Visa Business Solutions

Research report

Capitalizing on the potential in virtual cards

RFi Group | VISA

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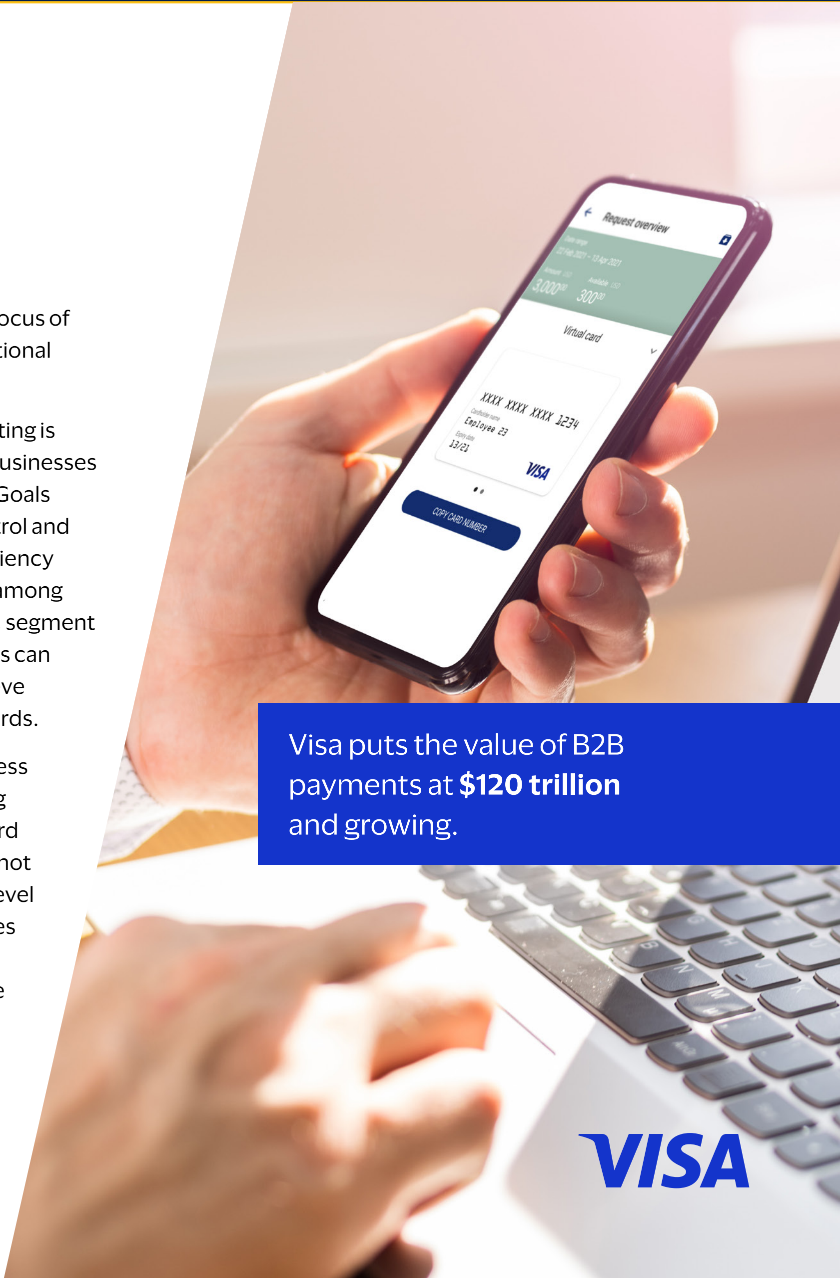
Introduction

Globally, the B2B payments opportunity is significant with Visa's estimates putting the value of B2B payments at $120 trillion and growing. Businesses are not short on choice when it comes to meeting their payment needs. More traditional payment methods face increasing competition from newer alternatives like virtual cards for a larger share of this growing market opportunity.

Interestingly, even as many businesses embrace digital more broadly, digitizing many aspects of their operations, their approach to payments can remain unaltered. The approach of many businesses towards payments is traditional, paper-based and people reliant. The result is wastage of both human and financial capital, an outcome that is mis-aligned with the ongoing focus of businesses on cost saving and operational efficiency.

What renders virtual cards so interesting is that they have the potential to help businesses achieve many corporate objectives. Goals like automation, better expense control and management, greater operating efficiency and reduction of fraud are common among businesses, regardless of the market, segment or vertical they operate in. Businesses can increase the likelihood they will achieve these goals if they embrace virtual cards.

