

Vouchers as a Result of Corona Virus and the Risks for Tour Operators and Consumers

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Abstract: The coronavirus is a phenomenon in the last months. The impact on the economy is devastating, especially on tourism. The national governments put into practice several supportive measures to avert the collapse. A specific tool was introduced for tour operators – the issue of vouchers instead of money refund. This paper aims to identify and analyse the risks of this measure offered by the Czech government. The identification is based on a combination of sources and methods. The methodologies used are open-question questionnaires and in-depth interviews. Preliminary results assume that the real risks associated with vouchers are the validity of insurance, the validity of vouchers and the future cash flow of tour operators.

Keywords: cash flow; COVID-19; Czech Republic; insurance; lex voucher; tourism; travel agencies.

JEL: L83, Z30

Vavčerji kot rezultat virusa Corona in tveganja za organizatorje potovanj in potrošnike

Povzetek: Vpliv koronavirusa kot pojava v zadnjih mesecih na gospodarstvo je uničujoč, zlasti na turizem. Nacionalne vlade so v praksi izvajale več podpornih ukrepov, da bi preprečile propad. Za organizatorje potovanj je bilo uvedeno posebno orodje - izdaja vavčerjev namesto vračila denarja. Namen tega prispevka je ugotoviti in analizirati tveganja tega ukrepa, ki jih ponuja češka vlada. Identifikacija temelji na kombinaciji virov in metod. Uporabljeni metodi sta vprašalniki z odprtimi vprašanji in poglobljeni intervjuji. Predhodni rezultati predvidevajo, da so resnična tveganja, povezana z vavčerji, veljavnost zavarovanja, veljavnost vavčerjev in prihodnji denarni tok organizatorjev potovanj.

Ključne besede: denarni tok; COVID-19; Češka; zavarovanje; zakonski vavčewr; turizem; potovalne agencije.

1 Introduction

The COVID-19 pandemic has affected almost everyone and has had a very significant impact on business in several fields. One of the most affected fields is tourism, and within tourism it is the business of travel agencies. These businesses can be said have been paralyzed by the measures taken by the vast majority of countries as the pandemic began to spread. Among the measures that most paralyzed the business of travel agencies were quarantines and border closures, both for departure of citizens of individual countries and arrivals to these countries. Travel agencies have been at the

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forefront of economic operators affected by the epidemic and will be the last to have a chance to relaunch due to the specific conditions of their business. Due to these specific conditions, specific solutions have been adopted in various countries to support entrepreneurs of closed establishments. Such a measure for tour operators were vouchers. These measures aimed to help tour operators to overcome the crisis period and to protect their clients not to lose their money for cancelled package tours and deposits for other package tours that would not be realized due to the measures. Based on a pilot survey among tour operators and their associations in the Czech Republic this paper aims to analyse the impacts and to identify the risks of voucher measures for their business and their clients. The Czech Republic is specific in that there is still a relatively high number of tour operators (as of June 4, 2020, according to the list of the Ministry of Regional Development of the Czech Republic 787 tour operators) to the number of inhabitants (according to the Czech Statistical Office 10,69 million inhabitants in 2019, Český statistický úřad [Czech Statistical Office], 2020).

2 Literature review

Travel agencies are still an important player in tourism market. Their importance stems from the need of mediation, especially the need to procure tourism services (Orieška, 2010). Throughout history, travel agencies have begun to specialize into two entities: tour operators and travel agents. Tour operators mediate and procure tourism services, which they complete/organize into a package of services (package tours, stays, and linked travel services) (EU Directive, 2015, Act No. 111/2018). Travel agents mainly participate in tourism services distribution as intermediaries of individual services or sellers of tours/stays (Orieška, 2010). The scope of activities of both entities is currently precisely defined by European Union legislation (Directive 2302/2015) and legislative acts of individual EU member states (in the Czech Republic, Act No 159/1999 as amended by later regulations). Various authors, foreign (Holland and Lesslie, 2018; Orieška, 2010) and Czech (Petrů, 2007; Palatková, Mráčková, Kittner, Kašák, and Šesták 2013; Pompurová, 2013) base their publications on the legislation valid in the given period. The main difference between the tour operator and the travel agent is that only the tour operator can create and offer a package tour and linked travel services.

