its obligation to fund transactions properly charged back. The forms of major forms of reserve are outlined below, and the factors in favor of and against each form of reserve is discussed.

Cash

Acquirers’ preferred method of creating a reserve. An airline discontinuing business or shutting down for a period of time will generate chargebacks from pre-booked passengers. Cash to cover the refund activity of the airline or anticipated chargeback liability allows the Acquirer to pay cardholder liabilities from the cash reserve. The cash reserve should always remain in an Acquirer-owned account – both for reasons of ownership and control. Cash held in the merchant’s name could be made part of the airline’s assets in certain bankruptcy jurisdictions.

Letter of Credit (LOC)

While it does have the benefit of not removing cash from the merchant, LOC is not generally considered secured and will therefore only entitle the Acquirer to partial payment only in case of a bankruptcy. LOC must be renewed from time-to-time so monitoring of the document is necessary.

Parental or Government Guarantee

A guarantee is often used instead of cash. Establishing the circumstances when payment must be made is critical to its effectiveness. Monitoring of the guarantee entity may also become necessary and may be a considerable added expense.

Assets as Collateral

Pledging of assets or property in lieu of cash. This has the advantages of not depriving the airline of cash, and of usually allowing the Acquirer full value in case of a bankruptcy. However, significant monitoring costs are associated with this form of security. The Acquirer must be careful to ensure the airline does not pledge the same property as collateral to another creditor or dispose of its interest in the property. There is

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a risk that the bankruptcy of the airline may change the value of the asset, and the Acquirer must dispose of the asset prior to obtaining cash – something that may take time whereas chargeback or refund obligations are likely to require more immediate funding.

Delayed Settlement

Many airlines Acquirers use this method to create a cash reserve pipeline. Withholding funds for specified periods of time (e.g. 15 days) can be risky when a business shuts down, due to the fact that no new sales are being generated and thus the pipeline will reduce quickly. Changes in settlement times also have a significant cash impact on the airline's cash flow – withholding cash for the period it takes to implement the change in settlement times. A chargeback liability can last for months. Another method utilizing delayed settlement can be to use the logic previously outlined in calculating reserve amounts. The ability to create a systemic pay-date can be employed so the Acquirer is not paying the merchant until the service has been provided.

VII. Chargebacks

This section sets out the major reasons for chargebacks, the major forms of chargebacks, how each of the major chargebacks should be handled and finally provides suggestions on how to reduce chargebacks.

Overview

Airline transactions generate more chargebacks than the average transaction:

- Most airline transactions sold are in a card not present environment
- Globally, chargeback rates for airlines average 0.31% of gross sales volume. Leading carriers average below 0.1%.
- Copy fulfillment requests are 0.50% of gross sales.

As a general rule:

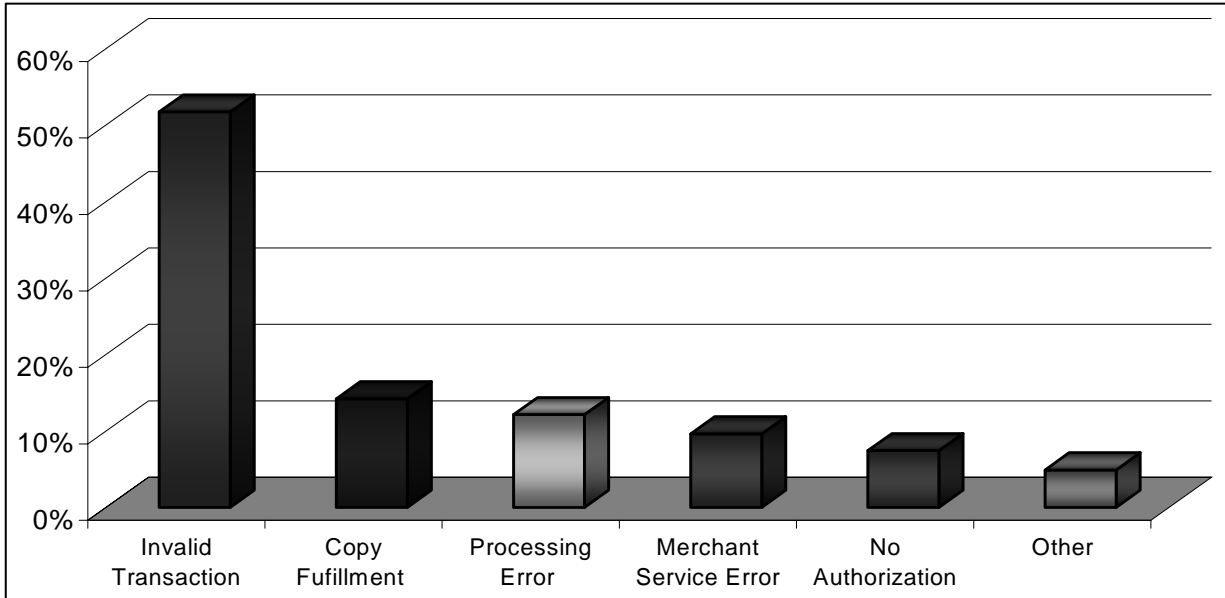
- Chargeback activity as a percentage of sales should not fluctuate from month to month, although there is a seasonal increase toward the end of the year in most countries
- Chargeback reason codes should be monitored –changes can indicate point-of-sale errors or procedural changes by the merchant
- Copy Fulfillment requests from Issuing banks should remain constant month to month. Settlement data should remain consistent among sales sources.

