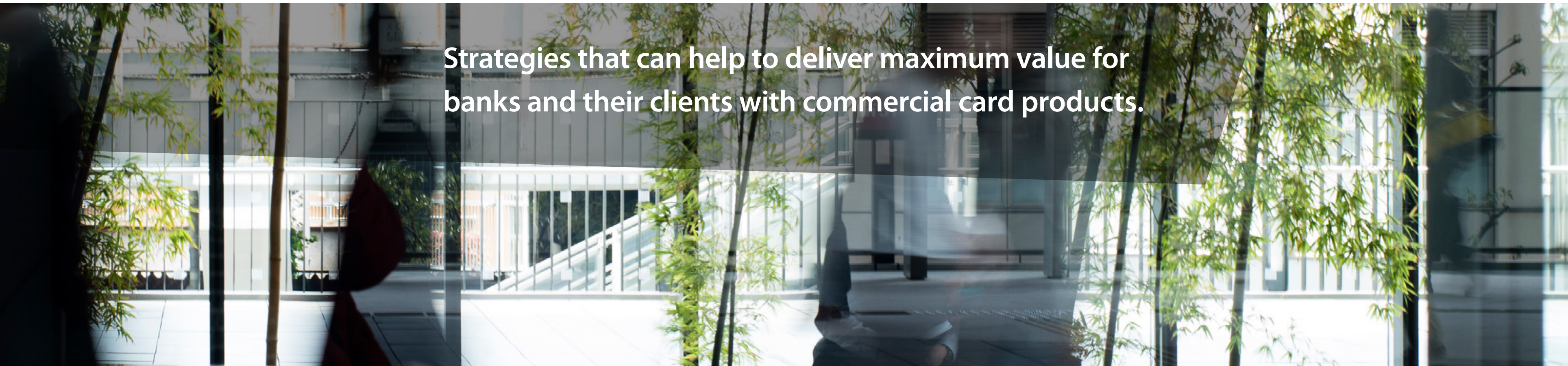
Powering up the value of commercial cards for your bank and your clients



Strategies that can help to deliver maximum value for banks and their clients with commercial card products.

Foreword

As a supplier of enabling technology to leading global banking partners with commercial card programmes, Fraedom holds frequent partner meetings and summits where we discuss how their programmes can be improved and how we can work together to add value for their commercial customers.

As ever in such discussions, we soon tend to come across the problem of measurement and benchmarking against norms.

The fact is that there does not exist one set of norms. Every business is different, and each business sector has varied characteristics that make benchmarking difficult to achieve. Without benchmarking it is difficult to form a comparative evaluation of business performance, and without such an evaluation it is even harder to suggest strategies that can be put in place to realise more performance from card programmes.

What's more, there are many data points to measure – just as a doctor wouldn't reach a reliable diagnosis merely from a temperature reading, card programme managers need to consult a range of data points to help identify healthy, ailing and improving programmes.

It is in this context that we were delighted to commission industry analysts PayTech to author this white paper for us. It gives a structured framework for measuring performance of commercial card programmes across multiple industry sectors, suggests a range of norms for card penetration and usage, and describes the key data points for measurement. In addition, the author has gone on to describe the actions that card issuers could take to maximise value from the programmes they have running: retaining business that is already fruitful, and nurturing business which could be more abundantly fruitful.

We hope that you find these insights valuable.

Overview

This paper looks at two key areas around how technology can help banks and end-user clients get more from commercial card products.

Objective 1

Help bank issuers maximise return on investment in commercial card products

Objective 2

Help end-user clients extract maximum value from provider solutions

This paper will include a review of:

- The key data points that bank issuers can best track to improve delivery and performance.
- The norms and comparative opportunities that these data points may highlight for your potential attention and focus.
- How these data points can be better monitored and improved using technology such as Fraedom.
- Other suggestions for the industry to improve performance using technology.

What are the key data points that bank issuers can track to improve card delivery and performance?

There will be many areas that bank issuers should be monitoring and this paper only seeks to highlight some of the most important ones that technologies such as Fraedom might be able to influence and improve. The data point areas below are essential to monitoring and delivering high-value commercial card solutions.

1

Spend Per Account (SPA)

Why should we track it?

Higher SPA is likely to mean:

- Improved profitability and ROI for the issuer
- Greater client satisfaction with the product
- Better client references.

2

Average Transaction Value (ATV)

Why should we track it?

Higher ATVs generally result in greater profitability for the issuer.

ATVs can also indicate if the card is being used for many types of transaction.

3

Operational costs

Why should we track it?

To identify controllable costs which can be quickly minimised without impacting service levels.

4

Profitability

Why should we track it?

To identify immediate opportunities to extend the surplus of revenue over costs.

There are many ways to improve each of these data points, but we will turn our attention to the opportunities that technology platforms and tools, like Fraedom, may offer.

5

Delinquency

Why should we track it?

Low delinquency rates increase issuer profitability and end-user ROI (avoided fees, increased rebates etc.).

6

Client retention

Why should we track it?

High retention rates will substantially reduce costs and increase the net present value of accounts booked.

7

End-user cardholder compliance

Why should we track it?

High-performing issuers and end-users monitor cards to ensure they are being used according to expectations and norms.

8

Client perception of banking relationship

Why should we track it?

To create an agenda of continuous improvement and increase ROI for your clients. This will help your banking relationship teams to demonstrate the value of your organisation's commitment through first-class product management.

What are the norms and comparative opportunities that these data points might highlight for your potential attention and focus?

