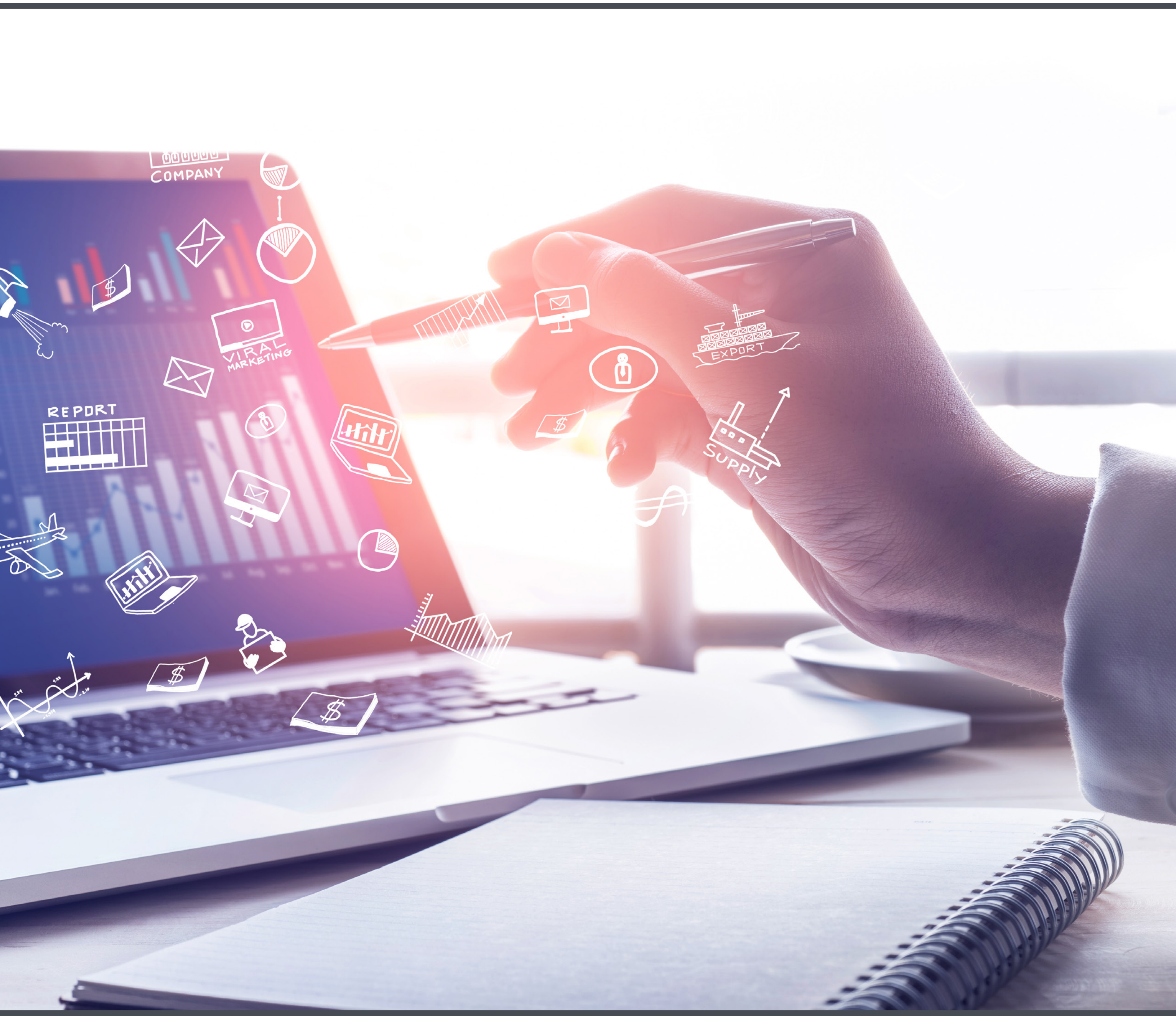
Fulfilling the Promise of Electronic Payments: Frictionless Processing of E-mailed Virtual Card Payments



An AR & O2C white paper

ACCOUNTS RECEIVABLE & ORDER-TO-CASH

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The increasing adoption of virtual card payments by accounts payable departments has created an unexpected complication for suppliers: more friction in the processing, posting and reconciliation of payments and receivables. The root of the problem is that most suppliers rely on a manual approach to processing e-mailed virtual card payments. Suppliers are forced to balance their organization's need for operational efficiency and control with rising customer demand to pay with a virtual card. But a new breed of technology enables suppliers to process virtual card payments straight-through, addressing the needs of buyers and suppliers. This paper details the growth of electronic business-to-business (B2B) payments, shows how manual approaches to processing virtual card payments cause friction in accounts receivables, describes a way to process virtual card payments straight-through, and highlights the benefits of frictionless payments.

