Beyond Hotel Payment:

Why Virtual Cards are Being Adopted Across Corporate Travel Programs

Happier travelers. Smarter data. Reduced fraud. Lower admin costs. More and more businesses have reaped the many advantages (see Page 2) of paying for travel through virtual cards in recent years.

All these benefits are gained when paying for any kind of business travel transaction. Yet, to date, virtual cards have paid overwhelmingly for just one category. "Transient hotel is where virtual payment has taken off, even though it's the hardest supplier category to make the technology work in because of the different property management systems and other processes used," said Simon Barker, CEO of the virtual card tech provider Conferma Pay.

Non-Hotel Payments Treble

This paradoxical situation is finally changing. According to Barker, only 10 percent of virtual cards generated by Conferma Pay were for non-hotel payments in 2018. In 2020 that figure has shot up to 35 percent. It is likely to grow much more. "Coronavirus has accelerated the digitialization of payments," said Sebastian von Stein, who runs the consultancy von Stein Travel Consulting. "Adoption of virtual cards for a wider range of uses will be faster now."

Commercial and Virtual Growth

In a new forecast on U.S. commercial card spending, Accenture estimates that virtual card spending will grow 21 percent between 2019 and 2024. The growth is at a much faster pace than the 12 percent overall growth of commercial card spending and 4 percent to 6 percent growth of corporate and procurement card spending. Accenture predicts that U.S. commercial card spending will exceed $1 trillion by 2024, according to the projections by Accenture Managing Director Frank Martien, Senior Manager Brian Rutland and Manager Tom Skomba, posted on Accenture Banking. "Boundaries are blurring between card and non-card products as payment products become more integrated in e-commerce and AP/AR (accounts payable/accounts receivable) platforms and end-user organizations continue to push for more intuitive B2B payment processes," the authors stated on an Accenture Payments blog in February 2020.

VIRTUAL CARDS 101

A virtual card is a 16-digit card number that pays for transactions exactly like a plastic credit card. The difference with a virtual card is that:
• It is generated digitally
• The number can be set for single or multi-use
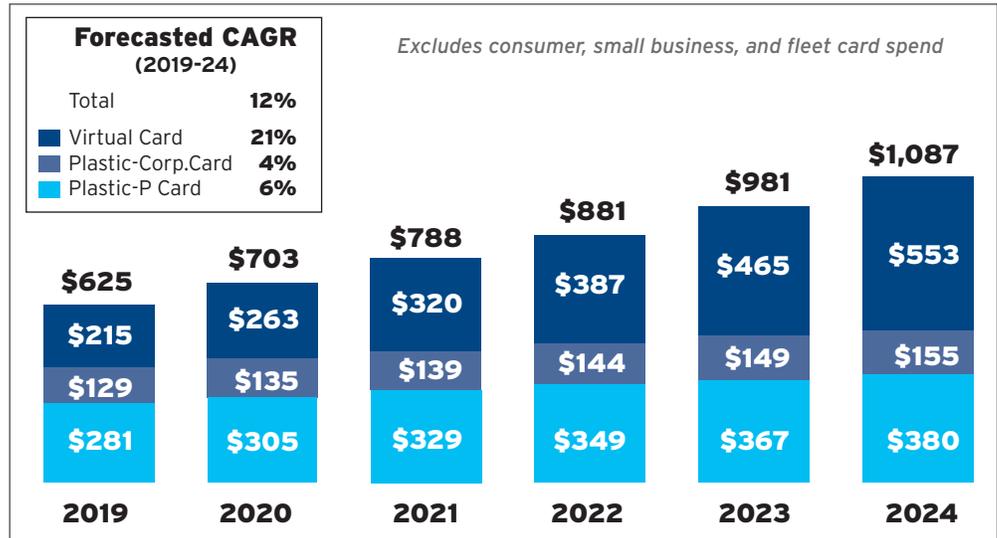
What Difference Does that Make?

One transaction, one card triggers two major advances in corporate payments:
• There is a one-to-one relationship between the card number and what you pay for. That means payments can be tracked and reconciled instantly.
• Each card can be assigned unique data and also customized rules about how it can be spent, including where, when and how much.

Benefits

• **Better data**
  Full transaction information plus internal data like cost-center codes and employee numbers.
• **Better control**
  Travelers can only spend what you want them to spend.
• **Better admin**
  Inherent reconciliation ends time-hungry matching of booked and billed data.
• **Better efficiency**
  Bolt-on services, such as hotel folio collection for VAT reclaim or expense, that send folio images directly to a client provide efficiencies.
• **Better security**
  Virtual cards cannot be stolen or copied.
• **Better traveler experience**
  No need for travelers to file expenses.
• **Better coverage**
  Can pay for all travelers, not just regular employees.