In its work with over 75 commercial card issuers in North and South America, EMEA and Asia Pacific, PayTech Commercial AS has identified many different norms of behaviour in commercial card portfolio management. We tackle each of the data point areas previously detailed, outline important industry norms and examine the potential to improve if you (and your clients) had the technology and data to better monitor and control these areas.

PAYTECH

PayTech Consulting is a European-based card management consulting company, providing consulting services to card issuers, acquirers, payment schemes, oil companies, telcos and other operators in the payment card market in Europe and beyond.

Data point
Spend Per Account (SPA)

1

Description

SPA is an important comparative measure of the health of the card account versus other accounts in the peer group. Generally, the higher the better.

Purpose of analysis

Higher SPA is likely to mean greater client satisfaction with the product, improved profitability and ROI for the issuer, and better client references.

Norms

Healthy SPA for business/corporate cards is around €5,500 (compared to consumer cards which are around €3,000).

SPA can vary widely by industry type and product used. They could be €Millions for central payment cards (lodged/purchasing), and some industries might have much higher SPA on individual cards, for example oil companies often exceed €20,000.

Bank opportunity

Analyse and compare SPA by card product and industry norm

For example, RPMG Research found[1] in 2014 that 23% or $245B spent on p-cards was for operating goods and supplies. The rest was spent on a range of goods and services. The research found that spending could grow by a further $168B if customers bought a higher percentage of the goods and services they already bought on cards. It could grow by another $173B if people who didn't normally use cards to buy in that category, started to do so.

Facilitate spend

The normal way of increasing customer share is to cross or upsell. Instead of complicating customers' spend options, increasing the limits available on current cards stimulates greater spend[2].

Stimulate the marketplace

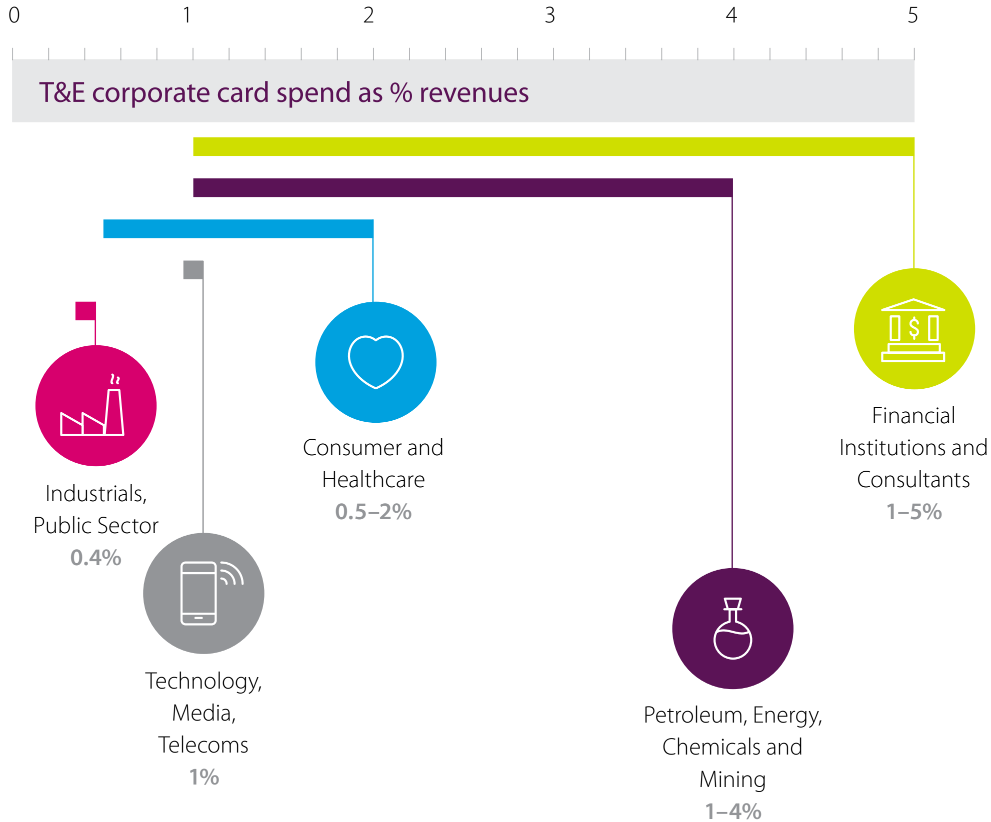
RPMG Research also found corporate card users would spend more if their cards were more readily accepted by suppliers. A third of respondents projected that their spend would more than double if this were the case: 16% of respondents could increase spend by 51% to 100% and a further 20% would increase spend by 26% to 50%. Banks that can extend corporate card acceptance facilities to suppliers will see account spend rise accordingly.

