

T2RL'S First View is our rapid analysis of breaking news. It helps provide perspective, putting the facts in the context of our wider and deeper knowledge of the market.

## UATP and SITA Combine to Benefit the Airlines

T2R Staff

### The Facts

On 19 January 2011 UATP announced an agreement for SITA to take over the delivery of payment services including an authorisation and settlement processing platform, as well as hosting and customer support services. Until now UATP has used a range of providers for different aspects of its processing requirement but SITA will take on the complete global network under a single contract.

### The Analysis

In recent years airlines have become more conscious of the costs of accepting payments for tickets sold, especially through their online booking sites. Unlike GDS fees which are fixed transaction charges, credit card companies retain a percentage of the value of each transaction processed. This is typically around 2% but can be even higher.

The high cost of processing payments has been one of the biggest challenges faced by airlines as they have expanded their direct sales operations. Many different payment methods are now being accepted by airlines around the world including bank direct debits, debit cards, Paypal and cash acceptance at retail outlets. These are all valuable but it is undeniably true that for most major corporate travel accounts the preferred method of payment is a charge card.

UATP has been in business since 1936. It was created by airlines and is still owned by a group of airlines. It launched the world's first ever credit card and it continues to issue credit cards in conjunction with 19 of the world's most important airlines. The entire reason for the existence of UATP is to provide a dedicated low-cost payments processor for the airline industry. Airlines that issue UATP cards pay no fee at all when a card is used to buy services from the issuing airline. Airlines and travel agents acting as merchants pay only 1% on each transaction when they accept a UATP card in payment.

SITA has been in business since 1949. It was created by airlines to provide a dedicated communications network to serve the industry. It is still owned by the airlines and now provides a wide range of network and applications services to the world's air carriers.

The coming together of UATP and SITA in the contract announced yesterday is a perfect example of the synergies that can be achieved for the whole industry using resources that are commonly owned. SITA has been developing its own capabilities in the field of payments processing as part of the Horizon program to deploy new generation technology to its airline customers. It has access to a global network and has service and support staff available in all parts of the world. The UATP business will increase the utilisation and hence the efficiency of SITA's infrastructure, leading to savings for the entire SITA membership. Financial details of the transaction have not been released but T2RL believes that UATP will see cost savings of around 50% when SITA services are fully implemented. This saving will be available for investment in services or reduction in charges to the airline community.

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This is a rare example of a deal that is win-win-win for the airlines, UATP and SITA. Assuming the two organisations manage an effective implementation, and both have a good track record in this respect, it is a great example of the power of appropriate co-operation within the industry.

## The Speculation

The airline industry is going through a wave of consolidation especially in North America and Western Europe. Airline alliances now carry well over half of all scheduled passengers. Despite this there are still several hundred independent airlines in the world and there is plenty of scope for further co-operative services to be built under the auspices of industry-owned entities. As well as SITA and UATP, ATPCo, IATA and several regional airline associations provide common services to a range of airlines.

The experience of SITA and UATP shows that co-operative effort can be the best way forward. There are many others areas where a better degree of co-operation can address common industry problems more efficiently and at lower cost than today's fragmented solutions. Obvious examples include management of irregular operations in severe weather conditions and information exchange with national authorities for immigration and security purposes but there are certainly many other less obvious ones.

The airline industry remains a competitive one and rightly so. Within that competitive environment however there are many common services that benefit the whole industry without distorting competition. UATP and SITA provide an excellent example of what can be achieved in a co-operative manner. We expect to see more such initiatives in the future.