the payments association

Navigating The Ocean of Opportunities for Corporate Payment Cards

The Payments Association's Guide to Corporate Payment Cards

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Executive Summary

In this whitepaper, The Payments Association, and payment solution provider FIS, explore how the corporate cards landscape has reached a transformative moment – one full of change, new challenges, and a wealth of opportunities.

Fuelled by dynamic integrated technology innovation, seamless regulatory compliance and enhanced value-added services, businesses can generate operational advantages, achieve process improvements, and lower costs through the new generation of intelligent corporate and commercial card programmes.

The challenge in front of payment solution providers is how to help businesses implement card programmes in the most cost-effective and seamless way. In a world that's becoming more digital and complex to navigate by the day, banks, fintechs, processors, vendors and other ecosystem players are finding that collaboration - not competition - is key to raising corporate card awareness and accelerating adoption, for the benefit of everyone.

We'll outline the ground-breaking technologies, key strategic considerations, and optimal routes to achieving greater corporate card penetration.

Foreword

We are at a pivotal moment in the evolution of corporate payments, so FIS® is excited to sponsor the Payments Association's "Guide to Unlocking the Power of Corporate Payments." We believe that this will be the next untapped goldmine.

Commercial cards and corporate payments programmes account for less than 10% of total payment card volume in Europe,[1] yet there is tremendous potential for developing this sector into other areas undergoing automation, such as travel and expense programs and supply chain payments.

In Europe, the increasing demand for corporate and procurement/purchasing cards from governments, public sector entities and large corporates could see the estimated corporate cards' market size of $7.8 billion in 2020 grow by as much as 7.4%.[2]

In fact, to meet this growing demand, many companies increased their investments in technology by an estimated $25 billion between Q1 2020 and Q1 2021. And nearly 40% of firms expect to increase their use of virtual card technology over the next 12 months[3] as they seek new ways to streamline supply chain management and reduce reliance on manual payment methods.

At FIS, we are excited by the opportunities opening up to us by partnering further in the corporate payments sector to tap into its full potential to help transform traditional, manual payments operations into a smooth automated operation with increased speed, information flow and functionality for the end customer and revenue streams.

In fact, we have seen operational efficiencies increase by as much as 25-50% for our clients, with the added bonus of a reduction in fraud as a good back-end platform allows for greater scrutiny, automation and protection. Having greater strategic control over paying suppliers also gives corporates better visibility in their choice of supply chain, resulting in further cost efficiencies.

There is no doubt in my mind that connecting different ecosystem partners will bring new solutions and innovation to market. However, as in all emerging markets, we must assess risks and opportunities as well as exploring strategies to master this evolving market.

It has been a pleasure to discuss our experience along with other industry leaders and subject matter experts to form this Payments Association guide, to provide thought leadership on navigating the risks and opportunities posed in the changing corporate payments landscape and to identify key strategies for future success.

Silvia Mensdorff-Pouilly
SVP & Head of Sales Europe, FIS

1 *IFR_report_card_payment.pdf (europa.eu)*
2 *Mercator Advisory Group Source Estimates*
3 *Global Business Spend Indicator, New Survey by American Express, Shows U.S. Businesses Have Bullish Outlook on B2B Spending | Business Wire*

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Interview

Navigating the New Opportunities for Corporate Payment Cards

The Size of the Opportunity

Corporate card solutions - including T&E, procurement, and public sector disbursement programmes - are rapidly becoming the most dynamic and innovative areas of the payments' landscape. **Around 10% of global card payments are commercial or corporate in nature**, and we can expect significant growth over the next few years.

Why? Because the ongoing shift to digital payments - hugely accelerated by the Covid-19 pandemic - means that corporates, governments and other entities around the world are on an urgent quest to overhaul operational processes, cut costs, and gain far greater control over cashflow management and working capital.

Digitisation has changed our relationship with payments in our daily lives. And that applies to corporates too.

As a consequence of this, banks are now finding that the gaps they've left in servicing corporate payments have left a space for nimble fintechs and intermediaries to step in with the corporate card services companies are seeking.