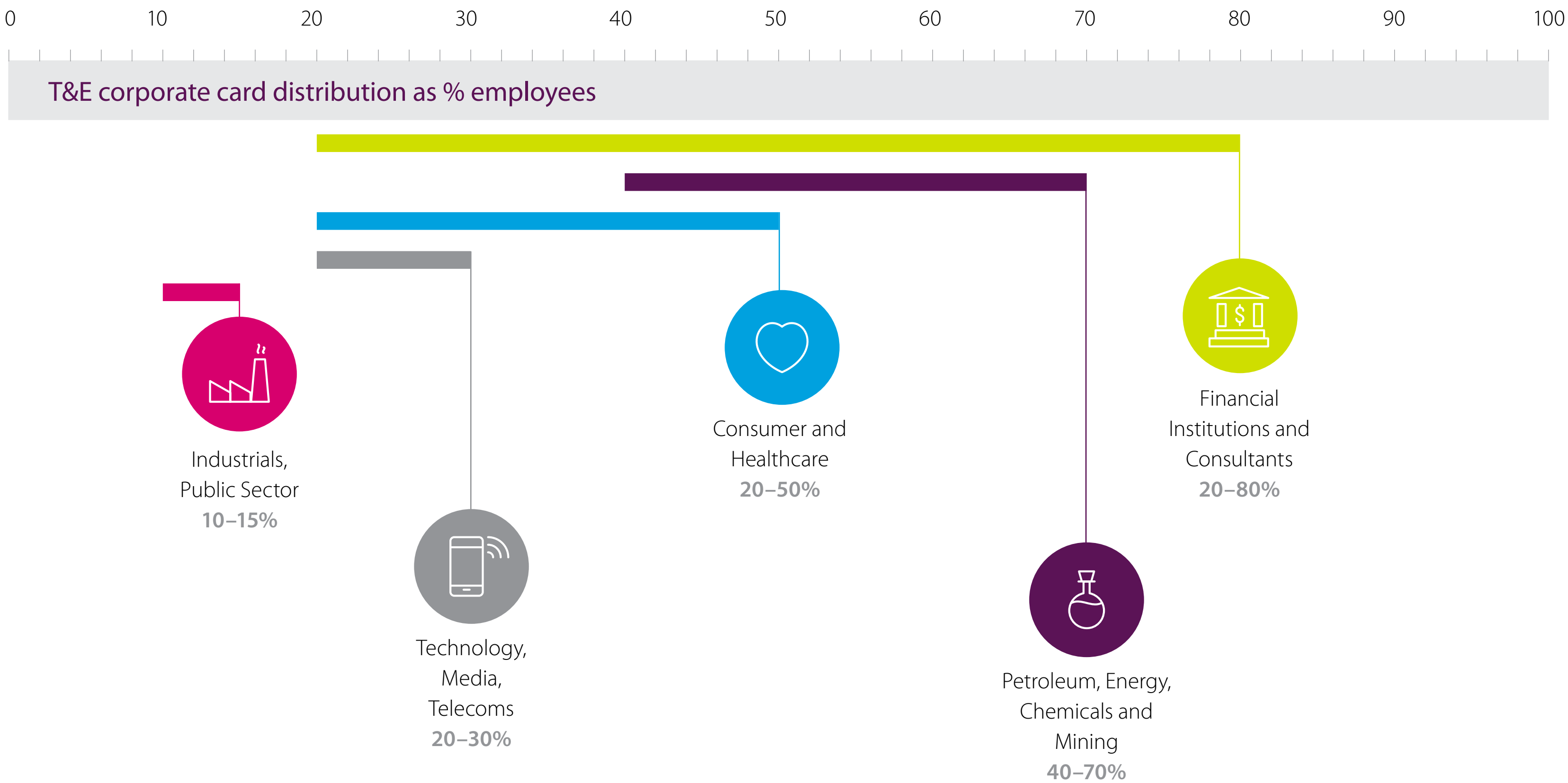
1. http://www.rpmgresearch.net/product-view.php?product_id=60
2. https://www.genroe.com/blog/the-only-3-strategies-that-increase-customer-value

Data point
Spend Per Account (SPA) 1

T&E corporate card spend norms by industry sector group

Source: PayTech Commercial AS 2017

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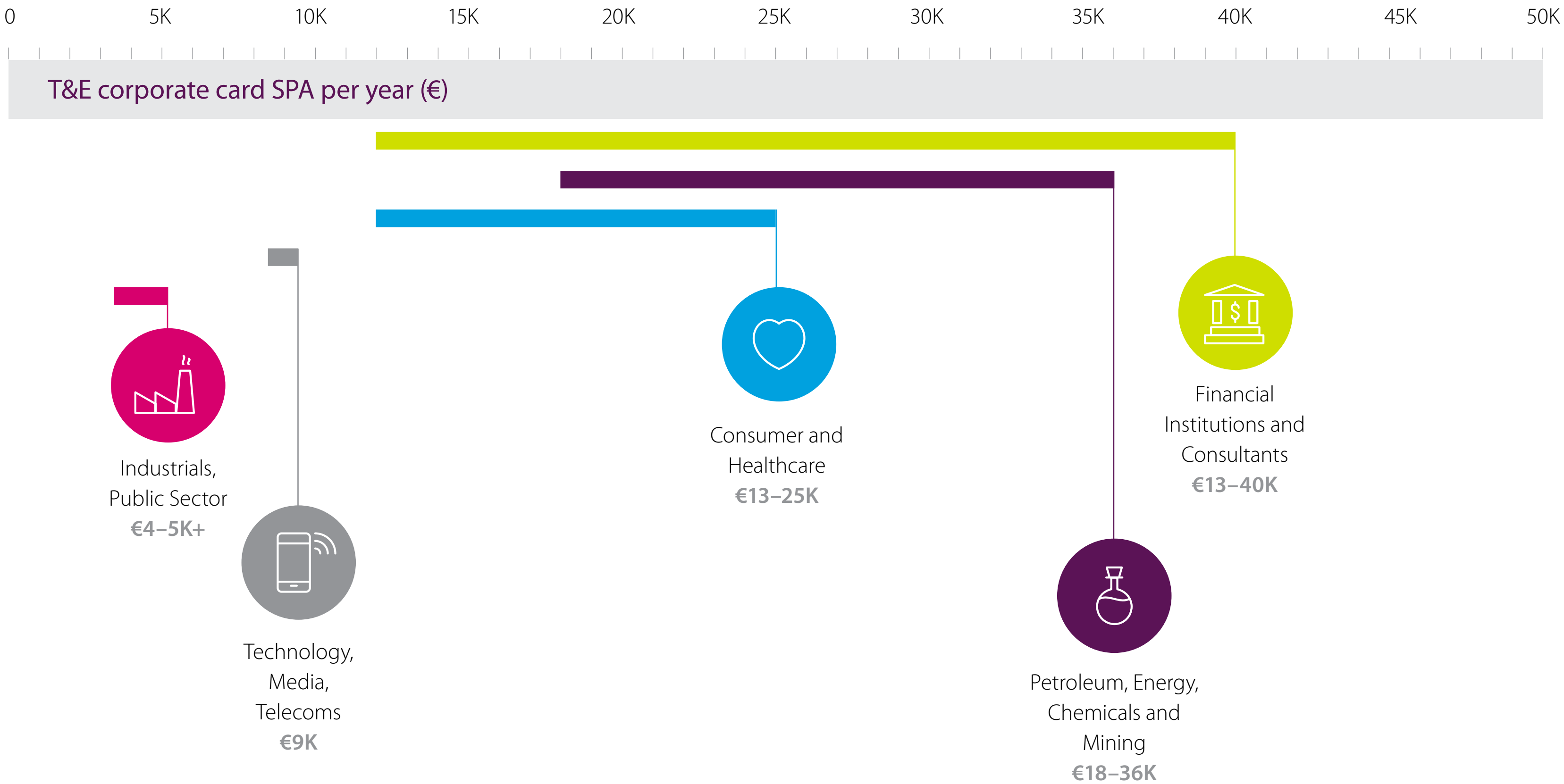
T&E corporate card distribution as % employees
Industrials,
Public Sector
10–15%
Technology,
Media,
Telecoms
20–30%
Consumer and
Healthcare
20–50%
Petroleum, Energy,
Chemicals and
Mining
40–70%
Financial
Institutions and
Consultants
20–80%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5K
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T&E corporate card SPA per year (€)
Industrials,
Public Sector
€4–5K+
Technology,
Media,
Telecoms
€9K
Consumer and
Healthcare
€13–25K
Financial
Institutions and
Consultants
€13–40K
Petroleum, Energy,
Chemicals and
Mining
€18–36K

