



Corporate Card Programs On the Rise

When you think treasury payments, it is generally wires, ACHs, and even checks that come to mind before cards. However, research conducted over the past several years has shown steadily rising preferences for cards within the corporate treasury environment. This growth appears to be driven by corporate efforts to automate and streamline their payment processes, as well as a renewed interest in the rebate and cash-back opportunities that card programs offer. Now, as continued innovation within the card industry results in further efficiency, security, and control, the B2B card environment appears to be on the cusp of a major growth phase. This article will draw upon recent Strategic Treasurer survey data to provide a snapshot of the current state of cards within the corporate treasury environment, analyze some of the primary factors influencing growth, and finally, evaluate the expected impact of new technologies and services on the industry moving forward.

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GAUGING TREASURY'S PAYMENT PREFERENCES

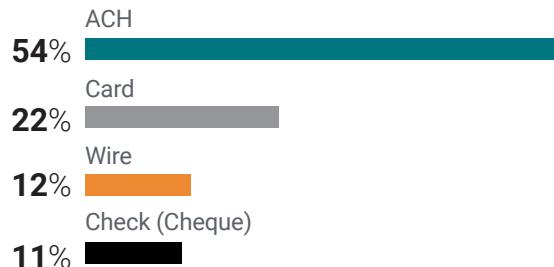
Although treasury's interest in cards is growing, they still remain a longshot away from being the most preferred or popular payment type. As it stands currently, ACH dominates the landscape in the eyes of practitioners, and in 2018, ACH was ranked as the most efficient and most preferred payment type by treasury and finance personnel for both executing and receiving payments. Given that domestic ACHs are inexpensive, quick, and easy to execute, it makes sense that corporates would have a favorable view regarding their use. Alternatively, checks (cheques) have consistently been ranked as the least efficient and least preferred payment type, and their use has continued to decline year-over-year as companies increasingly push for electronic payments. Considering the headache that manual and paper-based payment operations are causing in today's tech-oriented, fast-paced business environment, corporates' disdain for checks is not at all surprising or unwarranted.

While the payments landscape seems to have a clear winner (ACH) and loser (Checks), the other two payment types in question, wires and cards, often receive mixed reviews from practitioners. For cross-border payments

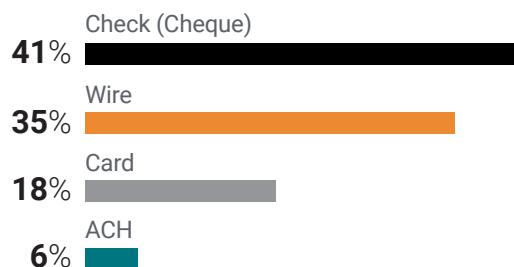
or high-value transfers, wires are generally the go-to choice. However, their relatively high cost tends to limit their use down to only when other payment options are not adequate, such as for high-value transfers. For card payments, on the other hand, it seems treasury's preferences vary depending on whether it is inbound or outbound payments in question. While cards were ranked as the 2nd most preferred method behind ACH for executing payments, they were the least preferred option for receiving payments. This may be due to a wariness by companies of the costs (i.e. interchange fees) associated with accepting card transactions. This is especially the case if there are rebates or cash-back components associated with these purchases. However, when it comes to making payments, these cash-back opportunities are a major incentive for companies to implement card programs and have been instrumental to B2B card growth in recent years. At the same time, enhanced security techniques and added efficiency components are allowing treasury and finance personnel to maintain a high degree of visibility and control over specific transactions and levels of spend. For these reasons, cards now have a favorable standing in the minds of many practitioners and are subsequently seeing heightened use and investment.