Businesses will increasingly expect digital capabilities in their bank and payment offerings as standard - not just for process improvements but to have seamless compliance with regulatory requirements. This is where corporate cards can benefit both banks and businesses with their data and reporting capabilities.

Corporate Cards: The Upsides and the Downsides

PROS

- Remove the need for employees to use personal cards for purchases, and wait for reimbursement.
- Cards can be allocated for specific spending limits, purchases and instantly adjusted to changing business needs.
- Eliminate time-consuming processes involved in creating expense reports, transaction verification, and data reconciliation and reporting.
- Reduce the possibility of fraudulent spending through management controls. Lost or stolen cards can be blocked instantly, and data is secured through encryption.
- Virtual cards offer one-click payments and tokenisation for extra security protection.
- Improve data visibility with real-time data tracking, transaction tagging and generation of business intelligence insights.
- Guaranteed supplier payments.

CONS

- Rigorous application process due to bank KYC and AML policies may deter some businesses.
- Limited supplier acceptance: some merchants may only accept card payments over a certain amount, or fear higher acceptance fees.
- While some programmes come with expense tracking facilities, complementary reporting and data analysis tools may be required to optimise efficiencies.
- Employees cannot earn rewards attached to corporate card programmes.
- Personal cards and small business cards tend to have lower fees than corporate cards.

"Corporates are looking for more seamless, digital ways of organising their payments, and are challenging their financial institutions to help them. What corporates are experiencing is something that is much less slick, much less organised and more difficult to deal with than it is on the consumer side."

SILVIA MENSDORFF-POUILLY, FIS

"Automation is very important, not only from a payment side but also from a regulatory side or reporting side, because it allows corporates to save costs and to shorten processing times."

NADIA MANZARI, SCHILTZ & SCHILTZ

“A corporate card can help you be a more efficient and better employer, because you’re looking after your employees and not letting them worry about where to find money to pay for some unexpected business expense and then wait for reimbursement.”

ALAN KING, FLEETCOR

“At the moment, only 10% of payments in Europe are going through commercial cards. The US has a lot more usage of cards and cheques compared to Europe, whereas Europe has more digital integration with back-end systems”

SILVIA MENSDORFF-POUILLY, FIS

Covid-19 has driven evolution even faster. Many corporates’ customers are learning that the digital transformation processes they set for the next two to four years need to be pushed forward, and they are trying to implement them in just months. This is fuelling the need for flexible and secure corporate card tools.

In recent years, many organisations didn’t see enough cost incentives to persuade them to switch their paper-based payment processes to card-based programmes.

But these previous barriers to adoption are now being dismantled, thanks to the vast digital process improvements driving down costs at an enterprise level.

Commercial Card Growth in a Post COVID-19 World

In 2019, spending for commercial cards totaled $1.09 trillion in the US, and global growth trajectories were positive. The arrival of the Covid-19 pandemic in 2020 immediately brought business travel and online T&E purchases shuddering to a halt, with no immediate resumption on the horizon. Commercial credit card spend for mid-large market companies outside of North America was **42% lower in 2020 than in 2019**[1], illustrating just how severe the spending drop-off was.

However, as the global economy recovers, data shows that commercial card spending is recovering closer to pre-pandemic levels, with double-digit jumps in volume and cross-border volume fees. Organisations are now scrambling to resolve the glaring inefficiencies in their existing payment processes and cashflow management. If the pandemic has taught businesses any lessons, it’s the importance of protecting cashflow as much as possible.

Commercial Cards on the Road to Recovery

According to Mercartor Advisory Group, a projected market size of $90.4 billion in 2020, the western Europe corporate cards market is set to experience a compound annual growth rate of 18.9% between 2020 and 2025. Europe, with an estimated corporate cards market size of $7.8 billion in 2020, could grow by 7.4%,[2] largely fuelled by demand for corporate and procurement/purchasing cards from governments, public sector entities and large corporates.

