



**ATOL Reform: assessing the impacts of the options  
for reform.**

**Request for further information**

**TTC response**

*March 2023*

## Introduction

We are providing this response to the CAA's Request for Information on behalf of, and from the perspective of our three group companies:

- Travel Trade Consultancy (TTC) - our business consulting firm which supports UK travel companies with advice and guidance on a range of regulatory, financial and strategic issues.
- The Travel Vault (TTV), our FCA regulated insurance broker, which arranges bonds, financial failure insurance and other types of business insurance for travel companies.
- Stonecot Trustees, our trust services provider which acts as trustee for a number of regulated travel businesses.

Our combined team has over 100 years collective experience working with and advising on the UK and European travel regulatory framework, including more than 50 years working for the Civil Aviation Authority.

Our portfolio of travel clients is broad and diverse, covering a range of sizes, product offerings and business operating models. All our clients will be impacted in some way by the proposals set out in this ATOL Consultation.

In forming our views, we have held extensive discussions with our clients.

## General comments

Our overall views remain largely unchanged since our response to the original ATOL Consultation document (a copy of our response can be viewed here

<https://traveltradeconsultancy.co.uk/news-insights/ttc-response-to-the-atol-consultation/>

However, we add the following additional general comments:

### The case for reform

During February 2023, the Air Travel Trust Fund (ATTF) published its accounts for the financial year ended March 2021. These accounts show the ATTF's current resources are strong and the number and cost of failures in the period since 1 April 2020 have been relatively low, particularly when viewed against the unprecedented challenges that ATOL holders faced during this period. We believe these accounts demonstrate clearly that ATOL holders are by and large, resilient, and the current regulatory structure has coped well. We therefore still do not accept that a convincing case has been made for wholesale, material changes.

### Reform of airlines

The CAA's original 2021 consultation document specified amongst the key aims of reform:

*"Giving consumers confidence that they would also get a better overall experience including the payment of refunds where that proves necessary".*

In our view, the single biggest cause of the travel industry's Covid era refund problem was the behaviour of airlines. In seeking to improve the sector's resilience, the CAA is placing an undue amount of responsibility and cost onto ATOL holders, but they are only one part of the supply chain. We believe it is unfair, and disproportionate to introduce material reform to ATOL holders without also accelerating the reform of airlines which was proposed in the Airline Insolvency Bill

### Broader holistic approach

There are several other regulatory reform processes currently in progress that will impact the travel sector. We believe that right now, there is a unique opportunity to reform the ATOL scheme in a way that simplifies the wider consumer protection landscape and eliminates duplication. In particular, we encourage the CAA to work more closely with the credit/debit card protection schemes, and seek to align the ATOL workstream with the planned Package Travel Regulations reform process.

### The reliance on customer money assertion

We believe there is a fundamental disconnect in the understanding of what is considered to be “using customer money”.

The CAA’s original 2021 consultation document asserts that:

*“many travel businesses are highly reliant on customer money as a source of funding working capital”.*

And section 2.3 goes on to state:

*“Customer money is the money paid in advance by the consumer to the ATOL holder for the licensable booking. The purpose of the money is for the ATOL holder to meet the costs of providing the holiday, whether paid to third party or in-house suppliers.*

*Issues arise when this money is used by the ATOL holder to fund other business expenditures rather than the specific booking.”*

This implies that using Customer A’s money to buy Customer A’s flight or other travel services is an acceptable purpose. We agree wholeheartedly. However, our clients are routinely told by the CAA that they are “using customers’ money” when paying any suppliers in advance of departure. Even in the scenario where Customer A’s money is used to purchase Customer A’s travel services.

We believe the practice of using customer money to fund “*other business expenditure rather than the specific booking*” is relatively uncommon, but that it does represent a risk.

We maintain our view that ATOL holders should keep their customer money in a client account, separate from their own company cash while they are custodians. This is a good working practice, followed by many other professions, including those of us regulated by the Financial Conduct Authority (FCA).

