

If an Airline goes Bankrupt... What Will Happen to your Vouchers, Air-Miles or Airline Credit Card



With warnings of airline bankruptcies, consumers may lose those cancelled tickets...

...The financial future looks anything but 'straight and level' for the airline industry in the aftermath of COVID-19.

Air travel is just about at a halt as people avoid any risk of exposing themselves to coronavirus. Airlines have grounded whole fleets or resorted to flying mostly empty flights at huge cost. (Though in some cases, passengers have complained about crowded planes, like on a recent United Airlines flight in the USA).



Airline stocks have slumped in response. Warren Buffett recently revealed that Berkshire Hathaway, (BRK.A), had sold off all of its holdings in the airline sector, including:

- Delta (DAL)
- American Airlines (AAL)
- Southwest (LUV)

I would personally be a bit reticent about hotel chains and cruise lines, too!

If one of the biggest airlines went bankrupt it would create a mass of refund requests, and it is unrealistic to think that banks would grant all of them.

Chief Executive of Boeing, David Calhoun suggested that a major airline will “most likely” go under as a result of the coronavirus pandemic. He suggested that it could take three to five years for the industry to recover to the passenger levels seen before the pandemic.



A recent study estimated that US airlines have distributed \$10 billion in vouchers as a result of coronavirus flight cancellations, and airlines in much of the rest of the world have pushed their vouchers, rather than giving refunds.

Depending on how the bankruptcy is administered, ticket-holders may or may not be refunded. Often companies use bankruptcy as a legal tool to restructure debts, so a bankrupt airline won't necessarily be liquidated.

Alitalia, for example, has been in various stages of bankruptcy proceedings since 2017 yet has continued to fly. Colombia's Avianca airline, one of Latin America's largest airlines, filed for bankruptcy protection last Monday, 11th May, but the company 'hopes to get back in the air once the coronavirus pandemic subsides.'

Here is what travellers need to know...



There's no guarantee that a liquidated airline will directly reimburse would-be passengers for the cost of their airfare.

The tax man would typically be paid first, followed by investors who own corporate debt and shares.

Customers, meanwhile, are considered “unsecured creditors”.

In Europe and the USA, the FAA and various European bodies ABTA, and ATOL (Air Travel Organisers' Licensing) schemes might offer some help – but the reality is, it may just come down to asking travel insurers or your credit card company to cough up.

Vouchers don't have any cash value

In lieu of refunds, the vast majority of airlines have provided travelers who cancel trips because of the coronavirus pandemic with vouchers or credits. They would almost certainly lose their money if bankruptcy followed.



Travel vouchers state 'No Cash Value'. Therefore, if a traveller is worried about their airline going under before they can use the voucher, they might consider booking a trip using the voucher and then taking out a travel insurance policy on that trip that covers bankruptcies.

However, any decent insurance actuary is currently likely to declare that airline bankruptcy is a strong possibility, and therefore excluded from cover.

You can request a refund from your credit-card company if the airline goes belly up. (Some debit cards may also provide some protection in these cases, but the claims process with credit cards is generally smoother and much quicker).

These requests can be made online or by phone, but there is no guarantee of actually receiving a refund.

Timing is another critical issue. The USA's Fair Credit Billing Act, for example, gives consumers 90 days to file a claim, and other regional legislation is likely to have time limits, too.

Your travel-insurance policy may not protect you

If an airline liquidation halts your travel plans, your travel-insurance policy may cover some of the costs. However, the policy's terms and conditions may exclude financial default or bankruptcy.

Frequent-flyer miles may be useless

When an airline goes out of business, its elite-status members and frequent flyer-mile holders may well lose air-miles and any other benefits.



But if the airline ends up merging with a surviving carrier through the bankruptcy process, those miles may be converted into the new airline's scheme, and other benefits transferred too.

Some airlines have split their loyalty program into separate companies, which could survive the bankruptcy.

Many carriers also have "status match" programs to attract frequent-flyer members from other airlines. These programs will give you the equivalent status, and surviving airlines could use these programs to attract elite members from the defunct carrier.

But retaining frequent-flyer miles or status is not guaranteed., since 'rewards' are not considered property and can be eliminated by the airline program at their discretion. If an airline looks like it will go out of business, it probably makes sense to use frequent-flyer miles for flights or convert them into other purchases such as merchandise or gift cards.

You must pay off your airline credit card



Many people have airline-branded credit cards, which often offer attractive perks, including travel rewards or discounts, but if an airline goes out of business you are not absolved from paying off your credit-card bill.

The outstanding balance (and any interest) is still due in full, and the bank and liquidators will chase you for it.

Your credit rating will be impacted by any non-payments, in the usual way.



So Beware...

If you have any flight vouchers, rewards points or an airline credit card, don't just sit on them thinking all will be ok in the future - We are in unprecedented times and the airline industry is likely to have a significant casualty or two - It might be worth acting now to preserve what you have already spent with them or earned with them.