The package tour is again defined in several legislative regulations (directive, standard, laws). Simplified a package tour as a core product of tour operator is a combination of at least two services: transport, accommodation and other services exceeding 24 hours. Package tour is always a combination of the accommodation and one another service, which is not a part of the accommodation. The package tour is characterized by several specifics, the main thing is that the sale takes place before the actual consumption of services. The sale of package tours can take place a year or more before its realization. Payment for package tours is also very closely related to the time of sale. Very rarely do tour operators sell package tours on credit or on instalments. On the other hand, tour operators pay in advance deposits to service providers (hotels, airlines...) according to concluded contracts for services that make up a package tour. These specifics affect the cash flow of tour operators. In connection with package tours and linked travel services sold by tour operators and with individual services sold by travel agents, clients usually receive the travel documentation that entitles them to use contracted tourism services (Pásková, 2012).

Travel documents also include a travel voucher, an internationally used term the voucher for a contracted service in international and domestic tourism. The travel voucher issued by tour operators is a document for pre-ordered paid, and confirmed services included in the package tour (Pásková, 2012; Civil Code No 89/2012). This type of voucher is mostly based on a long-term agreements and cooperation between the tour operator and service providers. At the same time, the voucher serves as a basis for services drawing during the trip and billing at the end of the trip (Palatková et al., 2013). The client uses the travel voucher as a means of payment to the service provider. The client no longer pays for the services he/she has paid for in advance at the travel agency. Travel vouchers have a long tradition and are associated with one of the oldest travel agencies in the world, Thomas Cook (closed in 2019). For the first time, the travel agency began issuing so-called blanket credit cards (now vouchers), which entitled their holders to stay, eat or request other services in contracted hotels (Orieška, 1999). Vouchers are also used in other sectors of tourism: hotels, catering facilities, but also outside this field.

However, in this article, the authors do not examine this type of voucher, but vouchers that are offered by tour operators to clients for cancelled package tours or probably unrealized package tours instead of refunding the amount of the paid package tour or instead of returning advances/deposits already paid. According to the Directive on Package Travel and Linked Travel Arrangements (Directive EU 2015/2302), the organizer of a package and client can cancel the trip without cancellation fees/penalty if there are "unavoidable and extraordinary circumstances occurring in the place of destination or its immediate vicinity and significantly affecting the performance of the package, significantly affect the carriage of passengers to the destination" (Article 12/2 of the Package Travel Directive). Such conditions occurred in most destinations due to the outbreak of COVID-19. According to the UNWTO, 96% of global destinations-imposed travel restrictions (UNWTO, a global review for tourism, a first report as of 16 April 2020). In the above cases, either the organizer or the traveller can cancel the package travel contract. The traveller has the right to get a full refund of any payments made for the package tour, within 14 days after the termination of the contract. This was stated in the information document on the Package Travel Directive in connection with the COVID-19 (revised version of 19 March 2020) and later in the European Commission Recommendation of 13.5.2020 on vouchers offered to passengers and travellers as an alternative to reimbursement for cancelled package travel and transport services in the context of the COVID-19 pandemic (C(2020)3125 final). These documents consider the issue of liquidity of tour operators, because of lack of the new bookings accompanied by reimbursement claims. Customers should think about accepting that their package tour is rescheduled to a later point in time. Concerning the current uncertain situation with traveling (in 2020), that could be done by means of credit note (so-called "voucher"). However, as stated in both these documents, the traveller should have the possibility to ask for a refund if, eventually, does not make use of the voucher. According to these documents, the voucher should be an option. Moreover, both documents emphasize that the voucher is covered by appropriate insolvency protection. However, the Czech Republic and 11 other EU member states have already taken their measures to mitigate the impact of the COVID-19 epidemic on the tourism sector.

