

# The CAA's ATOL Scheme

## Introduction

The Air Travel Organisers' Licence (ATOL) Scheme is a financial protection scheme for holidaymakers that is managed by the Civil Aviation Authority (CAA). It provides the following protection for passengers:

- complete financial protection to customers who book ATOL-protected air holidays and flights with tour operators that hold an ATOL, whether they book direct or via a travel agent; and
- in the event of an ATOL holder's failure, customers with ATOL-protected holidays will not be stranded if they are abroad at the time of the failure and will not lose any of the money paid for their holiday or flight if they have not yet taken their holiday.

Ticket sales direct from airlines are excluded from the ATOL Scheme, but should someone book a ticket for a flight with an ATOL holder and the airline fails, it must provide alternative travel arrangements for its customers, whether they are abroad or yet to start their holiday, if the ticket sale was ATOL-protected.

## How does ATOL work?

The key features of the ATOL Scheme are that:

- all holiday companies selling air holiday packages and flights in the UK are required by law to hold a licence called an ATOL, which is granted only after the company has met the CAA's licensing requirements;
- each ATOL holder is issued with a unique ATOL number so that consumers can check they are protected;
- ATOL holders must contribute to a protection fund called the Air Travel Trust Fund (ATTF) in order to protect their customers should a failure take place. Some ATOL holders must also provide a bond; and
- travel agents do not require ATOLs provided they sell holidays and flights on behalf of ATOL holders, or issue scheduled airline tickets immediately when payment is taken from the customer.

## ATOL - the early years

The ATOL Scheme's origins lie in the 1960s when package holidays and charter flights became increasingly accessible to the public through the development of tour operators. In this period there were a number of tour operator failures that left thousands of holidaymakers stranded and requiring Foreign Office help. The Government decided to introduce legislation in 1971 for the licensing of travel organisers with the aim of reducing the risk of insolvent and fraudulent businesses putting the public at risk. A condition of licensing was the provision of a bond to meet the cost of repatriating customers should a failure occur.

Responsibility for the licensing scheme was to rest with the newly formed Civil Aviation Authority (established in 1972).

Following the high profile Clarkson Holidays failure in 1974, and public concern over the financial loss for those with advance bookings, the Government extended the ATOL Scheme to protect these customers too. In order to provide immediate relief, the Air Travel Reserve Fund, the forerunner of the Air Travel Trust Fund (ATTF), was set up to act as a back-up to individual bonds. The fund was initially funded by a Government grant and an industry levy that ran

until 1977, when a surplus was reached.

The ATTF helped to fund the protection of a large number of customers affected by failures, notably Laker Holidays (in 1982) and International Leisure Group (in 1992). These and other failures over the years exhausted the ATTF's funds and levy legislation had not been reinstated; the fund had gone into deficit by £21 million in 2007 and was supported by commercial loans backed by Government guarantees.

## Introduction of the APC

The ATOL Protection Contribution (APC) is a per passenger payment that ATOL holders must regularly make to the ATTF. It was introduced on 1 April 2008 with the purpose of replenishing the depleted fund and, for most ATOL holders, replacing bonds as the primary means of protecting customers when a failure occurs. The APC is currently £1 per passenger.

Some ATOL holders continue to provide bonds. These are set within a range of 10-15% of (licensable) turnover, and are mainly required from companies that have held an ATOL for less than four years or in other circumstances determined by the CAA.



## Licensing

Air travel companies that offer and sell holiday packages, charter flights and discounted scheduled flights in the UK must hold an ATOL licence. Before a licence is granted the CAA must be satisfied that the applicant is fit to sell package holidays and has adequate finances.

Fitness can also mean whether the management of a business is sufficient to ensure regulatory compliance. Should an applicant fail either test it will not be issued with a licence.



## What happens if a failure occurs?

The CAA will ensure ATOL-protected customers can complete their holidays and fly back to the UK at the end of their stay. It will check accommodation and flight providers to the failed company to ensure these can still be used, but where necessary alternative arrangements will be made.

For customers with advance bookings, holidays will usually be cancelled due to accommodation or other holiday arrangements no longer being available, so they will usually get a refund instead.

## The repatriation of XL customers

ATOL is the only scheme that offers passengers the certainty that they will not be stranded if their holiday company fails, but will be able to complete their holidays and fly home as planned.