However, we believe ATOL holders should be able to use a customer’s money to pay for that customer’s suppliers, under normal commercial terms. We therefore do not agree with mandatory segregation of customer funds.

### Individualised pricing

In the original 2021 consultation document, the CAA asserted that:

*“The APC they [ATOL holders] incur may not be reflective of the risk individual ATOL holders or the value of bookings pose.”*

We acknowledge this. Though we point out that the CAA already operates an individualised approach to risk management. When assessing large ATOL holders and those considered high risk, the CAA imposes a range of interventions including bonds, trusts, escrows, guarantees and other structures. All of these mechanisms carry an implicit cost. In that way, riskier ATOL holders do already pay more.

The CAA already operates a scheme whereby ATOL Accredited Bodies, who segregate customer monies, and are thus deemed lower risk, can benefit from a lower APC via a per passenger rebate. We believe this is an equitable approach, and could be extended.

If APC must be reformed, we implore the CAA to adopt a simple, transparent approach for ATOL holders to understand and implement.

# Responses to questions

## The Financial Markets option

**1. Do you agree or disagree that the CAA should focus its further work on the use of financial products as a complementary measure sitting alongside other mechanisms, for example under a tailored or hybrid approach for individual businesses, rather than as a measure to cover the entire market risk?**

- Yes, in light of experience over the last 2-3 years, we agree that a single financial market solution to cover the entire market is unlikely to be viable as the sole measure to protect the whole industry.

## Segregation methods

**2. In considering the possible methods for segregation set out in paragraph 3.4, what are your views on the different approaches put forward by the CAA and are there other aspects that it should consider?**

- We believe that all ATOL holders should be encouraged to hold customer monies separately from their own company cash, in a separate client account for the period while they are custodians, they should be permitted to use that money to pay the suppliers that the customer monies relate to.
- We do not support the mandatory use of formalised trust and escrow accounts as a mainstay of the ATOL scheme due to the material consequences for the whole travel industry supply chain beyond the regulated ATOL holders including:
  - Third party travel agents;
  - Suppliers of holiday components;
  - Bond obligors; and
  - Merchant acquirers.
- Instead, we believe the CAA should maintain a risk-based approach and where additional financial protection is necessary, trust and escrow accounts should continue to be available as options, alongside other tried and tested consumer protection solutions. Businesses should have a choice of compliance methods as envisaged by the PTR.
- With regards to the specific options:
- Option 1, described as “total trust segregation” would be totally unworkable for most commercially run travel companies. In our experience, the vast majority of ATOL holders must pay a material proportion of their suppliers in advance of travel. Most would be unable to raise the additional capital required to fund these payments from their own cash.
- Option 2 is more workable by allowing some funds to be released and are already used by a number of ATOL holders. However, based on current terms, ATOL holders are still having to fund significant amounts of supplier payments themselves, which for some would not be a feasible option.
- Option 3, although offering the benefit of being able to pay suppliers, would still take considerable time, effort and expense to set up and maintain. We believe the costs of implementing this option would still be disproportionate to the risk presented by most companies:
  - The CAA’s standard trust and escrow legal deed is 50 pages long. Companies must incur legal fees, which can be up to £10k when entering these arrangements.
  - An independent trustee must be appointed to oversee the trust or escrow account. Trustee fees for ATOL trust accounts vary according to the size of a company and the precise details of the trust arrangements but could add tens of thousands of pounds to a company’s annual cost of compliance.

