the payments association

Virtual Cards

How companies can unlock the €5 trillion bionic B2B opportunity

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Contents

Executive Summary

Whether it's the speed of a seamless one-click checkout process for a business travel booking, effortless automated reconciliation and record matching, or the security of setting spending controls to stop fraud, overspending or misuse, the rapidly rising popularity of virtual cards demonstrates how suitable they are for a growing range of use cases across many industry sectors.

The emergence of virtual cards as an extension of commercial credit, debit and prepaid cards is transforming B2B payments. They're unlocking vast revenue, data and operational strengths for the companies that use them.

The global value of virtual card transactions is expected to soar from €1.8 trillion (£1.6 trillion) in 2021 to an astronomical €6.7 trillion (£5.7 trillion) by 2026, with 70% (nearly €5 trillion) of all value coming from B2B transactions, fuelled by the urgent need for companies to optimise back-office processes, speed up payment flows and supplier onboarding, minimise risk and reduce fraud.

Key highlights include:

- The post-pandemic push for digitisation in the corporate and B2B space creates ideal conditions for virtual cards
- How flexible and agile virtual card functionalities and integrated platforms can generate cost and resource efficiencies for companies
- How innovation is expanding the use cases of virtual cards to more business sectors
- The best practices companies need to follow when introducing a virtual card solution
- How payment ecosystem partnerships are leveraging combined strengths to empower companies for the future

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> "The global value of virtual card transactions is expected to soar from €1.8 trillion (£1.6 trillion) in 2021 to an astronomical €6.7 trillion (£5.7 trillion) by 2026"

In this whitepaper, The Payments Association and payment solutions and services provider FIS show how virtual cards offer several strategic opportunities for companies. We explore how this payment method can empower businesses to adapt to fast-changing market conditions, take control of expenditure, and uncover unique business intelligence insights that will elevate them above their competitors.

The whitepaper outlines how companies are currently managing their B2B payment processes, and where virtual cards can be introduced to create game-changing efficiencies through faster guaranteed settlements, increased control and security, and enriched transaction data that enables accurate reporting and reconciliation.

With contributions from several cross-sector industry leaders that are at the forefront of revolutionising B2B payments with virtual card solutions, this whitepaper harnesses the insights that companies need to tap into the readily available benefits on offer with virtual cards. ■

Foreword

Andrew Auden
Senior Director of B2B Payments
FIS

Virtual cards can be embedded seamlessly in payment journeys, delivering working capital benefits for both buyers and suppliers, as well as finely tuned controls to avoid misuse or fraud while supporting rich integrated data to help reporting, accounting and reconciliation processes. Virtual cards are a key enabler to integrate payments into procurement.

The use of virtual cards has remained frustratingly slow outside of specific verticals (online travel) or geographies (cheque replacement in the US). However, that is now changing quickly.

Developments in digital technologies, such as the wide adoption of API-based platforms, and extraneous factors in the Covid-19 pandemic has led to a real focus on creating optimised, data-rich and globally consistent B2B payment solutions to support buying journeys. Virtual cards are perfectly positioned to support these ambitions.

In this whitepaper, we interview a range of leading experts in the B2B payments ecosystem to understand how this space has changed and continues to do so, along with the opportunities for participants in the end-to-end B2B value chain to generate value through virtual cards. ■

Contributors:

Kris Carrera
Head of UK & EU Payments
FIS Card Solutions

Thomas Dunn
Chairman
Orbian

Simon Kelly
Director of Sales
Conferma Pay

Dave Robinson
Chief Operations Officer & Deputy CEO
Pax2Pay

Hector Martin
Vice President of Global Sales
Voxel

Kuba Zmuda
Chief Strategy Officer
Modulr

Oliver Fellowes
Director, Head of Business Development (UK & Ireland), Commercial Solutions
Mastercard

Katie Mosley
Senior Director
Coupa Pay Partnerships

The story so far

Companies seeking to drive down operational costs and gain new competitive strengths can tap into many optimisation strategies. They can invest in IT and data analytics systems, automate back-office and front-office processes, and launch targeted marketing initiatives.

However, they may not be aware that there is a ready-made solution that offers all these benefits that would not have been accessible previously.

When it comes to delivering immediate operational efficiencies, virtual cards are unrivalled in the vast data insights and control over every penny a company spends. Coming with all the positive features of plastic cards – removing the need for handling cash or cheques, fraud protection and wide acceptance – virtual cards offer many more game-changing features that can transform cashflow and working capital management, corporate travel spending, and SME payment processes.

With **global B2B payments estimated to be worth around €122 trillion (£120 trillion)** and growing fast, it's all the more astonishing that only 2% of B2B payments are made with payment cards, with the overwhelming bulk still comprised of automated clearing house (ACH) and bank transfers, direct debits and cheques, which are far more costly for businesses.

Research suggests **B2B virtual card payments are worth €320 billion in annual transaction volume worldwide**, and that could grow to €553 billion by 2024.

According to Mastercard research, virtual cards have the potential to drive cost savings of between $0.50 to $14 per transaction, with higher savings to be found where companies have not yet consolidated their payment processes into a card programme and still rely on cheque, ACH or other non-card payment methods.

The cost benefits are clear, but virtual cards offer even more business-boosting advantages. ■

"Fears about integrating new solutions and cost concerns disappear when the benefits of accessing better payment processes, actionable data insights, and effortless compliance are explained clearly."

DAVE ROBINSON, PAX2PAY

Virtual cards are on the cusp of explosive growth

Virtual cards have been around for nearly two decades, and while their benefits were immediately clear across a number of applications, initial uptake was slow and gradual for several years, as many companies preferred to stay with their tried and trusted cheque and paper-based B2B payments.

When companies needed employees to travel for business or make payments to suppliers, often personal cards were used to pay for business expenses. Although much more efficient than cash or cheques, personal card usage involved manually submitting receipts and invoices, filing expenses, and waiting for reimbursement, all of which meant that back-office reconciliation processes and cashflow management suffered as a result.

Even before the Covid-19 pandemic, the conditions were ripe for the advent of digitisation and for online B2B commerce to revolutionise the way that companies made payments.

