WHITE PAPER SERIES: VIRTUAL CARD SERVICES

Commercial Payments

JULY 2017

About This Series

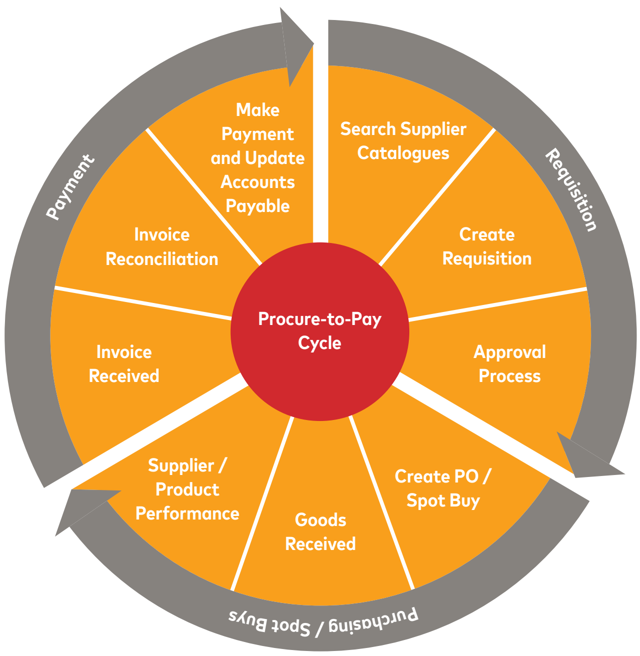
Through this series of whitepapers, we examine the dynamic and growing commercial payments sector. This paper will introduce Virtual Card Services, highlighting the role and the benefits they provide in the procure-to-pay cycle. For this series Mastercard has partnered with RFi Consulting (RFi), an independent consulting firm focused on the financial services sector and with a strong specialisation in the payments industry.

Virtual Card Services

B2B Payments Research in Australia and New Zealand reports that **"Digital solutions focused on utilising working capital benefits such as single use accounts, virtual accounts and payment platforms are displacing EFT and bridging the gap between physical purchasing cards and trade finance products."**

Source: Deloitte B2B Payments 2015 Australia and New Zealand Research report

The concept of a virtual card or controlled payment number was originally introduced primarily as an anti-fraud measure, so that a virtual unique credit card number might be generated to settle a specific transaction on an exact date by an authorized individual, making the possibility of a fraud occurring significantly less than a traditional physical card, which could be lost, stolen or cloned.



Virtual Card Services

Typically, a virtual card has a limit and an expiration date between two and twelve months from the issue date, both chosen by the account owner, and while it can usually be set up to allow multiple transactions, it is normally used with only a single merchant. The virtual card can use an "alias" number that is indistinguishable from an ordinary credit card number (allowing the 16 digits to flow through standard channels), and the user's actual credit card number is never revealed to the merchant.

A controlled payment number, also called by generic names such as "substitute credit card number", "one-time use credit card", "disposable credit card" and "virtual credit card number," or "Virtual Card Numbers (VCN)" is an alias for a physical credit card number. It is generated through the use of either a Web application or a specialized client program, interacting with the card issuer's computer, and is linked to the actual credit card account.

This technology has been evolving for some time. With the use and benefits of virtual cards in the travel industry well proven, and penetration in this sector growing, the expansion of virtual card offerings into other industries within the Australian economy is beginning to occur. For example, in the insurance sector virtual cards can provide a robust and integrated mechanism whereby insurance companies can reimburse car repair operators and others using the benefits and controls of the virtual card's B2B "parameter limited" payment.

"Virtual cards could serve as a 'catalyst' for card adoption in commercial and B2B payments which could double US purchase volume to $160 billion by 2018"[1].

[1]Ashish Sabadra, Deutsche Bank. 2015. Quoted in Ixaris 'Extending Virtualisation' White Paper, March 2016

Benefits

Virtual Cards offer many significant benefits to a business.

Virtual cards can be issued and delivered electronically at near zero cost and in real-time, thereby speeding up the procure-to-pay process and removing cost from the back office.

Flexibility - virtual cards can be used for various situations. They may be issued for single or multi use, with varying timeframes and may be for small or large spend. They can operate on a debit or credit or even a prepaid account basis.

Card payment allows for the supplier to receive payment overnight on invoice presentment (or on purchase) while the buyer receives 30-55 days before payment is required, thus enhancing cash flow management for both parties.

The business has full control to be able to change time, spend and merchant validity, or even to cancel, and updates are enacted immediately.

A Virtual Card Number integrates into the company's accounting system – indeed, the accounting system is setup to issue the numbers and can be linked to much richer data than is currently possible with physical card transactions.

Charge-back rights exist if the supplier fails to deliver services and/or products.

Benefits

Attractive opportunities for the use of Virtual Card Numbers particularly exist:

- In industries and companies that face complex challenges and inefficiencies in their payments value chain;
- Where a business makes frequent B2B payments of small to medium value (e.g. under $10,000);
- Where the business' suppliers already accept card payment;
- For businesses where cross-border payments are necessary, who can benefit from significant Fx and international transaction cost savings.

Health Insurance

An example is in the health insurance industry, where payments need to be made to health professionals who are already accepting card payments (the majority of them), but who are not already covered by existing systems such as HICAPS. The health fund (Medibank, BUPA, etc.) could issue a Virtual Card Number for a designated practitioner, either for a specific amount or with a specified limit. Significant cost savings could be achieved by the health fund who are at present making some of these (non-HICAPS) payments by cheque.

International Freight

One of our upcoming case study respondents, Schenker Australia has recently adopted Virtual Cards as a means of optimising working capital. With several suppliers who require 7-day payment terms, Schenker is beginning to approach them, offering to pay by virtual card within the 7 days or by EFT within 60 days.

Property Management

Another example suitable for the adoption of virtual cards is property management services conducted by real estate and strata management companies. These involve the employment of a wide range of tradespeople, maintenance services and repairmen across many sites. Services could be paid for using Virtual Card Numbers, as could the purchase of replacement appliances (e.g. stove, fridge) for properties under management. The tradesperson receives their payment upon completion of the work while the strata manager or real estate agent is not required to make payment before they can recoup the cost from their client (the property owner).

Next in the series: A Corporate Perspective

For more information contact us at ask@mastercard.com