Returning to healthy growth after 2021

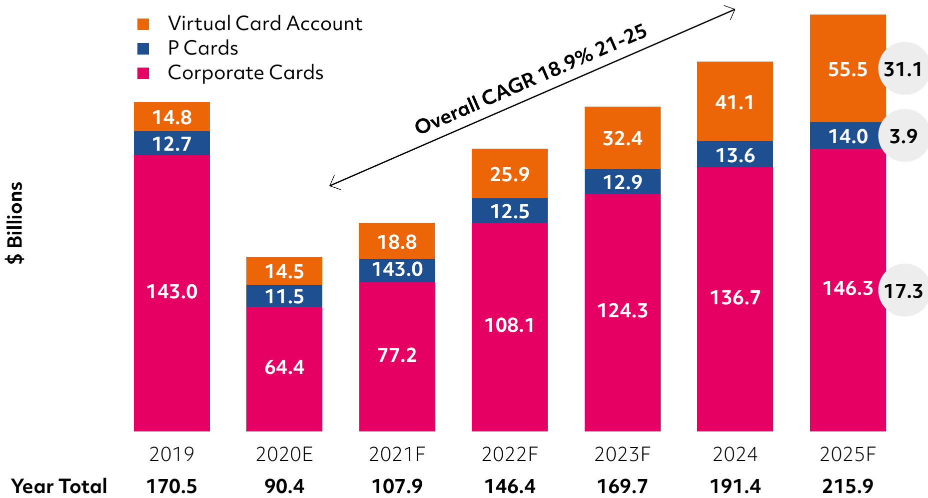


Figure 1: Commercial Credit card mid-to-large market spend growth estimates in western Europe, 2020-2025
Source: Mercator Advisory Group
** P Cards - purchasing/procurement cards*

1 *Global Commercial Credit Cards Report 2021: International Markets Review and Forecast, 2020-2025 in the Midst of COVID-19*

2 *Name - Corporate Cards Market Size to Grow 7.3 Percent CAGR in 2020-26,*

But the European market is on the right track to continue growing strongly, helped by unique market characteristics that are driving demand for different solutions.

The Rising Demand for Agile Corporate Card Solutions

Considering that the total addressable B2B payments market is estimated to be a staggering $125 trillion globally, there are clearly many underserved supply chains and sectors that are now waking up to the cost and operational benefits of adopting automated corporate card solutions.

More card payments are now being migrated to commercial card payments instead of personal card payments and cash payments. There is higher demand from companies to have a much better structured overview of payments.

Whereas the typical penetration of plastic commercial cards is around 10% to 20% of employees in a company, fintech-driven distribution models are increasing usage thanks to much better oversight and data-driven agility.

From Physical to Digital: The Rise of the Virtual Card

A prime example of this is the virtual card. Just as physical cards helped to streamline corporate payment processes with greater speed, efficiency and cost benefits, digitally-generated virtual cards are taking optimisation to the next level, with even more flexibility and expenditure control. Commercial cards with high levels of usability, broad digital capabilities (including integration with digital wallets) and increasingly intelligent offerings will prove a key payment tool for many businesses.

"There is the ease with which you can use virtual cards on your mobile phone and include them frictionlessly into your digital journey. You don't have to manually enter data with virtual cards, which makes the experience so much easier and slicker."

SILVIA MENSDORFF-POUILLY, FIS

"In the Nordics we see very high commercial card penetration. Demand in Germany now is nowhere near the same level two to three years ago. In France, similarly it was only executives using commercial payment cards, but now with the opportunity to control and manage card spending much better, we will see strong take-up in Europe."

JØRGEN CHRISTIAN JUUL, CARDLAY

"There is a need for businesses to become digital, but also to adopt smarter ways of managing their payments. If you're going to digitise your invoicing and receipts, then obviously the payments themselves being digital helps enormously. That's going to be a big catalyst for adoption of corporate card solutions."

