Credit Card Basics

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Success is in the Cards

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• Turn cell phones and pagers to vibrate
• Hold questions to end of session
• Must be scanned to receive CLP credits
  – For each course
• Unanswered Questions
  – Q-Cards & Ballot Boxes
  – Answer to be emailed after the conference - within 45 days
Credit Card Basics

Goals & Objectives

This session is designed to assist you in achieving the following goals:

• Review the card industry structure
• Understand the commercial card value propositions
• Identify industry overviews and trends
• Review best practices
Agenda

1. Industry Structure
2. Commercial Card Value Proposition
3. Industry Overview & Historic Trends
4. Best Practices
1. Industry Structure
Industry Structure

What is Visa?

Visa is a global payments system supporting financial institutions with:

- An information network with a common platform for authorization, clearing and settlement.
- A brand that is universally recognizable and valued.
- A set of operating policies and procedures that must be consistently followed by all members.
Industry Structure

Key Stakeholders

Visa Payments Network

- Citibank
- Acquirers
- Client Institutions
- Cardholders
- Merchants
Industry Structure

Key Stakeholders

Citibank
- Issue cards
- Assume buyer’s credit risk
- Generate reports
- Provide customer service
- Differentiate service with custom products and enhancements

Visa
- Sets standards and rules
- Provides systems/operations
- Move money and data
- Provides risk management
- Simultaneously balance the needs of Issuers, Acquirers, Merchants, Cardholders and Businesses
- Provide expert service/support to SmartPay members and clients
  - Legislative, Regulatory Guidance/Support
  - New Products

Acquirers
- Sign up suppliers
- Assess processing fees to suppliers
- Underwrite supplier risk
- Provide processing
- Generate reports
- Provider customer service
- Differentiate service with custom products and enhancements
Industry Structure

The Visa System: Transaction Authorization

1. Buyer Provides Card Number to Supplier
2. Supplier Requests Authorization
3. Acquirer Sends Authorization to Visa
4. Visa Forwards Request to Issuer
5. Issuer Approves or Declines
6. Visa Sends Authorization Response to Acquirer
7. Acquirer Sends Authorization Response to Supplier
8. Supplier Completes Transaction Based on Authorization Response
Industry Structure

The Visa System: Clearing & Settlement

1. Supplier submits $100 transaction to Visa.
2. Visa submits $100 transaction to Issuer.
3. Issuer pays Visa $98.50 ($100 minus interchange fee of $1.50).
4. Visa submits $100 transaction to Acquirer.
5. Issuer bills Buyer $100.
6. Acquirer pays supplier $98.00 ($100 minus $2.00 Acquirer Discount Fee).
7. Buyer pays Issuer $100.
8. Issuer bills Buyer $100.

Transaction Amount
- $100.00
- $ 1.50
- $ 98.50
- $ 98.00
- $ 0.50

Interchange Fee
- $ 1.50

Visa Pays Acquirer
- $ 98.50

Acquirer Pays Merchant
- $ 98.00

Net Fee to Acquirer
- $ 0.50

1.50% Interchange Rate*
2.00% Merchant Discount* (Merchant Discount is set by Acquirer and may vary)

*Rates are for illustrative purposes only
2. Commercial Card Value Proposition
## Commercial Card Value Proposition

### Quantifying the Value Proposition: Goals that Lead Industry to Adopt Card Programs

<table>
<thead>
<tr>
<th>Purchase Card</th>
<th>%</th>
<th>Travel Card</th>
<th>%</th>
<th>Fleet Card</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced PO/Check Processing</td>
<td>66%</td>
<td>Employee Convenience</td>
<td>75%</td>
<td>Employee Convenience</td>
<td>67%</td>
</tr>
<tr>
<td>Spend Visibility</td>
<td>47%</td>
<td>Spend Visibility</td>
<td>50%</td>
<td>Minimize Manual Logs</td>
<td>48%</td>
</tr>
<tr>
<td>Streamlined Procurement</td>
<td>46%</td>
<td>Reduced Expense Reporting Costs</td>
<td>41%</td>
<td>Spend Visibility</td>
<td>43%</td>
</tr>
<tr>
<td>Employee Convenience</td>
<td>42%</td>
<td>Financial Incentives</td>
<td>25%</td>
<td>Reduced PO/check processing costs</td>
<td>33%</td>
</tr>
</tbody>
</table>

The results of the cost benefit analysis show that the average cost (arithmetic mean) among the participating agencies for processing a purchase order and a purchase card buy, from identification of the requirement through closure of the sale, and payment are as follows:

Cost of Purchase Order = $94.20  
Cost of Purchase Card = $40.43

Potential Savings = $53.77
## Commercial Card Value Proposition


<table>
<thead>
<tr>
<th>Activity</th>
<th>Purchase Order*</th>
<th>Purchase Card</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>$35.98</td>
<td>$11.98</td>
<td>$24.00</td>
</tr>
<tr>
<td>Cardholder</td>
<td>$0.00</td>
<td>$13.49</td>
<td>($13.49)</td>
</tr>
<tr>
<td>Resource Mgt</td>
<td>$24.42</td>
<td>$6.41</td>
<td>$18.01</td>
</tr>
<tr>
<td>Logistics/Supply</td>
<td>$28.25</td>
<td>$7.15</td>
<td>$21.10</td>
</tr>
<tr>
<td>Contracting</td>
<td>$42.98</td>
<td>$0.00</td>
<td>$42.98</td>
</tr>
<tr>
<td>Sub Total</td>
<td>$131.63</td>
<td>$39.03</td>
<td>$92.60</td>
</tr>
<tr>
<td>Accounting</td>
<td>$23.46</td>
<td>$23.46**</td>
<td>$0.00</td>
</tr>
<tr>
<td>Army-wide Average</td>
<td>$155.09</td>
<td>$62.49</td>
<td>$92.60</td>
</tr>
</tbody>
</table>

*Army chose specific procurement method (purchase order) for this study

**Paper based
Commercial Card Value Proposition

Quantifying the Value Proposition (Purchase): Regardless of the Study or Timeframe – Savings are Significant

“Currently, it is estimated that the Federal government saves about $70 of administrative cost savings for each of its 25.9 million transactions on the purchasing card, or $1.8 billion.” Purchasing Card Use by the U.S. Federal Government: A Status Report, Mahendra Gupta and Richard J. Palmer, January 7, 2006

- Procurement Card Council Study Savings $54
- Army Study $92
- Palmer/Gupta $70
Top Business Pressures Driving Change in Procure-to-Pay Activities

- Cumbersome manual processes: 64%
- Employee productivity: 55%
- Maverick buying: 30%
- Labor costs: 20%
- Compliance with SOX: 20%

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Key Challenges to Implementing a Corporate Payment Card Program

- Setting appropriate policies: 58%
- Overcoming resistance to change: 48%
- Choosing spend categories to target: 38%
- Understanding how to deploy cards to employees: 25%
- Don't understand benefits or costs: 23%
- Establishing meaningful goals: 22%

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Commercial Card Value Proposition

Card Use Policy

Setting appropriate card use policies is the top implementation challenge for Average and Lagging companies.

- Purchasing Cards:
  - Best-in-Class companies most often have a defined Purchasing card use policy that mandates Pcard use for targeted categories

- Travel Cards:
  - Fifty five percent (55%) of Best-in-Class companies mandate Travel card usage for all regular travelers

- Fleet Cards:
  - Approximately half of Fleet card holders use: gas card for fuel only, vehicle card for fuel and maintenance
3. Industry Overview & Historic Trends
Industry Overview & Historic Trends

Industry Average Steps to Success

- Move more spend under the card. Increasing the amount of spend under the card will enable incremental savings and increased category spend visibility

- Strictly enforce the use of P-cards for targeted categories. For Travel cards, move away from reimbursing personal card expenses and mandate the use of corporate card for all regular travelers

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Industry Overview & Historic Trends

Industry Average Steps to Success (continued)

- P-card: give more decision-making power in managing the P-card program to the Purchasing director who is closer to the program and is able to make sound decisions about its use.

- Travel card: give the Purchasing director more decision making power for the program decisions, relegate program management to the Travel director.

- Fleet card: coordinate card policy decisions more closely with the Fleet director.

- Move to the electronic program reporting and online statement delivery, as well as automatic card transactions reconciliation.

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Industry Overview & Historic Trends

Industry Trends: North American Purchase Card Industry

1993-1997 SmartPay Leads in Early Years
Industry Trends: North American Purchase Card Industry

1998 – Industry Overtakes / Passes Federal Sector

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## Industry Overview & Historic Trends

### Industry Trends: North American Purchase Card Industry

#### Program Averages

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2007(SP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Monthly Spend</strong></td>
<td>$632,936.00</td>
<td>$800,540.00</td>
<td>$10,623.29</td>
<td>$1,297,453.00</td>
<td>$1,557,731,925</td>
</tr>
<tr>
<td><strong>Average Monthly Spend per Card</strong></td>
<td>$777.00</td>
<td>$1,053.00</td>
<td>$1,026.00</td>
<td>$1,831.00</td>
<td>$5487.66</td>
</tr>
<tr>
<td><strong>Average Transaction Size</strong></td>
<td>$201.00</td>
<td>$227.00</td>
<td>$195.00</td>
<td>$263.00</td>
<td>$756</td>
</tr>
<tr>
<td><strong>Average Monthly Transactions per Card</strong></td>
<td>3.8</td>
<td>4.6</td>
<td>5.3</td>
<td>7</td>
<td>7.3</td>
</tr>
</tbody>
</table>

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## Industry Overview & Historic Trends

### Industry Reasons for Expected Spending Increases

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use purchase card more frequently to buy same types goods and services</td>
<td>61%</td>
</tr>
<tr>
<td>Use purchase card to buy new categories of goods or services</td>
<td>53%</td>
</tr>
<tr>
<td>Increase use of purchase card as a tool to pay for e-procurement transactions</td>
<td>45%</td>
</tr>
<tr>
<td>Increase acceptance by suppliers</td>
<td>43%</td>
</tr>
<tr>
<td>Increase average transactions size</td>
<td>27%</td>
</tr>
<tr>
<td>Increase average monthly spending limit</td>
<td>22%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Process</th>
<th>Laggards</th>
<th>Industry Average</th>
<th>Best-in-Class</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchase cards used mostly for incidentals</td>
<td>Incidental and some targeted categories</td>
<td>Well-defined purchase card use policy: Mandated for selected categories</td>
</tr>
<tr>
<td>Organization</td>
<td>Program Managed by CFO/Comptroller; CFO holds decision power for most card policy issues</td>
<td>Program managed by purchasing director who shares responsibility for main card policy decisions with CFO</td>
<td>Program managed by purchasing director who is also main card policy decision maker</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Limited/delayed visibility into purchase card spend</td>
<td>Some visibility into purchase card spend</td>
<td>Real-time visibility into purchase card spend</td>
</tr>
<tr>
<td>Technology</td>
<td>Statement delivery and activity monitoring and reconciliation only partially automated; hard copy statements/reports still widely used</td>
<td>Hard copy statements still used although less often than laggards but manual reconciliation still required</td>
<td>Two-thirds of companies reconcile card transactions on-line; accounting entries automatically fed into finance systems</td>
</tr>
</tbody>
</table>
# Industry Overview & Historic Trends

## Best in Class Strategies: Travel

<table>
<thead>
<tr>
<th>Process</th>
<th>Laggards</th>
<th>Industry Average</th>
<th>Best in Class</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization</strong></td>
<td>Program Managed by CFO/Comptroller or other executive management; CFO holds decision power for most card policy issues</td>
<td>Program managed by purchasing director; CFO holds decision making power for most policy issues</td>
<td>Program managed by AP or travel director. Purchasing director is main card policy decision maker</td>
</tr>
<tr>
<td><strong>Knowledge</strong></td>
<td>Limited/delayed visibility into Travel card spend</td>
<td>Some visibility into Travel Card spend</td>
<td>Real-time visibility into Travel Card spend</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Statement delivery and activity monitoring mostly automated; reconciliation is done with Excel-based expense reports</td>
<td>Statement delivery and activity monitoring mostly automated; reconciliation of card transactions performed electronically</td>
<td>Highest degree of card program reporting automation; reconciliation of card transactions and accounting entries done electronically</td>
</tr>
</tbody>
</table>
Program Best Practices

- Strong executive endorsement
- Cross-functional collaboration (Acquisition, Finance, Logistics, Internal Control, etc.)
- Integration with technology investments (E Purchasing)
- Broadest distribution of cards
- Broadest utilization of cards (payment and purchase)
- Mix of payment applications (interchange and non-interchange based)
- Connection to broader cost management agenda (strategic sourcing)
Best Practices

Program Best Practices (continued)

- Concentration on streamlining business processes
- Goals and metrics
- Higher spending limits, driving more active card use
- Expanded span of acceptable purchases
- Perform a process mapping / cost analysis
- Quantify purchase card ROI
- Set & track performance goals
- Provide comprehensive training and communications
Credit Card Basics

Summary

This session was designed to assist you in achieving the following goals:

• Review the card industry structure
• Understand the commercial card value propositions
• Identify industry overviews and trends
• Review best practices
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