We're now seeing virtual cards on the cusp of exponential growth in the post-pandemic world. Capable of making contactless or in-app payments, and stored in mobile wallets for easy online purchasing, these innovations, having experienced rapid uptake in the post-pandemic consumer world, are now making an impact in the B2B space.

"Even before Covid-19, we were seeing an increasing number of organisations moving towards paying their suppliers using a virtual card. Because of that, we've seen working capital probably become the most compelling feature of virtual cards."

OLIVER FELLOWES, MASTERCARD

"The Covid-19 crisis was when virtual cards became a mature payment method. Companies in the travel space were suffering a lot, and at risk from default because there was so much uncertainty from a financial perspective. Virtual cards were a very good option to minimise risk in the transaction."

HECTOR MARTIN, VOXEL

"The pandemic certainly helped accelerate supplier adoption. Globally we saw more vulnerability in the supply chain itself, and suppliers needing access to cash quickly to help sustain their businesses. Overnight, suppliers who historically said 'no' to card acceptance, began accepting, and that has driven significant volume across the industry in virtual card spend."

KATIE MOSLEY, COUPA PAY

Today, virtual cards are no longer the preserve of large corporates with thousands of employees scattered across the world. Issuers, fintechs and payment service providers have innovated with new platforms and virtual card solutions that can be used by sole entrepreneurs, small businesses and mid-market companies for a growing range of applications in B2B, from travel management companies (TMCs), online travel agents (OTAs), to payroll, insurance claim payouts, procurement, and government disbursement programmes.

Whether it's because of fluctuating market conditions putting pressures on operating budgets, the need to simplify costly and complex accounts payable or supply chain processes, or the appeal of real-time data-driven business intelligence opening up new revenue possibilities, virtual cards are enjoying strong momentum and are assured of continued growth across an increasing number of corporate and public sectors. ■

Case Study: Simplifying merchant category blocks

Simon Kelly, Conferma Pay

We're working with a large civil engineering firm alongside a bank in the UK, and they had around 300 physical purchasing cards. They like purchasing cards because they can apply different merchant category blocks for each card, but what they were finding was 60 times a day they would be calling the bank to manage the individual cards, changing different blocks or allowing certain codes. Most of the cards were being used on laptops, so it wasn't necessary to have physical plastic to make purchases. We demonstrated how virtual cards could reduce the time spent calling the bank each day, and how each employee making the payments could code, apply spend controls, gain approval and then get the virtual card for the purchase, and they loved it. We have now implemented it within their business. They have now got one platform that all of their employees log into to manage their payments to suppliers.

Virtual cards - a compelling product

As with physical cards, virtual cards can come in several formats. A virtual card can be:

- a single-use payment method that expires after one transaction, or
- linked to a physical card with transactions made from the same account.

However, unlike a physical card, which carries one 16-digit primary account number (PAN) used for multiple transactions, a virtual card has a unique 16-digital virtual account number (VAN), a bank identification number (BIN) from an issuer, a unique 3-digit or 4-digit card verification value (CVV) number, and a unique expiration date.

Every time a virtual card is used to make a transaction, a unique, single-use card number is assigned to each transaction and tokenised to protect sensitive data. Each unique card number expires immediately once a transaction is completed, so there's no risk of cloning or being duplicated – a massive protection against fraud.

"Every time a virtual card is used to make a transaction, a unique, single-use card number is assigned to each transaction and tokenised to protect sensitive data."

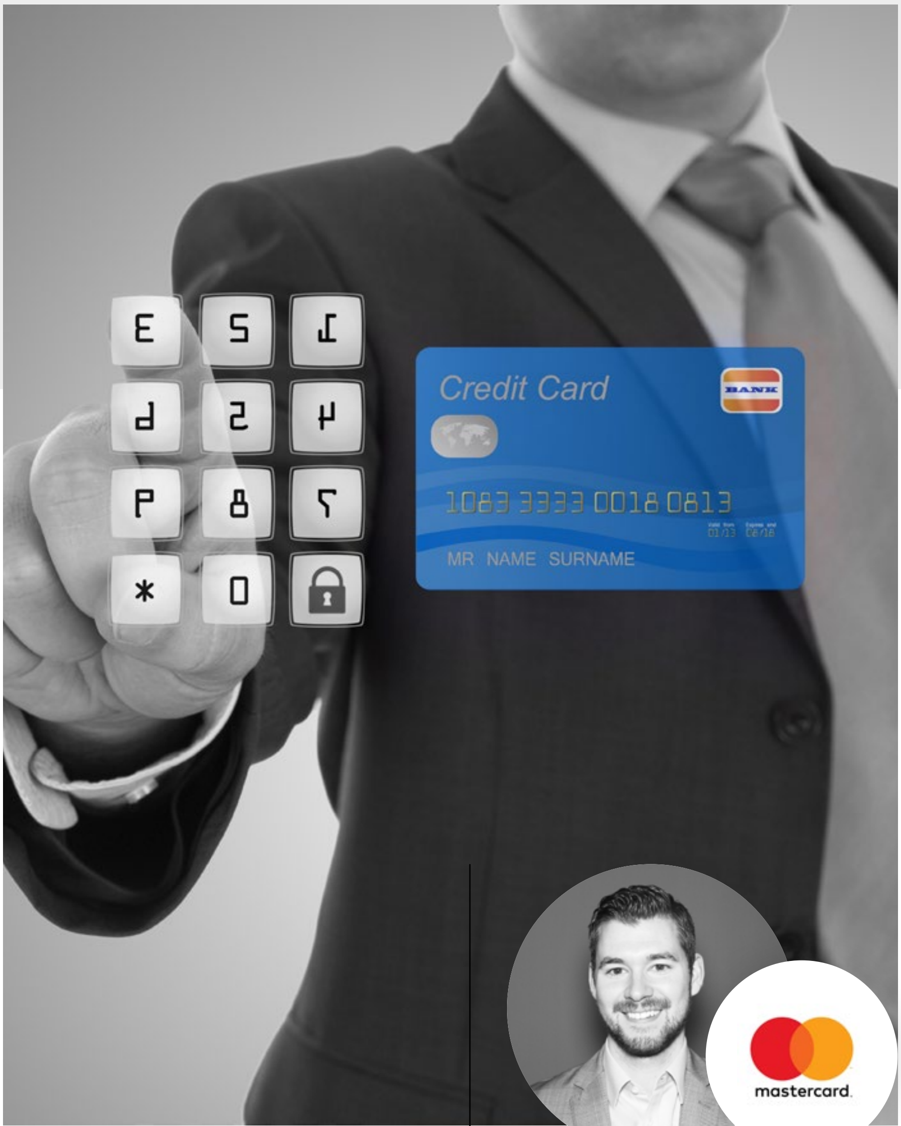
Where can virtual cards be used?