- Running a trust arrangement is operationally complex and will require systems to be adapted and may require the recruitment of additional staff.
- Option 4, the client account may offer a more cost effective approach and reduce tour operator's reliance on customer money. However, the proposed framework appears similar to a formal trust. Consequently, the costs and admin of implementing, and obtaining validation by an independent auditor would still raise compliance costs for most operators.
- We believe a pared down version of Option 4 could offer a suitable light touch alternative, where an ATOL holder was considered low risk (for example those ATOL holders who are not currently required to put in place any additional financial protection measures). Our recommendation would be to encourage ATOL holders over a period of time to operate a client account segregating customer monies, but which would enable suppliers to be paid as per normal supplier terms.
- The Financial Conduct Authority (FCA) currently operates such a client account scheme.
  - Most banks offer a "designated client account" product whose terms have been approved by the FCA, where for example, the bank has no right of set-off over funds in the client account.
  - FCA regulated firms have a statutory responsibility to comply with the principles, and must prepare periodic client money reconciliations in a prescribed format.
  - A responsible Director must certify adherence to the rules each year.
  - Larger firms are subject to more stringent oversight.

### **Key factors to consider in the context of the different segregation options**

#### **3. Are there additional key factors other than size of the ATOL holder, the nature of the ATOL holder's business and supplier payments, and whether the ATOL holder is part of an integrated airline group, that the CAA should take into account when considering the advantages and disadvantages of the different methods of segregation?**

- Segregating customer funds under the CAA's trust or escrow proposals has a material, negative impact on cash flow and working capital and we believe the impact will fall disproportionately on the following:
  - Small to medium operators who may not have sufficient negotiating power to be able to re-negotiate commercial terms with airlines and other suppliers. Under some of the proposals, they will need to fully absorb the impact of the trust account and fund any supplier payments which must be made in advance of travel.
  - Operators with longer booking cycles such as the cruise and specialist/luxury sector will be disproportionately impacted as, under some of the proposals, they will be required to fund the working capital deficit for a longer period.

#### **4. On the issue of the size of the ATOL holder, should smaller ATOL holders (up to a certain size limit) be entitled to operate segregation in a way which is proportionate to their size and the risk they pose to the ATTF (for example a client account with appropriate level of third-party oversight)? Please explain your views along with what, if any, size limit should be set, and what other corresponding requirements such as bonding or APC might be required.**

- Yes. We believe smaller ATOL holders should be eligible for simplified criteria in line with Better Regulation Principles and we believe that it is important that a risk based approach is maintained.
- We believe the CAA's current Small Business ATOL (SBA) scheme thresholds are appropriate. However, the gap in regulatory requirements between SBAs and Standard ATOL holders has narrowed over time. We understand this was in response to an increase in SBA failure costs, though we have not seen evidence that SBA risk has increased further in recent years.

- We believe heightened regulatory barriers stifle innovation and drive more businesses into the unregulated sector. Our view is that the barriers to entry for small companies are now very high and we do not agree that there is a case to increase them even further.

**5. As set out in paragraph 3.8, Accredited Bodies and Franchise Arrangements provide options for smaller businesses and smaller ATOL holders to operate within a framework overseen by a third party. Do you consider that it is a viable option now (or in the future) for all smaller businesses/ATOL holders to be required to be a member of an Accredited Body or Franchise?**

- For many businesses, Franchises and Accredited Bodies are a good option and offer additional support for those that need it or reduced financial criteria. However, this model does not suit every business due to limits placed on suppliers that can be used. There are many who choose to be licenced directly with the CAA and are able to meet the terms and conditions in doing so. Consequently, we believe this should remain an option but we do not believe it should ever be mandatory.

**6. Should the CAA consider general prepayments made by an ATOL holder to secure commitment volume (whether air, accommodation or other travel services) in the same way as specific prepayments required to secure an airline seat, accommodation or other travel service component for an individual booking? Please explain your views.**

- No. Where a trust or client account is required, we do not believe that monies should be released to secure commitment volume as this would result in the co-mingling of customer monies and may also incur significant complexities for reconciling funds in the Trust. Under a trust or escrow, money should only be released once a customer has paid the ATOL holder and in relation to a specific prepayment for a component of that customer's holiday.