The Major Chargeback Codes

The graph below shows the five major reasons for chargebacks of airline transactions on a global basis.

AIRLINE CHARGE BACK BY REASON % of Sales, % of total

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Invalid Transaction

Unauthorized transactions are the reason for the large proportion of chargebacks classified as “Invalid Transaction.” Many airline transactions are sold in a card not present environment. Visa account numbers may be obtained and used by others without the cardholder’s knowledge or consent. A cardholder who does not recognize the charge, based on data available on his monthly statement, may complain to his Issuer who in turn would initiate a chargeback. Copy fulfillment on inquiries from Issuers becomes very important in airline transactions. Processing all airline data by the Acquirer can reduce enquiries and chargebacks by providing sufficient information for the cardholders to recognize the transaction. Passing the ticket number is the single most important piece of data since it enables the cardholder to provide it to the airline if they call to enquire about the transaction. Since airlines use the ticket number to track and identify all transactions it is a vital piece of information.

Copy Fulfillment

Due to the large amount of data associated with airline transactions it is not always possible for an Issuer to place enough information on the statement to satisfy cardholder needs. Copy fulfillment therefore becomes an important tool in managing airline data. Some airlines give their Acquirers access to on-line ticket database information to aid copy fulfillment. The Acquirer can then respond to the copy request in a variety of ways.

Certain Acquirers have web-based capabilities to obtain chargeback information transmitted directly from the airline. Other Acquirers generate facsimile documents based on data stored from airline settlement files. Mailing paper between the merchant

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and Acquirer can lead to time constraints in answering requests on time. Efforts should be made between the Acquirer and the Merchant to ensure data consistency and to automate paper based processes.

Processing and Merchant Error

Reasons for this include the account number not matching (generally the result of an input error at the GDS), duplicate processing (caused by one of a number of problems in the system), the incorrect currency being used (often caused by incorrect data interfaces between the GDS and BSP), or an illegally exported domestic transaction.

No Authorization

Unfortunately this often occurs because of a lack of understanding about the airline authorization process. Acquirers may not recognize that the transaction was authorized by a third party (the GDS or airline). Airline Acquirers should always check Visa authorization logs before accepting these chargebacks. Also, see section about TC33 delivery.

Other Chargebacks

Service Not Provided: This type of chargeback occurs when credits are not processed on time, or when the airline ceases business and the ticket is refundable. In the event of a business shutdown of the airline, these chargeback types will be common.

Late Presentment: Certain sales distribution channels (some BSP and GSA locations) of the airline report sales to the airline periodically or using paper. A combination of the two can lead to sales not being billed for up to 60 days from the sale date. Efforts should be made with the airline to isolate and eliminate such lead times.

Credit Not Processed: Airline merchants have multiple distribution channels, which may have different refund policies. Delays in crediting cardholders are possible. Certain airlines also have non-refundable tickets, in which case that policy must be disclosed at the time of purchase. Unhappy cardholders often try to chargeback non-refundable tickets. Efforts at creating consistent refund procedures need be stressed to the airline and the Acquirer needs be aware of the merchants non-refundable ticket polices. To reduce the cost of handling unnecessary chargebacks, Acquirers should work with airlines so that if a fare is non refundable it is clearly shown on the ticket.

