



Streamlining passenger claims handling for the post-COVID-19 era



Over the last few months, the global aviation and travel industry has been confronted with an unprecedented challenge. Although the industry has dealt with exceptional situations many times in the past – such as political conflicts, surging oil prices, the 9/11 attacks, or volcanic ash clouds – the COVID-19 pandemic constitutes an unparalleled threat.

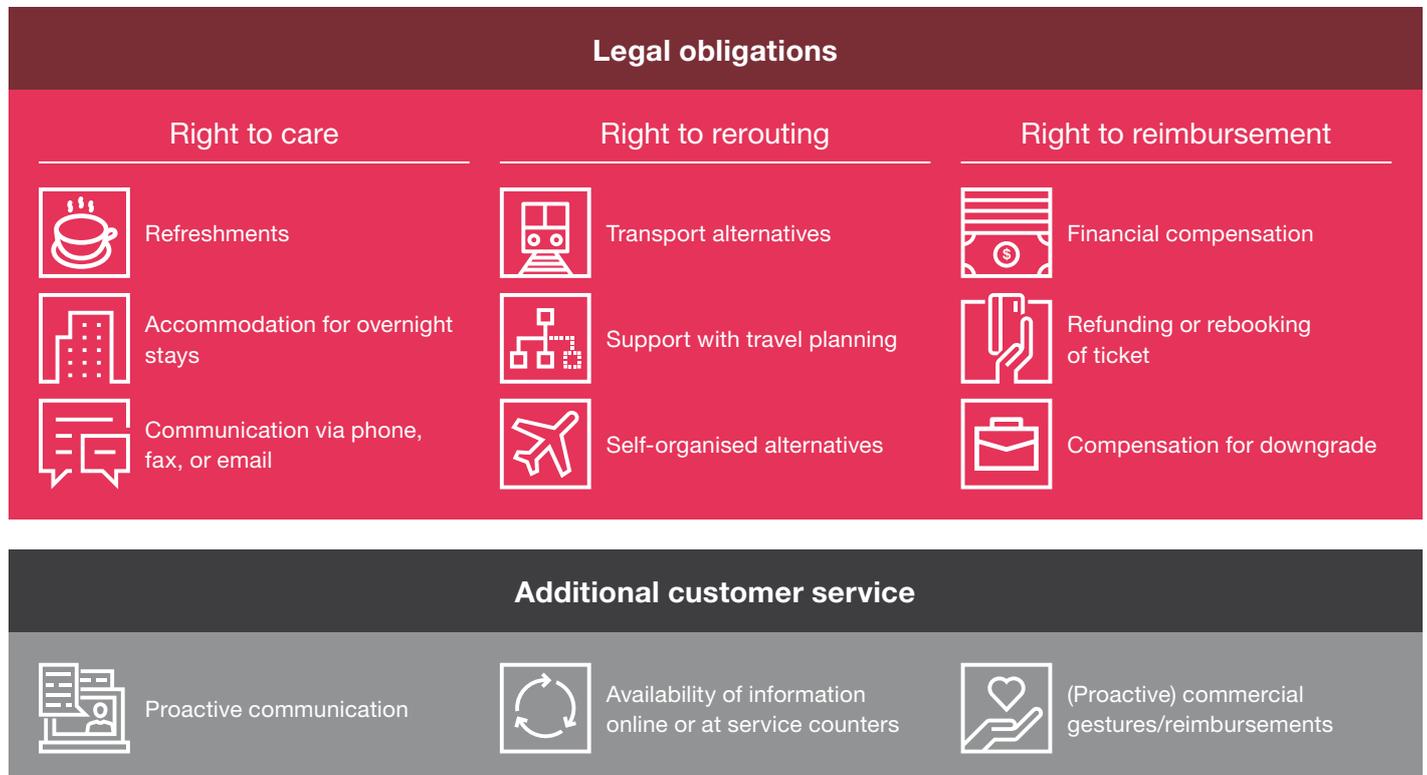
After most carriers were forced to ground their fleets, suspend services, and even reduce headcount, many airlines are now making efforts to resume operations. At the same time, the European Commission has issued guidelines to restrict passengers' rights to compensation for flights cancelled due to COVID-19 and has confirmed that the spread of the disease is an event outside of airlines' control.¹

However, airlines are still required to reimburse and care for their passengers if flights are cancelled. Over the past couple of months, carriers have been experiencing a massive increase in passenger claims, especially for

refunds of cancelled tickets. As a result, they are now facing the additional burden of handling a substantial cash outflow due to the huge number of refunds, on top of preparing for the post-crisis period and restarting operations.

The COVID-19 pandemic is thus increasing the pressure on airlines to review how they handle passenger claims. Workflow automation and digitization can help to reduce costs, speed up the handling process, and eventually enhance customer satisfaction. Leveraging this potential will help carriers optimise their cost base and streamline their operations to make them fit for the 'new normal' of the post-pandemic world.