**7. Do you agree or disagree that, where there is a degree of concentration risk with a particular supplier(s), payments made to these suppliers should be considered differently? Please explain your view, including quantifying a threshold that would represent a concentration risk.**

- We disagree that different rules should apply where there is a concentration of supplier payments to one particular supplier. The rules governing trust and escrow accounts are already highly complex, and difficult to understand. Adding additional layers of complexity would discourage new trustees, place more administrative burden on those companies operating trusts.

**8. Do you agree or disagree that payments made by ATOL holders to airlines within the same group structure (integrated groups) should be treated differently to payments made to third party suppliers? Please explain your view.**

- We agree that integrated groups should be assessed differently, given they represent a significantly different risk profile to the ATTF. Historically, as demonstrated by the failure of Monarch and Thomas Cook, the failure of an integrated group would result in both the airline and ATOL holder failing.
- Under current ATOL trust rules, ATOL holders are permitted to release funds to airlines where there is a secondary form of protection in place such as Scheduled Airline Failure Insurance (SAFI). This pre-supposes that in the event of the airline failing, the financial protection (e.g. SAFI) would refund monies back into the trust, making it whole.
- Integrated groups have some latitude over the proportion of the sale price which is allocated to the flight component. The ability to release flight monies may therefore create an opportunity to manipulate how much money remains segregated.

**9. Do you agree or disagree that payments made to other suppliers (e.g. hotels, destination management companies, cruise operators, etc) that are part of the same group structure should be treated in the same way as payments made by an ATOL holder to an airline in the same corporate group (integrated airline groups).**

- As above, permitting payments to group owned suppliers is open to manipulation. However we recognise that integrated groups need access to some part of customer cash to fund the maintenance and upkeep of their fleet.

#### **Interaction between APC and the method of direct protection of consumer monies**

**10. Do you think a reduction should be applied to the rate of APC based on the degree to which each ATOL holder provides for their own risk of failure? Please provide an explanation for your answer and, if you do agree that such a discount should be applied, please explain on what basis the discount should be applied and the amount of the discount.**

- The principle of a risk-based APC is not new and has worked well for Accredited Bodies and Franchises and we welcome this being extended to all ATOL holders.
- However, we believe it is essential that any approach taken has a clear and transparent framework for ATOL holders to understand how their APC has been calculated.

**11. Do you think that integrated airline groups should pay a different rate of APC to reflect the potential cost of a repatriation?**

- The costs of an integrated airline group failing significantly outweighs other ATOL holders. However, these groups usually carry more passengers, and therefore contribute more APC.
- We believe integrated airline groups should continue to be subject to bespoke risk-based assessments, with additional financial protection measures implemented, such as insurance or segregation of funds, where necessary.

#### **Additional risk-based requirements**

**12. Do you agree or disagree that the CAA should retain a risk-based licensing approach? Please explain your view.**

- Yes, we agree that a risk-based licensing approach should be maintained but we believe there is a greater need for transparency and consistency, as the current model is difficult to work towards resolving any gaps.

**13. If you agree, in the context of the different segregation options discussed in paragraph 3.4, do you think that the CAA's risk-based approach should extend to it being able to implement different methods of segregation for each ATOL holder depending on its risk assessment? Alternatively, do you consider that a method of segregation should be chosen to apply to all ATOL holders, and then the CAA could set additional requirements based on the risk assessment of that particular ATOL holder?**

- We believe that a risk-based approach should be maintained with additional financial protection measures required, where deemed necessary. However, there should be greater transparency to enable ATOL holders to clearly assess their risk and the potential impact of their decisions and working practices. Where additional measures are necessary, ATOL holders should be able to choose from a range of options including bonds, insurance or trust accounts.

**14. If the CAA continues to operate a risk-based focus in its licensing of ATOL holders and if ATOL holders posing an increased risk are required to provide increased segregation or bonding, should the APC (banding or adjustment) be the same as another ATOL holder that voluntarily provides the same direct protection of consumer monies?**

- Any risk-based framework for APC should be simple and transparent. If an ATOL holder takes measures to remove risk from the ATT in the form of a bond or trust, they should be able to benefit from reduced APC, regardless of whether they are forced to or do so voluntarily. If the CAA is able to reserve the right to refuse this, it becomes more opaque and has the potential to create a complex framework, which is impossible to navigate by ATOL holders.