CORPORATE TREASURY'S PAYMENT PERSPECTIVES

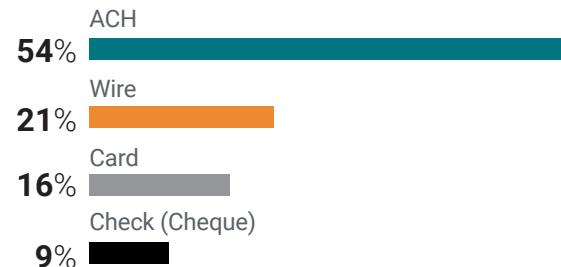
MOST PREFERRED PAYMENT TYPE FOR MAKING PAYMENTS



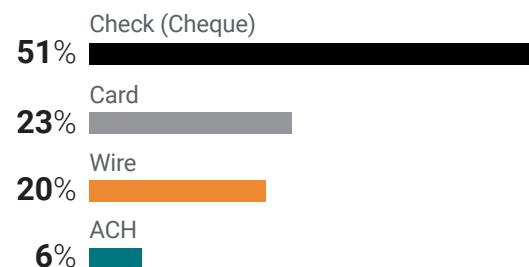
LEAST PREFERRED PAYMENT TYPE FOR MAKING PAYMENTS



MOST EFFICIENT PAYMENT TYPE FOR MAKING PAYMENTS



LEAST EFFICIENT PAYMENT TYPE FOR MAKING PAYMENTS

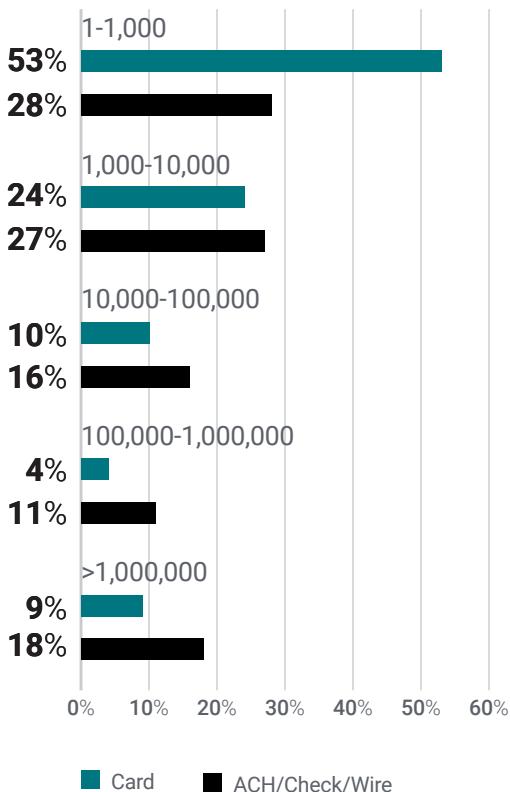


CURRENT PAYMENT VOLUMES & TRENDS

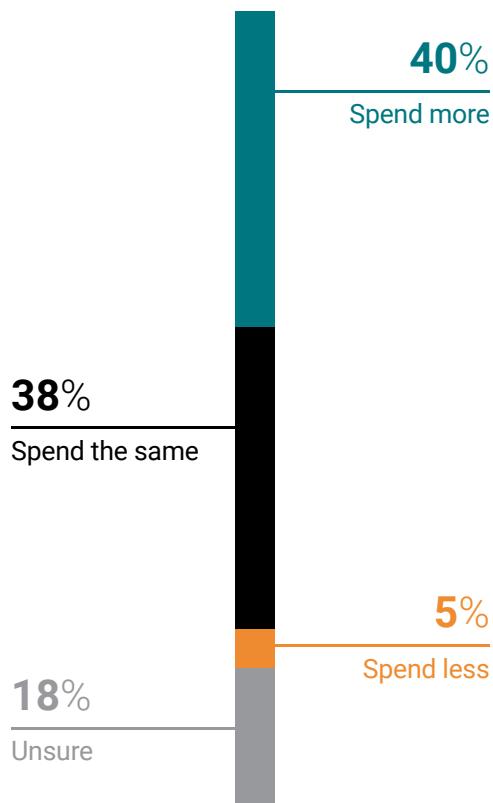
As of 2018, the majority of corporates (53%) were executing less than 1,000 card payments per month, and just 13% made more than 100,000. Analyzing this activity as a proportion of total payments volume, card transactions are just one slice of the pie. Looking more broadly, nearly half (45%) of corporates were generating 10,000+ payments via ACH, wire, and check every month, and 29% were generating more than 100,000. However, card volumes look to be on the cusp of a major growth

phase. When asked about their projected spend levels on cards in 2019 compared to 2018, the vast majority of corporates (78%) were planning to spend just as much, if not more. Across both small and large organizations, 38-40% were planning to spend more or significantly more, while just 3-6% planned to spend less; this makes for ~9x more companies increasing card spend vs. those decreasing spend. Combine this data with the fact that 26% of corporates are planning to spend more than \$100,000 on payments technology over the next year, and the outlook for growth of cards within the corporate environment is strong.