Put simply, when stored in a mobile wallet, virtual cards can be used anywhere physical cards are accepted, for contactless transactions, online payments and in-store payments.

When used at online merchants or for in-app payments, virtual cards work in the same way as a physical card, being processed as card-not-present transactions.

"You can control the time that the card can be used within, or the value of a transaction that can be processed. It offers great control to business owners, managers, financial controllers and finance teams, ensuring that they know exactly what cash is being spent on. Through those tools they're better able to control any operational challenge they might have compared to more traditional payments."

KUBA ZMUDA, MODULR



The user simply enters the unique 16-digit card number at the online POS and the transaction is processed the same way as if a physical card had been used.

In B2B procurement and payables processes, virtual card details are shared with suppliers through secure means for the supplier to process through their order fulfilment systems or via their own POS.

How are virtual cards funded?

Virtual cards come with a range of funding options:

- A credit line similar to a physical commercial credit card
- Linked to a business current account, working in the same way as a physical debit card
- A prepaid account, with funds loaded by the business using the cards, usually employers or institutions responsible for giving cards to approved users. Businesses load the cards by sending funds digitally in real time, usually from a centralised account

How are virtual cards processed?

Just like physical purchasing or lodge cards, virtual cards are linked to a central account where funding is held (either credit-based, or a cash balance in the case of prepaid or debit).

The benefits of central accounts include companies being able to manage all cards and transactions in one account, saving them time and administration work from having to manage multiple accounts and multiple reconciliation processes. Examples of virtual card central accounts include TMCs or OTAs that book business travel on behalf of corporate clients, or insurance firms disbursing claims to policyholders. ■

"I'm seeing SMEs increasingly having virtual cards presented to them within their banking apps in order for them to make their own purchases. There's definitely a need for that in certain circumstances, for instance, making online purchases in a more secure way."

OLIVER FELLOWES, MASTERCARD

Virtual card functionality

Stronger Fraud Protection and Smart Control

- Each transaction generates a unique card number that can't be cloned or copied.
- Virtual cards can be instantly frozen, cancelled and re-activated remotely – no need to wait for a new physical card to arrive.
- Transactions are tokenised, ensuring data protection compliance with PCI-DSS.
- Companies can set parameters or spending limits for every transaction instantly and stop unauthorised spending or overpayments.
- Companies can approve authorised employees and suppliers, and can control when and where cards can be used.
- Companies can set single-use or recurring payment frequencies for different supplier settlement schedules.
- Companies and employees can receive instant notifications every time a transaction is made to monitor card activity.

Future-proof and Flexible Functionality

- Virtual cards are accepted in any country or merchant where physical cards are accepted, in a wide range of currencies.
- Companies can issue multiple virtual cards instantly for multiple purchases with one or more merchants or suppliers.
- Virtual cards can be created in seconds compared to 6-8 weeks for the production and set-up of a physical card.
- Virtual cards can be generated via an online portal, batch file process or real-time via API.
- Virtual cards can be distributed remotely and conveniently accessed via email, a mobile wallet or online portal.
- Virtual cards can use different bank identification numbers (BINs) with different levels of interchange, hold funds in several currencies and offer lower foreign exchange fees.
- APIs can be integrated into front-end or back-end interfaces to add new services and embedded finance opportunities.
- Virtual cards can be integrated automatically into accounting/ERP/online booking systems without disrupting existing workflows.

Dynamic Data Insights

- Virtual card data can be customised instantly and tracked through the transaction lifecycle.
- More data fields (e.g. employee number, Level III data, booking data, invoice number) can be included, providing comprehensive management information.
- Transaction data gives company finance teams complete oversight on expenditure in real-time.
- Data analytics can be used to measure return on investment, average purchase amounts, and frequency of payments at favoured suppliers.

Virtual card functionality

Rapid Reporting and Reconciliation

- Unique card numbers provide clear audit trails.
- Automated reconciliation eliminates risk of human error.
- Unique transaction numbers allow a payment number to be generated at the point of purchase, as well as accurate matching, and for the payment to be reconciled as soon as the payment is made.
- Virtual cards eliminate manual accounting, invoice or expense submission, therefore removing the risk of human error.
- Automated reconciliation frees up human resources to be deployed to more profit-generating areas.

Clear Cash Management and Rebates

- Virtual cards remove the need to issue manual invoices, cash advances and per diem allowances.
- Virtual cards allow companies to control when suppliers receive payments for better cashflow visibility.
- Guaranteed payment and settlement can strengthen supplier relationships.
- Transaction data generated by virtual cards can be analysed by programme managers to produce business intelligence insights, to inform negotiations with vendors and obtain discounts, preferred terms or more rebates.
- Spending behaviour can be analysed and used to offer incentive programmes for cardholders, including bonuses, loyalty points, discounts or special offers, or to encourage spending through preferred specific suppliers, garnering rebates as a result.
- New cardholders can be added to existing incentive programmes without the costs involved for producing and distributing physical cards.
- Card rebates can boost company revenues and become an additional income stream.

Solving common challenges globally

So, what is behind this uptick in B2B virtual card volumes? Corporate card use has always been dominated by travel and entertainment (T&E) spending, which ground to halt almost overnight as the Covid-19 pandemic struck. Although the pandemic placed unprecedented cost pressures on businesses everywhere, recovery is underway, and the bounceback in T&E spending means remote Teams and Zoom calls are giving way to in-person meetings once again.