In the Czech Republic, the "Lex voucher" law (Act No. 185/2020) was adopted to assist tour operators and stipulated that, with a few exceptions (so-called protected persons), they do not have to return financial amounts to customers for cancelled trips or trips that will not take place. This law allows tour operators to convert a monetary debt to the customer into a travel voucher valid until 31.8.2021 at the latest (protection period). And after this time, if the customer does not use up the voucher, he is entitled to a refund. Tour operators thus have customers' funds at their disposal for a certain period. These vouchers, like package tours, are covered by compulsory insolvency insurance, but only for the period of its validity. Some tour operators have even started issuing their vouchers.

3 Methodology

The main aim of the research is to identify and analyse the risks of issuing vouchers by the tour operators instead of money refunds. The secondary aim is to analyse the approach of the tour operators towards vouchers and the law (lex-voucher).

Two research questions were formulated:

Question 1: Do the tour operators find the vouchers as an effective help, and do they use them strictly according to the legislation?

Question 2: Do they see any risks connected with the vouchers, and what are the main issues?

For the research, a combination of two qualitative methods was chosen. These methods were an open-question questionnaire and structured in-depth interviews. Thanks to these methods an overall picture of the risks connected with the vouchers could be created.

1. *Open-question questionnaire:* A set of 4 open questions has been sent to 294 tour operators from the list of members of two associations (ACK ČR and AČCKA). The response rate was 14,3 %, and together 42 answers were collected. The data were collected between the 4th of June and 18th of June via email.

2. *In-depth interviews*: after the analysis of the answers, the big market players were contacted (Exim Tours, Čedok, Fischer, Alexandria, and Blue Style). Three tour operators agreed with an interview and were interviewed by phone. The overall picture was completed by an interview with the representatives of the two associations. The interviews took place on the 22nd and 25th of June and took 20 – 40 minutes.

Both methods created a comprehensive overview of the issue – the potential risks and their perception by the tour operator’s market.

4 Research results

There were collected answers from 42 tour operators. Most of them were small and middle-sized companies. Their focus was very diverse, and they represented different kinds of tourism products – sun & beach with charter flights, tours in Europe and the world, school excursions, flight tickets, and outdoor trips. The response rate was 14,3 %, which indicated that the topic was a very current topic and some of the answers were even emotive. The respondents’ evaluation of the vouchers is in Figure 1.

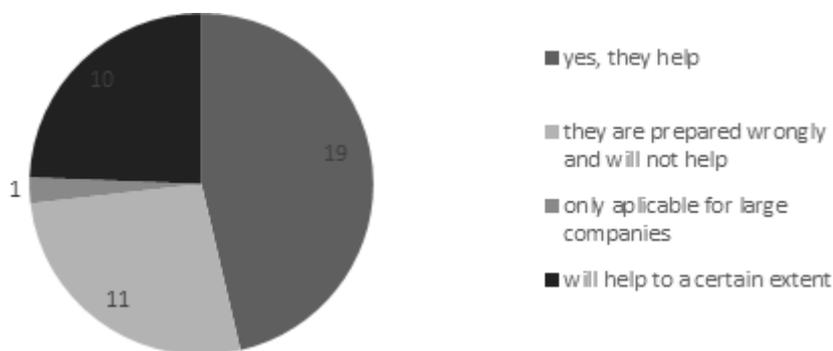


Figure 1. Is the voucher an effective measure for help the tour operators? Source: own research.

Most of the tour operators have found the vouchers as an effective help for their industry. As the figure 1 shows, 43.3 % thought the vouchers offered an effective help and another 24.4 % thought they helped to a certain extent. Only 26.8 % thought that the vouchers were prepared in the wrong form and did not offered an effective help for saving the tour operators’ businesses. The main reasons for the reserved evaluation were (1) the „lex-voucher“ came too late, (2) it only postponed the problem, but did not bring the solution, (3) they were afraid that the customers do not understand their rights correctly and the negative experience and medialization will damage the image of the industry and (4) they found the text and application into practice too complicated. The respondents also mentioned (5) the problem with flight tickets on regular flights and (6) too many exceptions in the law.