U.S. Commercial Card Spend[1] ($ billion)

Forecasted CAGR (2019-24)		
Total		12%
Virtual Card		21%
Plastic-Corp.Card		4%
Plastic-P Card		6%

Excludes consumer, small business, and fleet card spend

	2019	2020	2021	2022	2023	2024
Total	$625	$703	$788	$881	$981	$1,087
Virtual Card	$215	$263	$320	$387	$465	$553
Plastic-Corp.Card	$129	$135	$139	$144	$149	$155
Plastic-P Card	$281	$305	$329	$349	$367	$380

Sources: Accenture proprietary commercial card sizing model, informed by data from Visa, Mastercard, and American Express annual reports, SEC filings, and investor presentations; UATP press releases; The Nilson Report, GSA SmartPay statistics, 2013 / 2016 RPMG Corporate Travel Card Benchmark Survey Results; the Federal Reserve Payments Study; U.S. Census data; Federal Reserve 2016 Payments Study.

Travel and payment experts are seeing virtual payments expand in two distinct ways:
• More travel spend categories
• More use cases beyond regular business travel

MORE TRAVEL SPEND CATEGORIES

Historically, Virtual Card for Travel (VCAT) has been limited to hotel and low-cost carrier (LCCs) spend, with Travel Management Companies (TMCs) unable to introduce VCAs into their booking tools or Global Distribution Systems (GDS) for scheduled air payments. New partnerships will enable the bypassing of TMCs technology restrictions and embed a VCA not only for scheduled air, but for multiple spend types including rail and car rental.

Pre-trip: Travel management company-routed bookings

"Once a TMC is familiar with virtual cards, it's no problem to use them for any kind of booking," says von Stein. That includes the following categories:

Low-Cost Carriers (LCCs)

Online LCC bookings are probably the most common application of virtual cards after hotel. This is especially the case in Europe, where LCC websites often do not accept lodge cards (centrally billed accounts), a very common form of corporate air payment in the region.

But virtual cards aren't just a substitute when normal payment methods prove unavailable, according to Ajay Singh, vice president,

[1]Accenture estimates and analysis based on Accenture market data and knowledge as of time of this publication. Virtual Card spend includes vcard, epayables, EAP, and other IP-protected or commonly used terms for non-plastic card accounts often integrated with AP and/or ERP systems. To reflect the ongoing evolution and diversity of non-plastic digital payments, virtual cards defined herein also include virtual cards used with online travel agencies (OTAs) and proprietary closed-loop card systems.

HOW TO CONTROL TRAVELERS' MOBILE VIRTUAL PAYMENTS

Unlike virtual cards for pre-trip transactions, employers can't know in advance where travelers will spend company money on a trip or how much it will cost. How do you set up mobile virtual payments to allow travelers flexibility over which restaurant they visit, for example, but without losing control? Solutions available today or coming soon include:

Loaded Mobile Virtual Card
An employee visits Philadelphia for one night. A virtual card uploaded to their phone allows them to spend up to $600 anywhere they like over a 24-hour period for expenses including hotel, meals and taxis.

Real-Time Request
An employee visits a restaurant for dinner. At point of payment, their phone automatically generates a request for a virtual card. If the bill is for less than the amount specified in company policy (e.g. $100), the card is issued instantly.

payment strategy & products for BCD Travel. They also hold the key to managing any business travel booking made through a consumer website instead of a global distribution system. "A virtual card applies corporate controls and data to processes outside the corporate eco-system," Singh said.

IATA Airlines

There are long-established payment options for legacy airline bookings: plastic corporate cards; lodge cards; and TMCs settling through Airlines Reporting Corporation or the International Air Transport Association's Billing and Settlement Plan, then invoicing the client in turn.

Yet, said Singh, "I would say scheduled air is the spend category that will take off next for virtual payments. Customers are beginning to ask for it, especially to improve their reconciliation and tie the transaction back to a cost center."

Another key reason is that the economics of extending credit to clients are becoming less sustainable for TMCs. "More will switch away from invoicing clients for cashflow and liquidity reasons as settlement periods reduce, especially in a post-Covid world," added Barker.

Car Rental

This is a category ripe for virtual cards, if only to save travelers time on expense reporting through payment centralization. To date, however, progress has been slow because, said Barker, "providers like to put

a large reserve on a card. However, card schemes are now clarifying they will protect the rental provider if it accepts virtual cards, so we will see more movement here."

TMC and Other Service Fees

This is another pre-trip expense where Singh sees mounting client interest. When a traveler books a flight, it is possible to generate two separate virtual cards, one to pay for the flight itself and the other for the TMC fee. That allows the traveler's company to settle the fee centrally instead of going through the traveler's budget, which sometimes causes employee resistance.

Virtual cards can also pay for additional services related to a flight, such as visa fees.