One of the major strengths of virtual cards was highlighted during the Covid-19 pandemic.

The ability to make chargeback claims to refund money demonstrated how virtual cards offered protections that other payment methods lacked. As several airlines went into bankruptcy or cancelled flights, virtual cards enabled OTAs to file chargebacks for purchases used to reserve flights.

The good news is that cross-border travel is back above 2019 levels for the first time since the pandemic began, with both Visa and Mastercard reporting strong revenue growth on the back of cross-border volume increases as consumers and business travellers get back on the road and return to the skies. **Visa reported Q3 2022 quarterly growth in cross-border volume of 40%**, while **Mastercard cited cross-border volume growth of 53% as being a big revenue driver.** ■

B2B EXPENDITURE COMPRISES **MORE THAN 70%** OF ALL VIRTUAL CARD VALUE

OF THE **€6.7 TRILLION** IN TOTAL GLOBAL VIRTUAL CARD VALUE, ROUGHLY **A FIFTH** WILL COME FROM EUROPE

GROWTH RATES FOR VIRTUAL CARDS ARE PROJECTED AT **20% PER ANNUM**

B2B VIRTUAL CARD PAYMENTS ARE SET TO **ACHIEVE GLOBAL GROWTH OF 363% BY 2026**

"During the pandemic, we have never seen anything like it. When [airline] Monarch and [travel agency] Thomas Cook collapsed it was tough… We were literally processing thousands of chargebacks per day. The media was full of reports over airlines not issuing refunds or giving credit notes. With chargebacks lots of people got their money back. Lots of companies now see the benefits, so they want to use virtual credit cards as their primary payment mechanism, knowing the protection is there and they can use it if they need to if the airline fails to deliver the service."

DAVE ROBINSON, PAX2PAY

“We’re seeing businesses that may have thought virtual cards were too complex for the size of their company begin to adopt virtual card programmes.

A virtual card programme helps companies of all sizes take a look at that physical card spend and see how they can move it to a pre-approved transaction that’s electronic and has automated reconciliation back to their ERP.”

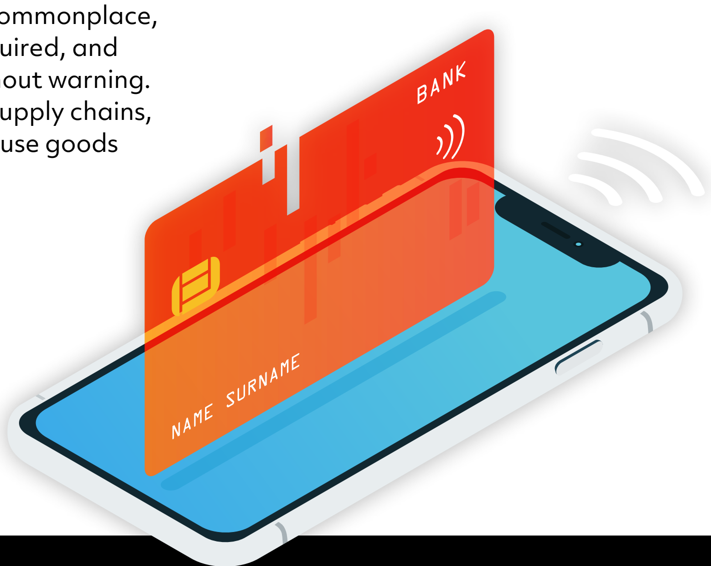
KATIE MOSLEY, COUPA PAY

Virtual cards offer full spending control and visibility

The post-pandemic world poses new challenges in the way companies manage their payments. Airlines and hotels have slashed their workforces, while supply chain and airport logistical issues globally are causing continued disruption to travel, and businesses are contending with last-minute hiccups to well-laid plans.

For business travel, cancellations and rebookings are commonplace, refunds are often required, and pricing can spike without warning. In procurement and supply chains, logistical blips can cause goods or services to be interrupted or invoices not being settled on time.

Companies with decentralised operations and disjointed payment processes often use disparate suppliers, which hampers smooth reconciliation, invoice management, spending control and visibility over payments, adding to the time and costs involved.



“Virtual cards are a perfect example where credit lines are being offered by the bank, and that’s being leveraged as an opportunity for a supplier to bring their payment terms down and reduce day sales outstanding. There is a much more interesting opportunity for SMEs to benefit from virtual cards, and that’s accepting them as a form of payment, particularly from larger buyers.”

OLIVER FELLOWES, MASTERCARD

Back-office or cost centre data is often incomplete, manual invoice or expense filing and reimbursement processes are error-ridden.

As CFOs, finance managers and purchasing heads place increased scrutiny on their budgets, it's vital to ensure employees or other approved card users not only spend within approved limits and for approved purposes, but also have a flexible and secure payment solution that can be adapted for ad-hoc transactions when needed.

For example, in T&E spending, the typically billed value is often higher than the initial booking value because of ad-hoc spending, like food purchases at hotels which are added to final bills at checkout. Where virtual cards have an advantage over physical cards is that virtual card data contains both booked and billed data, detailing what was paid and when, making it easier to reconcile expenses and provide better visibility on spending and cardholder behaviour. Another benefit is that if spending exceeds approved limits, the card can be declined – or the issuer can adjust approved spending limits instantly, if necessary.

Virtual cards offer full centralised oversight, spend control and compliance with company policies, and visibility over every euro of expenditure. ■

"The data that comes along with a virtual card is very rich, unlike ACH or a cheque that just has a cheque number. With virtual cards, you have the ability of enhancing the data with cost centres, and there's so much rich data that can help from an operational fitness perspective, to help the accounts payable person to really understand what they bought."