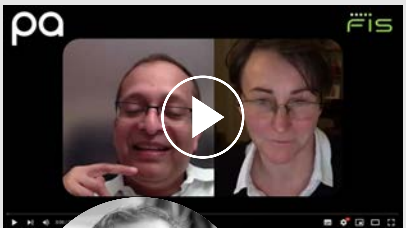
ALAN KING, FLEETCOR

“You can have a virtual card sleeping in your digital wallet, and when you want to use it, you can add funds to it. Transactional data can be tagged back to a specific budget. Virtual cards make for easier handling by employees”

JØRGEN CHRISTIAN JUUL, CARDLAY

“Organisations are looking at how they can create value by providing virtual card structures for their clients, especially for large complex, customers. That enables them to solve problems around the ease of sweeping, pooling and other solutions.”

SULABH AGARWAL, ACCENTURE



The main drivers of the current shift to virtual cards are ease of use and cost savings. Virtual cards can be issued instantly, can be configured for single-use or for specific suppliers, budgets or certain types of payments, and they generate real-time data visibility, helping to accelerate reconciliation and accounting processes.

The commercial virtual card has a ripe growth opportunity in Europe and globally, by taking a lot of payments today done by personal private cards or by cash payments. On average, around 30% of all payments are going on cash and card, meaning that there’s an opportunity on the 70%, or nearly 50% growth in commercial payments, just by better distribution and easier handling for employees.

Will Challenger Banks and Open Banking Disrupt Corporate Cards?

The disruption that has happened in consumer payments is now starting to make ripples on the corporate payment side. The advent of Open Banking has encouraged the development of new solutions for many different user segments, often driven by non-bank fintechs who have the agility to launch services to market in much faster times than their bank rivals. Most challenger banks and fintechs started in the retail space, and the propositions which started in retail and SMEs are slowly moving up the value chain to service larger corporate customers.

One clear example of Open Banking-driven uptake is the advent of real-time Request-to-Pay (RtP) services, which have the potential to drive vast operational improvements in funds settlement and collection processes.

While many RtP services are run through national centralised clearing mechanisms, Open Banking enables participating banks to access common APIs to facilitate real-time payments. This can also slash the cost per transaction depending on the method used to trigger the payment. Costs are also lowered through businesses receiving funds instantly, bolstering cashflows.

Whether these solutions will surpass corporate cards as a preferred payment tool remains to be seen. At this early stage, major banks are not yet comfortable with exposing all their corporate bank accounts through Open Banking and APIs for third parties, which limits opportunities to grow.

And while challenger banks can provide an easy way for a new business to set up a bank account, as businesses become more mature, challenger banks will be challenged in their own ability to manage businesses' cashflow needs, different forms of credit, and different forms of financing.

For now, the immediate needs of corporates are in automating their payment processes in the most efficient and seamless way. The new breed of corporate card solutions not only meet those needs but also have the capacity to be enhanced with additional value-added services that can bring even more benefits for businesses.

Integrated Platforms Will Drive More Innovation and Growth

A major hassle for corporates is having to manage multiple payment platforms and providers, keeping track of transactions, and juggling the many time-consuming and complex reporting and reconciliation processes involved. But today's corporate card solutions have evolved to harness the ingenuity of payment technology and dynamic data agility through integrated and holistic platforms.

"RtPs are used in the Netherlands for consumer-to-consumer purposes, and we're now seeing use in business-to-consumer payments. There is a lot of functionality that an SME, for example, could leverage from systems like that to facilitate collections."

SILVIA MENSDORFF-POUILLY, FIS

"RtP offers so many different use cases. Essentially you send a QR code or a link which is effectively an RtP. Cloud, APIs, distributed ledger technology and other innovations are going to be huge drivers for even more change. There is huge potential in this space."

JESSICA RICHARDS, NATWEST

“Automation has a huge role to play in driving not just efficiency of managing AP, but also in reducing the propensity to make mistakes and errors. Through intelligent AI-driven software capability, you can set up your payments in a way that’s most efficient to you as a business.”