Fraedom

Data point
Average Transaction Value (ATV)
2

Description

ATV is an important comparative indicator of the type of spend on an account versus other accounts in the peer group. Higher isn't necessarily better. Regression to the mean is important to track and monitor.

Purpose of analysing

Higher ATVs generally result in greater profitability for the issuer. ATVs can also indicate whether the card is being used for many types of transaction.

Norms

ATVs for T&E are around €160 and for B2B spend can range from €300–30,000 or more depending on the use case.

If your ATV for T&E for your clients is significantly greater than €160 (€400 or more) this implies that your clients are not using your cards for lower value transactions and are just using it for air travel or hotels. This may suggest compliance issues.

If the ATV for T&E is much lower than €160 then this suggests that either clients are not using cards for higher value transactions, or are using other instruments.

Bank opportunity

Client: What is the client habitually spending on cards? There is scope for banks to encourage change among end-users if the ATVs are significantly lower or higher than the sector average. Explore barriers to card usage. Are credit limits too stringent or company administration policies and procedures too onerous? The opportunity is in making the card experience so seamless through technology that it is far harder to pay without cards.

Product: Is the technological support behind the client's preferred payment method up to the task? Does it link seamlessly with expenses policies and accounting/purchase order mechanisms? Is the card's financial provision robust enough (e.g. payment protection, insurance, payment terms, credit limit)? Providing a technological solution that works hand-in-hand with card products makes it easier to use them across a wide range of products from low to high value.

Industry sector: Industry sector norms vary widely. Examine overall spend and compare the portion of it that is completed by card. If there is a large gap, there is clearly potential to increase ATV within the industry sector. Whole industry spending trends can be influenced by altering the spending patterns of one or two large suppliers. Explore how the bank's payments processing relationship with large, influential suppliers in the sector can be improved to encourage card spend.

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Data point
Operational costs

3

Description

Operational costs may be variable and direct and contribute to improved profitability.

Purpose of analysing

To identify controllable costs which can be quickly minimised without impacting service levels.

Norms

Variable costs may be around 40 basis points.

- 5-10 basis points: supporting statements, stationery, postage and customer service support
- 17-20 basis points: direct costs
- 5-15 basis points: file delivery, data management, other charges for card platform support
- Processors may reduce their pricing to issuers based upon increased transactional numbers flowing through.

46% of non-functional expenses are attributed to IT spend (i.e. beyond salaries/wages, benefits, postage, purchased services, other direct expenses).

Bank opportunity

Identify 1: Unless a recently created, digital-only bank, the majority of financial institutions have a great deal of both physical and organisational legacy infrastructure. Analyse company cost infrastructure and highlight costs directly and indirectly linked to commercial card product lines.

Identify 2: Examine current procedure and identify which elements of the customer experience are essential, which can be delivered in a more efficient way, and which are having little or no impact on positive experience.

Automate and digitise: Having identified where there is wastage, cut or reduce these elements. Where possible and where it won't negatively impact customer experience, digitise physical processes, such as: holding statements online or allowing clients to self-serve more via customer portal. Anticipate a five basis point reduction in stationery and postage costs from cutting paper statements and a similar reduction from customer self-service.

Grow ATV: Higher ATVs lead to lower overall processing costs versus revenues.

Consolidate IT infrastructure: Short-term business needs lead to duplication of systems or multiple supplier contracts. Review IT architecture[1] and explore efficient alternatives including outsourcing. Define a process that creates rules with which short-, medium- and long-term projects must comply to avoid duplication.