KRIS CARRERA, FIS

The unbeatable advantages in accounts payables and receivables

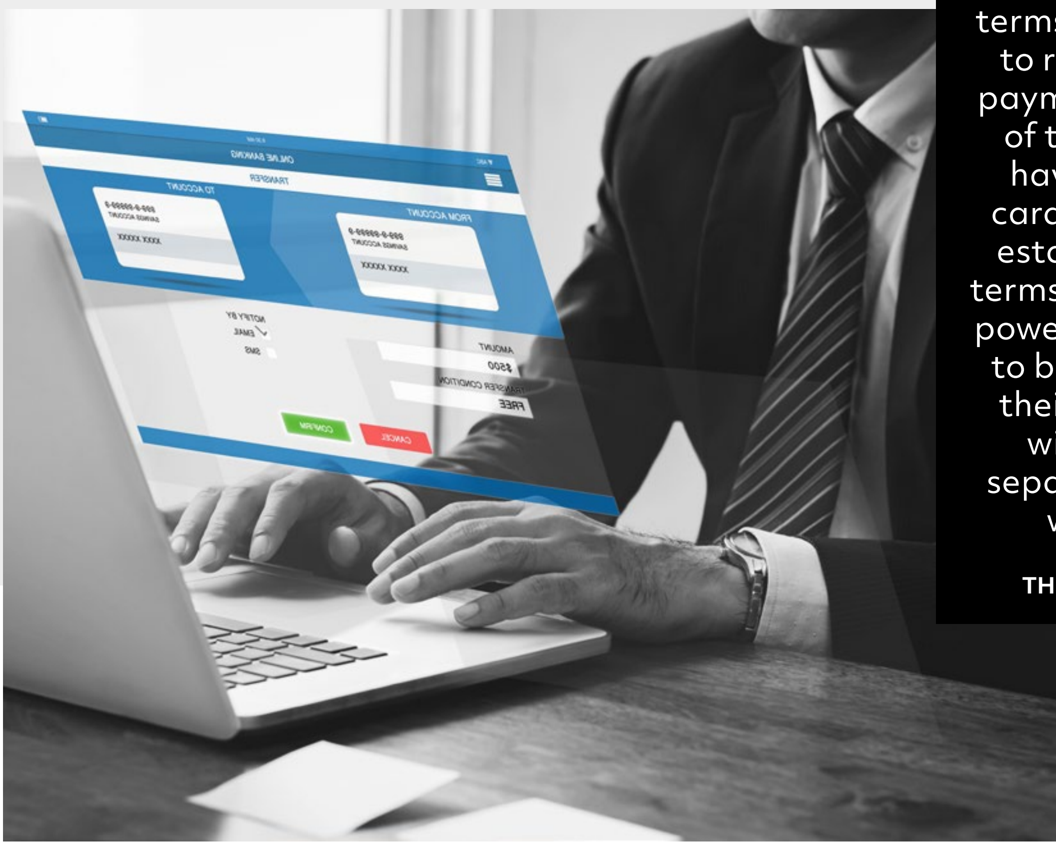
Virtual cards offer even more advantages to help companies simplify, streamline and speed up their accounts payables, receivables and reconciliation processes.

For many companies, the volume of transactions and B2B payments they make places huge pressures on finance teams in trying to match reconciliations, identify discrepancies and rectify reconciliation gaps. It's no surprise that manually inputting data is error-prone, and even when companies have automated reconciliation solutions in place, some transactions can still fall through the gaps if data fields are left blank.

Added to these challenges is the sheer workload involved in administrating different payment and settlement dates with different suppliers, leading to disjointed processes and a lack of visibility that can affect cashflow and working capital management.

"Our virtual card enables some buyers to enhance their working capital position without the need to engage their suppliers. Suppliers get paid on their original payment terms. The buyer is able to receive additional payment days by virtue of the fact that they have paid using the card and the card has established payment terms. It becomes a very powerful tool for buyers to be able to enhance their working capital without requiring separate negotiations with suppliers."

THOMAS DUNN, ORBIAN



"The great thing about a virtual card is because it has a 16-digit number for every separate transaction, you're able to associate multiple data points per transaction upfront, which enables you to reconcile straight away."

SIMON KELLY, CONFERMA PAY

When a physical card is used in a centrally billed account, the same card number is used repeatedly for multiple payments, by multiple employees or cardholders to multiple suppliers. However, while virtual cards are also billed to a central account, each transaction generates a unique card number, meaning that transactions can be reconciled much more accurately and quickly.

Virtual cards can incorporate enriched transaction data, such as supplier reference numbers, merchant category codes, and employee numbers, which makes for accurate and accelerated reconciliation in both AP and AR processes. By matching itemised data points to individual transactions, virtual cards are a huge improvement on current processes, with an almost 99.9% success rate compared to 80% or 90% just a few years ago.

By automating reconciliations in this way, companies can slash the time and resources needed to handle these processes manually. With virtual cards, company finance teams get centralised, customisable data on each and every transaction, real-time payment confirmation, which all helps to speed up workflows. ■

Case Study: Advantages of virtual cards

Thomas Dunn, Orbian

We launched a virtual card product that was designed to be a very powerful enhancement to this toolkit of working capital optimisation tools for buyers and suppliers. It allows us to have suppliers of any size be able to join the supply chain and to be afforded the opportunity to receive the early liquidity wherever a buyer is using the Orbian card.

The card arrangement allows us to offer supply chain finance, and the provisions of early liquidity, into a far broader array of geographic locations far more quickly. Previously, under supply chain finance configurations, there is a minimum threshold below which it didn't really make sense to include suppliers as the cost of incorporating them into the programme was too high relative to how much they were ever going to be putting through on that card. Now we can eliminate that threshold.

We have a full set of marketing collateral around the Orbian virtual card, for both circumstances under which the buyer uses the card to lengthen their payment terms, and also whereby the card is used to have the supplier paid earlier than originally scheduled. Together, those two card-based activities account for about 20% of our total business right now, but they account for almost 50% of new business that is coming in.

Virtual card technology enables easy integration and flexible distribution

Another valuable business benefit is how quick and easy virtual cards are to distribute.

Unlike physical cards, which can take several days to reach approved cardholders, virtual cards can be quickly generated, distributed and easily integrated into mobile wallets, apps or online portals, enabling cardholders to make contactless or online payments on the go.

