Strategies to Transform
Passenger Revenue Accounting

A WNS Perspective

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Introduction

Global airline industry margins (averaging 4 percent as per June 2015 IATA report) are under pressure due to competition and rising costs. To stay profitable, airlines have to maximize revenue, improve cash flow, and reduce costs.

Unexpected spikes in fuel charges, geo-political events, changes in government policies and loyalty or frequent flier programs can quickly erode margins. It is imperative for airlines, therefore, to minimize revenue leakage.

Airlines need a core accounting system to assess revenue, expenses, liabilities and assets to accurately report revenues to internal and external stakeholders collect fees and settle taxes.

A core accounting system will also support strategic decision-making. Chief Financial Officers (CFO) and financial controllers expect quick access to information for reporting, decision support and tracking compliance. They need the ability to drill down into financial information by segment, point-of-sale and other revenue-capture channels to ensure that their data aligns correctly with the transaction processes.

Real-time recognition of online and offline sales, including the fare and fee components, enables airlines to anticipate and collect revenue faster and improve their cash flow.

Beyond fare and fee charges, airlines have varying policies for fully refundable and exchangeable tickets, non-refundable and exchangeable tickets, and limited refundable and exchangeable tickets. The revenue recognition accounting treatment for these can vary, which means that airlines can treat assets and liabilities differently, depending on the airline's accounting procedures.

Plugging the Revenue Leaks

Several factors lead to revenue leakage. And airlines can save millions of dollars each year if they effectively address these issues.

The Top Five Reasons for Revenue Leakage by Region		
North, Central and South America (and Caribbean)	**Europe, the Middle East and Africa (EMEA)**	**Asia-Pacific Countries (APAC)**
▪ Failure to collect cancellation fee ▪ Fare is non-refundable ▪ Failure to agree on remitted fare ▪ Travel restrictions ▪ Exchange not permitted	▪ Failure to agree on remitted fare ▪ Exchange not permitted ▪ Failure to collect cancellation fee ▪ Failure to collect full taxes ▪ Fare is non-refundable	▪ Travel restrictions ▪ Failure to collect cancellation fee ▪ Failure to meet ticketing timelines ▪ Failure to meet standard commission ▪ Exchange not permitted

(Source: Analysis performed by WNS' airline domain experts)

A strong Passenger Revenue Accounting (PRA) function performs robust audits of sales and refunds, minimizes revenue leakage by identifying the source of the leakage and recovers losses if they have occurred. The source of these errors could be travel agents, the online travel agency, general sales agents, or the airline's own offices. Airlines must audit many complex business processes associated with ticket revenues, taxes, fees and charges to ensure that each transaction complies with the expected fares, rules and conditions. Depending on its systems, process and market complexities, an airline can potentially save up to 0.25 percent of its revenue through the audit process. (Source: WNS' Analysis)

Audits are especially critical in regions such as Europe, Middle East and Africa (EMEA), where failure to agree on the remitted fare accounts for nearly one-fifth of an airline's revenue leakage. Often, first-pass audits and second-pass audits — that review initial audits — uncover processing and other accounting errors.

Resolving the issues requires knowledgeable personnel with deep industry knowledge to work with robust PRA systems that can handle and properly apportion the complex components of PRA calculations among the airline and its partners.

Challenges Posed by Legacy Systems and Processes

Passenger revenue accounting used to be a fairly standard process that did not change frequently. But digital technology and the resulting ability to dynamically price tickets has changed all that. Today, fares rise and fall with supply and demand, often in real-time. Processing becomes more complex as passengers upgrade seats, cancel or miss flights or check-in bags – all of these have to be accounted for. In addition, as airlines go after new sources of revenue — ancillary incomes, unbundling of fares, etc. — the complexity will multiply.

Challenges in Passenger Revenue Accounting:

1) Legacy Systems

2) Mergers & Acquisitions

3) Shortage of Trained Resources

4) Interaction with other PRA systems

5) Integration of Analytics

Many airlines still use their legacy revenue accounting systems, which are simply not equipped for the business challenges of today. What's more, mergers and acquisitions have led to some airlines having more than one revenue accounting systems.

Even if the in-house systems manage to work well with each other, they often have difficulty interacting with the systems of other airlines during the reconciliation process.

Building a New Approach to PRA Management

The first step in developing effective PRA management operation starts with the data management layer, including the development of rules-based processes that automatically assess and correctly apportion the various elements of a transaction.

The next step is to create a staff which can apply a broad PRA framework to complete transactions and handle relationships with partner airlines, travel agents and other industry bodies. The top tier of such an operation requires people with the analytical capability to manage the data, as well as to provide insight and decision support.

With these factors in place, PRA management should be able to:

■ Bill airlines for using the host airline's scheduled services and recover revenues from interlining carriers by detecting overbillings

■ Check for errors and fraudulent activity on bookings / discounts and recover any money due

■ Process refunds against partly or fully unused tickets

■ Authenticate fares ticketed by agents and identify recovery opportunities

■ Manage receivables and related queries, including general and government receivables as well as incentive payments

■ Process and investigate payment card errors, charge backs, inquiries, incorrect refunds and manual credit card billings

■ Reconcile revenue, receivables and payables

One solution is to use internal resources to develop new, customized accounting hardware and software systems. However, this approach is likely to be time-consuming, and the new systems may still have communication issues with the passenger accounting systems of other airlines.

Moreover, most airlines lack the in-house expertise to keep up with the constantly changing regulatory, competitive and demand variables that affect PRA.