**Identifying the mechanisms by which the proposed options impact stakeholders**

**15. As described in paragraphs 4.4 to 4.15 above, has the CAA identified the main mechanisms through which the options proposed in the first consultation will impact on stakeholders?**

- As identified in our initial consultation response, we believe the main impacts of the proposals will be:
  - Increased costs for all operators, with disproportionate increases for smaller operators. For example, an ATOL holder, satisfying the CAA financial tests, not currently subject to additional financial protection measures simply pays APC at £2.50 p/p. We do not believe it is fair to increase their APC and enforce segregation of monies.
  - The CAA also states that these costs will be borne by consumers who will benefit from improved industry resilience but, in reality many consumers are price conscious and this may encourage them to book either with an unregulated entity or independently, therefore losing their financial protection.
  - These proposals will leave ATOL holders at a competitive disadvantage to their unregulated competitors.
  - For many, the cost and administrative burden of meeting these proposals will be insurmountable and we envisage many will choose to leave ATOL. The number of ATOL holders has already decreased by 250 during the pandemic and these proposals will undoubtedly lead to further departures, thus reducing competition and choice for consumers.

**16. What are your views on the risk of market exit, de-packaging and / or changes in business model of the different options for reform put forward by the CAA? What factors do you think are most likely to drive this sort of response by ATOL holders?**

- As referred to in our answer to question 15, the cost of complying with any new requirements and the operational changes required to their business model will make them less competitive, compared to unregulated and non-UK operators. We believe this will push more operators into the unregulated sector.

**17. In your view, how might consumers respond if such measures (market exit, de-packaging and / or changes in business model) are taken by ATOL holders?**

- The additional measures proposed will increase the cost of ATOL protected holidays, if passed on to consumers. Consumers may be able to get the holiday cheaper if they book independently or with an unregulated operator. However, whether they do this will depend on the consumer's own priorities. It is clear that many consumers are price conscious and will always look for a cheaper option without thinking about financial protection, thus we may see a reduction in the number of ATOL protected holidays.

**18. As set out in paragraphs 4.16 to 4.27 above, what are your views on the wider impacts, both constraints and benefits, that the CAA has identified for the different options for reform?**

- The market will respond to any requirements accordingly - if Trust Accounts are made mandatory, the number of trustees available may increase. However, this works conversely in that if bonding is removed as



an option, this may reduce insurance capacity within the market as a whole. Consequently, we believe all options should remain for ATOL holders to enable them to choose what is right for their business.

- Whilst there has been a reduction of bond capacity during the pandemic, we are seeing this increase and with travel back to pre-covid levels, many insurers are expressing an interest in offering new capacity without the need for cash collateral as support.
- In looking at the wider impacts, the CAA does not appear to have considered merchant acquirers. It may be possible that these arrangements could benefit merchant acquirers and ultimately ATOL holders, by reducing their exposure in the event of a failure, however this needs to be clarified to avoid any double protection and increased costs.

**19. In your view, to what degree would it be possible to manage these constraints, for example through a staged implementation over a particular timeframe?**

- A staged implementation is essential in order to manage any potential impact and to allow ATOL holders time to liaise with those also impacted on the chain including suppliers, agents, acquirers, IT providers. However, this will not deter from the potential significant cost impact of the proposals.

**CAA's consumer research**

**20. Are you aware of any other research that can provide insights into consumers' attitudes towards insolvency protection? In particular how consumers view and value insolvency protection when purchasing a holiday and their expectations on the financial resilience of the travel companies they book with.**

- We are not aware of any other consumer research. We believe that most consumers would claim they value insolvency protection when prompted. In reality, the ATOL and package travel rules are so complex and are not widely understood. We do not believe the consumer research adds any valuable insight to this consultation process.