Passenger rights in the event of flight disruptions



¹ Cf. European Commission Notice – Interpretative Guidelines on EU passenger rights regulations in the context of the developing situation with COVID-19 (2020).

The current handling process and common pitfalls

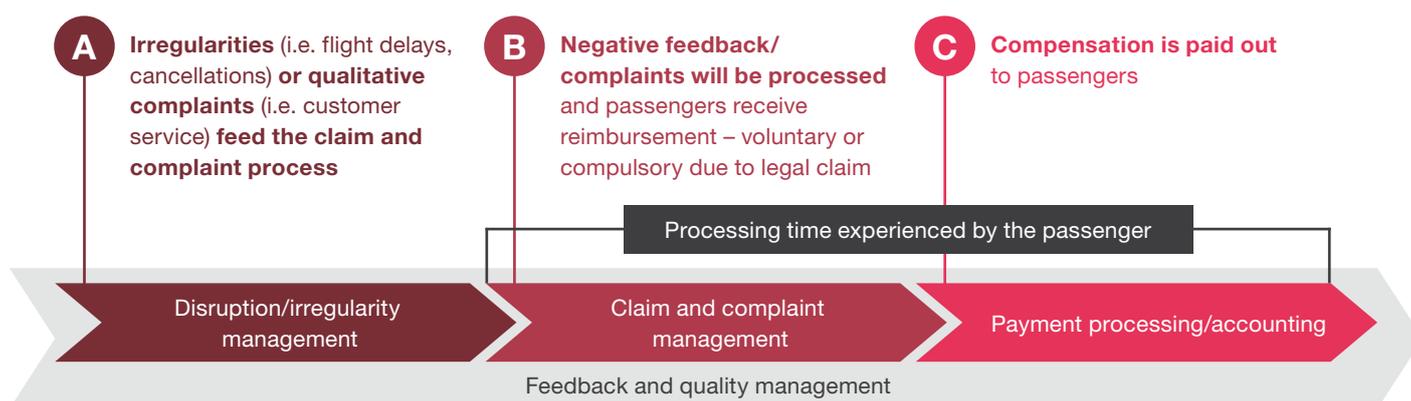
The rising number of passenger claims has been presenting airlines with different challenges over the last few years. Although the number of delays and cancellations fell in 2019 compared to 2018, the level of delay was the third worst in the last ten years, after 2018 and 2010.² The establishment of claim agencies throughout Europe has also lowered the barrier for passengers to submit and assert their claims, leading to airlines operating to and from European airports paying out more than €5 billion in EU261 compensation per year.

The rise in the number of claims has not only been a financial issue for airlines; to process all those claims has become a challenge as well. When a very large number of

claims and applications for refunds are made at the same time, as it has been the case throughout the COVID-19 pandemic, three common shortfalls become especially clear.

- a. In many cases, claims handling still involves a large proportion of manual steps (i.e. validation, analysis, approval).
- b. Carriers often fail to meet service-level agreements (SLAs), as processing times increase rapidly when the number of claims rises and backlogs build up.
- c. Personalised responses and approval procedures tie up resources and make process automation difficult.

High-level claims handling process



For most airlines, the claims handling process can be divided into four key steps:

- 1 Receipt and confirmation**
Claims are received via different channels (online form, email, letter, customer service centre) and a confirmation of receipt is sent to the claimant (ideally in an automated manner).
- 2 Prioritisation and initial analysis**
Claims are prioritised by passenger status (loyalty programme, VIP list, etc.) and cases are assigned to appropriate agents (i.e. based on language skills or destination). Basic details and eligibility of the claim can now be verified.
- 3 Investigation and decision**
Claim is investigated based on required inputs – these include Regulation (EC) No 261/2004, alternative liability regimes, airline compensation guidelines, and cabin/quality/delay reports. A decision is taken on the case and its resolution.
- 4 Response and further action**
A personalised response is formulated, passenger compensation is approved or rejected (in line with thresholds) and the payment process is initiated.

² Cf. Eurocontrol CODA Digest Annual Report 2019 (2020).



Success factors for efficient passenger claims handling

Although it may vary in detail, this general process is used by many airlines today. This has made it possible to identify key success factors across carriers for efficient claims handling. For many airlines, there is still room for optimisation in creating an efficient workflow.

Availability of contact data/payment information

Although compensation is paid out to individual passengers, their claims may be made on their behalf by a third party. Those third parties could include travel agencies, claims agencies, or specialised lawyers. In order to ensure an efficient handling process – and in particular to identify the actual beneficiary – it is therefore vital to obtain the relevant contact and payment data early on (in compliance with the GDPR³) to avoid queries (e.g. IBAN) delaying the workflow.