With these levels of versatility, cards can be remotely assigned to employees or approved users on the move, and cardholders can bring up their virtual card on their phone whenever they need it. Account approvers can review requests, monitor and edit card limits, and remotely issue cards instantly to approved users wherever they are in the world virtually, and all in the same tool. Cardholders appreciate the convenience of having a virtual card in their mobile apps, being able to make secure payments protected by PCI DSS, check balances and transaction details, and receive rebates or refunds instantly and remotely.

"APIs are very advanced now, so when you need a virtual card to make a payment the request simply includes the specific pieces of data required for reconciliation. If you want a card to pay for a flight, simply provide the relevant data such as departure date, passenger name, flight number, internal reference number and even the supplier's reference number. All that information is stored and linked to the card generated for the payment."

DAVE ROBINSON, PAX2PAY

"Virtual cards are a fantastic tool when used as part of a broader proposition and ecosystem of solutions. Businesses can use them to manage control and optimise their spending. To fully maximise the benefits of reconciliation and real-time access, virtual cards should complement and enable businesses to seamlessly access other payment types alongside cards, such as direct account-to-account payments."

KUBA ZMUDA, MODULR

In fact, the explosion of contactless payments over the past few years creates more impetus for virtual cards to take off as more merchants adopt contactless acceptance in a wide range of previously cash-only locations. Mobile apps and digital wallets mean payments can be made, expenses submitted into automated management systems and reimbursements received on the move.

Examples include giving job candidates or employees a virtual card to pay for travel to an interview, or an employee/contractor using a virtual card to make payments to approved suppliers or pay for dining or other day-to-day expenses. If needed, employees can also link their virtual card with a physical card, allowing automatic expense submissions with spend management platforms.

It's clear that virtual cards offer enormous benefits as a stand-alone payment solution. However, even more value comes when they are integrated with expense management, enterprise resource planning platforms, online booking platforms and reconciliation tools.

Increasingly, companies want to monitor expenditure, control payments, unlock data insights and facilitate compliance through a single platform that can integrate and scale with new functionalities.

APIs are bringing game-changing, tailor-made functionalities to B2B payments by smoothing payment flows. For example, an OTA can make near real-time payments for hotel or flight reservations by using a virtual card API to request a virtual card from their issuer. With the unique single-use card number, that card number and all related data can be sent to the hotel or airline's global distribution or reservation system, removing the need to bill the OTA separately. For the business traveller checking into their hotel, there is no need to use a physical card, because their assigned virtual card has already been sent to the hotel and guarantees payment.

Alternatively, an insurance firm receives a car or home repair claim from a customer. A single-use virtual card can be generated to pay the approved repair firm, guaranteeing settlement, providing instant notifications to the claimant and insurance firm, and speeding up the claim resolution process.

Many virtual card solutions are also starting to use artificial intelligence to generate even more dynamic data insights, helping to predict cardholder spending behaviour, adapt quickly to unforeseen events (such as OTAs in the case of travel disruptions), and build cashflow forecasts with accuracy. ■

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"Employees can link their virtual card with a physical card, allowing automatic expense submissions with spend management platforms."

"In a larger organisation, where you are maybe using a business spend management tool or an ERP system, the great thing about a virtual card is that it can be integrated into the existing payment processes and systems that the business has already signed up for. Card details can be securely sent on to a supplier, or via a straight-through processor, where you're sending it directly to your supplier's acquirer, who processes the payment and sends the money directly into the supplier's merchant account."

SIMON KELLY, CONFERMA PAY

What obstacles stand in the way of further adoption?

A company considering using virtual cards will need to update processes, rewrite company policies on card usage and expenditure, and look at how to integrate any new solution with their existing expense management, accounting or ERP portals.

Supplier acceptance can also be a sticking point. Some suppliers may be reluctant to switch from tried and trusted payment methods, concerned about the merchant service charges associated with cards, or how they might impact settlement terms.

"The growing number of BINs dictates the type of card issued, and also triggers the level of merchant service charge the supplier will pay. Suppliers are becoming far more alert that some of these different BINs can be quite expensive. So, they're actually saying to people, yes, I'll let you pay me with a virtual card or a credit card, but only if you use these BINs."

DAVE ROBINSON
PAX2PAY

"The flexibility of virtual cards is increasing. The card schemes are building deeper understanding of how virtual cards are used, especially in the context of B2B transactions. They're starting to tailor how these products operate and how they link back to specific needs to help maximise acceptance in different applications. However, like any payment mechanism, virtual cards have excellent utility for specific applications, so they won't always be perfect for all transaction types."

KUBA ZMUDA
MODULR

Many businesses are unaware of the potential rebates and commissions they could gain – in essence, virtual cards can become a revenue stream for them.

"Suppliers find it much easier to understand an early settlement discount than the cost of payment acceptance. They're more than happy to give away more than the cost of accepting the card in any sort of discount, because of their hesitancy in the cost of actual acceptance. What's happened since the pandemic is merchant acquirers are much more transparent with their pricing, which has really helped suppliers to understand the cost of acceptance."

SIMON KELLY
CONFERMA PAY

"Having the tools and access to working capital is one thing. But we also really need to see a behavioural shift from organisations, especially in the UK. There are still large organisations that will definitely take a credit line from the bank and they're looking to leverage their current credit line increasingly. However, they may also continue to look for opportunities to pay suppliers later, rather than using that credit line to pay them sooner. That's not really the behaviour that we want to see in order to see more volume flowing through virtual card programmes. I do feel like momentum is building behind fair practices and treating suppliers more fairly, but there's definitely still work to be done there."

OLIVER FELLOWES
MASTERCARD

pax2pay

Case Study: Reducing the debt risk

Dave Robinson, Pax2Pay

"A very large hotel chain actually encourages tour operators and OTAs and corporates to use virtual credit cards to pay them as their preferred method of payment.