**21. Do you agree or disagree with the CAA's view that, although the research revealed that there is little indication that most consumers spontaneously think about how travel companies finance their operation, this attitude is very strongly underpinned by the belief that their chosen holiday company has the financial resources available to deliver their holiday?**

- We agree that consumers would generally expect to receive a service they have paid for. However, we do not believe customers place specific emphasis on a tour operator's financial resources unless prompted.
- We do not believe the consumer research adds any valuable insight to this consultation process.

**22. Do you agree or disagree that it is a reasonable expectation on the part of consumers that travel companies should have in place their own financial contingencies and practices to be able to deliver consumers' holidays, without consumers knowing, or needing to know, what these practices are in detail?**

- Yes, we agree this is a reasonable expectation.

**Review of APC**

**23. What practical barriers do you see to the implementation of a variable APC based on the findings of the review?**

- It is difficult to comment fully without sight of the full review and report however it is imperative that any changes are based around a transparent and simple framework to allow ATOL holders to ascertain what rate of APC applies to them.
- Any change to APC mechanisms would require substantial IT system changes across the industry to implement and we would strongly encourage the CAA to discuss with systems providers to understand the impact before implementing.

- The report talks about an average cost of trip being a factor but this may be unfair to operators who offer a wide range of trips. Although an APC based on a percentage of holiday price may offer a fairer approach, this could cause complications where the booking value changes after the booking date. This would create further complexities for ATOL Reporting Accountants and their audit verification process.
- If a variable APC is introduced, it is key that the amount is confidential from consumers who may wrongly infer their own reasons for different levels of APC.

**24. Are there any additional factors that you consider should be used to calculate a variable rate APC? If so, please explain which factors and why.**

- The CAA could consider a flat, base rate APC (tier 1), payable by all ATOL holders, set to cover a normal annual failure level. A tier 2 APC could be applied to those who do not provide financial protection. For example:

Size	Financial Protection	Rate of APC
ATOL holder under £20m	No additional protection	Tier 1 and Tier 2
ATOL holder under £20m	Trust/Bond/Insurance	Tier 1 only
ATOL holder over £20m	Trust/Bond/Insurance (bespoke, according to risk)	Tier 1 plus optional Tier 2

**25. Alternatively, with reference to the three factors identified through the review (the size of ATOL holder, the average cost of trips sold, and its financial leverage), do you think that any of these factors should not be included in the calculation of a variable rate APC? If so, please explain which factors and why.**

- Amongst our client base, there are evidently mixed views on the preferred approach. Unsurprisingly, the views depend on an operator’s business model, capital structure and the price of their holidays. However, we maintain that three principles should be considered:
  - Transparency of the framework to ATOL holders;
  - Simplicity to implement;
  - Confidentiality to consumers on the rate;

**The modelling framework for the CAA’s impact analysis financial model**

**26. As set out in paragraphs 4.46 to 4.49 above, do you think the impact assessment financial model incorporates the main elements and criteria necessary for assessing the impacts on ATOL holders of each option? If not, please explain why, and please provide details of any different or additional elements or criteria you consider the CAA should be using, including how these should be defined.**

- It is difficult to accurately assess this without sight of the model and we have concerns about its reliability, given the impact of covid on each of the elements.

## Mandatory options

**27. Do you agree or disagree with the outputs of the CAA's impact analysis financial model as set out in paragraphs 5.3 to 5.8? If you disagree, please explain why.**

- As above, it is difficult to accurately assess this without sight of the model but based on the information provided, we have the following concerns:
  - The model appears to assume that cash collateral is required for bonding but this was not the case pre-covid and we are also now seeing an increase in insurance terms being offered, which makes this assumption incorrect.
  - The model indicates that segregation has a better impact on working capital but it provides no indication on where the capital to fund the segregation has originated and whether this is even possible. The current market proves it's very difficult for tour operators to obtain any additional funding to support segregation of funds on a mass scale.