Chargeback Handling

Airlines understand that the card not present nature of their sales process leads to chargebacks. Many airlines employ staff to try to manage the cost of chargebacks by attempting to respond to their Acquirers with information supporting the charge. It is

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crucial for the Acquirer and airline to be familiar with Visa rules pertaining to chargebacks and the airline's business practices. Acquirer's must recommend business process changes where they can be made, and Acquirers must help the airline to focus staff efforts on chargeback types that can be reversed. Automating this process through web-based tools is common to minimize paper handling and maximize time to work these issues.

The method for handling each of the major chargebacks facing an airline Acquirer is contained in Attachment C.

VIII. Reporting Requirements

This section provides a discussion on the extent of reporting that an Airline Acquirer should provide to the airline merchant.

Overview

The airline receives reporting on sales activity from all of its distribution channels. Sales data from each sales source is booked as revenue. Many sales channels transmit credit files directly to the airline's Acquirer/processor. The reporting from the Acquirer/processor is critical to maintain reconciliation between the sales process and the payment process. The airline will require keeping reporting cycles (typically daily) synchronized between the sales and payment processes.

Acquirer Reporting Requirements:

- Daily deposits of processed transactions
 - Segment by sales source
 - Segment by currency
- Transaction counts and amount
- Refund counts and amount
- Exception Item counts and amounts
 - Chargebacks
 - Rejected transactions
- Authorization Data
 - CRS/GDS electronic number and amount
 - CRS/GDS voice number and amount
 - Other billings in numbers and amount
- Fee Breakdown
 - Interchange
 - Processing
 - Other Contractual

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- Settlement
 - Multiple currency processing and/or settlement (if requested)
 - Multiple BINs to clear certain domestic transactions
 - Electronic Funds Transfer across borders
 - Foreign Exchange methodology
 - Multi-currency Deposit, Authorization, and Fee reporting capability

The airline merchant will provide a significant amount of information to its Acquirer. It is important that the Acquirer use the data to support accounting, reconciliation, reporting, and chargeback management with the airline and for itself. The information should be used to support the merchant's requirements and retained for research purposes after it has been passed into Interchange. Tracking this data will require the Acquirer to store and sort the data for reporting.

Daily Deposit Information

Daily deposit information is reported to the Acquirer from the Airline sales sources and the VisaNet system. This information should be captured and provided back to the airline as a deposit and reconciliation tool daily. Currency used, sales transaction data, and refund data are provided by sales source and need be reported back to the airline for confirmation. Chargeback and exception items are sent by VisaNet each day and must be matched to the airlines sales source (typically done by ticket number).

Authorization

Authorization data is critical to obtaining the best Interchange rates from Visa in USA, and therefore the Acquirer should encourage the airline to ensure correct capture, and transmission of authorization data. We also recommend that, where possible, Acquirers subscribe to receiving TC33s to ensure authorization is available for the majority of airline transactions.

Data of authorizations, which flow through the Acquirer, should be captured by the Acquirer to support chargeback and copy fulfillment requests for the airline. Authorization can be billed back to the airline as a service or it can be included in a bundled pricing concept as well.

Interchange

Interchange, processing, and Visa fees are tracked by the leading airlines so they can calculate the costs associated with providing their services. Interchange and other fee components are charged by Visa to the Acquirer.

It is generally important to provide the information to the merchant as it determines its own profitability for each sales source, and also use it to reconcile fees being charged to its contracted amount. We understand that interchange fees are not commonly distributed outside of the US, so it is suggested that differential Merchant Service Fees be established

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for the different airline sales channels reflecting the various costs associated with each channel. This would enable the airline to most accurately gauge the true cost for each sales channel.

Settlement

Settlement breakdowns are the crucial component in the reconciliation process for the merchant. The airline will log sales data based on the billing reports provided by their distribution source. Acquirer settlement reporting minus applicable fees is crucial for the airline to determine that it has paid for transactions from each sales source.

Methods

Many airline Acquirers report to merchants through the use of on-line tools, e-mail, and facsimile machines. Being operationally prepared to provide a high level of detail in accounting and reporting is important in supporting an airline merchant.

IX. Risk Management

Once the Acquirer has chosen to do business with an airline, it will be necessary to understand the conversion process and to monitor key activities of the airline periodically.

Conversion Testing

Ensuring authorization pathways are requesting and capturing appropriate authorization data is important.

