conferma pay

Nick Reid on:

Being Accountable: Virtual Cards Encourage Spend, Eliminate Hidden AP Costs

There are hidden costs in accounts payable processes undertaken through traditional means – and some of those costs are not necessarily transparent.

As Nick Reid, director of B2B partner development at Conferma, said in an interview with PYMNTS, virtual cards can help eliminate those hidden costs.

Reid noted that, although there are no upfront fees for making payments by checks, there are glaring inefficiencies tied to payments made by paper means. Fully loaded costs of processing checks could be as much as $10 or more per payment, and printing checks and reconciling payments can be time-consuming, taking attention away from other tasks within a company's operations.

After all, he added, it takes time to establish buyer and seller relationships, such as the process of collecting supplier bank details and other data that needs to be loaded into ERP systems. "They might only pay once or very infrequently, so supplier onboarding is not a one-off investment either, it's an ongoing cost of maintaining supplier payments," he told PYMNTS.

Against that backdrop, he said, the "sweet spot" of virtual cards comes along what he termed that "long tail of supplier spend." Commercial card networks and issuers should view virtual cards as one way to unlock spend that might otherwise not be accessible via more traditional commercial card products.

Embracing automation and digital payments can help unlock spend and can also improve working capital management with the increased visibility that comes with modernization.

As is common in B2B, buyers want to hang on to cash as long as they can; suppliers want to get paid as quickly as possible. This is not a new concept in commercial cards or unique to virtual cards — however, the V-Card's inherent qualities give buyers the confidence to broaden the scope of suppliers they pay using commercial cards, accelerating payments for their suppliers whilst preserving their own DPO.

Many corporates rely on commercial card rebates as part of their P&L, and some corporates even use them to fund entire departments or cost centers, said Reid.

"At the moment, obviously, while some corporates have temporarily ceased large chunks of business travel and therefore sizeable elements of their commercial card spend, they're actively looking for additional spend areas to compensate for lost revenue," he said.

Virtual cards, he added, have additional value in protecting corporates against fraud

"As fraud becomes more advanced and data breaches are more and more commonplace, unfortunately commercial payments are no less immune," said Reid.

In a typical funds transfer, payments are irrevocable, and compromised purchasing cards can represent a huge area of exposure for a corporate buyer. Digital payments provide upfront controls to significantly reduce the chance of the fraud ever happening in the first place, he said – thus lowering financial and reputational risk.

Reputational risk can extend to issuers and commercial card schemes in other ways. If they're perceived to not be investing in digital commercial payment products, they then risk losing that business to competitors who are making that investment.

Removing Cross-Border Friction

Virtual cards, he added, can help address some of the friction points in cross-border payments. Making cross-border payments to non-domestic suppliers, fund transfers typically pass through several banks, and fees can be both expensive and opaque (FX rates can be volatile too).

Those friction points stand out in stark relief, enabling companies to pivot and find new suppliers in other locations. However, dependent on the banks' commercial card issuance footprint, cross-border payments can become more streamlined.

He offered the example of a U.K.-based company that may have authorized digital access to virtual cards in order to make payments in Singapore to suppliers – in Singapore dollars.

"The end result is no FX fee incurred by the buyer and no hidden costs for any party. Additionally, the actual cost of deploying that payment method remotely to your workforce is nil because it's all done virtually – it's all very quick, as well as very cost efficient," he added.

The Lingering Reticence

With all the benefits that can accrue to enterprises that embrace V-Cards, there remains reticence on the part of some corporates. There has been a stigma attached to cards in general (that carries over into V-Cards) as many companies think there is lack of control, which is typically based on prior experience of p-cards or even walking plastic.

Buyers may be hesitant to ask suppliers to start accepting cards for payments because they think suppliers may become concerned about buyers' liquidity.

"The 'COVID effect' has had an important role here because corporations have almost been left with no choice but to start using some of these innovative products," Reid said, due to the necessity of decentralization. That has spurred suppliers to become more open to accepting cards as a form of payments.

Demographics also can serve a role in breaking down that reticence. Reid pointed to the "consumerization of payments" as workforces skew increasingly toward millennials and people become more used to remote working.

Couple that with the increased corporate governance controls that are the hallmark of B2B, “it’s the perfect balance of the two that virtual cards enable, which is starting to knock down some of those barriers,” he said

Article published in PYMNTS