THE CFO'S GUIDE

To Digitizing B2B Payments

December 2020

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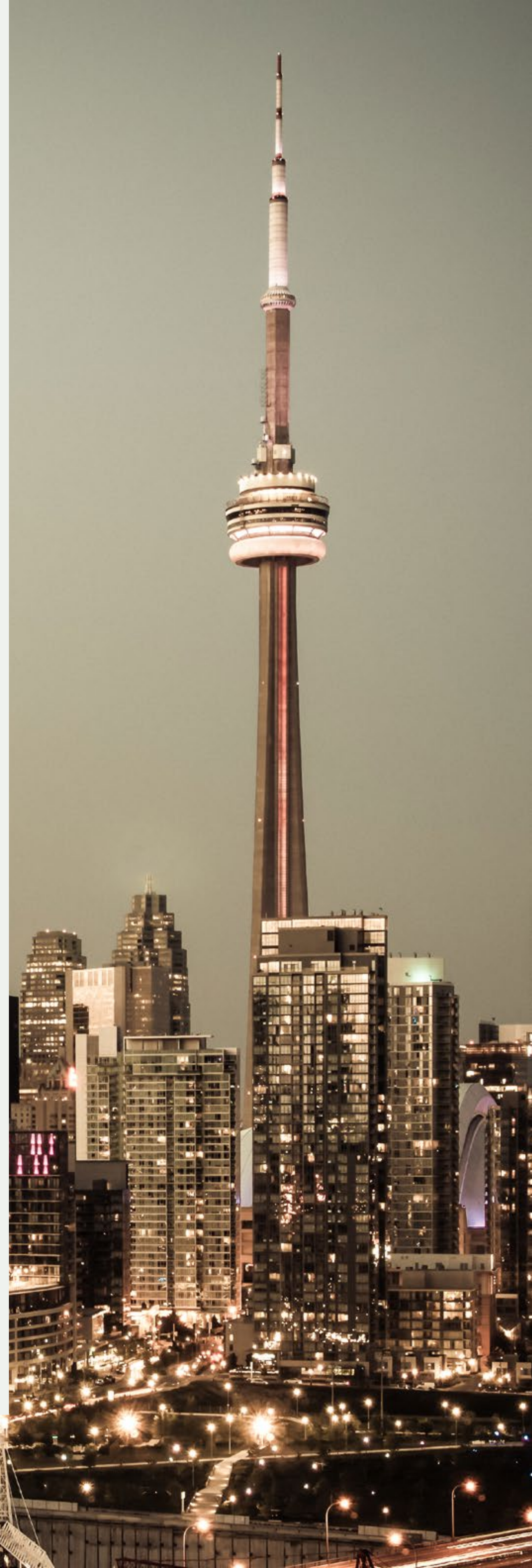

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ACKNOWLEDGMENT

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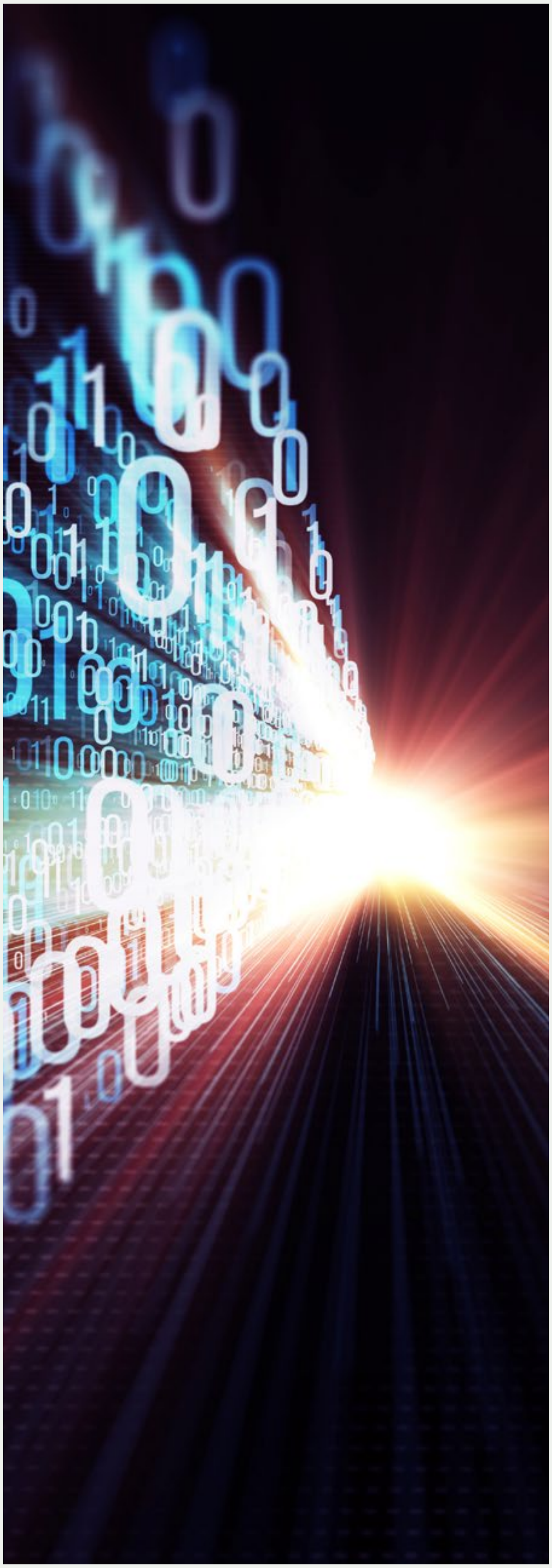
WHAT'S INSIDE

Companies are reexamining their payment tools as they work to more swiftly and seamlessly pay vendors. Paper checks are proving increasingly difficult to print and deliver as many employees work remotely during the pandemic, forcing firms to innovate their payment methods and systems.

Many businesses are finding that newer digital payment tools, like virtual cards, offer key advantages to optimizing their business-to-business (B2B) processes during the health crisis. These tools allow corporate buyers to secure payments by generating one-time digital codes for each transaction, and they also deliver funds to vendors more swiftly than putting checks in the mail. Such features can encourage corporate buyers to leverage virtual cards to simplify and secure their payment processes and vendors are similarly adopting automated solutions that can help them easily receive and process card payments and their associated data.



AROUND THE B2B PAYMENTS WORLD

One major financial institution (FI) is tapping into virtual cards to help companies more conveniently make B2B payments. It recently launched a tool to help buyers manage their working capital, which could give them more control over their cash flows because they know precisely when their payments will reach vendors. Such insights are impossible to obtain when sending checks via postal mail.

Businesses are also transmitting virtual cards to their employees to help staff make purchases on companies' behalf. These cards can be helpful at a time when many workers are operating remotely, creating a need for payment tools that can be provided quickly and easily to employees in their homes.

Card payments could also alleviate cross-border transaction frictions by providing a more streamlined alternative to correspondent banking networks, director of B2B partner development at one payments company said in a recent PYMNTS interview. Correspondent banking sees money move through various intermediary banks in different countries until it finally reaches its destination, with each FI adding fees and lengthening the transaction's processing time. Card payments can instead support more rapid and direct transfers that can ultimately save time and money.

For more on these and other headlines from the B2B payments space, check out the Guide's News and Trends section (p. 10).

IBM PAYMENTS ON VIRTUAL CARDS AND THE DIGITAL FUTURE OF B2B PAYMENTS

Digital transactions have become the new normal for B2B processes during the pandemic, and companies are concerned about finding payment methods that are swift and secure. This is bringing attention to virtual cards, which can safeguard payment details and be integrated with back-end systems to support straight-through processing, according to Sridhar Narayanan, chief architect at IBM Payments Center. In this month's Feature Story (p. 7), Narayanan and senior partner and head Mike Cook explain what goes into providing secure virtual cards as well as how these purchasing tools stack up against other emerging payment technologies.

DEEP DIVE: HOW VIRTUAL CARD AUTOMATIONS CUT THROUGH B2B PAYMENT FRICTIONS

Companies need to safeguard their cash flows during the pandemic, and adopting faster, more cost-effective ways of transacting can help them do so. Buyers want to use less-expensive payment tools while suppliers want to receive their funds quickly. Ditching paper checks for B2B transactions conducted via virtual cards could benefit both parties, but these emerging payment tools are unlikely to generate significant uptake if vendors cannot easily accept or process them. This reality is creating demand for solutions that can help suppliers automate the handling of virtual card payments and their associated data. This month's Deep Dive (p. 14) examines how virtual cards and straight-through processing tools can remove frictions from B2B transactions at a time when companies cannot afford any cash flow hiccups.

FAST FIVE FACTS

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74%

Portion of accounting staff who report frictions when manually processing invoice data

$25T

Value of B2B payments made in the U.S. annually

$171K

Average annual cost businesses incur from processing paper invoices

60%

Decline in missing invoice cases reported by firms that automated invoicing and expense management

26%

Share of businesses that were concerned about virtual cards' data security in 2018

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IBM PAYMENTS ON THE FUTURE OF VIRTUAL CARDS

FEATURE STORY

Businesses that once relied on paper-based payment methods and in-person transactions have marked seismic shifts to digital processes during the pandemic. Employees who previously leveraged plastic commercial cards when paying for business expenses and procurements are now making purchases online, leading more firms to use digital methods to settle vendor invoices.

The once-noticeable lines between older generations of employees and consumers who were typically considered digital holdouts and younger ones regarded as digital natives are blurring. The pandemic has meant that nearly all individuals have begun using online and mobile tools — willingly or not — to meet their professional purchasing needs, according to Mike Cook, senior partner and head at IBM Payments Center.

"We have [billions of] digitally organized individuals on the planet who have learned how to transact life for the last eight months in the virtual world," Cook said.

Cook and Sridhar Narayanan, IBM Payments' chief architect, recently spoke with PYMNTS about how this digital shift is affecting the B2B payments space. The world is witnessing a large-scale push toward virtualization, they said, and companies charting these waters must therefore find ways to securely digitize their payments. Virtual cards are emerging as a key consideration for numerous firms as they look to better protect themselves from cybercrime.

"The premise of virtual cards is that they're a lot more secure to use in the context of B2B payments," Narayanan said.

Narayanan and Cook recently discussed the factors that are drawing businesses to virtual cards as well as those that could determine whether companies continue to use these payment tools or shift to other methods.

VIRTUAL SECURITY

Narayanan said digital cards can protect B2B payments by giving buyers temporary, one-time-use codes for individual payments, thus preventing them from transmitting sensitive card details. These tools also offer buyers various control measures, such as the ability to limit transactions to certain sizes or merchants.

Providing fully secured experiences requires more than simply shielding payment details, however. Card providers must safeguard other aspects of businesses' virtual card journeys. Cook noted that FIs, FinTechs and other payment providers must carefully consider how they translate previously manual processes like onboarding to digital environments, lest they introduce weaknesses upon which cybercriminals can quickly capitalize.

Issuers that are launching digital cards also need new ways to confirm applicants' identities. Small business owners seeking commercial cards may once have visited branches to present identification, but now they are likelier to submit applications online to avoid crowded public spaces and accommodate banks' more limited hours. Simply asking applicants to submit photos of the front of their driver's licenses is often not enough to prevent fraudsters from using counterfeit IDs to slip past security measures, Cook warned.

Players in the space are taking heed, and efforts to modernize fraud-fighting techniques could ultimately lead to stronger security. Cook predicted that digital IDs will eventually become commonplace and could provide issuers with troves of metadata that enable them to more robustly evaluate applicants than would be possible when examining physical ID cards.

"Now as we go into virtual cards, you're having to think, 'I'm going to have to assume that, in my lifetime, I will have a digital ID,' and the integrity of that ID is, frankly, going to be way stronger than a piece of plastic with a smeared signature," Cook noted.

FUTURE OF VIRTUAL CARDS

Digital cards can also offer firms benefits beyond security as long as buyers and sellers have the right integrations to unlock these advantages, Narayanan said. Businesses that integrate their AR and AP systems with cloud-based virtual card platforms to initiate, process and settle transactions can gain greater visibility into these payments, he said, which allows them to better manage cash flows. These integrations also set up sellers with straight-through processing for swift reconciliation.

Firms are taking note of virtual cards, but the future of these tools could depend on whether they offer benefits that distinguish them from other emerging digital payment options. Virtual commercial cards stand out because they enable deeper security, provide useful remittance data and make funds more quickly available to recipients than do traditional methods, Narayanan noted. Real-time payment systems that deliver near-instant account-to-account (A2A) transfers are now drawing attention — especially from small to mid-sized businesses (SMBs) — because they offer similar advantages. These rails use the ISO 20022 messaging standard to transfer detailed information alongside payments, making reconciliation easier.

The new rails also avoid interchange fees, Narayanan said, which remain a key friction to greater supplier acceptance of virtual cards. This sets up potential competition between the methods, and only time will tell whether the companies that are currently using virtual cards will transition to real-time payments or deem both tools useful.

"We may see some coexistence in the large organizations space, where cards are already used for purchasing," Narayanan said. "But in the [SMB] space, it'll be interesting to see where the shoe will fall, especially as real-time payments gain traction around the globe."

The pandemic is causing dramatic shifts in B2B payments as companies respond to new digital realities. Virtual cards can deliver significant advantages to companies eager to evade the frictions of paper checks, but card providers will need to enhance their offerings and experiences if they wish to withstand growing competition from other transaction technologies.

NEWS & TRENDS

Virtual Cards

FI PROMOTES SINGLE-USE VIRTUAL CARDS AS SECURE B2B SPENDING TOOL

Virtual cards can appeal to businesses that are looking for safe, reliable ways to transact with suppliers, according to one major FI. The bank recently announced a virtual card offering that is intended to provide greater control and transparency to B2B payments, especially compared to those facilitated by paper checks. Virtual cards can help buyers better manage their working capital because they can allow firms to determine exactly when funds will reach suppliers — an impossible task with checks put in the mail.

The FI also noted that virtual cards can offer greater security than their traditional physical counterparts as companies using these tools do not have to transmit sensitive details to complete transactions. They can instead conduct payments by providing vendors with one-time-use codes that are authorized only for the exact value of each invoice being paid.

PAYMENT PROCESSING FIRM LAUDS VIRTUAL CARDS' FINANCIAL PERKS, IMPROVED TIMELINES

Security and transparency are not the only factors that influence companies' transaction tool choices. Financial incentives and time savings can also lead buyers and suppliers to view virtual cards as important payment options, the CEO of a payments processing company recently told PYMNTS. These technologies often come with cash rebate options, which can be important budget boosts for cash-strapped buyers. Cards can also more quickly deliver funds to vendors than paper checks sent via postal mail or money sent via automated clearing house (ACH), thus helping suppliers maintain their cash flows. Digital cards also give companies real-time visibility into whether transactions have been completed, which can save time for both parties. Vendors that use these cards no longer need to follow up on payments and buyers do not have to field as many supplier calls inquiring about payments' statuses.

Virtual cards can still face hurdles, despite these advantages. Vendors may be unwilling to accept the transaction processing fees that typically come attached to such methods, for example. This means buyers must offer a mix of options to their partners as both parties seek convenient transaction methods.

PAYMENTS COMPANIES PROMOTE VIRTUAL CARDS FOR EMPLOYEE SPENDING

Businesses must also find ways to help their employees make expenditures on behalf of their companies, and this can be more difficult now that many professionals are working from home and need to conveniently receive and use purchasing tools. Several payments providers are working to resolve this issue with virtual cards that can be transmitted to employees' mobile devices and used via apps. The solution includes money usage features that can help companies track, reconcile and approve purchases, ensuring that workers can make the payments they need while reassuring business owners that company funds will be used appropriately.

Global card use

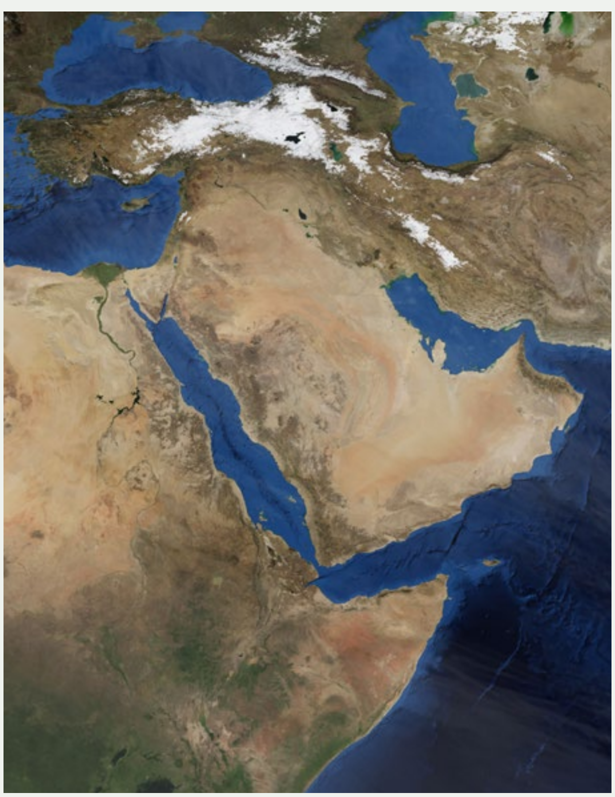
HOW DIGITAL CARDS CAN SIMPLIFY INTERNATIONAL TRANSACTIONS

Cross-border B2B payments can be complex and cumbersome affairs, but virtual cards are helping firms more swiftly and cost-effectively make these international transactions, a payments company executive said in a recent interview. International transactions can be tricky because they are often conducted via a process called correspondent banking, which requires funds to pass among FIs in different countries until they ultimately reach their intended destinations. Each bank included in these journeys adds its own fees, quickly driving up costs.

Virtual cards can allow corporate buyers to cut out many of these intermediary banks. These solutions can enable swift transactions and provide payouts in recipients' home currencies without foreign exchange fees — assuming that the card network being utilized supports both countries, the executive told PYMNTS. Buyers can also set transaction controls to reduce the risk that cards will be compromised and that their details will be used for unauthorized purchases.

ANNUAL COMMERCIAL SPENDING REACHES $4 TRILLION IN MEA

Payment cards are also gaining traction in the Middle East and Africa (MEA), where firms are reportedly using them to conduct the majority of their $4 trillion annual B2B spending, according to a Mastercard press release. The card company is teaming up with MEA-focused digital commerce solutions provider Network International to offer the region's businesses various card solutions. These reportedly will include fleet cards, procurement cards, travel cards and general corporate spending cards.



The companies state that commercial card use is growing in the region because these payment solutions can provide transaction visibility, spend controls and optimized cash flows.

Modernizing AP, AR

AI TOOLS COULD EASE INVOICE PROCESSING, RECONCILIATION ISSUES, REPORT FINDS

Businesses need to resolve numerous frictions to transact seamlessly with one another, but a recent PYMNTS report found that many AP teams are struggling with inefficiencies that can complicate this task. Companies may face challenges related to manually entering invoice data, matching invoices to payments and ensuring none of these documents are lost, for example. These are not the only concerns, either, as companies must also take care to detect duplicate invoices, lest they risk paying for the same purchases twice. Such pain points could drive interest in AI-powered tools and other automations that can assist with invoice reconciliation and review documents to catch potential errors. Firms could integrate such technologies into their enterprise resource planning (ERP) systems to streamline invoice processing, and many are actively looking into such updates. A survey cited in the report found that 74.2 percent of finance leaders are either investing in AP and AR automations or considering doing so, for example, and that 67 percent are specifically looking at AI and machine learning-powered tools.

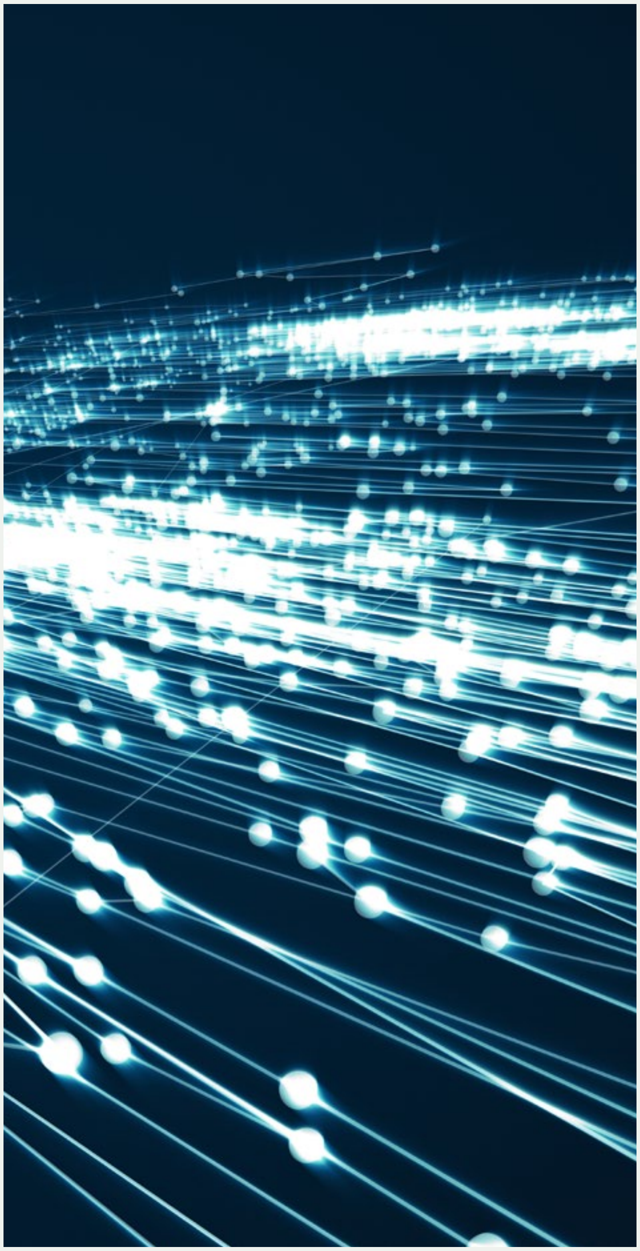
HOW PAYMENT PLATFORMS CAN SUPPORT A2A TRANSFERS

Payment platforms that connect B2B buyers and suppliers can enable companies to swiftly modernize their payments approaches, and they can be helpful in facilitating A2A transfers and delivering detailed data. This can allow them to resolve common issues stemming from a lack of data, explained James Anderson, Mastercard executive vice president of global commercial and B2B solutions. Platforms can help remove questions from the process by standardizing the data that buyers are prompted to provide when making transactions, which ultimately lets vendors rest assured that they know which details they will be receiving. Anderson said that conversations regarding improved B2B transactions have often focused on how swiftly payments data is delivered or even the depth of that data without adequately addressing the information's utility. AR teams may face reconciliation headaches if they receive different kinds of transaction details from buyers without knowing what to expect.

FIs, FINTECHS SEE COLLABORATION AS KEY TO STRONGER AP OFFERINGS

FIs and FinTechs are seeing more opportunities in working together to meet corporate clients' accounts payable (AP) automation needs, according to members of a recent PYMNTS panel. Banks tend to have well-established reputations, strong regulatory compliance measures and experience accessing payment rails and providing services like lending — all of which can be compelling to FinTech partners. Traditional FIs have also established trust with their long-term clients, and this task can prove difficult for young FinTechs working to reach and retain customers on their own. FinTechs meanwhile offer niche technical expertise and are often more fleet-footed about adopting new technologies, panel members explained. Collaborations that bring both of these entities together can enable them to combine their strengths and deliver more robust AP solutions to corporate clients that go beyond what either party could offer on its own.

DEEP DIVE



How Virtual Cards And Automated Processing Ease B2B Payments

A thriving commercial environment relies on sellers being able to trust that they will be paid when they provide goods and services, but myriad obstacles can impede the smooth transfer of B2B funds. Buyers need to control costs to meet their payment promises then leverage reliable methods to deliver the money. Sellers must be set up to seamlessly receive funds as well, lest they face painful cash flow interruptions. The pandemic has also introduced challenges into these AP and accounts receivable (AR) practices and has aggravated existing vulnerabilities in how corporate buyers and sellers transact, leaving many companies struggling to identify methods that can save time and money.

Vendors and corporate buyers are now focused on streamlining their cash flows as they struggle with ongoing disruptions, and paper checks — staples in the B2B payments space — seem ill-suited to the task. Checks take time to reach their destinations via postal mail and they can be costly to print and deliver in high volumes, some businesses report. AP teams that have shifted to working from home are also likely to face more difficulties than ever in generating physical checks, and AR teams have put increasing importance on receiving payments on time. These strains are prompting companies to reexamine their transaction methods, and some firms believe that virtual cards could alleviate many of these frictions by letting buyers deliver payments rapidly and without handling or generating paper documents.

Virtual cards offer numerous benefits, but there are still hurdles preventing them from experiencing greater adoption. Suppliers may desire the swift transaction times that these cards provide but may be unable to easily accept and process them. Old-school AR methods can make receiving virtual card details somewhat cumbersome, thus eroding some of the speed and convenience these payment tools promise. Firms' desires to improve virtual card acceptance can therefore drive demand for tools that enable automatic processing. This month's Deep Dive examines these issues and explores how virtual cards and straight-through virtual card processing could remove frictions from buyer-supplier payments.

AVOIDING OVERDUE PAYMENTS

Buyers routinely fail to pay their vendors on time and many that are facing budget issues during the pandemic have insisted on pushing back their payment deadlines. A multitude of fashion and textile retailers that had traditionally paid vendors within 60 days of receiving invoices reacted to disruptions during the pandemic's early months by extending payment turnaround times to 120 or even 150 days, according to Nigel Lugg, United Kingdom Fashion and Textile Association chairman. Many vendors find overdue payments harmful during normal economic times, and such delays can turn fatal as they struggle to stay afloat during a crisis. A global study found that 61 percent of companies reported cash flow challenges in 2019, for example, and the pandemic is likely to have worsened this problem.

Virtual card payments could resolve tensions for companies that previously relied on paper checks. Mailed checks take several days or longer to reach vendors, but physical transit times do not apply to virtual cards, and their more rapid fund delivery timeline can be critical to helping suppliers maintain their cash flows.

REDUCING BUYERS' COSTS, PAINS

Digital credit cards can also be helpful for buyers' flexibility and budgets. Such solutions allow them to promptly pay vendors while keeping more money in their own bank accounts — at least until the bills become due. This enables corporate buyers to maintain more liquidity and effectively extend their payment timelines without burdening suppliers.

AP teams may also be eager to use virtual cards because they can avoid the costs of purchasing stamps, envelopes, check printers and other supplies involved in paper-based payments. Printing and delivering a single paper check may not cost much, but such expenses can quickly mount for companies that make many payments.

Firms appear to recognize the advantages of swapping out paper checks for virtual cards. A study found that the portion of companies that make at least half their supplier payments via paper checks has dropped 7 percent since the pandemic began, for example. A 2019 PYMNTS poll of executives — most of whom were in AP and accounting departments — found that 22.9 percent listed virtual cards among their most desired AP innovations.

EASING ADOPTION WITH AUTOMATED PROCESSING

Virtual cards may give buyers the payment deadline leeway to better manage their working capital while enabling suppliers to quickly receive funds and maintain their cash flows, but inconvenient card processing experiences could detract from these benefits and stall greater adoption. Vendors need easy, quick ways to receive and process virtual card details or they will struggle to match these payments to orders and be forced to allot staff time to accepting and reconciling these transactions. Some buyers may try to fax or email virtual card numbers to their suppliers, but this can require the latter to sort through their email inboxes or paper documents to find necessary details. It also means vendors' staff must manually input card details into their AR systems, which can be time-consuming.

Technologies that make it quick and easy for vendors to accept and reconcile virtual card payments can encourage them to utilize these tools, however. Third-party payments platforms that enable suppliers to abandon manual card processing for straight-through processing may reduce operational burdens and make it simpler for firms to transition to using this payment method.

Various frictions affect B2B payments, and sluggish timelines and costly transaction methods have proven particularly frustrating to firms trying to weather the pandemic. Replacing paper check transactions with those that use virtual cards could alleviate many of these strains, but vendors first require technological setups that allow them to easily handle the new payment method. Platforms and tools that support automated virtual card processing may ultimately be critical to getting businesses to adopt the technology.

ABOUT

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

For over 50 years, Comdata has been a leading provider of innovative B2B payment and operating technology. By combining our unique capabilities in technology development, credit card issuing, transaction processing and network ownership, we help our clients build electronic payment programs that positively impact their bottom lines and operate their businesses more efficiently. We continuously evolve our products by focusing on our customers' needs to provide security, accessibility, and profitability.

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