CRS/GDS providers obtain over 90% of authorization data on behalf of airlines and their sales sources. Testing authorization data from each VAP supporting your airline at each CRS/GDS should be performed to ensure it is capturing and transmitting appropriate data (AVS, E-Commerce, MOTO, card not present/card present, multiple clearing sequence indicator, transaction ID, approval code, etc.). The VAP should be matching the MCC of the airline to the Acquirers BIN to ensure authorization data will be sent to the Acquirer of record. Back-up voice authorization in each country should be established for the airline and its distribution partners.

- Test each settlement file source for required airline data elements. If multiple currencies are being processed, proper currency code and country codes should be checked. Interchange qualification should be reviewed since it is an indicator of data integrity.
- Reporting and Billing systems should be checked for capturing and reporting data back to merchant appropriately.

Chargeback and Copy Fulfillment

Back office expertise in the management of copy fulfillment and airline chargeback reasons will be critical to providing accurate support for the airline. This includes customer service staff to support day-to-day questions regarding back-office support. A

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risk management team should be analyzing chargeback reason codes and interchange qualification levels to identify point-of-sale errors, changes in procedure, and to correct data elements as needed.

Financial Analysis

Staff trained to obtain and analyze financial data from the airline, bond rating agencies, and annual reports should also be used for a larger airline, or present staff should be trained in these tasks for a smaller carrier.

A risk manager should be reviewing financial trends, business trends, and current events affecting the business of the airline:

- Staff trained to monitor contractual compliance with the merchant
- Financial Reporting requirements
- Reserve Level change control
- Material Adverse changes
- Chargeback and Copy Fulfillment responsibilities
- Currency management and conversion processes
- Data Integrity requirements

X. Conclusion

As explained throughout this Guide, airline acquiring is very complex with a fair amount of financial risk involved. Therefore, it is to the advantage of the Acquirer to approach potential airline merchants cautiously and with full understanding of the liability involved.

XI. For More Information

For more information on airline Acquiring, contact your local Visa representative.

Attachment A: Credit Approval Evaluation Template

To:		Est. Annual Transactions	
From:		Est. Average Ticket	
Re:		Est. Annual Volume	
	<u>Moody's</u>	<u>S&P</u>	<u>Current Stock Price (/ /)</u>
Sr. Secured			3-Mth Hi 3-Mth Lo Current
Sr. Unsecured			<u>Current Market Capitalization</u>
			\$

BACKGROUND:

History or Airline Story

OPERATIONS:

A breakdown of operating expenses

	<u>200</u>	<u>% of Rev.</u>	<u>200</u>	<u>% of Rev.</u>
Personnel costs				
Aviation fuel				
Commissions				
Aircraft rent				
Other rent and landing fees				
Aircraft maintenance				
Depreciation and amortization				
US Air Express capacity pur.				
Other, net	-			

Select operating and financial statistics

	<u>200</u>	<u>200</u>	<u>Increase</u>	
<u>(Decrease)</u>				
Revenue passengers (thousands)				%
Total RPMs (millions)				%
Total ASMs (millions)				%
Passenger load factor	%	%		pts.
Breakeven load factor	%	%		pts.
Yield (cents)				%
Passenger revenue per ASM (cents)				%
Revenue per ASM (cents)				%
Cost per ASM (cents)				%
Average passenger journey (miles)				%

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Average stage length (miles)	%	
Revenue aircraft miles (millions)	%	
Cost of aviation fuel per gallon (cents)	%	
Cost of aviation fuel per gallon (excludes fuel taxes)		%
Gallons of aviation fuel consumed (millions)	%	
Operating aircraft at period end	%	
Full-time equivalent employees at period end	%	

	200	200	200	200	200	200	200
Revenue Passengers (millions)							
Avg Passenger Journey (miles)							
Revenue Passenger Miles (millions)							
Total Available Seat Miles (millions)							
Available Seat Miles (millions)							
Passenger Load Factor %							
Breakeven Load Factor %							

Cents	200	200	200	200	200	200	200
Yield (Passgr Rev per Rev Passgr mile)							
Passenger Revenue per Available Seat Mile							
Total Revenue per Available Seat Mile							
Cost per Available Seat Mile							

CASH FLOW & LIQUIDITY ANALYSIS:

Complete understanding of how business is generating cash. Unflown ticket analysis should be noted here as advance sales and sales cycles will affect cash levels. Subsidies by governments and business supplying aircraft and parts have a significant impact on cash as well. Notations on credit lines, the issuance of debt including stock offerings or bonds need be analysed.