Corporates: What is your approximate volume of payments generated globally per month?



Corporate Spend Plans: Cards (2018 vs. 2019)



Monthly Payment Volumes: Although card transactions comprise only a portion of most corporates' broader payment volumes, nearly one-quarter of firms (23%) make more than 10,000 card transactions monthly. These volumes are expected to increase as firms increasingly turn to electronic payment methods.

Card Spend Rises: Over three-quarters (78%) of corporates planned to spend just as much or more on cards in 2019 as they have in 2018. Comparatively, 9x more corporates planned to increase their card spend compared to those who intended to decrease their spend.

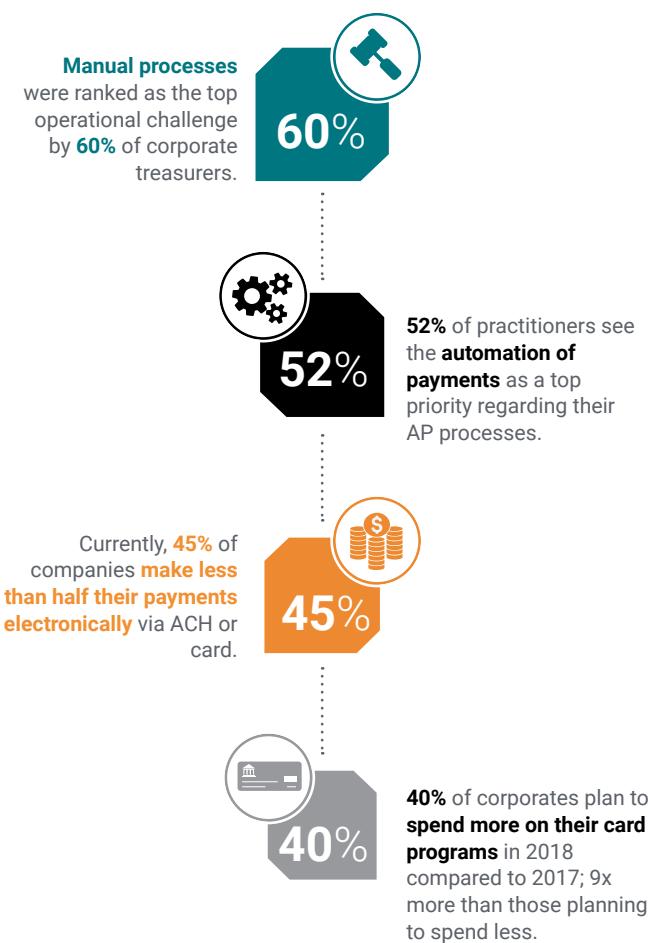
WHY IS CORPORATE CARD USE INCREASING?

Over the past decade, widespread technological innovation has resulted in significant evolution across the payments landscape, to the extent that paper-based processes and legacy payment channels are now seen as a major hindrance. In fact, a 2018 survey found that manual processes were ranked as the top operational challenge for corporates. As organizations increasingly look to maximize efficiency across their operations, the result has been a growing interest and investment in electronic solutions for anything from purchasing and invoicing, through to payment and reconciliation. Looking at payments specifically, 52% of corporates in a recent survey saw converting paper payments to electronic as a primary area of focus when it came to AP automation. For many companies in the U.S., this process involves phasing out the use of checks to be replaced with other payment options like ACH and cards. For this reason, ACH and card payment volumes in the B2B space should see steady growth in the years to come. Presently, only 55%

of corporates indicate that more than half of their B2B payments are made electronically via ACH or card, which shows that there is still significant room for growth here.