ALAN KING, FLEETCOR

“Corporates need to have secured accounts and platforms. You also need proper due diligence on what technologies you’re using, what firms you’re partnering with. I would want to rely on a provider who is able to provide the whole suite of products to properly and efficiently operate my corporate transactions, pay-outs, bill payments and data.”

NADIA MANZARI, SCHILTZ & SCHILTZ

“Sometimes it’s not that a corporate doesn’t want to pay, but their systems are so complex. Automation can ease that whole supply chain. Virtual cards can be used to pay at delivery of goods for example: dematerialising payment, reducing processes and ensure cash flow improvements.” -

SILVIA MENSDORFF-POUILLY, FIS

Now, businesses can gain the 360-degree clarity they need over each and every transaction, accelerate client onboarding and funds settlement, and with the scope and scale to deliver even more value-added services that businesses need to underpin their growth. Businesses can get a deep overview in real time over how their money is spent and for what. They will be able to address and calculate and budget in real time. That’s a strong advantage to have.

Overlay services can include much more transactional detail in each payment to make payment processing much more efficient in corporates’ back-end systems. Having a fully integrated end-to-end platform simplifies and streamlines the entire payment process, removing the need for different technologies from different providers, and improves risk mitigation and oversight too.

Removing Risks Through Enhanced Oversight

Regulation will always be a challenge for corporates and payment providers in scaling growth in line with compliance obligations, but these hurdles need not impede progress in growing corporate card penetration. In fact, by utilising commercial card programmes, regulatory compliance and reporting obligations can be made a lot easier, freeing up the corporate entity to focus on their core operations.

Fraud and unauthorised spending are also thwarted, as virtual cards also offer more robust security than their plastic counterparts, with transaction-level authorisation controls, giving entities far greater visibility and overview over how and where payments are made. With real-time data visibility, it's easier to oversee and put in checks and balances in a fully digitalised end-to-end process than it is with cumbersome paper-based processes that are prone to loss, damage and disruption.

With these levels of control and oversight, accounts payable (AP), accounts receivable (AR) and cashflow management are vastly improved. For example, the whole request-to-pay process can be streamlined through automated matching of procurement and AP.

Virtual cards can integrate into different systems and automatically bring different data flows together. For example, when employees complete their expenses, instead of having to type in details, a virtual card will automatically enter the data in the expense system, saving time and reducing human error.

The reluctance of suppliers in accepting corporate cards, a recognised pain point, is also diminishing. Supplier acceptance of virtual cards in the UK and Europe tends to be lower than in the US because of acceptance costs, but this reluctance is now giving way to the benefits of having guaranteed payments and improved fund settlement. As we've seen, corporate T&E spending took a battering in 2020, but with travel resuming, virtual cards are now increasingly finding favour with online travel agencies (OTAs).

The disruption caused by Covid-19 can actually make the case for virtual cards more compelling. They can facilitate supplier payments much more quickly, and can be structured in a way that maximises revenue from rebates, reduces risks associated with supplier defaults, and offer the ability to issue cards instantly in multiple currencies.

Seizing New Opportunities to Create New Services

Corporate card providers now have an opportunity to explore and develop new use cases, and create meaningful value-added services for small and large organisations that make a powerful and positive impact on the bottom line. Some card providers are converting credit limits into working capital, while others are focusing on enhancing supplier acceptance.

The key to achieving adoption amongst enterprises is by raising awareness of these benefits, and how they can be used to strengthen supplier relationships - and even negotiate better terms. Suppliers are incentivised to accept electronic corporate card solutions because they're guaranteed payment, alongside a whole host of other benefits which vastly outweigh any acceptance-related costs. At the same time, corporates can use guaranteed payment through commercial cards to negotiate better supplier terms.

"With a digitalised work stream, it's easier to apply upcoming regulations. We've seen operational efficiencies increase anywhere from 25% to 50%, simply due to removing paper-based processes."