This was a bit surprising seeing as merchants often complain about merchant service fees and processing costs. The reason why they preferred virtual cards was because corporates, OTAs and travel companies would always use their corporate virtual cards first before they used any other method of payment, mainly due to the rebate revenue. Their debt risk reduced immediately, because payments were coming in far quicker. Yes, they took the hit on the merchant service charge, but their cash flow significantly improved because they got the money in quicker. They reduced their aged debt position significantly."

On a wider scale, possible competition from non-card payment methods comes in the form of real-time payments (RTP), operating 24/7 and 365 days a year, and enabling instantly initiated and settled fund transfers carrying rich data in payment messaging. This is a stark evolution from the incumbent batch process where transfers are only settled after a certain timeframe.

Globally, 118.3 billion real-time payment transactions were made in 2021, **representing staggering growth of 64.5% in just one year.** As of 2022, live or upcoming RTP systems cover over 70% of the world. These new payment rails, in tandem with open banking, which after a slow start are now enjoying significant uptake, makes it likely that payment methods which depend on delayed settlement will be the losers.

"When you're looking at real-time payments, the buyer loses access to funds as soon as they pay their supplier. It's fantastic that the supplier receives the funds, but the buyer has got to make sure that they've got enough in their account to carry on business as usual. The optimum is for a buyer to be able to pay their suppliers earlier, but then be able to pay back their issuer at a later date – extending the working capital cycle free of charge."

SIMON KELLY
CONFERMA PAY

"I don't see a significant shift from virtual cards over to real-time payments. The instant nature of real-time payment does rival virtual cards on the supplier side, but the buyer is often giving up many of the benefits that they would get from a virtual card programme, like working capital benefits and the potential to earn rebates from their card issuer. We've seen buyers realise that they may need to meet the supplier in the middle and share some of the value that they get in virtual cards."

KATIE MOSLEY
COUPA PAY

Some large corporations may be reluctant to accept virtual cards because of perceived high costs, but the automation benefits in relation to days paid, reconciliation, rebates and ease of use can far outweigh the cost of accepting a commercial card. Getting supplier buy-in will be critical in convincing more companies to adopt and accept virtual card programmes. Once companies realise that they can get paid quickly, and receive commissions or rebates for using the card, they will be far more likely to incentivise usage.

"The more that you spend, the more the issuer will give back to the company as a reward or a loyalty programme. When a company factors in the rebate back, based on more spend in those categories and the reward, they would actually find that it is very affordable."

KRIS CARRERA
FIS

More recently in response to changing economic conditions and to reduce settlement times, some corporates, like airlines, have announced that they will accept bank transfers as a payment mechanism. Although they get the money instantly, and don't have to wait two or three days for the money to come through from an acquirer, they could miss out on vital advantages. The security and chargeback protections that come with card solutions are massive advantages.

Fears about integrating new solutions and cost concerns disappear when the benefits of accessing better payment processes, actionable data insights, and effortless compliance are explained clearly. The latest virtual card capabilities allow for straight-through processing (STP) to supplier bank accounts, streamlining the experience and slashing processing costs even further. With the guidance of an expert payment partner, companies can hit the ground running with a virtual card solution that meets all of their needs.

SMEs in particular that have had good experiences with virtual card solutions are far more likely to take up additional financial products from their solution provider, showing how an optimised virtual card product can be the gateway to cross-selling or up-selling opportunities, and strengthening relationships.

"Buyers are realising that they really need to meet their supplier in the middle, and provide some type of incentive that encourages the supplier to get over any hesitation they have on their side about card acceptance. That could be accelerated payment terms, or preferred supplier status, or some other incentive that they agree upon as part of the contract negotiation."

KATIE MOSLEY
COUPA PAY

Oliver Fellowes, Director of Business Development and Commercial at Mastercard for the UK and Ireland, believes that the key to solving the acceptance problem is ensuring that the cost of acceptance provides appropriate value to the appropriate party. "For example, large ticket transactions should be attracting a lower interchange cost than a long-tail micro payment," he says.

According to Fellowes, where a buyer is using the card to benefit from the working capital themselves, they could bear the cost of acceptance. "Where we see a supplier being paid early, and using the buyer's credit line as a form of working capital, the cost of accepting a virtual card is significantly below what you see on a lot of competing products, like dynamic discounting, for instance," he says.

Best practices for virtual cards

For companies that are embarking on the quest to improve their operational fitness and payment flows, and are considering a virtual card solution, here are some important considerations that can guide them.

1

What are the current challenges you're trying to solve? Identify the causes of friction in your infrastructure. Are you looking to negotiate better settlement terms with suppliers? Do you want a better way of distributing company cards to employees in different locations? Answering these questions and pointing to how virtual cards may help employees or other end users will strengthen organisational buy-in.

2

Look at your company policies and consider how virtual cards can help you achieve control and visibility over expenditure, and reduce risk. By deploying a virtual card solution, which can tokenise payment transactions, you'll also gain compliance with external regulations concerning data security like PCI DSS and GDPR. You can also stipulate and incentivise card usage at approved suppliers to generate bigger rebates and revenues.

3

New or existing systems? How many systems are you using to handle payments, expense management, ERP, and accounting? Many virtual card solutions are cloud-based and APIs can be easily integrated into existing systems with no disruption to operations. Unifying different processes in a single platform can bring immediate efficiencies and give far more enterprise-wide visibility. It may be more cost-effective to start from scratch with a new portal rather than trying to build on legacy systems.

4

Choose a provider that prioritises in-depth support and ongoing personalised service. The right provider should have expert knowledge and deep expertise in successfully launching virtual card solutions across many industry sectors. They should always be on-hand to help you navigate implementation and answer any questions to ensure a smooth roll-out.

"The biggest growth is going to come from continued innovation from fintechs that have entered the industry, and changed the way that virtual cards are delivered to the supplier. Growth will come when buyers realise they can easily make a one-time payment to a supplier via virtual card, without having to onboard them, or even put a ghost card on file for a supplier. As buyers are starting to see that potential, we'll continue to see growth of virtual card transactions in places that we never would have seen it before."