This is what happened after XL Leisure Group failed on Friday 12 September 2008. XL was Britain's third largest travel company and comprised four tour operators, including Travel City Direct, Kosmar, Freedom Flights and Aspire Holidays, and the airline XL Airways. When it went into Administration, over 80,000 customers were abroad, and over 240,000 had advance bookings.

The CAA's first priority was to make arrangements for the repatriation of the ATOL-protected customers. It made arrangements for customers to complete their holidays by guaranteeing accommodation; provided in-resort assistance through other tour operators; and, working closely with airlines, organised repatriation flights.

In the initial two-week period after the failure the CAA organised 222 flights from 40 different resorts. While initially some customers experienced some disruption to their return journey, most were brought home on flights near to their original flight times and to their expected UK airports.

Nick Swanson from Leicester was one of those people who was abroad when XL failed - after the CAA brought him home he wrote to us to say:

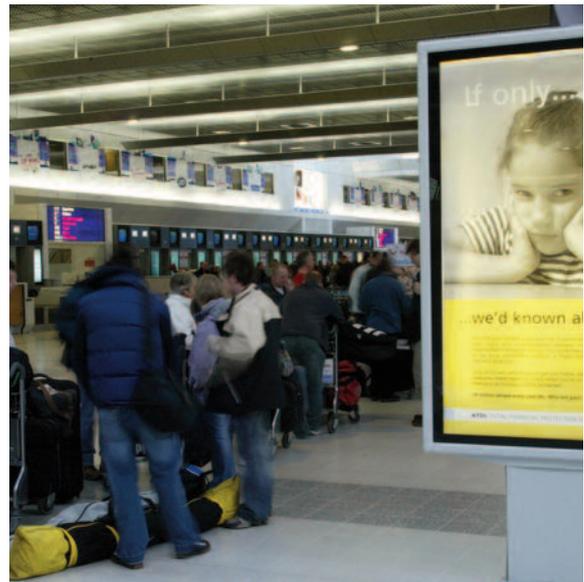
"The CAA's help and support was first class and the work done by the CAA in putting together repatriation flights was greatly appreciated."

XL's failure also affected around 240,000 people with advance bookings for holidays. The CAA is currently in the process of repaying those claims and has so far repaid around a third of the 60,000 claims received by the CAA to date. All valid XL claims will be repaid as soon as possible.

## Market Changes - DIY Holidays

With the development of the Internet and no-frills airlines, many holidaymakers now plan what are known as "DIY holidays". A DIY holiday is where someone brings together holiday flights and accommodation from several different suppliers, such as an airline and a hotel bed-bank.

Despite what many people believe, the ATOL Scheme does not protect these holidays and customers could be at risk if one of their suppliers fails. Our advice is to take out travel insurance, making sure it covers insolvency and possible indirect loss as a consequence. Credit cards can also give some protection provided the customer pays more than £100. Alternatively consider buying an ATOL-protected holiday.



## Changes to the APC

On 27 April 2009 the CAA published a consultation on the future level of the APC. The consultation suggests setting the new level of the APC at £3 per passenger, following the UK's fall into recession in the last half of 2008, the failure of XL and the fact that ATOL holder booking estimates for the first quarter of 2009 are considerably lower than projected when the APC was introduced a year ago.

The change aims to help to sustain a robust scheme to protect holidaymakers by ensuring that the ATTF moves into surplus within a practical timescale, balancing setting the rate as low as possible so as to support the travel industry, and providing resilience in the current period of economic uncertainty.

At the same time, the CAA undertook to work alongside the Department for Transport to consider ways in which financial protection for holidaymakers can be further strengthened and simplified.

## How do customers know if their holiday is ATOL-protected?

All tour operators should have their ATOL logo and number on brochures, websites and adverts. The CAA hosts a website [www.atol.org.uk](http://www.atol.org.uk) and a phone line (020 7453 6430) for people wanting to check if their travel company is licensed by ATOL.

People can also get much more information about ATOL, aviation, and what rights they have when they fly, from [www.caa.co.uk/cpg](http://www.caa.co.uk/cpg)

## The scope of ATOL

There are over 2,500 ATOL holders, which carry around 20 million protected customers each year.

Last year ATOL aided over 400,000 holidaymakers when their firms failed.

**April 27 2009**

**Contact: For further information please contact the CAA's Press Office on +44(0)20 7453 6030 or email [press.office@caa.co.uk](mailto:press.office@caa.co.uk).**