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Extending Your Enterprise


# *Flight Disruption:*
# ***Flying into Financial Turbulence***

*A WNS Perspective*

Civil aviation authorities across the world are becoming increasingly stringent in penalizing airlines for flight delays and disruptions.

As recently as in August 2014, the Civil Aviation Administration of China (CAAC) announced a six-month crackdown on flight disruptions. Domestic airlines will receive internal warnings if their on-time flight rankings are in the bottom 20 of all airlines, or if flight delays occur more than half the time. In the case of delays or poor service that trigger serious protests by passengers, airlines risk losing all their flight slots in the current season and will lose the right to apply for flight slots in the next season.

This crackdown comes on the back of a recent survey of 35 major international airports by FlightStats, a US-based airport statistics tracker, which found that Beijing and Shanghai airports have worst record for on-time departures and arrivals. Globally, in 2014, 21.75 percent of flights were delayed and 3.33 percent were cancelled.

China is not the only country which is cracking down on flight delays. In the US, the Transportation Department imposes a fine of USD 27,500 per passenger for planes that are left on the tarmac for more than three hours without taking off.

## The European Union (EU) has stringent penalties in the below scenarios:

For denied boarding or flight cancellation, the airline has to ensure one of the following:

- Arrange transport to the passenger's destination using comparable alternative means
- Refund the ticket amount
- Wherever relevant, drop the passenger back to his / her initial departure point free of charge

**For delays:** If the flight is delayed by five hours or more, the passenger is entitled to a refund. The airline is also obligated to provide refreshments, meals, communication and overnight stay, as necessary.

## Financial Compensation:

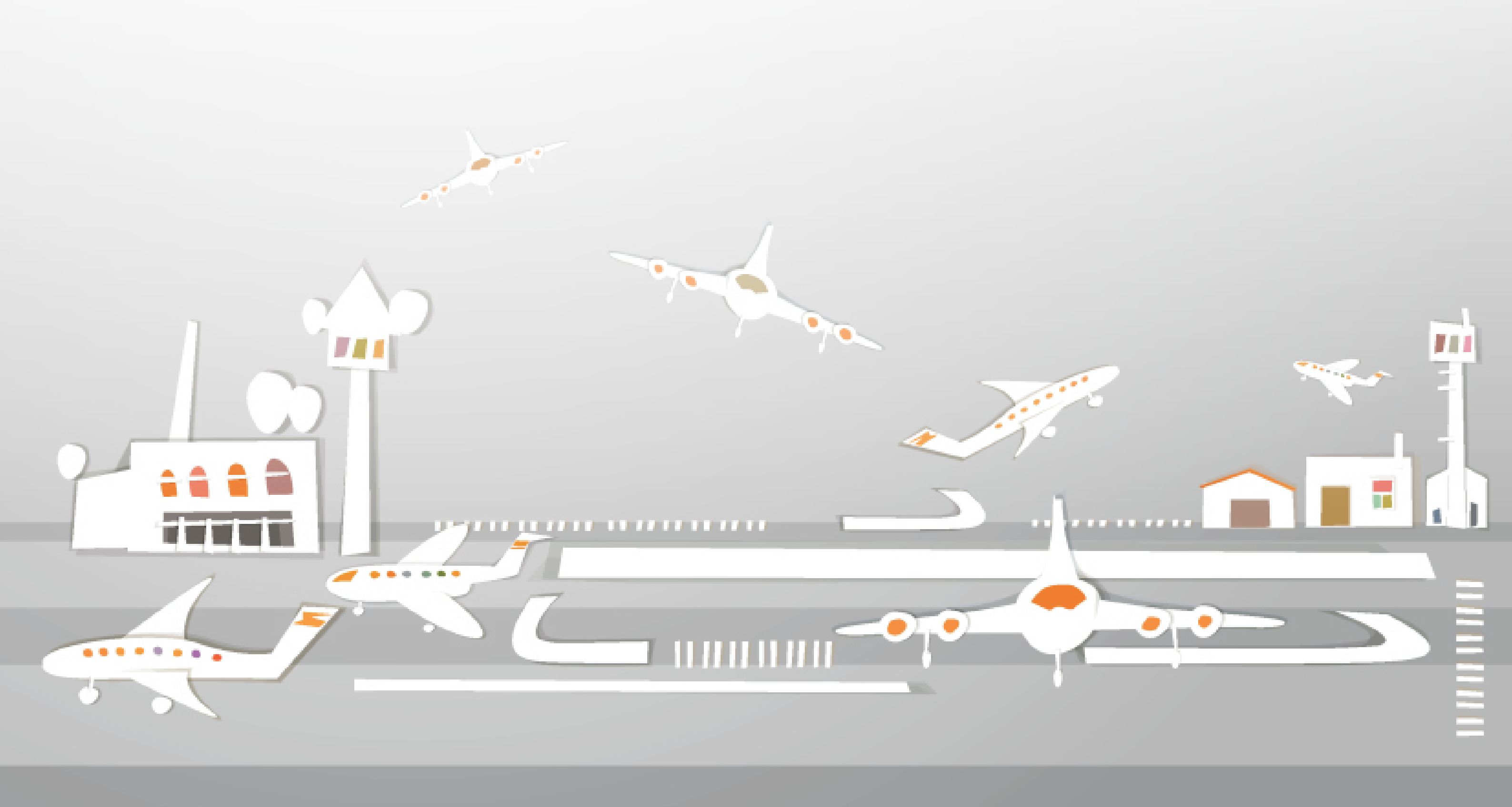
For cancellation or if the flight arrives more than 3 hours late at the final destination, the airline has to pay compensation in the following ways:

**Within the EU**

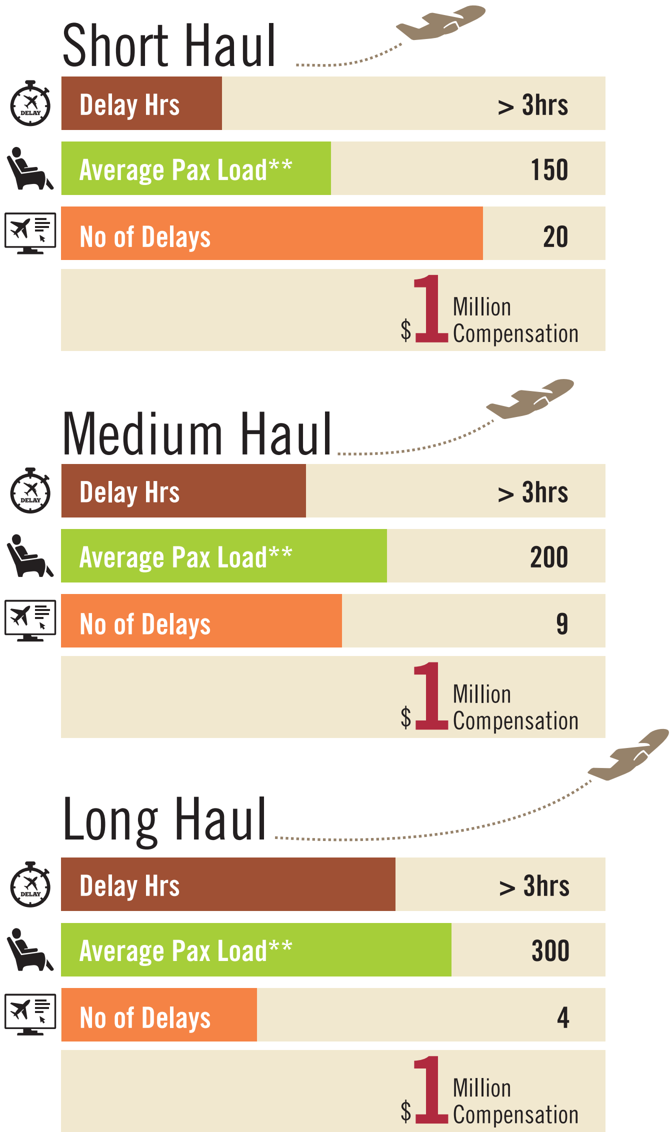
- 1,500 km or less - €250
- Over 1,500 km - €400

**Between EU airport and non-EU airport**

- 1,500 km or less - €250
- 1,500 - 3,500 km - €400
- Over 3,500 km - €600



This growing stringency has serious implications for airlines. In the UK alone, airlines lose over USD 1 Million per day due to EU regulations. Take a look at this graphic for a better understanding of how the penalties can add up for airlines:




Source: Based on EU Compensation Amounts Borne by Airlines for Every Disrupted Flight

## A Lose-Lose Situation

Besides penalties, airlines are impacted on many other fronts, as well. Disruptions have a direct impact on operational costs – managing disrupted passengers, arranging alternative flights for them, taking care of their refreshments and accommodation in the case of longer delays, and so on.

The average yearly cost of disruption for airlines in the US alone is a staggering USD 7.2 Billion!

Passengers too have to bear the brunt of flight disruptions. In financial terms, the cost for passengers in the US was pegged at USD 16.3 Billion. In 2012, as many as 150 million people were affected by flight delays and cancellations there.

Flight delays have an impact on the economy as well. For example, they increase the cost of doing business. According to a study sponsored by the US Federal Aviation Administration, the GDP of the US went down by USD 4 Billion in the year 2007 as a result of flight disruptions.

Frequent flight delays also causes a loss of brand equity for an airline because of dissatisfied passengers, even if flights are delayed by factors that are beyond its control. While most passengers are generally tolerant of major disruptions like extreme weather, dissatisfaction levels go up exponentially when delays occur due to routine problems and poor communication.

The airline business is difficult and competitive. Between 2002 and 2011, the three biggest carriers in the US – American, United and Delta filed for bankruptcy. According to *The Economist* magazine, airlines made only USD 4 for every passenger carried in 2012. The reasons for this are many, including competition from low-cost airlines and subsidized state-run carriers. The industry is also susceptible to factors like spikes in oil prices, terror attacks and extreme weather events.

Bearing in mind that airlines operate on very thin margins, keeping a tight rein on costs is imperative in order to remain profitable. Flight disruptions, and their poor management, can eat into these very thin margins, and it is therefore critical for airlines to manage them efficiently.

To learn more, please write to us at **marketing@wns.com**