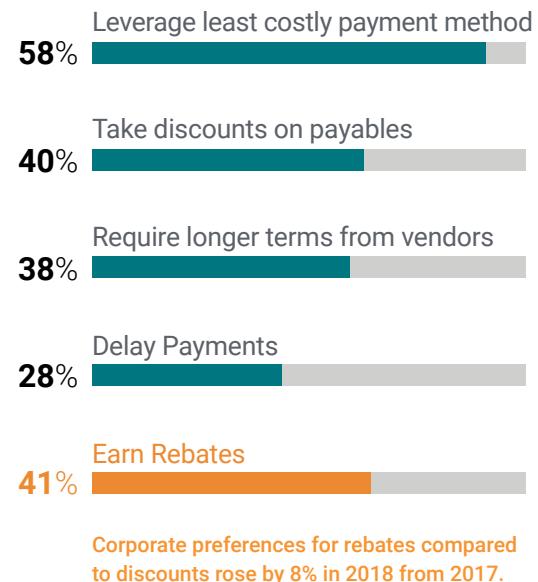
Looking beyond the push for electronic payments, growing preferences for rebates / cash-back opportunities have gone hand-in-hand with recent traction in corporate cards. Compared to discounts, 2018 saw an 8% increase in preferences for rebates from the previous year. And while significant numbers of corporates continue to leverage discounts (i.e. 2/10 n30), a very large portion (~40%) indicate that they always or often look to earn rebates on their payables. Furthermore, of those organizations with card programs in place, nearly half (46%) were actively receiving rebates and were also satisfied with the level of coverage they received from their vendors. Given these figures, the use of cards appears to be a widely accepted and useful tool for maximizing payments efficiency and optimizing working capital, and such programs are seeing increased use and traction as a result.

Preferences for Electronic Payment Solutions



Growing Interest in Rebates & "Cash-Back"

PAYMENT STRATEGIES: WE ALWAYS OR OFTEN



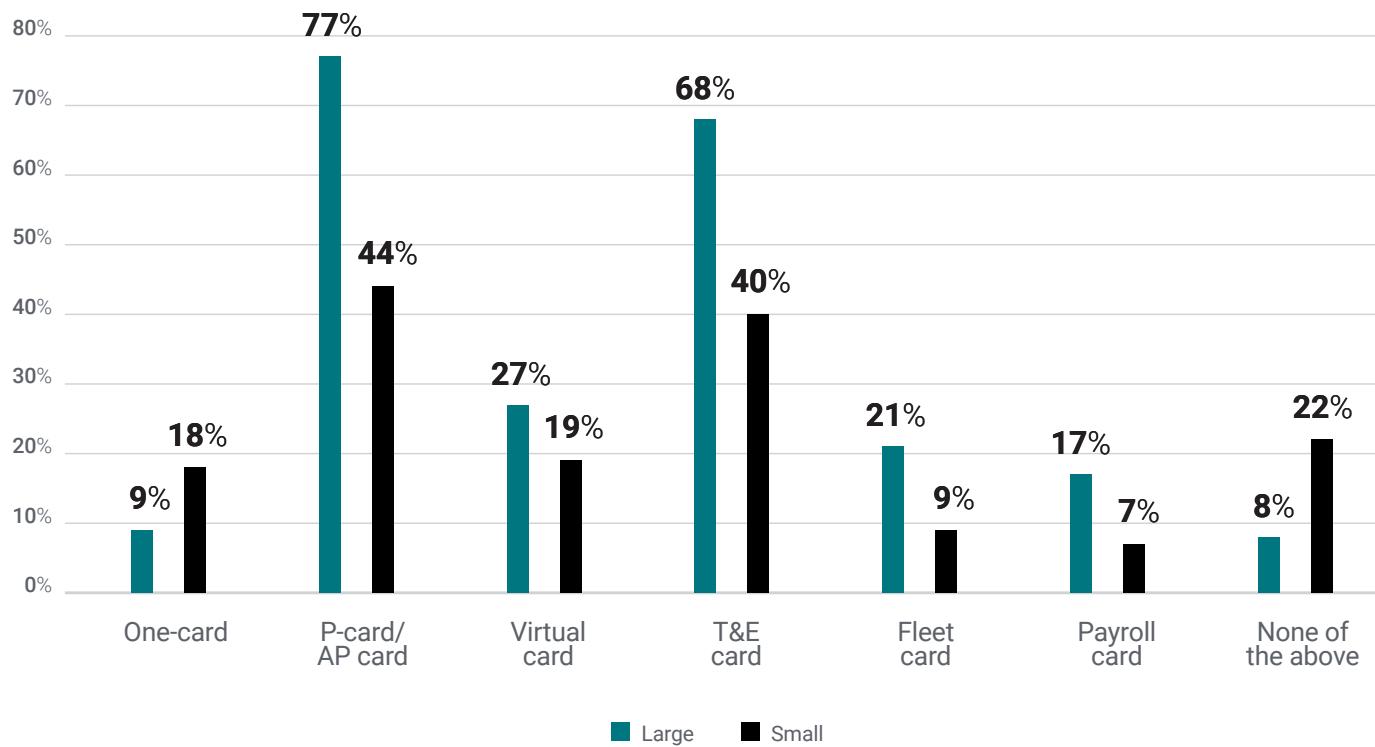
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RANKING CARD PROGRAMS BY POPULARITY