Even though 67.7 % of the respondents found vouchers as an effective or partially effective measure, when asked about the use of vouchers according to the „lex-voucher“, only 23.1 % of the tour operators strictly applied the law and 76.9 % approached the customers individually and made exceptions beyond the law’s requirements. Of those, who saw it as an effective helpful tool, 38.9 % applied the law strictly. Of those, who didn’t see it as an effective help or only partially helpful tool, only 9.5 % applied the law strictly.

The main reasons why their approach to the use of the vouchers was reluctant were: (1) good relationships with the customers, (2) building trust and (3) respecting the individual needs of the customers. The tour operators also believed that the satisfied customers would come back voluntarily because of a good experience and perfect product, not because they would have to do so perforce to use the vouchers.

The next part of the research focused on the risks. The results are in Figure 2. The 36 tour operators expressed a clear statement about the risks.

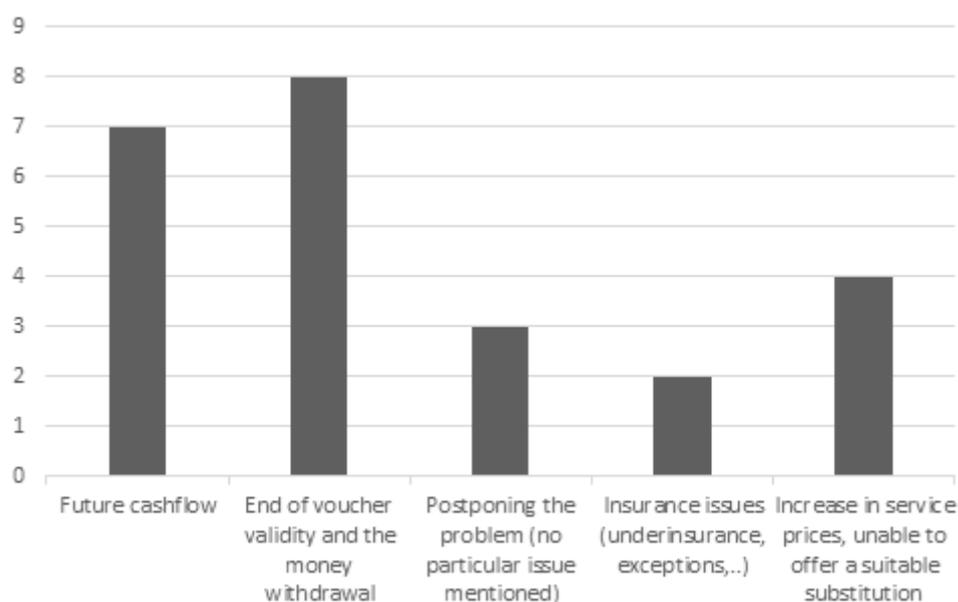


Figure 2. Identified risks of the vouchers. Source: own research.

When analyzing the awareness about the risks connected with issuing the vouchers, 33.3 % of the tour operators did not see any risks, and 66.6 % see several potential problems. There are only 30 answers to be analysed, therefore the attention was focused on the content only, not on the numbers and percentage. The most mentioned problem is (1) particularly the end of the voucher validity when the tour operators will be obliged to refund the money. Cashing the vouchers can be a liquidation procedure for many tour operators. (2) The future cash flow will be in danger. As this answer was more general than the first one, it needs to be more analysed. One of the reasons is definitely the cashing of the vouchers, only in other words. The second reason for the potential cash flow problems can be the fact, that the tour operators will have their operational costs during the whole year, however, at the beginning of the next season (2021), they will get vouchers instead of money. When they will not be able to use the deposit payment from this season or will not be able to reduce their costs, it can cause problems with cash flow. Some of the tour operators were worried that (3) the prices of the tours and vacation will increase (inflation, higher safety cost, exchange rate) and they will not be able to offer the product of the same quality for the same price. The next group of potential risks is (4) connected with the insurance. The tour operators have insurance in the case of bankruptcy, and the client is supposed to get his payments back. However, there are some risks. The insurance policy does not include the pandemic situation and it can happen that the insurance company will try to deny the insurance indemnity. The other risk is that the insurance company will not renew the insurance contract and the tour operator will terminate the activity. The vouchers will still be valid; however, the insurance will not exist anymore. There is a declaration that the insurance companies will take over the responsibility for the vouchers, however, the practice can bring new issues and point of view.