1. http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/it-architecture-cutting-costs-and-complexity

Description

Profitability is driven by increasing the sheer volume, revenue contribution, cost control and any combination of factors.

Purpose of analysing

To identify immediate opportunities to extend the surplus of revenue over costs.

Norms

A market study by the Financial Conduct Authority (FCA)[1] reveals a four-step approach to business model analysis and deriving profitability:

1. Input assumptions – current customer behaviours.
2. Forecasted base curves – how balances, rates, transfers and fees affect customer behaviour and how changing them might affect future behaviour.
3. NPV calculations – What is the Net Present Value (NPV) based on today's variables and how it can be affected by changing the variables in the base curves in data point 2.
4. NPV summary output – NPV models in data point 3 assessed against hurdle rates i.e. each project's expected ROI.

Curves include ATV and SPA as well as other client behaviour norms.

Costs include risk cost (delinquency) acquisition cost (and in future, retention cost) operating costs and funding costs (the cost of lending linked to the treasury).

Example of operational costs:

A study by Visa identified that around 49% of functional expense comes from IT and client information reporting of which:

Card issuing plastic per card: €4

Client servicing per account: €1.34

Account management per account: €4.47 pa

Fraud management per account: €2.68 pa

IT: €0.32

1. https://www.fca.org.uk/publication/market-studies/ms14-6-2-ccms-annex-5.pdf

Bank opportunity

Assess and rationalise: Take a view on operational costs and examine ways to reduce them. As in data point 3, costs can be reduced by moving paper activities online and automating and digitising services.

Segmentation: Review client behaviour and market opportunity in both SPA and ATV (data points 1 and 2) to determine if there is revenue growth potential among existing clients.

Projection: Input data gathered from card management solutions to model and project where future profitability lies. Use existing client data to model new customer segments to target outside existing customer bases.

Prioritisation by target market: Depending on sector or company size, each client faces different banking challenges that can affect issuer profitability. Large players create a slow ramp up in volumes; mid-sized clients have higher business risk and delinquency but rates/costs need to be managed. In the small business market, spend may be split across many cards and accounts may fall into disuse.

Data point
Delinquency

5

Description

Low delinquency rates increase profitability for card issuers and increase the business case return for end-users (avoiding fees, rebates etc.).

Purpose of analysing

To help clients administer programmes as efficiently as possible, ensuring payment to agreed terms.

Norms

While these vary by market and product, benchmarks include:

3–5% 60 days past due for individually billed

0–2% 60 days past due for centrally billed

Less than 9% of end-users have successfully built a custom report to help them track delinquency.

Bank opportunity

Data: In general there is a lack of historic data for issuers to calibrate their lending models[1]. However, with the increased use of card management systems, there is increased visibility of client behaviour and past delinquency rates. The ability to correlate products with potential for default is increasing, and therefore new products can be modelled with lower propensity to default. Increased access to real-time data also gives more accurate predictions of clients about to head into difficulties, letting issuers act sooner to manage the problem, avoiding default where possible.

Serving the under-served: Working capital can prove a problem and is a major contributory factor in delinquency rates when payment terms aren't favourable to cash-strapped businesses. Using behavioural data to manage product terms gives issuers access to clients who would otherwise be nominally higher risk. Adjusting elements beyond low quality (i.e. high fees/ rates) credit reduces the potential for delinquency.

1. http://www3.weforum.org/docs/IP/2015/FS/GAC15_The_Future_of_FinTech_Paradigm_Shift_Small_Business_Finance_report_2015.pdf

Description

High retention substantially reduces costs and increases the Net Present Value (NPV) of accounts booked.

Purpose of analysing

Be able to demonstrate to customers why they should stay with you, based upon what they have achieved with you.

Norms

Attrition rates can be as high as 20% for small business cards.

Over 75% of primary cardholders stop using their cards for purchases or cash advances four months before cancelling the card; 7% for medium-sized corporate card accounts (39% of these due to a change in business banker).

A large proportion of customers (40%) said that they thought their business bank could have done more to encourage them to stay.

Bank opportunity

Monitor and support: Following trends in spending behaviour through card management systems shows where usage is dropping off. Monitoring client behaviour and status will give account managers insights into why this might be, allowing them to assess the problem and propose solutions. Much of the initial data reporting can be automated through threshold analysis and red flag indicators.

Added value: Corporate credit card services are largely commoditised. Using data and technology to provide service enhancements, improved customer experience and added value products sets issuers apart from the competition. Certain services also have the ability to create a customer 'lock in' where it becomes inconvenient to switch providers. This isn't in the form of formal restrictions but rather through the ability to package a wide range of corporate financial management services that are interlinked and serviced seamlessly by the issuer. The sense that services are bespoke to the client's needs increases retention potential.

More than 50% of end-users would be interested in exception reports which included decline reports, duplicate transactions and near credit limit alerts.

Data point 7
End-user cardholder compliance

Description

Successful issuers and end-users monitor that cards are actually being used according to expectations and norms.

Purpose of analysing

Recognise that individuals/staff have choices and identify improvement opportunities based upon ease of use.

Norms

Card use measured by transactions where card is used or transactions where card should have been used can range from 0 to 100%. High-performing organisations average card usage rates of over 90%.

86% of corporate cards have been used in the last 60 days.

5.6% of cards have not been used for 180 days or more.

20–50% of corporate cards haven't been activated in the last six months.

Bank opportunity

Track and flag: Instil a set of business rules per client, via automation, to flag where cards are falling into disuse or are yet to be activated. Create content and communications that highlight the advantages of using cards over other payment methods, where possible using available data to create bespoke scenarios.