However, in spite of the strong business case, businesses are not always being presented with compelling virtual card propositions. Equally, they are often not embracing virtual card usage to the level they could or should. These anomalies encourage us to explore the current usage of virtual cards, reasons for use and non-use and strategies that can be employed by issuers to better realize the opportunity.



Visa puts the value of B2B payments at **$120 trillion** and growing.

In 2021 Visa commissioned RFi Group to investigate the ownership and usage of virtual cards in five markets:

Australia

Canada

Singapore

UK

USA

Specifically, across these markets RFi explored:

Which markets have embraced virtual cards?
Ownership of virtual cards and the variation in ownership across industry verticals and business segments. The objective was to identify markets and segments where businesses are embracing virtual cards more readily versus those where low understanding of the proposition, and poor recognition of the benefits, are holding back adoption and usage.

How are businesses making payments?
The broader payments behavior of businesses and the role virtual cards are playing versus other payment methods, notably physical cards, cash, check and electronic transfer (e.g. ACH, EFT, BACS etc.). The research sought to identify how businesses are making payments, and the relative performance of key payment methods in wining share of wallet.

What is the profile of businesses that use virtual cards?
The profile of businesses that use virtual cards, and how this compares to the profile of businesses yet to embrace them. RFi considered attributes like size, performance, international focus, and attitudes towards and usage of technology. The objective was to demonstrate the value to issuers in winning and maintaining relationships with businesses that use virtual cards and of strengthening virtual card propositions to appeal to this cohort.

What drives virtual card selection?
Attributes of importance to businesses that use virtual cards and the drivers of their card selection and usage. This insight can be used by issuers to inform product development, messaging and feature prioritization.

What are virtual cards used for?
Appetite for greater card usage among businesses that use virtual cards. The research sought to identify markets and segments where this appetite is greatest and how it can be realized. It also identified expense categories where there is greatest opportunity for issuers to grow virtual card usage.

> "Markets are generally characterized by low levels of virtual card usage, yet there is strong appetite for greater engagement."

RFi's investigation identified that markets are generally characterized by low levels of virtual card usage, yet there is strong appetite for greater engagement. This appetite is visible among businesses that have already embraced virtual cards, as well as among those businesses that are yet to do so, but who recognize their benefits. This dual appetite is visible across markets, business segments and expense categories.

The profile of businesses that use virtual cards is also attractive and is consistently characterized by greater size, more rapid growth, broader geographical footprint and a more progressive attitude towards technology. These attributes all highlight the benefit of virtual card-based propositions for issuers. Virtual cards strengthen an issuer's appeal to an attractive cohort of businesses that have broader banking and payments needs that can be addressed by forward-thinking organizations. Overall, RFi's investigation revealed why issuers should prioritize virtual cards and the significant upside in doing so.

RFi arrived at the above-mentioned conclusions by conducting analysis of its proprietary dataset. This dataset has been amassed by conducting primary research interviews with business decision makers. Annually, across the globe, RFi interviews more than 100,000 business decision makers on topics pertaining to their banking and payments, attitudes, needs and behaviors. Data accessed for Visa was collected during 2020 through research conducted among businesses with annual turnover of USD10m – USD500m.

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The benefits of virtual cards are many and varied

A virtual card enables businesses to generate 16-digit card numbers that can be used instead of plastic cards to make purchases either online or over the phone. These card numbers typically have a short usage period after which they become invalid. Furthermore, businesses are often able to set usage parameters on the cards, for example, stipulating the amount, date and merchant where the cards can be used.

In contrast to other payment methods, virtual cards have been developed with the specific intention of addressing the needs of businesses.

They offer a host of benefits versus plastic cards and other non-card-based payment methods.

The benefits include:

Enhanced expense management and control

Virtual card propositions typically enable businesses to stipulate the value of expenses that can be incurred, the merchants that expenses can be incurred with and the staff that can incur them. Utilizing a virtual card, a business is therefore able to take a far more pro-active, automated approach to expense management and control.

More informed decision making

Virtual cards typically ensure businesses benefit from enhanced analytics on where, how and when expenses are being incurred. This ensures businesses have a clearer picture of their position. In turn, they can make more timely and informed decisions.

Saving time, effort and cost

Virtual cards enable businesses to eliminate paper and people dependent processes by automating their Accounts Payable processes. Time spent on reconciliation can be significantly reduced, thereby reducing the burden on a business' accounts team. By eliminating manual processes, virtual cards can also help businesses reduce payment errors and time spent resolving them.

In Australia businesses that use virtual cards estimate that cards account for **43%** of the value of their expenses.