FLEET INFORMATION:

Type	Passenger Capacity	Average Age Years	Owned (1)	Leased (2)	Total
Boeing 767					
Boeing 747					
Boeing 757					
McDonnell Douglas MD-					

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80
Douglas DC-9-30
Boeing 737
Airbus 340
Airbus 300
Airbus 320

- (1) Of the owned aircraft, were pledged as collateral for various secured financing obligations aggregating \$
- (2) The terms of the leases expire between

FINANCIAL POSITION & CAPITALIZATION:

(000's)	% Increase/Decrease	199	199
Total Current Assets			
Net Property & Equipment			
Total Assets			
Current Maturities LT Debt			
Total Current Liabilities			
Long-Term Debt			
Net Worth			
Total Liabilities & Net Worth			

RECENT DEVELOPMENTS:

Alliances
Acquisitions
Lawsuits
New routes/hubs

FOCAL AREAS:

Union contracts/labor
Aircraft obligations/purchase/lease/delivery schedule
Financing
Cash Flow (critical to airline operation)
Cost structure relations to industry

SUMMATION:

Approve/decline
Exposure (average unflown tickets and chargebacks)
Alternate course of action
Mitigating factors

Attachment B: Glossary of Terms

<u>TERM</u>	<u>EXPLANATION</u>
Agent	Travel agent or airline employee responsible for distributing a ticket or service.
Agent Sales Report	An automated or manual accounting of the daily ticketing activity by a travel agent, or airline ticketing agent. This report may be electronic and is used to compile and transmit daily sales activity and billing information through a CRS or Airline Computer System. Manual sales reports must be keyed by ARC (see below for explanation), or the airline in order to bill and automate this data.
Airline Code	The first three digits preceding the ticket number on any ticket, is the code designated by IATA to identify the airline. Each three-digit code is unique and is used to determine who has liability for that ticket, as well as how airlines settle with each other through the BSP/ARC (see below).
Airline Reporting Corporation	Establishes policies and procedures for travel agency community in the U.S. It is owned by U.S. airlines and its Board is made up of airline marketing senior managers. Responsible for all billing and reporting of travel agency sales activity in T & E markets from CRS vendors.
Air Transport Association	The only trade association for the principal US airlines. The purpose of the ATA is to support and assist its members by promoting the air transport industry and the safety, cost effectiveness, and technological advancement of its operations. ATA is responsible for U.S. carriers, keeping policies and practices constant. Also acts as conduit for industry meetings and representing the interests of the airline industry to the US government.
Amadeus	A major GDS developed in Europe, based in France. A publicly listed company with major shareholdings by its three founder airlines: Air France, Iberia, and Lufthansa.
Apollo/Galileo	A major GDS. Originally two separate companies, the GDS is now a subsidiary of Cendant.
ARC	See Airline Reporting Corporation.
ARC Cycle	Refers to billing cycles in which ARC switches electronic and manual billing data to card companies and Acquirers. There are four billing cycles each week for Travel Agents reporting manually (12%) on Thursday, Friday, Monday and Wednesday, in that order. The remaining Travel Agents report via ECCB and are on a seven-day billing cycle.

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ATA	See Air Transport Association.
ATO	Airport Ticket Office. Ticket counter or gate where transaction processing takes place for airline direct sales.
AVS	Address Verification System. Method by which merchant transmits address data to issuing bank, which responds with a match, partial match or no match. Airlines and travel agents in some countries use this to help ensure transaction validity in ticket-by-mail (TBM) sales, although not widely available for CRS transactions.
Billing Settlement Plan or BSP	Billing Settlement Plan. Situated in many countries, it is responsible for consolidating travel agent sales activity in each country outside the U.S. Sales reporting, credit card settlement, and ticketing standards are handled by BSPs. They are owned and controlled by IATA regulations, although the indigenous carrier generally has a major influence on decisions.
BSP Cycle	Refers to billing cycles in which BSP switches billing data to card companies and Acquirers. Billing cycles vary by country. The most usual cycle is daily, or weekly (one week in arrears). While IATA policy is to move all credit card billing to daily settlement, the BSP cycle in some countries is still one cycle per month.
City Ticket Office	Airline sales offices located in buildings and hotels where direct sales occur.
Commission	For certain fares, airlines pay a fee to a travel agent for booking a ticket. The rate was traditionally set at 9% of the fare value in most countries (or 10% in US), but has been falling in recent years. Some airlines have switched to a flat booking fee while some have stopped paying the agent any commission, forcing the agent to charge the traveler. Most US carriers have, in addition to reducing the commission, capped payments at \$50. Commission is calculated and paid by ARC or BSP upon reporting of the sale to ARC or BSP.
Computerized Reservation System	Computerized Reservation System. A reservation system owned and run by an airline or third party processor that handles the airlines inventory of seats, its reservations and card transactions for its direct ticket sales.
Consolidator	A company that specializes in wholesale of tickets or packages to other travel agents.