Integration of CRM⁴ and flight systems

When assessing a claim for EU261 compensation or a qualitative complaint, airlines must have a reliable foundation on which to base their decision. In order to do this, passenger, CRM, and flight data must be available simultaneously. Information on disruptions can be obtained from flight planning/irregular operations (IROPS) systems, delay reports, and other sources. To evaluate qualitative compensation claims (e.g. for failing to take adequate care of a passenger), on the other hand, additional information must be gathered to allow a sound judgement – i.e. whether

or not the passenger actually received vouchers, hotel accommodation, etc. Quick and efficient claims handling is only possible when all of these sources are available, integrated, and accessible.

Accepting claims via multiple channels

To drive down complexity, many airlines restrict the ways that passengers can submit claims. Customers are often forced towards one specific channel (i.e. online forms) to avoid heterogeneous inputs that need to be digitised/harmonised. Oftentimes, these online forms are also poorly designed from the customer's perspective, and make it difficult for passengers to file their claims. CRM 2.0 services, on the other hand – such as self-service tools, text recognition, or voice-to-text solutions – may enable new use cases that maintain a good customer experience while also reducing the amount of work involved in claims handling. When modernising their claims handling systems, airlines should make a conscious decision at the very start of the process about the mix of channels they want, in order to maximise efficiency.

³ General Data Protection Regulation (EU) 2016/679.

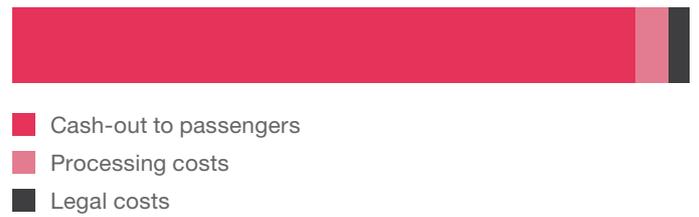
⁴ Customer relationship management.

Moving towards an enhanced operating model

The significant amount of work required to process a claim and the failure to consider certain key success factors may result in higher operating costs and lower levels of customer satisfaction, which can eventually reduce both customer loyalty and ticket sales. According to a recent study by the European Commission on air passenger rights, costs related to Regulation (EC) No 261/2004 can account for up to 6% of an airline's total operating expenditures. There are also numerous types of costs triggered by passenger claims – both direct and indirect costs, such as lawyer's fees, court fees, bailiff's fees, default interest, and customer service costs. The costs to an airline of settling a case by legal action may easily exceed the original payout: For example, a claim for compensation by two passengers for €1,200 can result in total costs of more than €3,000 if the case goes to court.

The negative direct effect of higher costs for the airline (compensation payouts, processing costs, legal fees) will therefore be exacerbated by medium-term pressure on the top line. As a result, it is in an airline's interest to bolster its systems for effective claims handling – not only to drive down costs but to drive up ticket sales as well.

Distribution of costs per passenger claim



The challenge in doing so lies in giving the airline's claims handling organisation the freedom to offer personalised customer service in non-standard cases (i.e. customers on loyalty programme/VIP list), while automating regular process steps for routine matters at the same time. Automation greatly reduces the amount of manual work required, as routine cases tend to feature a large proportion of repetitive tasks.

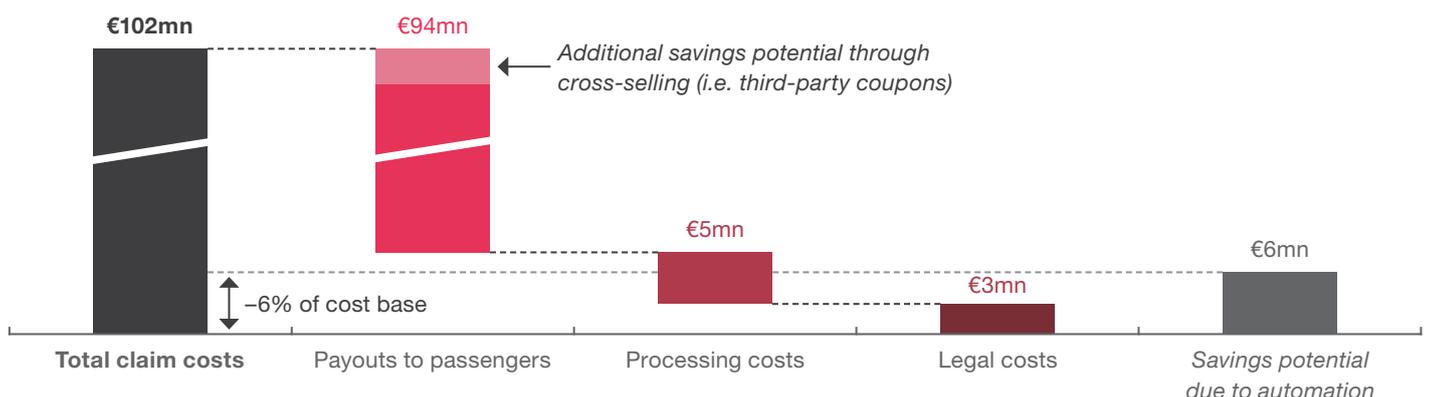
Ideally, this will allow customer service operations to move away from high levels of fixed costs towards a variable costing approach: Instead of driving up service quality by pursuing more integration – which involves substantial fixed costs regardless of the volume of claims – 'claims handling as a service' could help airlines to respond more flexibly to claims as they occur.