The Growth of Electronic B2B Payments

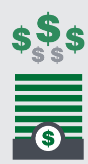
Businesses increasingly are paying one another electronically.

B2B paper check usage has declined 30 percent since 2008, per the Association for Financial Professionals' "2016 AFP Electronic Payments Survey." What's more, nearly 80 percent of businesses are moving their B2B payments away from paper checks to electronic payments, AFP reports. Further, electronic payments is the top the automation priority of accounts payable leaders surveyed for Institute of Finance and Management's (IOFM's) 2016 AP Technology Survey.

Purchasing cards are playing a big role in the tremendous growth of electronic B2B payments. The use of purchasing cards for B2B payments is growing by 10 percent annually, studies show.

Purchasing cards have historically been used by businesses to purchase lower-value goods and services. But in recent years, the use of purchasing cards – particularly virtual cards – has increased dramatically, expanding into areas where paper checks have traditionally been used, even for "big-ticket" purchases. Virtual card payments are a one-time use credit card number typically generated by a customer's bank or accounts payable system and often sent to suppliers via e-mail. More buyers are making virtual card payments an integral part of their disbursements strategy to reduce operational costs, streamline procure-to-pay processes, mitigate payments fraud, and capture revenue share.

71% of businesses can pay suppliers electronically, per the 2015 Electronic Payments and Card Solutions report from PayStream Advisors.



Businesses report high processing costs as a major challenge with traditional payment methods, per the 2015 Electronic Payments and Card Solutions report from PayStream Advisors

Over the last five years, virtual cards have been the fastest growing method of B2B payment.

Virtual card usage is expected to grow at an annual rate of about 20 percent over the next two years, primarily displacing the use of paper checks in the B2B space, Mercator Advisory Group found in its report, The U.S. Commercial Card Market: A Growing Virtual Reality. What's more, virtual cards rank among the top automation priorities of accounts payable leaders surveyed in 2016 by IOFM.

On the plus side for suppliers: they stand to benefit from process efficiencies, improved working capital management, more predictable payments, reduced Days Sales Outstanding (DSO), and stronger customer relationships. However, there are some challenges which will be discussed below.

Virtual Card Payment Friction

But most suppliers do not share the enthusiasm their customers have for virtual card payments. While 63 percent of suppliers say they want to be paid electronically, just 9 percent say they prefer payment via a card, Receivables Savvy found in a 2016 study. Supplier resistance to virtual cards can largely be attributed to the manual processes typically required to process virtual card payments. Upon receiving a virtual card payment, most suppliers must retrieve payment instructions from a third-party portal, manually key a card number into a terminal, apply the remittance details into their enterprise resource planning (ERP) platform, and manually match payments to open invoices in the ERP. Manually processing virtual card payments creates friction for suppliers in four ways:

1. **Reduces staff productivity:** Automating manual processing tasks ranks among the top concerns of accounts receivable leaders, per IOFM. It takes an average of 6.8 minutes for accounts receivable staff to process and apply a single e-mailed virtual card payment.
2. **Increases costs:** Interchange rates vary depending on the level of qualified data passed with a card payment. Manually entering virtual card payment data saddles suppliers with the highest interchange rate because they are not passing the amount of data (Level 3 data) required for lower interchange rates. The typical supplier pays over $10,000 in additional fees for every 1,000 virtual card payments they accept without passing Level 3 data.
3. **Increases DSO:** The steps required to manually open e-mails, locate and enter virtual card payment information, and apply cash frequently delays customer payments.
4. **Increases risk:** Many suppliers store partial card numbers and client portal login and password information in Excel spreadsheets to lighten the burden manually processing virtual cards. This information can be misplaced or stolen and used for nefarious purposes. What's more, virtual card payments that do not include Level 3 data are considered less secure than those that do; Level 3 data provides the most extensive amount of data on a transaction. A data breach can cost suppliers $217 per record – a potentially devastating cost for most suppliers.