**28. With reference to paragraph 5.10, do you agree or disagree with the CAA's assessment of how the wider factors apply when comparing the segregation and bonding options? If you disagree, please explain why.**

- Whilst we agree that segregation of funds may improve a tour operator's resilience, this may not be the case in the short term during the transition and we believe that these improvements can be achieved through a less formal and cost prohibitive structure over a period of time.
- We don't agree that it is fair to say that segregation would present a lower risk of de-packaging or exiting the market when compared with bonding at an equivalent level of protection. Bonding has always been structured as a percentage of revenue and by its nature, may not always be sufficient in the event of a peak failure. Is the CAA now proposing that every ATOL holder should have 100% financial protection and is there a case for this? Can the CAA publish the model and provide an analysis of failures (excluding Thomas Cook and Monarch) to show whether companies have exceeded their bonds, where in place, or if they have contributed enough APC to cover their failure over their lifetime as an ATOL holder.

**29. If you consider that the CAA should conduct further work on bonding as a mandatory option to apply uniformly across all ATOL holders, please explain why and please provide details on the research and analysis that you consider the CAA should undertake.**

- Although we agree that bonding is subject to capacity, the reduction in capacity was driven by the CAA's move away from bonding in 2008, meaning that bonds were limited to higher risk cases only, which decreased the insurers appetite. If the CAA introduced bonding for all, it could lead to an increase in capacity as the risk is more evenly spread.
- Having said this, we believe the best way forward is to offer a range of options, which can be chosen by the operator, and not necessarily imposed by the CAA.

## Tailored options

**30. Do you agree or disagree with the CAA's minded to view to focus its further work on tailored options on developing a hybrid approach – i.e. where bonds and other financial products are used as additional measures to enhance the protection of customer monies alongside a form of segregation?**

**If you disagree with the CAA's minded to view, please explain why and how you consider the tailored option should be developed further.**

**If you agree with the CAA's minded to view, please explain how you think a hybrid approach should work. In particular, please explain which form of segregation (trust, escrow, or client account) would work best under such an approach.**

- Yes, subject to a full transparent framework on the level of protection required and how this can be offset by increased or reduced APC.

## Pipeline monies

**31. In light of the issues raised in this document and, in particular, the views expressed by the CAA in this chapter on those options for reform where it is minded to focus its work further, what are your views on how pipeline monies should be treated?**

- We believe the proposals in respect of agents need much more careful consideration. Any proposal to force segregation or immediate payment to operators would be ruinous for many small agents and would likely destroy the current agency model. Whilst we acknowledge that some agents have acted inappropriately by collecting customer money in advance of their contractual entitlement, we believe the number of travel agents that have ceased trading is low and the CAA's proposals are therefore disproportionate to those risks, and would penalise thousands of small, independent, and correctly run businesses.
- In the main, tour operators manage their pipeline money risk well, using robust agency agreements, and established pipeline money schemes such as the ABTA Retail bond scheme.

**32. Do you consider that agents should be subject to the same requirements as ATOL holders in terms of protecting customer monies, or do you think there should be a different set of requirements specifically designed for agents and pipeline monies? Please explain your view.**

- The CAA has raised a concern that the failure of agents could have a financial impact on operators but in reality, this only applies to larger agents, many of which are also likely to hold an ATOL. Consequently, a more proportionate approach could be taken, based on the level of risk, whereby they could work with larger agents to ensure consumer payments are protected.

**33. Given that the scope of the CAA's regulatory oversight does not extend to agents directly, in your view how could the implementation of any such requirements be achieved?**

- We posed this as a question in our response to the initial consultation. We believe that as the CAA has no regulatory oversight over agents, any obligations would fall on ATOL holders, adding further cost and risk to them.
- We believe it would be more proportionate to allow operators to set their own commercial terms with agents, based on their own risk and due diligence.