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Cross-Border Acquiring	An Acquirer contracting with and submitting transactions into interchange for a merchant in a different country to the country where in which they are licensed. Ordinarily, Acquirers are prohibited from cross-border acquiring (see VIOR s 4.2A.2.a.). On the other hand, an Acquirer may cross-border acquire an International Airline Transaction (see VIOR s 4.2.A.2.b.).
CRS	See Computerized Reservation System.
CTO	See City Ticket Office.
E-Ticket or Electronic Ticket	Most airlines refer to this as an E-Ticket. No ticket is generated for the passenger, only an electronic PNR in the CRS. The benefit to the airlines is reduced distribution cost (no ticket stock, reduced necessity of customer to go to a travel agent). E-tickets have the potential to reduce fraud by preventing the on-selling of tickets, but also remove such safety measures as ensuring a ticket booked by phone or Internet is only delivered to the cardholder's verified address. Given there is no signed Transaction Receipt or T&E document, there is less protection if a chargeback occurs.
Enhanced Data	Detailed data about the transaction commonly required for commercial cards. Enhanced data requirements can range from the ticket number alone to full TCN data. Enhanced data is supplied by the merchant or a processor, and ultimately passed to the commercial card subscribing company, which uses the data to more efficiently manage its costs.
Global Distribution System - GDS	GDSs handle reservation activity for the T & E industry. Initiated by airlines and has since expanded into reservations for car rental, hotel and cruise industries. Eighty-five percent of all travel agent activity is handled via a GDS. Each GDS seeks authorization directly through a dedicated Base I VAP, and transmits billing files to ARC, or to an appropriate BSP.
Group Fare	A heavily discounted fare, often sold by airlines for promotional purposes or to reduce excess capacity. The merchant in the Visa transaction is the travel agent.
Gross Fare	The fare set by the airline before any travel agent mark up is added.
IATA	See International Air Transport Association.
Integrator	Similar to a consolidator (see above).

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Interline	Refers to travelers using one or more airlines on the same ticket, and having their baggage exchanged by airlines before reaching a final destination. Carriers bill each other through their Interline departments which sort and key flight coupons accepted by one carrier on behalf of another.
International Airline	Defined by VIOR Schedule A as “an airline that sells tickets directly in 2 or more countries or operates scheduled flights between 2 or more countries, or its authorized agent that sells airline tickets on behalf of the airline.” An Acquirer is permitted to cross-border acquire an International Airline Transaction.
International Air Transport Association	The trade association for international airlines. Establishes International rules and business practices of air transportation industry worldwide, and represents the airlines to government and third parties.
IRF	Interchange Reimbursement Fee.
Itinerary Data	Origin city and destination city of each segment of travel on a particular ticket. Data includes two-digit carrier code, date, flight number, and fare value of each segment. TCN level data is only method that captures and transmits to this detail level.
Lodge Account	Centrally billed account used by companies to purchase travel for its employees.
Multiple Transaction Sequencing	Multiple transaction sequencing occurs when a GDS provides a single credit card number for multiple tickets. The result is a single authorization for all tickets, which may result in manual data input of the authorization code.
Net Fare	A fare structure similar to a general retail transaction, where the airline sets a gross fare and the travel agent is free to add a margin before selling the fare.
Net Remit Credit Card – NRCC	A fare type restricted to some Asia-Pacific countries. A variance of a net fare, in a NRCC transaction the airline is the merchant to the transaction for the gross fare while the travel agent is the merchant on the portion that represents the travel agent mark up. NRCC is unique in that there are two merchants to the transaction.
Passenger Name record or PNR	Reservation data held by a CRS on an individual reservation record level. Used by airlines to drive automated tickets on the CRS, and to store historical data on traveler and individual flights.