SILVIA MENSDORFF-POUILLY, FIS

"We see a lot of AP going into card programmes instead of being paid as bank wire transfers. The AP card structure is much easier to handle. Let's say you pay €2 more to do the transaction, but if you save 20 minutes of an employee that costs €30 per hour, then of course there's upside in that perspective."

JØRGEN CHRISTIAN JUUL, CARDLAY

> "It's funny how few organisations think about effectively getting paid, because it's such a crucial thing to your business success. Everyone likes getting paid on time! The way that you treat your suppliers and your supply chain is really important...
>
> ...At FIS, our partnership with Cardlay is really progressive in how we provide solutions in the commercial card space. The integration with all the core and back-end systems is revolutionising how payments get processed. This collaboration is a great example of coming to market very quickly."

SILVIA MENSDORFF-POUILLY, FIS

Looking ahead, other fertile growth areas include business debit cards, which remain an underdeveloped market that could prove increasingly critical to many businesses' workflows in the coming years.

Virtual cards will continue on their strong growth vector, with increasing recognition of the working capital benefits that the payment vehicle provides. The global value of virtual card transactions is set to grow by 370% between 2021 and 2026, with B2B payments comprising 71% of total value.[1]

Additionally, B2B supplier networks have the potential to grow significantly in the coming months and years as businesses scramble to fill gaps in their disrupted supply chains.

The Power of Leveraging Like-Minded Partnerships

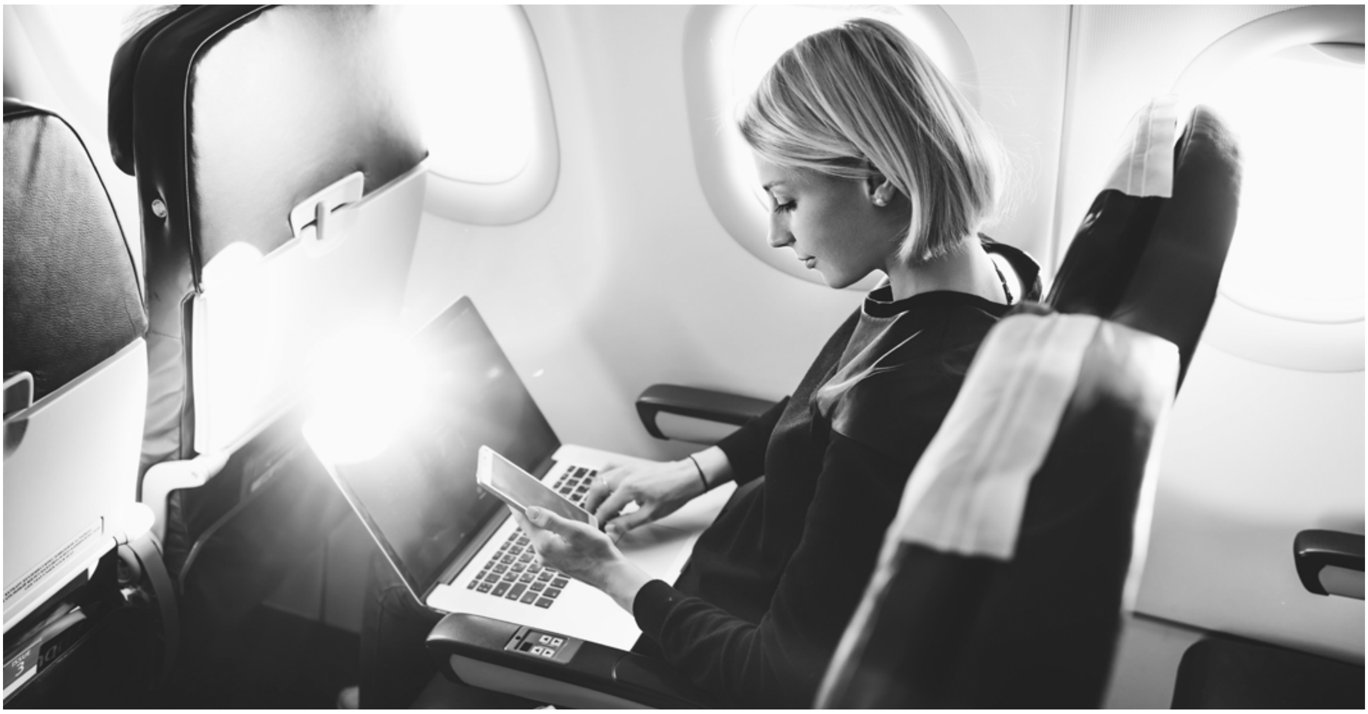
Another defining transformation in corporate card solutions is happening right now. The race to deliver value-added services that maximise the potential of today's payment technology is bringing together banks, fintechs, vendors and other payment ecosystem players in new partnerships.