When evaluating specific use cases for cards within the B2B realm, there are two types of programs that come to the forefront, particularly within the U.S. These are AP cards (Purchasing or "P-Cards") and Travel & Expense (T&E) cards. While other options such as payroll, fleet, and virtual cards also saw some usage, traction was considerably lower than for P-Cards and T&E cards. In fact, P-Cards and T&E cards were the only card types in use by over half of the respondent pool, and are clearly the two options most desired and needed domestically. This makes sense, given that virtually every company will need to purchase supplies and products, while not every company needs to maintain a fleet of vehicles. Analyzing this data in aggregate, it appears 84% of companies leverage at least one type of card product, while 16% do not have any type of card service in play at all.

Based off company size, a fewer number of "small" organizations (<\$1 billion annual revenue) had card programs compared to large organizations. Looking at specific card types, both T&E cards and P-cards saw widespread use by corporates of all sizes. However, a significantly greater number of large corporates were using payroll cards and fleet cards compared to their smaller counterparts. Given that smaller organizations lack the staffing of larger firms and also may not have the budget or resources to maintain a fleet of vehicles, these figures were in-line with expectations. Alternatively, smaller corporates were using one cards (bundled card services) 2x more than larger corporates. This is most likely due to the ability of small firms to service their entire business through one central card program, while larger organizations may choose to delineate specific card programs to individual business units or departments.

Corporates: Which card payment products does your organization use? (Select all that apply)



Card Use by Company Size: "Large" corporates are categorized as any organization with >\$1 billion in annual revenue, while "Small" corporates include any company with <\$1 billion annual revenues.

WHAT INNOVATIONS ARE CURRENTLY IMPACTING CARD PAYMENTS?

Although there are a range of innovations currently impacting the payments landscape, there are four technologies in particular that are significantly enhancing the methods through which B2B card transactions are executed. These include contactless payment technology, virtual cards, tokenization, and biometrics. Contactless

payment technology has brought a new wave of efficiency for card transactions at Point-of-Sale (PoS) terminals, while tokenization, virtual cards, and biometrics have each introduced additional security measures to keep card information and transactions more secure. As efficiency and security are two of the primary considerations for treasury and finance for any payment service utilized, these innovations can go a long way in driving further growth and development within the B2B card industry. Overviews of each of these technologies are provided in the visual below.