Today, the most effective way to handle the situation is to work with a company that can offer business process as a service (BPaaS) and take over the entire PRA management system, freeing the airline to focus on operating the business.

How to Select the Right BPaaS Partner

Here are some key points that an airline should consider when selecting a BPaaS partner who can support the PRA management function.

■ **Business partner, not vendor:** PRA will become increasingly strategic for airlines. What they need is a partner who understands the complexity of their business processes, not just a vendor selling a service.

■ **Multi-platform capability:** Your partner should bring in process capability and expertise to manage any system that is a good fit for the airline, and can challenge the platform provider on design and efficacy of the system and processes. The services offered by the BPaaS partner should be scalable enough to handle spikes in business during peak seasons.

■ **Business impact:** The partner must be able to bring the process to market quickly and deliver immediate value. This means not just saving costs, but offering a platform that can deliver positive business impact.

Even if an airline has already upgraded its PRA management system, or is in the process of doing so, it can still benefit from working with a PRA management consultant who can demonstrate how it can derive the greatest benefits from its new accounting capability.

Beyond these services, an effective PRA BPaaS partner should be able to:

- Benchmark and review current systems and processes against the other players in the industry

- Provide advice on how to optimize cash flow and pricing

- Offer insights on how to uncover opportunities for revenue and margin improvement

Further, the partner should be dedicated to best practices across the enterprise, and have expertise in all layers of a PRA management system. Most importantly, it should examine the commercial structure of the relationship.

The partner should offer output-based and outcome-based pricing models, which offer flexibility, variability and transparency to the airline.

Conclusion

Transformational PRA management will deliver value to airlines by sharply reducing the revenue leakage that routinely occurs as a result of failure to collect cancellation fees, inability to agree on remitted fares, travel restrictions and many other factors.

Legacy PRA technologies are not nimble enough to handle the dynamic pricing, changes in total fees and other financial adjustments that are now used in the airline industry and it is often impractical to build new systems or cobble more capabilities onto older systems.

Airlines can significantly improve their bottom line by modernizing and implementing PRA management operations that work across accounting systems and can automate as many related PRA business processes as possible.

If an airline elects to use the resources of an external BPaaS provider, the PRA management firm should work as a business partner, whose fees are directly related to the cost savings they are able to achieve for the airline.

About the PRA in Practice at WNS

The principles outlined in this report are the foundation of every engagement WNS has handled with its airline clients. Some examples:

- A leading airline company in Europe outsourced its PRA services, including 90 legacy applications, to WNS. The air carrier's PRA operations had been running on a legacy revenue accounting system. In addition to its own PRA operations, the airline decided to outsource revenue accounting processes, which it offered to other carriers on the Strex system. Within the first year, the airline recovered several million dollars of previously leaked revenue, reduced the cost of revenue accounting operations by 30 percent,

improved turnaround time by 50 percent for managing more than 7.5 million exception items, and improved accuracy of interline sampling to 99 percent.

- A leading US airline needed a cost-effective, high-quality solution for its passenger revenue accounting and recovery process. The client transitioned its revenue accounting and fare audit operations to WNS, which transferred the processes, set up connectivity and trained staff. The WNS operations team maintained high-quality delivery in operation and identified process improvement opportunities through a Six Sigma program. As a result, the carrier gained significant cost savings, increased productivity levels, improved service quality and received comprehensive reports.

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WNS in Travel & Leisure and Passenger Revenue Accounting

Founded as a British Airways captive back-office in 1996, WNS today is the world's largest travel Business Process Management (BPM) Company. We are a leading revenue accounting specialist and have been serving the travel and hospitality sector since inception, designing, deploying and managing solutions for more than 15 international airlines across the globe.

We have the distinction of delivering services on different platforms provided by our clients or third-party vendors. Our Passenger Revenue Accounting (PRA) service extends beyond transaction processing and allows customers the option of extended revenue accounting and financial accounting services.

The key highlights of our capabilities in revenue accounting include:

- Strategic partnership with the International Air Transport Association (IATA) for revenue accounting

- Proprietary Platforms / Systems: JADE and Verifare Plus^{SM}, SmartPRO^{SM}, RePAX, and QBay

- Center of Excellence (CoE) for PRA services, end-to-end service with close to two decades of experience

- Applications / Platforms used: JADE, SIRAX, IMPALA, AirVision, RAPID, SITA RPA, and legacy platforms namely OPAL and PRAS

- Strong management team, robust quality services and quality assurance processes in the delivery model

- Deliver revenue accounting solutions and change management process in both outsourced and fully managed service models

- Flexible pricing model: Unit transaction pricing / full-time equivalent

Our service offerings extend across the entire revenue accounting value chain, including consulting services and re-engineering solutions as per best practices, sales operations, interline revenue recovery, coupon management, refunds, fare audit, miscellaneous accounts receivable (AR), credit card collections and accounting reconciliations.

About WNS

WNS (Holdings) Limited (NYSE: WNS) is a leading global Business Process Management (BPM) company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including banking and financial services, consulting and professional services, healthcare, insurance, manufacturing, media and entertainment, retail and consumer packaged goods, telecommunications and diversified businesses, shipping and logistics, travel and leisure, and utilities and energy. WNS delivers an entire spectrum of business process management services such as customer care, finance and accounting, human resource solutions, research and analytics, technology solutions, and industry-specific back- and front-office processes. WNS has delivery centers world-wide, including China, Costa Rica, India, the Philippines, Poland, Romania, South Africa, Sri Lanka, UK and US.

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