By leveraging each other's complementary strengths and shared visions, these partnerships can tap into wider audiences and generate immediate buy-in from potential clients by offering end-to-end integrated platforms with data-driven services, customisable solutions geared to each business's unique objectives, and in-depth expertise to optimise every step of a corporate's payment processes.

Just some of the benefits that corporates can get include:

- A wide array of card products designed for specific business categories and verticals.
- Powerful automated process improvements covering expense management and reporting.
- Ability to integrate with employee's digital wallets for added convenience.
- More rebates, and usage rewards from more partners to incentivise T&E spending.

1 *Name - 370% growth in use of virtual card transactions globally*



Four Key Components of an Ideal Corporate Payments Programme:

1

Corporate and commercial card programmes should encompass purchasing cards, T&E cards, and virtual AP cards. When integrated with digitised invoicing, e-bill payments and receipts, organisations can extract the maximum value corporate card solutions can bring.

2

Utilise and leverage data from as many transaction points as possible to gain the broadest granular oversight over expenditure, transaction volume, operational inefficiencies, and to generate actionable business intelligence insights.

3

Ensure seamless systems integration by working with skilled payment solution providers which can advise on the best course of implementation, depending on the organisation size and business objectives. SMEs may just need to download an app; larger entities can be helped with integration into their existing systems with minimum change and implementation periods.

4

Invest in education and training for management and employees around corporate card usage policies, restrictions and expenditure categories. The sooner card users are up to speed, the sooner the organisation can begin reaping the benefits.

Conclusion

Businesses of every size, in every sector, have survived through the most testing of circumstances over the past couple of years. Many were forced to adapt their operating models and processes virtually overnight to survive. Even though we are now on the path to recovery, the challenges facing large and mid-tier organisations are very different from those faced by SMEs at the other end of the scale. When examining existing corporate card processes, and investigating the solutions that could enhance them, there are common pain points - and opportunities - that all organisations face:

- The need to overhaul and streamline time-consuming and error-ridden reporting and reconciliation processes.
- The ability to protect and strengthen cashflow and working capital.
- The security of having better data visibility and customisable spending controls.
- The guaranteed funds settlement and leverage that can be applied to optimise supplier relationships.

There has never been a better time to take advantage of the rich array of corporate card solutions available, designed to overcome challenges and generate vast cost savings and operational improvements. What's more, the latest generation of integrated end-to-end platforms combine the very best in automation, artificial intelligence, data analysis and payment transactional efficiencies to deliver transformative benefits across the entire enterprise.

We're on the cusp of the next evolution in payments, not just on the consumer side, but on the corporate side too. By partnering with expert providers, who can help entities navigate this new landscape with the right corporate card solutions aligned with their business objectives, organisations of all sizes can unlock even more prosperity, and assure themselves of a strong future.

"A lot of organisations are realising that they cannot do everything themselves, and at the speed at which the market is demanding them to do things. We'll see more partnerships as organisations look to bundle up different propositions in the market. That's the need of the hour."

SULABH AGARWAL, ACCENTURE

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 Emerging Payments Awards dinner, CEO round tables and training activities. The Payments Association also runs five stakeholder working project group covering financial inclusion, regulation, financial crime, cross-border payments and open banking. 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.

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