Also create parameters for expected and permitted use types, with triggers for unexpected and non-standard purchasing.

Incentivise: Demonstrate the financial and organisational benefits of maintaining or increasing compliant card use. Model financial outcomes around working capital and debt management based on actual company data. Reinforce added-value services resulting from card use i.e. competitive pricing visibility from suppliers, spend pattern creation, accurate spend projection, and fraud prevention.

Data point
Client perception of banking relationship

8

Fraedom

Description

Well-managed portfolios provide perspective data on the number of successful company/organisation transactions brought under control and how valuable the bank is to the company across functions.

Purpose of analysing

To create an agenda of continuous improvement to raise ROI for your clients. Building the banking relationship demonstrates the value of your organisation's commitment to its clients.

Norms

For every €1M in T&E spend, 6,250 compliant transactions can be automated, checked for compliance, audited and controlled, delivering financial value back to the company.

High performing users tend to concentrate on this data, while poor performers defend rare cases of card declines without considering the wider context of value delivered to the organisation across all functional areas (procurement, AP, finance, audit, treasury).

Bank opportunity

Proof: Demonstrate from an industry- or sector-wide perspective, as well as in terms specific to the client, the value card spend delivers versus alternatives. Use real-world examples that make a compelling case for card use.

Accept: Issues the client brings up should be discussed openly, honestly and with tangible solutions. Concerns that seem minor to the issuer achieve significance for clients, particularly if they have linked them to overall poor company performance. Find ways to resolve their issues and address the wider problems where possible to provide an actionable and holistic solution.

Communicate: Maintain lines of communication and be open to listening as well as talking. Use access to data to address issues as close to real-time as possible. Be seen as a proactive partner in finance rather than another cost-centre supplier.

Advocacy: Encourage happy clients to spread the word. Successful brands rely less on marketing spend and publicity than word-of-mouth through their high Net Promoter Scores (NPS) achieved via a 'most likely to recommend' index.

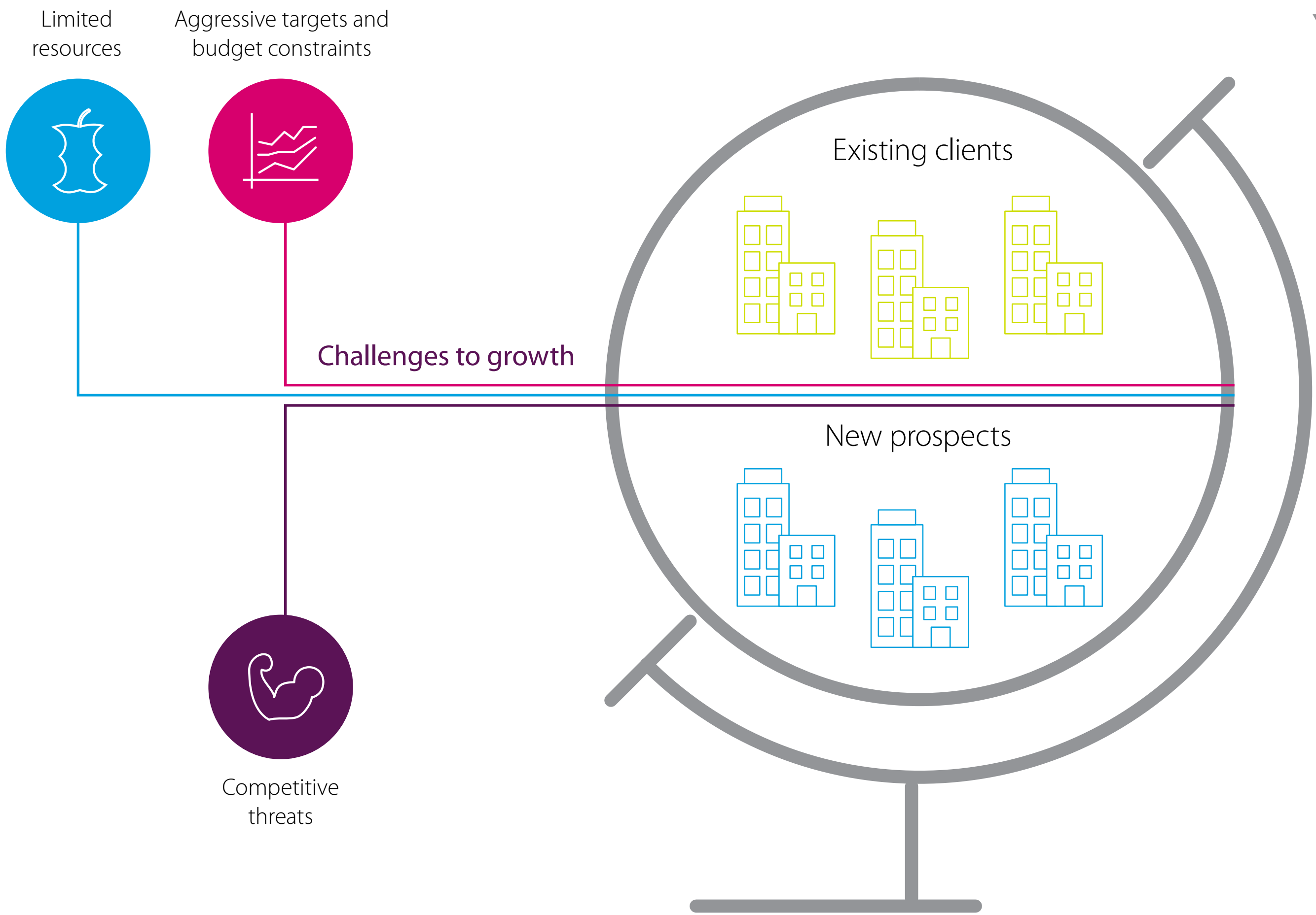
Power up the value of your card programme using best practice and Fraedom technology

In this section we explore how to take the eight data points and work with those insights to extract the maximum value from commercial cards for both you and your clients.