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Published Fare	A fare fixed for a period and ‘published,’ often under local government regulations. Traditionally the fare is set by the carrier, which pays the travel agent a commission for selling the published fare ticket. The airline is the merchant in a Visa transaction, whether or not it is sold through a travel agent.
Refund	Refunds directly from airlines are transmitted daily with the carriers direct sales activity. Refunds from travel agents go through the ARC or BSP reporting process. The latter process can result in lengthy refund processing time frames.
Reserves	Funds, assets or instruments set aside for the purpose of ensuring funding chargebacks.
Reversal	Once a sales file is submitted by an agent to ARC, the transaction is queued to a pending file waiting for a charge document to be submitted in order to substantiate the billing. If one is not received within twenty (20) days of submission of item, a refund is generated to the card company or Acquirer, reversing the sale.
Sabre	CRS publicly owned, with major ownership by AMR Inc. Thirty-five percent of all travel agents utilize this Sabre for transactions. Airlines who use SABRE modules for their CRS include American, Southwest and Alaska Airlines. Sabre also processes on behalf of several regional GDS, including Abacus and Sabre Pacific.
SITA: Societe Internationale de Tele- communications Aeronautiques	SITA is the world's leading provider of global information and telecommunications solutions to the air transport industry. It commenced by creating a global network the airlines could use to send necessary data, without the need to create its own network SITA offers service to around 740 air transport industry members (approximately 540 of which are airlines) in almost all countries of the world. SITA is a co-operative, whereby its customers are also its owners. SITA transports credit card data between airline offices and airlines & their GSAs. SITA has direct access into VisaNet for authorizations via a sponsored VAP.
TBM	Ticket by Mail transaction. May originate with carrier or with a travel agent.
TCN Data	Transaction Control Number (TCN). A CRS assigns a TCN to each document created by an agent on behalf of an airline. This level of data includes every data element on the face of a ticket. Each CRS transmits TCN files daily to ATPCO, who then switches the data to the appropriate airline. TCN Data format is an industry standard, used by GDS, BSP and ATPCO. Transaction files can be sent by the BSP to the Acquirer in this format.
Ticket Number	A 13-digit number, commencing with a code denoting the issuing carrier, followed by a number unique to that ticket. Found in the PNR and TCN

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records, Visa requires the Acquirer to insert the ticket number in the last 13 places of the merchant name field in several regions in order to qualify for a preferred airline IFR rate.

Ticket Stock	ARC, Airline, ATB, BSP, IATA and Manual are the various types of ticket stock. Stock is paper, and is preprinted and preformatted. The stock may be issued by ARC to travel agents in the U.S., by IATA to BSPs for foreign agent distribution, or by the airline itself to its ticket counters and certain agents.
Turn Day Factor	The number of days between the sale of the ticket and the flight
Unearned Revenue Account	Account logged by each carrier when a ticket is sold, but not yet flown. Various sales sources (ARC, BSPs, Direct Sales) are logged into this account. Information is stored by ticket value by most carriers. Larger carriers log this liability by segment, as they can dilute their liability with off-line legs.
Value Added Reseller (VAR)	Similar to consolidator (see above).
Visa Access Point (VAP)	Computer software that allows a processor, (in US) merchant, or Visa Member access to VisaNet. Functionality of GDS VAPs is restricted to seeking authorization.
VSS VAP	Visa Settlement Service VAP.
Worldspan	Worldspan is a GDS resulting in the merging of PARS and DATAS. PARS was developed as TWA's internal reservation system (later to become partially owned by Northwest), and DATAS the internal reservation system of Delta. Mainly operating in the US, Worldspan has been commencing operations in non-US countries over the past 6 years. Worldspan is privately owned by American Airlines, Delta Air Lines and Northwest Airlines, it claims to have a 50% market share in supporting Travel Agency internet sales.

Attachment C: Details on Managing Chargebacks

Chargeback ratios for airlines are typically higher than for the average transaction, and handling chargebacks can be a significant burden to airline Acquirers. The chargebacks most common to airlines were discussed in the main body of the document, and are set out below, together with information on what is required of both Issuer and Acquirer during the chargeback process.

Services Not Delivered

If, for any reason, airline services are not provided, a right of chargeback exists under Chargeback Reason Code 24 (i).

The most common causes of chargebacks are cancelled flights or airline bankruptcy. The Acquirer remains financially responsible for the chargeback even though it may not be able to receive payment from the airline.