The vouchers and approaches were discussed in the in-depth interviews with the big tour operators and the representatives of the associations. The tour operators mostly stated that they welcome the vouchers and that it will partially reduce the cash flow risk and it has the potential to save some of the tour operators. Even if they saw the law Lex-voucher as a compromise and had some reservations, they mentioned that this was the only help in the Czech Republic. However, they approached the topic with their solutions. The biggest tour operator used the lex-voucher, cancelled all the tours bought and prepared a completely new summer catalogue for its clients. The other solution mentioned was the use of own vouchers with even longer validity and the tour operator stated that 75 % of their clients had chosen another solution not a voucher of Lex-voucher. None of the biggest tour operators saw any risks for the clients. Some mentioned the risk of cash flow (especially for smaller tour operators), on the other hand, they agreed that many of the vouchers will be used in the season 2020.

The representatives of the associations evaluated vouchers as an effective and the only help. They didn't see any risks for clients and mentioned the declaration of the insurance companies. Vouchers are fully covered by the insolvency insurance and in case of bankruptcy, the payments will be fully reimbursed. Rather than tour operators' bankruptcy they expected that some of them will have to switch to a travel agent because of the high costs of insolvency insurance, others will interrupt the business and concentrate on other activities for a limited time. Even the associations' representatives had some doubts about the Lex voucher. The most important one was the concern regarding protected persons which represents a significant social element, and which did not have any similarity in other EU-countries. The vouchers had the potential to prevent the massive tour operators' bankruptcy wave, however, the future will require a high level of positive and responsible communication and hard work for the customers in order not to lose confidence in the tour operators and travel agents.

5 Future research directions

The research aimed to identify the risks of the vouchers. This research among the tour operators opened many other questions and potential research topics. The public opinion research would be interesting, too. The vouchers are sometimes presented as an interest-free credit for tour operators, but the risks are not medialized. The tour operators also opened the question of insurance exclusion, which is more a legal question and worth analysis. Another topic suitable for research will be in the future – how the insurance conditions for the tour operators will change, what will be the reaction to a higher risk of bankruptcy in 2021 (end of the validity of the vouchers, higher cash flow requirements). An international comparison of the legislation concerning vouchers could follow. Research showed that the topic of vouchers has a great response from the public, the media, and tour operators.

6 Conclusion

The paper brings an overall view of the vouchers and concentrates on the identification of the risks. The tour operators evaluated the vouchers as an effective help. However, the most mentioned reservation was the fact that they only postpone the problem. The tour operators expect several problems with the vouchers – the big, expected issue is the cash flow in season 2021, especially in connection with the end of the vouchers' validity and the money withdrawal. The tour operators didn't see any risks for clients. The tour operators mentioned the unknown situation and potentially risky reaction of the insurance companies. The big tour operators are sure of their solution to the situation. Although they agree on vouchers' usefulness, they do not rely on the law lex-voucher and find their custom solutions. In their position, they do not see any risks for clients. As a consequence of the coronavirus lock-down, they mentioned the administrative requirements related to the situation. The issue is payment or monetary compensation/refund if the tour operator does not obtain new insolvency insurance during the protection period. Insurance companies refuse to issue insurance for 2021 to some tour operators.

The research does not cover the whole market of tour operators. The research aim was a qualitative identification of potential risks, not a quantitative analysis. The risks were identified, and a wider range of respondents was not necessary.

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