				
DEFINITION	Includes smartphones, bracelets, watches, and other devices that use radio-frequency identification (RFID) or near-field communication (NFC) for acting in place of a card at Point-of-Sale (PoS) terminals.	Virtual cards do not exist as physical cards; instead, a unique card number is generated for each transaction a company initiates online. In this way, the client or customer never owns an actual card, and instead uses an online card service to make purchases.	Tokenization technology replaces credit card numbers entered into a payment system or online portal with an algorithmically generated surrogate value or "token". The actual card number is stored off-site in a secure, PCI-compliant data vault.	Biometric authentication is a security technique that requires a card user to provide a unique physical characteristic (i.e. retinal scan, fingerprint, etc.) before making a purchase or initiating a transaction. This scan acts in place of a password in many cases.
HOW IT WORKS	Rather than swiping or inserting a card at the terminal, users can simply tap their device (phone, watch, etc.) to initiate a payment. Contactless payment technology has given rise to the use of "wearables" (bracelets or watches) as a popular payment mechanism.	Virtual cards are used exclusively for online purchases. For every transaction executed by a corporate user, a random card number is assigned for the purchase. This number may only be used once, and for the next purchase, a new number is assigned.	As payments are processed, a cardholder's primary account number (PAN) is replaced with a series of randomly-generated numbers (tokens) that can pass through the internet, card networks, and other systems without sensitive bank information or card data being exposed.	Card transactions would be verified via a fingerprint or retinal scan, or may even require the cardholder to submit a "selfie" for purchases over a certain amount. This would apply to both Point-of-Sale (PoS) and online purchases.
HOW IT HELPS	Contactless payments deliver an additional layer of efficiency to the payments process and, for some users, eliminates the need to carry an actual card. Payments can be made via any connected device, whether a card is present or not.	Virtual cards introduce an additional layer of security for cardholders. As the number used to make purchases is constantly changing (and because no physical card exists), it is much more difficult for criminals to steal card information.	By capturing and tokenizing cardholder information prior to the raw card data entering their systems, companies no longer have to handle or store sensitive or unsecured cardholder data on-site, but instead store tokens.	Such services would introduce a much greater level of security for cards, as it would require criminals to obtain biometric details from the cardholder along with the card information. However, they still have a ways to go before achieving widespread acceptance and adoption.
QUICK FACT	While contactless payments have gained massive traction in the consumer environment, there has been less growth in the corporate and B2B space. In North America, consumer use of contactless payments has come primarily through phone-based applications.	Today, virtual cards are used almost exclusively in the B2B realm, and only a select number of banks offer them. Because they can only be used online, there is a limited range of applicability (i.e. employees can not travel with them).	Tokenization is currently being touted as a mechanism to simplify PCI DSS compliance and to avoid GDPR privacy concerns by eliminating the gathering or storing of sensitive cardholder data within corporate systems as payments are processed.	While biometric authentication is already being used in many areas of the payments environment, its entrance to the card space is much more recent. As of 2018, most vendors are still developing and testing this technology for use as a component of their card services.

FINAL THOUGHTS

In evaluating the current payments landscape, there are numerous factors that point to growth of B2B card services. In North America, the ongoing shift away from checks and other legacy payment options towards ACH/cards continues to add momentum to the industry. At the same time, growing interest in rebate programs among corporates, coupled with high levels of bank/vendor adoption and promotion of card services, is serving as an additional factor bolstering growth. Finally, as new innovations like biometrics and tokenization increase the level of control and security that corporates maintain over their programs, companies are finding that there are numerous advantages to adopting or implementing a card program. And given that 40% of corporates are planning to increase their card spend this year compared to just 5% planning to spend less, there is clearly a large level of anticipated investment in the short-term. Looking further down the road, it remains to be seen how emerging payment technologies like blockchain or shifting preferences among younger generations will impact the cards space. However, businesses must always be prepared to adapt to an evolving landscape. Just as the use of checks is being gradually phased out today, it is important for companies not to become too attached to a single payment option. That being said, current industry data has provided a robust argument for the case of cards in today's environment and any organization not currently leveraging a card program would do well to at least evaluate how such services could benefit them.

SOURCES

- 2018 Strategic Treasurer & TD Bank Treasury Perspectives Survey
- 2018 Strategic Treasurer, Bottomline Technologies, & Bank of America Merrill Lynch B2B Payments & WCM Strategies Survey

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Strategic Treasurer provides consulting, research, and professional services for treasury management, security, technology, and compliance. Since 2004, corporate clients, banks, and fintech providers throughout the world have relied on the extensive knowledge of current treasury practices, plans, and perceptions we have obtained through numerous annual surveys and decades of treasury experience.

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