Under-performing spend optimisation versus the issuer's scope of opportunity is the biggest challenge PayTech customers encounter. Card issuers find limited resources, competitive threats and aggressive revenue targets, together with budget constraints, conspire to limit performance.

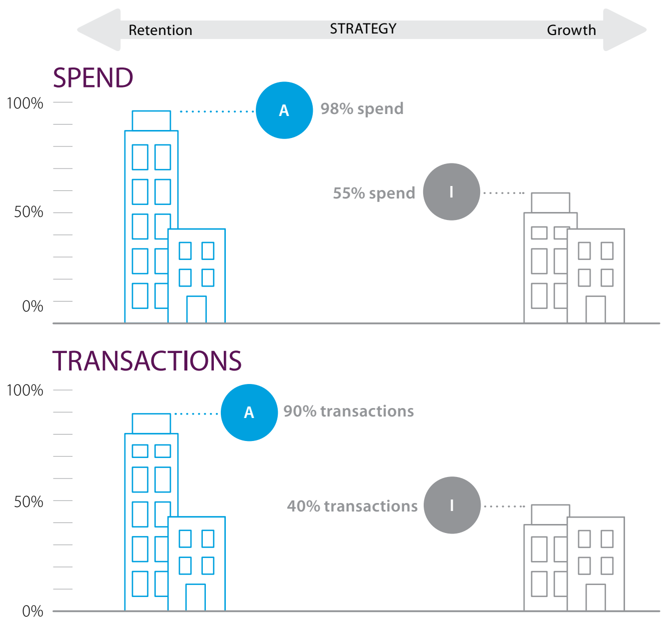
Fraedom

Your world?



PAYTECH

Examining the client portfolio for determining growth strategies



Card usage varies from client to client. Sometimes this variability is exactly what would be expected from their industry sector, their organisation's size and their business maturity. On the other hand, ranking clients' spend and transaction volumes means differentiated and focussed strategies for growth can be determined.

In these diagrams a range of clients from A to I is shown.

Client A is a high-performing commercial card user; the issuer bank should seek to retain their business.

Client I is under-performing from a card use perspective and in need of a positive growth strategy.

Client A already enjoys 98% commercial card spend overall and 90% of its transactions happen using a payment card of some kind. It has no issues as far as spend leakage goes so its issuer doesn't need to explain the benefits of commercial card usage, or doesn't need to identify particular points in its purchasing process where the customer could be saving money.

Instead, the issuer bank needs to make sure it is meeting as many of Client A's needs as possible. To retain A's business, the issuer needs to keep in touch regularly, stay ahead of innovations in card management technology and anticipate any needs A might have in the future. Managing Client A's data is going to be very important.

There is still scope for the issuer to grow revenues from Client A, particularly through the introduction of complementary products and services. However, the issuer should be careful to make sure any cross or upselling will be perceived by Client A to have genuine value. There is a risk A will believe it is being used as a cash cow and seek to take business elsewhere.

Client I is very low touch. With barely half of its spend through cards (55%) and even fewer transactions (40%), its issuer might start by helping it identify where increased card usage could benefit the company.

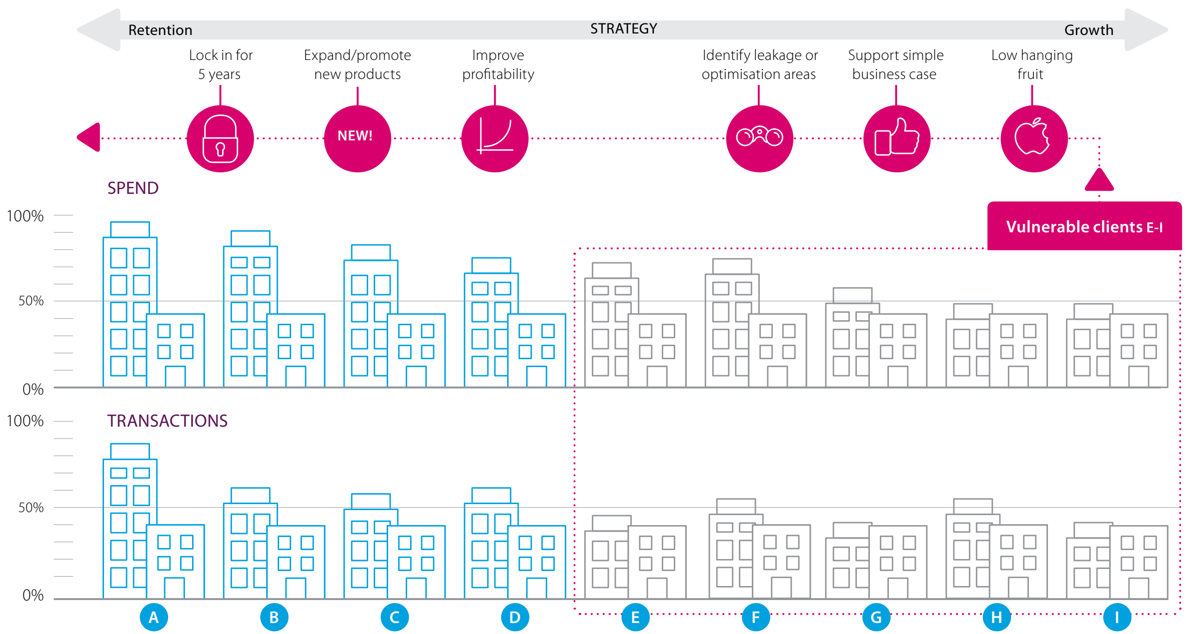
There may be many reasons why Client I isn't using its card programme as much as it might. It may view cards with suspicion, having been run hitherto on a traditional procurement and invoice process. Perhaps it has worries that card users may not have the necessary oversight and unauthorised spend is a risk. Alternatively, it could be that the company has to make many different transactions and doesn't have the means to manage the paper trail electronically.