There are three situations in which a chargeback for non-receipt of services may occur:

1. Merchant was unable or unwilling to provide services, and the cardholder tried to resolve the dispute with the merchant;
2. Cardholder did not receive an E-Ticket or mail order ticket; or
3. Cardholder did not receive merchandise that was shipped and the cardholder tried to resolve the dispute with the merchant.

The chargeback must be initiated within 180 days of the processing date or the actual or expected date of receipt of services.

On receiving a chargeback, the Acquirer should ensure that it receives the following.

1. A cardholder letter stating:
 - Service was not received because the merchant was unwilling or unable to do so;
 - Cardholder attempted to resolve the dispute with the merchant; and
 - The services were to be provided at a later date and the date the services were expected, if applicable.
 - Proof that the services were not rendered
2. A cardholder letter stating that the E Ticket was not received.
3. A cardholder letter stating the cardholder did not receive the services or merchandise

The Acquirer should verify that no credit was processed and that the merchant airline or another airline did not provide the services. If either occurred, the Acquirer may represent.

Invalid Transaction Receipt Fulfillment

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Invalid Transaction Receipt Fulfillment or insufficient information sent to the cardholder cause a large proportion of Invalid Transaction chargebacks under Chargeback Reason Code 23.

For this chargeback to be valid, both of the following situations must have occurred:

Situation 1:

- a. Imprint or signature is missing; or
- b. A non-authenticated security transaction was processed.

Situation 2:

- a. Cardholder did not authorise or participate in the transaction; or
- b. Issuer certifies the account number is fictitious.

The amount of the chargeback must be over \$25, and be within 120 days of the endorsement date (or the processing date if presentation is over 30 calendar days past endorsement date).

The Issuer must retrieve the Transaction Receipt, unless the data contains either of the following:

- Mail Order/Telephone Order or Electronic Commerce indicators; or
- The words “ticket mailed” in the Merchant city field of the Clearing Record.

On receiving a chargeback, the Acquirer should verify that the Issuer sent the following:

- For Situation 1a and 2a:
 - Written cardholder certification stating they did not authorise or participate in the transaction; and
 - Transaction Receipt or T&E document showing no imprint.
- For Situation 1b, written cardholder certification stating they did not authorise or participate in the transaction.

The Acquirer should verify if:

- A credit was processed;
- The merchant obtained a signature, or PIN;
- The transaction was chip initiated with a valid PIN or cryptogram; or
- The transaction was a Secure Electronic Transaction

Copy Fulfillment

Chargeback Reason Code 26 (T&E Transaction Receipt Fulfillment) is initiated where an Issuer requests a Transaction Receipt and the Acquirer does not fulfill that request within certain time limits.

This chargeback right also exists if the Transaction Receipt is supplied and is the wrong item or the transaction receipt is illegible.

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The details of this chargeback are found in the VIOR Volume II. It is important that Acquirers and Airlines co-operate in storing and supplying transaction receipts, and are cognizant of the relevant time periods.

If the chargeback is for illegible transaction receipt, the Issuer must provide certification specifying the illegible data.

The Acquirer may represent if a credit was processed. A representment right also exists if the Acquirer sends a legible Transaction Receipt to the Acquirer within 60 days of the chargeback receipt date. Acquirers should check all records for a legible copy.

Processing Error

Chargeback Codes 25 (i) to 25 (iv) address many situations relating to processing error.

Specifically, a chargeback right exists if any of the following occurs:

The account number was incorrect (25 (i)) or not on Issuer's Master File (25 (ii));

- The transaction code or transaction amount was incorrect (25 (i));
- The account number was not on the Issuer's master file (25(iii));
- A single transaction was processed more than once, either by the same Acquirer or different Acquirers (25 (iii)); or
- The currency processed is different to the Transaction Currency appearing on the Transaction Receipt (25 (iv)).

If processed by two Acquirers, the second Acquirer is responsible for the chargeback.

The minimum amount must exceed \$25 and the chargeback must be initiated within 180 calendar days from the Endorsement or Settlement date. If the presentment is more than 30 calendar days after the Endorsement or Settlement Date, the chargeback must be initiated within 180 calendar days of the processing date.

No documentation is required for these chargebacks, with the exception of duplicate processing by two Acquirers. In this case, the first Transaction Receipt retrieved from the first Acquirer must be provided to the second Acquirer as documentation supporting the chargeback.

The Acquirer should ensure that the chargebacks are valid and that no credit has been processed.