KATIE MOSLEY, COUPA PAY

"Issuers have invested a lot of time and understanding for B2B workflows, and they have teams that can support corporates to be able to take that message to their supply chain, and to have a much more positive effect. They can run analysis to understand who are more likely to accept cards and analyse accounts payable files. We are moving in the right direction as the next generation of finance directors come into place, who understand that a virtual card is a huge benefit and moving 15% of your suppliers onto accepting cards should bring significant amounts of cash benefit."

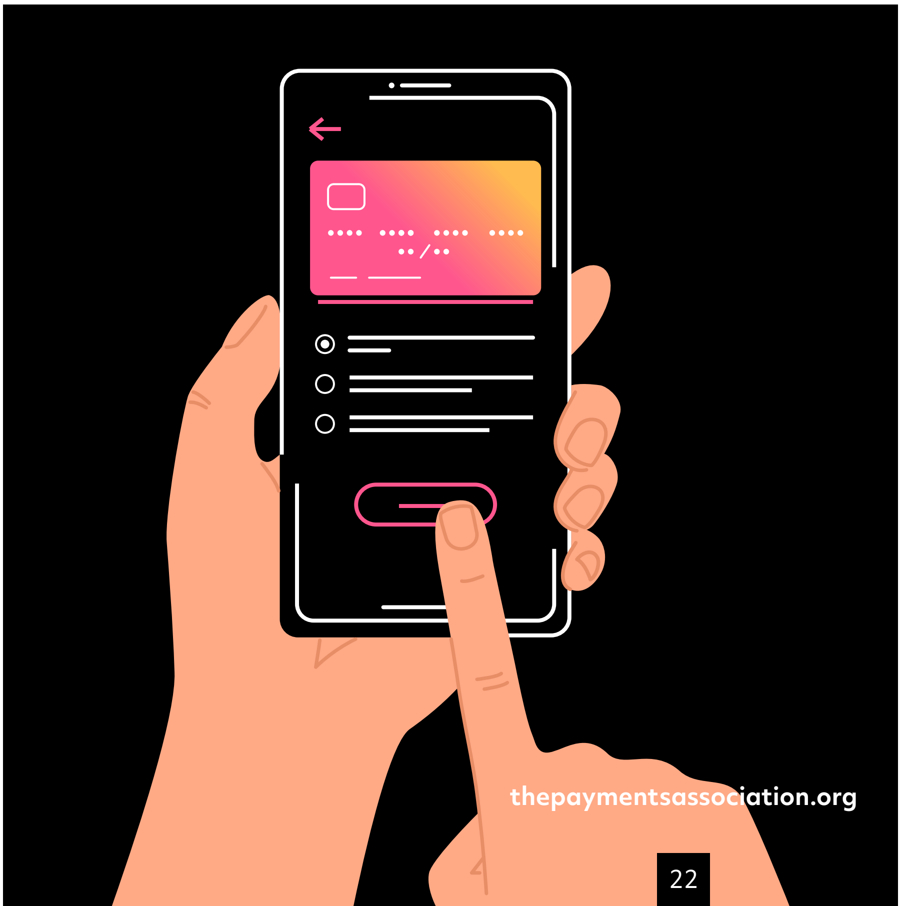
SIMON KELLY, CONFERMA PAY

Virtual cards promise virtually limitless opportunities

Virtual cards promise many long-term benefits and enticing opportunities for companies of all sizes:

- The granular data generated by virtual cards can be easily captured and integrated into expense management systems for simplified reconciliation and reporting.
- Companies can reap rebates, more commissions, and strengthen supplier relationships through quick, guaranteed settlement.
- With enhanced spending control and visibility, companies can set transaction limits, specify suppliers, improve cashflow and more accurately forecast outgoings.
- Virtual card solutions are easily integrated into expense management platforms and accounting tools to smooth payment flows.
- Cardholders – employees, contractors and other end users – enjoy a secure, convenient payment method available in their mobile wallets whenever they need it.
- Companies can significantly lower costs by freeing up back-office teams from labour-intensive tasks and focus on profit-generating activities.

To tap into these opportunities, issuers, financial institutions and payment platform providers need to educate and encourage companies to seize the moment.



It can be difficult to let go of tried and trusted payment methods, as inefficient and as clunky as they can be. By showing the tangible, immediate benefits of virtual cards, and allaying misplaced concerns over costs, solution providers can help companies to deepen employee and supplier relationships, strengthen their foundations and position themselves to take advantage of every opportunity in front of them.

The importance of teaming up with the right expert payments partner cannot be overstated. The payments ecosystem is being reshaped by partnerships between banks, non-financial institution issuers, payment service providers and fintechs. Putting aside competition in favour of collaboration can offer the quickest route to market, leverages complementary skills and strengths, and gives companies the smoothest implementation of new solutions, and the widest choice of value-added services.

As companies across more sectors see the tangible benefits of digitising payment and operational processes, virtual cards will help them to unlock more competitive strengths, infuse more agility and speed throughout their operations, and tap into a goldmine of data analytics. With these powerful, bionic advantages, small and large businesses can make quantum leaps forward. ■

the payments association

Runway East
20 St Thomas Street
London
SE1 9RS, UK

Tel: +44 (0) 20 7378 9890

Web: **www.thepaymentsassociation.org**

Email: info@thepaymentsassociation.org

@ThePAssoc

The Payments Association

About The Payments Association

The Payments Association (previously the Emerging Payments Association, or EPA) is a community for all companies in payments, whatever their size, capability, location or regulatory status.

Its purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all. It works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the PSR, Pay.UK, UK Finance and Innovate Finance.

Through its comprehensive programme of activities and with guidance from an independent Advisory Board of leading payments CEOs, The Payments Association facilitates the connections and builds the bridges that join the ecosystem together and make it stronger. These activities include a programme of monthly digital and face-to-face events including an annual conference, PAY360, the PAY360 Awards dinner, CEO round tables and training activities. The Payments Association also runs six stakeholder working project groups covering financial inclusion, regulation, financial crime, cross-border payments, open banking and digital currencies. The volunteers in these groups represent the collective views of the industry and work together to ensure the big problems facing the industry are addressed effectively. The association also conducts original research which is made available to members and the authorities. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs.