



# How Commercial Cards Are Adapting to the New Normal



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The world has been transformed by COVID-19 and the economic shutdown that governments imposed to halt its spread. Inevitably, commercial cards have been impacted. Most obviously, travel has fallen sharply. But there have also been repercussions for supply chains, trade and working capital. It is important to recall that even before the pandemic, many companies were under pressure on many of these fronts: the unprecedented developments in March and April have further increased the strain.

Despite these challenges, the long-term trajectory of commercial cards remains positive. Business-to-business (B2B) spend is increasing - and many companies have increased efforts to migrate spend to cards in recent months. Moreover, the pandemic has highlighted the benefits of digitization and looks set to increase adoption of virtual cards. And multiple initiatives are underway to broaden the pool of suppliers that can be reached via cards, helping corporates to optimize their spend and improve their visibility and control.

## What does the future of travel look like?

A survey of 1,705 companies during the crisis by the Global Business Travel Association (GBTA) shows that 46% of respondents expect international business travel to return in six to eight months, while 40% of respondents are planning recovery in the next three months. "We believe travel will come back in the future and therefore we want to make sure we positioned for growth when it returns," says Kevin Phalen, global head of Visa Business Solutions.

Citi has also conducted a commercial cards survey during the crisis: unsurprisingly 94% of respondents had a policy in place preventing employee travel during the pandemic. Notably, 72% said that even after social distancing measures end, their company will continue to limit travel, while 65% said they plan on limiting the number of people that can

attend meetings, reflecting the widespread acceptance that virtual working is no longer seen as a poor substitute for many business meeting scenarios.

For both network providers such as Visa and Mastercard, as well as for Citi, it is critical to plan for the resumption of travel as commercial card volumes could ramp up rapidly. There is much discussion about the long-term impact on business travel as a result of COVID-19. However, it seems

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likely that growth will continue over the long term, although there will be changes in the nature and frequency of travel.

### B2B spend growth could accelerate

There has been an impact on B2B spend during the lockdown stage of the pandemic as business activity has slowed. "Economic activity has been suppressed but people still need to pay for goods and we anticipate that growth will continue," says James Anderson, Executive Vice President, Global Commercial Products at Mastercard. "B2B remains a great opportunity and we're working closely with ecosystem partners to develop products and solutions to support their recovery and growth." The lifting of many restrictions around the world is likely to see a resumption of card spend volume growth in many markets.

For employees working from home during COVID-19, commercial cards have been the primary method for making business-related purchases, according to a recent survey by RPMG Research Corporation.<sup>ii</sup> Certainly, among Citi clients, there have been some creative uses of commercial cards in the supply chain during the crisis. These behaviors are likely to continue as business returns to normal, and card spend is expected to represent a larger part of overall B2B spend going forward.

B2B is a priority for Citi, and has been further elevated in importance as a result of COVID-19. With travel spend reduced - and the timing of recovery uncertain - meeting spend thresholds to achieve rebates (which are often a critical source of funding) is challenging for many companies.

Citi is helping clients to grow their B2B programs in order to fill the spend gap and implement cards effectively to ensure they deliver financial and efficiency benefits.

### Digitization is coming to the fore

One likely consequence of the pandemic is a greater emphasis on digitizing B2B processes. "With people not physically present in offices to open envelopes and make payments, online processes and digital workflow solutions have become the default by necessity; and it's a trend we believe is here to stay" says Mastercard's Anderson. "The experience could be enough to finally encourage the North American market to move away from checks as corporates begin to recognize the limitations of paper instruments."

Digital transformation has been critical to Citi clients during the pandemic: Citi's long-standing investment in digital delivered results when it mattered most. However, the crisis period has also revealed that there is an opportunity for some clients to better leverage the wide range of digital solutions available. As part of the evolution of Citi's commercial card strategy - which has five pillars: platform standardization and market growth; accelerating B2B growth; digital transformation; next-gen data platform; and next-gen service model - greater attention will therefore be focused on ensuring that cardholders and program administrators are aware of relevant tools and how functionality can benefit them.

In terms of corporate willingness to embrace digital, the RPMG survey indicates that many companies are fast-forwarding to the future: 40% of respondents plan to increase the use of virtual cards during the pandemic.<sup>iii</sup> Citi has recently launched virtual card accounts in Turkey, Mexico and Russia, the latter two countries adding to the bank's footprint of more than 30 local currencies, which help global clients to avoid fees on cross-border card transactions.

Citi also has a partnership with Coupa Pay, which is available in 35 markets and 23 currencies. Citi Virtual Card Accounts are fully integrated into Coupa Pay creating an end-to-end digital experience when buying from Coupa's e-catalogue. This significantly simplifies the purchasing process for joint clients of Citi and Coupa. As a result, clients can increase efficiency, enhance working capital, improve visibility and control, strengthen security and access the local currency capabilities of Citi Virtual Card Accounts.

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## Incentivizing both buyers and suppliers

In the consumer market, cards took off more than 50 years ago because both merchants and consumers benefited from their introduction. In contrast, in the B2B market benefits have accrued largely to buyers and there have been fewer benefits for suppliers, which has hampered uptake among small and medium-sized suppliers in particular. Visa's Phalen says that is now changing. "We've seen an upsurge in activity on the receivables side," he says. "New acceptors are joining the network at a pace not seen in years."

To help redress the balance of benefits between buyers and suppliers, Visa is focusing on a critical challenge for suppliers. "In addition to the costs of accepting a card payment, one of the biggest challenges that has resulted from the growth in virtual cards is the sizeable AR operating expenses that are a consequence of the lack of standardization for processing virtual cards," says Phalen. "We are seeking to drive standards and in 2018 partnered with Billtrust to create the Business Payments Network (BPN), which aims to streamline B2B payments for commercial users and make it easier for suppliers to accept any type of card-based transaction."

Mastercard is also tackling this issue and recently launched Mastercard Track Business Payment Service (BPS). Mastercard Track BPS is a single service built to simplify and automate the exchange of payments-related data between buyers and suppliers. This solution delivers value to both buyers and suppliers across multiple payment rails, including card, while recognizing that not every supplier will join the card rails. "This win-win outcome is critical," says Anderson. "Outdated payment processes are putting a strain on businesses which is a challenge for many organizations right now. Buyers must accept that they can't just impose all the costs on suppliers if they want to expand card use to new areas. Managing the complex B2B ecosystem has never been more critical than it is now"

Citi is working to broaden the reach of card payments and has launched a series of partnerships with third parties as part of its payment facilitator model, which helps companies to migrate their payment flows onto purchasing cards wherever possible. The payment facilitator model converts card payments into a payment type that is acceptable to the supplier (such as a local ACH or an international SWIFT payment). Last year, Citi announced a partnership with Billhop in EMEA and has already helped many companies to make payments to suppliers that ordinarily do not accept cards. Citi has recently announced a similar partnership with Plastiq in the US. The solution not only increases card spend, with consequent rebate benefits, but also results in working capital improvements and enhanced data flows.

## Conclusion

COVID-19 and the consequent economic lockdown have been a challenge for the commercial card industry and for corporates. While lockdown posed a challenge in terms of service and delivery, Citi client enquiries have continued to be handled promptly and effectively by Citi teams working remotely.

As well as ensuring that clients' needs are met during the pandemic, early on Citi began to consider how life would change as the recovery takes hold. Citi is ready to respond as travel spend volumes increase and is eager to work with clients to grow B2B spend levels in order to help them to achieve their rebate thresholds. In the longer-term, Citi will continue to invest in digitization and building partnerships to ensure that clients have access to innovative solutions to cut costs, improve efficiency, manage risk more effectively and strengthen relationships with suppliers.

<sup>i</sup> <https://www.gbta.org/blog/gbta-study-finds-more-than-half-of-companies-considering-resuming-travel-in-near-future/>

<sup>ii</sup> [https://cdn.ymaws.com/www.napcp.org/resource/resmgr/covid-19/RPMG\\_COVID-19\\_Survey\\_Results.pdf](https://cdn.ymaws.com/www.napcp.org/resource/resmgr/covid-19/RPMG_COVID-19_Survey_Results.pdf)

<sup>iii</sup> [https://cdn.ymaws.com/www.napcp.org/resource/resmgr/covid-19/RPMG\\_COVID-19\\_Survey\\_Results.pdf](https://cdn.ymaws.com/www.napcp.org/resource/resmgr/covid-19/RPMG_COVID-19_Survey_Results.pdf)

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