On-Trip Payments: Mobile Virtual Cards will be the Catalyst

Dining, Taxis and More

Thanks to services like Apple Pay and Google Pay, consumers and merchants alike are getting comfortable with payment by swiping a phone over a Near Field Communication reader at point of sale.

Until recently, a customer's mobile wallet mainly contained digitalized replicas of their plastic credit and debit cards. But now virtual cards can be loaded into mobile wallets too. That means all the unique benefits of virtual cards have become possible for payments made during as well as before a trip.

Solving Non-Acceptance

Mobile payment also solves the key difficulty with virtual cards: not being recognized and therefore not being accepted by merchants. A mobile virtual card looks, and is automatically accepted, just like a mobile version of a plastic card, and therefore is indistinguishable to a merchant. "Mobile wallets help solve the point of sale issue. We're super-excited about it," said Paul Horn, global head of product and sales, commercial cards for Citi.

Singh is excited too. "Once virtual payments go mobile, we can move a lot of incidental expenses away from plastic," he said. "It makes payment and expense as frictionless as it can be. There's no need to file expenses, no need to worry about late card payment fees or when you will get reimbursed, and it complies with policy because you already have the controls in there."

MORE USE CASES

Non-Employee Travel

A core advantage of virtual cards has always been they can pay for anyone's travel– not just employees who travel frequently enough to be provided plastic corporate cards. As well as junior employees or infrequent travelers unentitled to a corporate card, virtual cards can also cover trainees, interns, contractors and customers.

Non-employee travelers are increasingly proving the biggest sweet spot for virtual payments. "Paying for non-employees is an issue for pretty much 100 per cent of our corporate clients," said Citi's Horn. "Around 5 percent to 10 percent of their overall T&E spend is not being captured through cards today and most of that is non-employee travel. It means data is being lost. Using virtual cards manages the end-to-end T&E process for those people and ensures reconciliation at the back end."

Whole Trip

A virtual card can be used for a limited set of multiple payments. This trend will accelerate with mobile. "In future companies will assign trainees and others a virtual card on their phone to last for the whole trip," said von Stein. "The accounting is already done. The trainee just comes back and hands in their receipts."

Meetings

Another growth segment for virtual payments–at least prior to Covid-19–has been in meetings as organizers seek to streamline payment and reconciliation pains. Conferma Pay is seeing substantial growth in virtual payments for meetings. Meetings organizers are issued with a virtual card to cover the whole event but can create sub-accounts for each vendor (audio-visual, ground transportation etc.), each of which is paid with an additional virtual card number that rolls up into the main account.
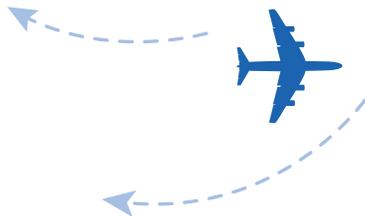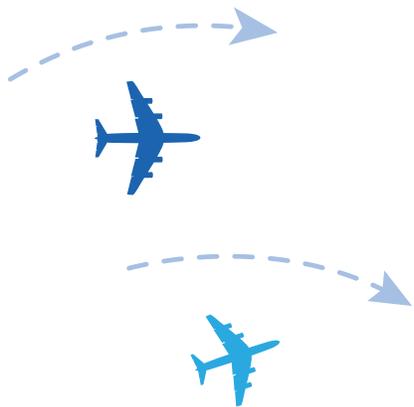
CONCLUSION: MAKE VIRTUAL PAYMENT A REALITY

Stakeholder Engagement Checklist

The rapidly widening application of virtual cards makes the case for introducing them to a travel program even more compelling. But although adoption is growing, virtual cards still aren't as established today as was anticipated a decade ago.

Perhaps the main barrier is the number of stakeholders, both externally and internally, needed to connect to make virtual payments happen. That's why the key mission of travel managers wanting to champion virtual cards is engagement.

Talk to Your Card Issuer
Ensure it offers the functionality you need–like mobile virtual cards.

Talk to Your TMC
Tell your TMC this is the way you want to pay. "The vast majority will be much more positive than a few years ago," said Barker.

Educate Merchants
Tell regular suppliers like airlines and car rental companies why you want them to work with virtual cards.

Educate Travelers
Explain to travelers what virtual cards are and how both they and the company benefit.

Educate Management
Show your finance department in particular the pain points, like reconciliation, cured by going virtual.

ABOUT CITI

Citi® Commercial Cards, with proprietary issuance capabilities in 100 countries, including local-currency programs in 66 countries, is a leading commercial card provider to large and multinational organizations globally. Citi Commercial Cards' products form the core of the expense management strategies for nearly 500 multinational corporations, making Citi a premier card issuer in terms of technology, innovation and volume.

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