Virtual card acceptance is a major point of friction for suppliers thanks to manual data entry and reconciliation.

"Efficiently processing virtual card payments from multiple trading partners is a true pain point, one that has caused some companies to reassess their willingness to even accept payments via card," notes James Clark, a senior analyst at Aite Group, a Boston-based research and advisory group.

Despite the friction caused by e-mailed virtual card payments, suppliers cannot afford to alienate their customers by turning away card payments. Twelve percent of accounts receivable leaders identify meeting demands for improved service as a top concern, IOFM's 2016 benchmarks found.

Frictionless Payment Processing

The straight-through processing capabilities offered by some providers of accounts receivable solutions eliminate the friction in processing virtual card payments e-mailed from customers.

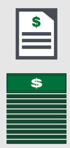
Here's how straight-through processing solutions work:

- Buyers initiate a payment using a virtual card directly from their accounting platforms.
- Payment instructions sent by the accounting platform or the buyer's bank are automatically re-routed to the supplier's straight-through processing solution.
- The solution processes the payment, captures Level 3 information from the virtual card payment, and consolidates the information into a single platform.
- Payments are automatically matched with invoices.
- Funds are deposited into a supplier's bank on the next business day.

88% of businesses cite increased efficiency as a primary reason for moving to electronic payment methods, per the 2015 AFP Payments Cost Benchmarking Survey.

Straight-through processing is the reason that 38 percent of businesses responding to the 2015 AFP Payments Cost Benchmarking Survey are moving to electronic payment methods.

REDUCE COSTS



Reduced costs is a top reason that businesses responding to the 2015 AFP Payments Cost Benchmarking Survey are moving away from paper checks to electronic payment methods.

60% of businesses identify fraud prevention as a reason for moving to electronic payment methods, per the 2015 AFP Payment Cost Benchmarking Survey.

The Benefits of Frictionless Payments

Straight-through processing solutions address the friction caused by e-mailed virtual card payments:

- **No manual data entry**: Straight-through processing eliminates the need for suppliers to key the unique 16-digit number on virtual card transactions and to manually reconcile invoice details within their existing ERP or accounting software. E-mailed virtual card payments are electronically re-routed to the straight-through processing solution which captures the Level 3 virtual card data. Staff only review exceptions. And uploading Level 3 payment data directly into an ERP eliminates the need to manually enter this information. It is for these reasons that automation helps suppliers reduce their payments processing costs by 76 percent.
- **Level 3 data**: Automatically capturing virtual card data enables suppliers to pass Level 3 data for lower interchange fees and discounted large-ticket rates. Level 3 data also provides suppliers with the line-item detail they need to monitor spending and track purchases.
- **Faster cash application**: Straight-through processing enables suppliers to get paid faster and eliminates the cost of collections and write offs. The technology consolidates remittance data across all payments and formats the data to be uploaded to any ERP platform. Capturing verified payment information also results in more accurate cash application and accounting.
- **PCI compliance**: Straight-through processing solutions use token-based security and other measures to comply with Payment Card Industry (PCI) Data Security Standards for safeguarding virtual card information. The technology eliminates the risky handling of virtual card numbers and customer portal login and password information for suppliers. As a result, suppliers mitigate potential fraud and are guaranteed payment with limited chargeback risk.

Importantly, straight-through processing solutions enable suppliers to maintain operational efficiency and control, while satisfying rising customer demand to make payments with a virtual card.

While every business benefits from frictionless payments, suppliers in industries such as healthcare, manufacturing and construction – where buyer adoption of cards is soaring – have the most to gain.

Case Study

Medela has benefited from the straight-through processing of e-mailed virtual card payments.

Founded in 1961 in Zug, Switzerland, Medela provides superior-quality breast pumps and breastfeeding accessories to nursing mothers. Medela distributes its products in more than 100 countries, either directly or through independent partners, and has more than 1,500 staff worldwide.