Automation to drive cost transformation and customer satisfaction

Personalised, high-quality customer service and the use of technology to automate process steps are not mutually exclusive. According to IATA's Global Passenger Survey 2019, passengers have a strong desire for more control over their journey, in particular by using technology, and believe it will improve their travel experience. Maintaining this degree of freedom and customer orientation while also reducing complexity of processing, however, is becoming crucial.

At the same time, cost savings associated with fully automated (or even just partially automated) claims handling can be substantial. Automation can reduce the lead time to process a claim by over 90%. Shorter processing times also reduce the number of cases going to court and hence the associated legal costs, as a decision on whether or not a complaint is valid can be taken very quickly.

Exemplary cost structure for airline with 20 million passengers per year



Source: PwC analysis.

⁵ Cf. European Commission Study on the current level of protection of air passenger rights in the EU (2020).

Benefits of an integrated business and IT approach

The benefits of streamlined claims handling, however, go beyond shorter lead times or reduced legal costs: it can help build customer loyalty, which is invaluable for any business. Helping to retain customers by providing proactive, accommodating, and fast responses will eventually drive down customer churn and help to protect revenues. Customers value a transparent claims process, reliable decisions on claim eligibility, and fast payouts of compensation. If these criteria are met, customers are also more willing to accept hybrid forms of compensation, such as combining cash payouts with vouchers for airline tickets or purchases from partner companies. Optimising these combinations both offers an attractive payout model and allows airlines to drive up customer satisfaction.

To achieve this, airlines may need to rethink their claims handling processes. They should aim to offer a truly seamless, digital customer journey that also includes solutions for cases of flight disruptions and compensation. For many carriers, this will require a new approach – or even a completely new set of priorities – for handling passenger claims.

We believe that the four key steps below can help to achieve this vision:

- 1 Customer service strategy**
Define/revise customer service strategy with regard to claims handling.
- 2 Business processes**
Optimise workflow and interfaces, giving consideration to introducing support using IT tools.
- 3 Data platform**
Provide booking data and historic passenger records together with relevant flight information.
- 4 IT system**
Provide a front-end for passengers and service agents to initiate, guide, and monitor the automated claims handling process.

By doing so, the negative connotations for passengers (and air carriers) of filing a claim could be mitigated. A claim could become a valuable customer touchpoint; instead of simply paying out compensation, airlines could utilise the interaction to demonstrate what sets their product and customer service apart from their competitors. This could include a shopping experience – for example, selling another ticket, offering third-party gift cards (even at a higher value than the ticket), or ancillary services.



Lead time/ cost reduction

Reduce the lead time to process a claim by **up to 90%** and handle more claims in a given time period



Workflow automation

Partially or fully automate the claims handling process so that agents have more freedom to provide support in critical/questionable cases



Customer recovery and sales

Regain customer confidence and loyalty with a simple and transparent process (i.e. by making payments in real time) to foster ticket sales



New partnership models

Counteract claim agencies and **establish new commercialisation models** (i.e. by partnering with retailers to offer some of the compensation as a voucher)



Global reach and scalability

Centralise claims handling on a global scale while also taking national legislation/other local factors into account

On the way to a 'new normal' in the post-COVID-19 era, operating with a streamlined cost base will become a top priority for airlines around the world. At the same time, offering a unique passenger experience and high-quality customer service will remain an equally important task. By following a few guiding principles, carriers can make significant savings of up to 10% of their claims-related

expenses, while at the same time making a step forward in the way they provide customer service. Although the COVID-19 pandemic has created considerable difficulties for airlines, it may also mark the first step towards a more resilient, efficient, and customer-centric way of handling claims in future.

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About us

Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we leverage all of our assets: experience, industry knowledge, high standards of quality, commitment to innovation and the resources of our expert network in 157 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients' needs, the more effectively we can support them.

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About CHS Claims Handling Solutions

CHS Claims Handling Solutions GmbH is a legal and travel tech vendor that runs the platform justclaims.eu (www.justclaims.eu). The company has been founded by a team of aviation attorneys to assist passenger airlines to digitally transform and fully automate their claims handling processes.