In all these cases, the issuer needs to clearly demonstrate and re-assert the real value of their card products, and how they can impact the bottom line.

As it is possible that Client I doesn't have a great deal of digital procurement experience or sophistication, and may hold a degree of scepticism, it will be beneficial for the issuer to use I's own data and experiences to demonstrate card management potential.

Without the data, automation and alerts built into technological card management systems like Fraedom, providing insight into spending patterns and cash flow optimisation simply wouldn't be possible.

Providing commercial cards to customers isn't a question of simplifying spend, it's about delivering real cost savings and growth simply in the context of a complex business environment.



Shown below are ways in which technology could help to improve the overall performance of a commercial card programme in each of the respective data points observed in this paper.

1

Spend Per Account (SPA)

How could technology help?

Businesses that have a clear and timely view of all their card spend, coupled with adequate workflow and approval controls, tend to more keenly value and leverage the benefits that card products can offer. In this context technology drives trust.

But driving visibility of spend isn't just of value from the business or end-user perspective. For issuers, technology that supports efficient tracking and monitoring of this key data point across their customer base is invaluable, as described earlier in this paper.

2

Average Transaction Value (ATV)

How could technology help?

Complementing SPA analysis, visibility of ATVs across the portfolio/customer base can highlight those customers that are under-utilising their cards.

Such visibility can also help to establish if the correct card products are in place, T&E versus centrally-managed cards for example.

3

Operational costs

How could technology help?

Technology can drive plentiful efficiencies from an operational cost perspective, both for issuers and their customers.

Examples include the provision of electronic statements, eliminating the costs associated with paper and physical distribution. Other online self-service functionality, such as card administration (limits, PIN requests, new card requests etc.) can also drive significant savings.

4

Profitability

How could technology help?

Technology can have significant impact in a variety of areas, many of which are detailed in this paper. Broadly however, technology can assist in efficiently assessing and segmenting the customer portfolio, in order to more effectively manage and prioritise those that will offer immediate opportunity, driving greater overall profitability.

5

Delinquency

How could technology help?

For businesses, technology can offer a variety of benefits when it comes to delinquency, freeing up credit limits for more spend, in turn helping issuers to reduce the costs of overdue receivables.

The provision of near real-time visibility of card spend, coupled with expense management and approval workflows can drive faster reconciliation practices.

Self-service tools add functionality, such as the ability to efficiently action EFT payment against a balance, change a credit limit or even freeze a card account that's suffering from possible misuse.

6

Client retention

How could technology help?

Good technology can only reduce your customers' potential appetite for change, adding value and helping to differentiate a card product offering in an increasingly crowded market.

7

End-user cardholder compliance

How could technology help?

Expense management functionality, including digital receipt scanning and approval/workflow rules makes spending safer and, through automation, will reduce administrative workload.

The ability to capture all spend types, beyond just card, ensures businesses can efficiently track and report on non-compliant spend (leakage).

8

Client perception of banking relationship

How could technology help?

As commercial banking becomes ever more consumerised, value-adding technology becomes increasingly key to building and maintaining a progressive image.

Great technology offers customers features that they soon find they can't live without.

Summary

This paper outlines eight key data points that bank issuers can best track to improve the delivery and performance of their commercial card products. In doing so, it demonstrates the opportunity issuers have to partner with their clients to deliver efficiency, transparency and greater control over their spend.

It is clear that there is a wealth of opportunity in the use of commercial cards to grow overall spend, increase transaction values even from an industry-wide perspective and cut operational costs dramatically.

However, none of this can be achieved without an understanding of individual organisations' challenges, clear lines of communication and an appreciation of how to use the data card management systems generate to deliver true, value-added services.

Payments technology has the ability to deliver strong revenue growth for issuers even within the context of budgetary constraint. In many cases it is clearly the most effective, cost-efficient way of driving revenues whilst also building future capability.

If you would be interested in discussing the content contained in this paper in more detail, please get in touch.

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Fraedom

About Fraedom

We have a pedigree in expense management technology, as well as banking-grade payments solutions

200+ DEVELOPERS

constantly developing our technology

OUR PEOPLE

consultants, project managers and customer support ongoing and available

24/7

155,000+ ORGANISATIONS

already benefit from our technology

We manage transactions for over

4.2 MILLION EMPLOYEES

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Vince has extensive experience and expertise – in the areas of commercial cards, travel and expense management and procurement – derived from more than 14 years with organisations such as Diners Club Europe, GE Capital and Citigroup.

From 2000-2008 he worked at Citigroup where he was Managing Director Commercial Cards & Public Sector Cash Management EMEA with responsibility for more than 60 countries. Vince was involved in and led some of the largest global commercial card deals in the world including Shell, Diageo, AstraZeneca, Unilever, Nokia. He has also worked with public sector bodies and other government entities in more than 50 countries in EMEA. Vince is a Board Member of the ACTE (Association of Corporate Travel Executives, Centre for Research & Education).

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