Like many other businesses, Medela experienced a rapid increase in the number of virtual card payments that it receives via e-mail. Medela manually keyed the unique 16-digital virtual card numbers into its ERP. Since there is no standard format for virtual card payment e-mails, locating pertinent information was time-consuming. In some cases, Medela's staff had to navigate numerous URLs before finding the virtual card number that it required. Medela dedicated all a full-time employee's time to processing virtual card payments that arrived via e-mail. Moreover, the employee relied on a spreadsheet of logins, passwords and URLs to retrieve virtual card numbers.

Making matter worse, staff had to manually track down and close thousands of invoices in its ERP.

And with no easy way to pass the Level 2 or Level 3 information required to qualify for lower interchange rates, Medela was being hit with hefty fees for every virtual card payment it processed.

Medela alleviated these challenges with a straight-through processing solution. Every e-mailed virtual card payment is now automatically re-routed to the solution, stored safely in the solutions provider's PCI compliant environment, and processed and deposited into Medela's bank account the next business day. The solution delivers a consolidated remittance file directly into Medela's ERP.

Within three weeks of deploying the solution, Medela eliminated all the manual keying required to process virtual card payments. As a result, Medela reallocated the full-time employee who was previously dedicated to processing virtual card payments to important credit and collections projects.

The solution also enabled Medela to optimize its interchange fees. Every virtual card payment that is routed to the solution is submitted for Level 2/Level 3 processing, making Medela eligible for the lowest possible interchange rate. Medela reduced its interchange fees for e-mailed virtual card payments by 0.26 percent and expects those savings to increase as its virtual card volumes grow.

Conclusion

Friction in the processing of e-mailed virtual card payments is preventing most suppliers from achieving the full benefits of receiving electronic payments. Suppliers cannot afford to alienate customers by turning away card transactions. But suppliers must ensure operational efficiency control. Solutions that process e-mailed virtual card transactions straight-through do just that. By automating the capture of e-mailed virtual card information, the consolidation of information into a single platform, and the matching of payments and invoices, suppliers can increase staff productivity, reduce operational costs, accelerate cash application and reduce DSO, and mitigate potential risk.

About Visa Inc.

Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network – enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device, and a driving force behind the dream of a cashless future for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

For more information, visit **usa.visa.com/about-visa**, **visacorporate.tumblr.com** and **@VisaNews**.

About Billtrust

Billtrust accelerates cash flow by automating invoice delivery, invoice payment and cash application. Companies can improve operational efficiency throughout the invoice-to-cash process with electronic invoicing and payments in a flexible, cloud-based solution. Finance executives and A/R specialists love and recommend Quantum, Billtrust's payment cycle management solution, for the remarkable cost savings, ease-of-use, and improved customer satisfaction rates.

Billtrust is partnering with Visa to simplify B2B electronic payments. The partnership will help to streamline the reconciliation of B2B payments and increase automation of virtual card payments.

Billtrust will integrate Virtual Card Capture solution with Visa's Straight Through Processing (STP) capabilities to automate and streamline the receipt and reconciliation of Visa virtual commercial card payments (purchases initiated by buyers, for payments made to suppliers, using Visa virtual cards).
www.Billtrust.com/vcc-iofm

About the AR & O2C Network

The AR & O2C Network is the leading provider of training, education and certification programs specifically for Accounts Receivable, Order-to-Cash, Global and Shared Services professionals.

Membership to the AR & O2C Network **(www.aro2c.com)** provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Receivable and Order-to-Cash process.

Topics include Accounts Receivable and Order-to-Cash Policies, Managing Customer Information, Process Automation Technologies, AR Compliance (Sales & Use Tax, Canadian Tax, Sarbanes-Oxley, Escheatment, Government Restriction Lists and Uniform Commercial Code), and Accounts Receivable and Order-to-Cash management issues.

A membership to the AR & O2C Network provides tangible ROI to any organization – saving your organization time and money.

Nearly 10,000 professionals have been certified as an Accredited Receivables Specialist or Manager (available in English, Simple Chinese and Spanish) through the AR & O2C Network and its parent company, the Institute of Finance & Management.

AR & O2C Network also hosts the annual Accounts Receivable & Order-to-Cash conference, designed to facilitate education and peer networking.

AR & O2C Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable, and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.