Encouragement of greater card usage

Virtual cards can enable businesses to migrate more of their expenses onto cards. In so doing, they ensure businesses maximize the cashflow benefits they experience from heightened card use. RFi's data shows that virtual card using businesses are able to use cards for a higher proportion of their overall expenses. In Australia, for example, businesses that use virtual cards estimate that cards account for 43% of the value of their expenses. The percentage estimated by businesses that do not use virtual cards is 18%.

Enhanced supplier relationships

By enabling businesses to migrate more of their expenses on to cards and by enabling more frictionless experiences to be offered, virtual cards can help enhance supplier relationships. Businesses can pay their suppliers faster and are also able to ensure spend is only with designated suppliers. This discipline can increase the likelihood these suppliers will agree to discounts or preferential payment terms. RFi's data reveals that businesses that are prioritizing the negotiation of payment terms with their suppliers are turning to virtual cards as a solution. In Canada, for example, 32% of businesses that use virtual cards identify negotiating payment terms with suppliers to be a top three focus area for their business. Among non-using businesses this proportion is only 18%.

Greater security and fraud prevention

Greater use of virtual cards reduces the risk and consequences of cards being lost, stolen or compromised. Virtual cards are typically single-use and time-bound meaning the window and risk of fraud is significantly reduced.

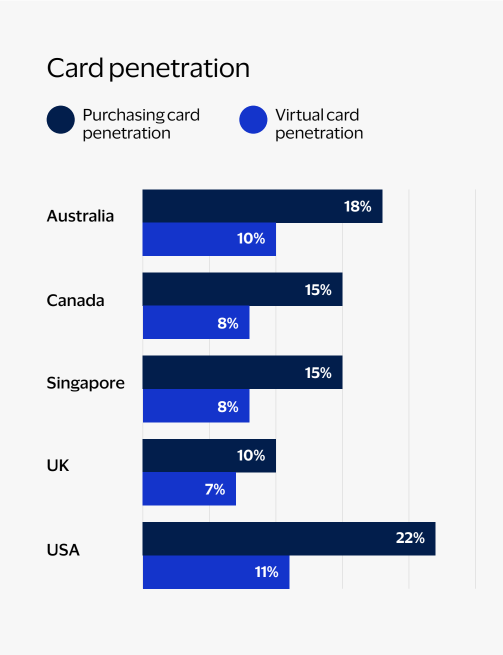
In Canada **32%** of businesses that use virtual cards identify negotiating payment terms with suppliers to be a top three focus area for their business.

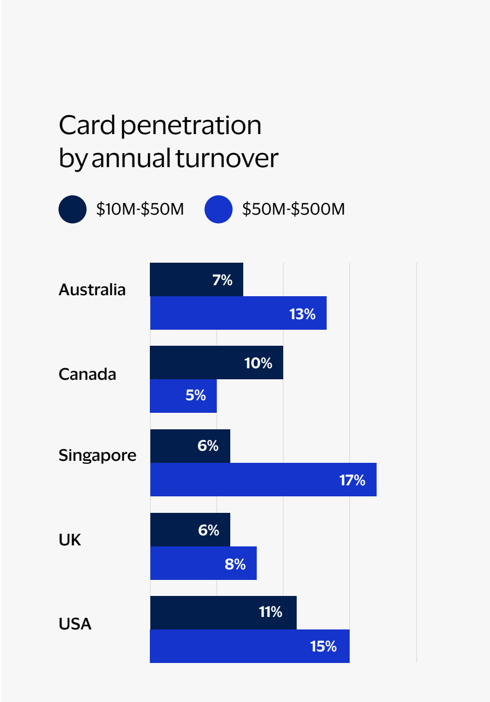
There is significant opportunity to grow virtual card uptake

Despite their many benefits, usage of virtual cards globally remains low.

Across the five markets included in the research, RFi first sought to establish levels of purchasing/ procurement card use. RFi found usage varies from 22% in the US to 10% in the UK.

RFi then sought to establish whether these card-using businesses are using physical or virtual card alternatives. The data shows that across markets, businesses that already use virtual cards are in the minority; at an overall level, virtual card usage ranges from 11% in the US to 7% in the UK.





Virtual card adoption generally increases as businesses grow

Virtual card adoption generally increases as businesses grow. The highest ownership is typically visible in the $50m - $500m annual turnover segment. Lower penetration in the $10m - $50m segment is interesting given these businesses are likely to be well suited to virtual cards. It suggests significant opportunity for issuers that make this segment a priority.

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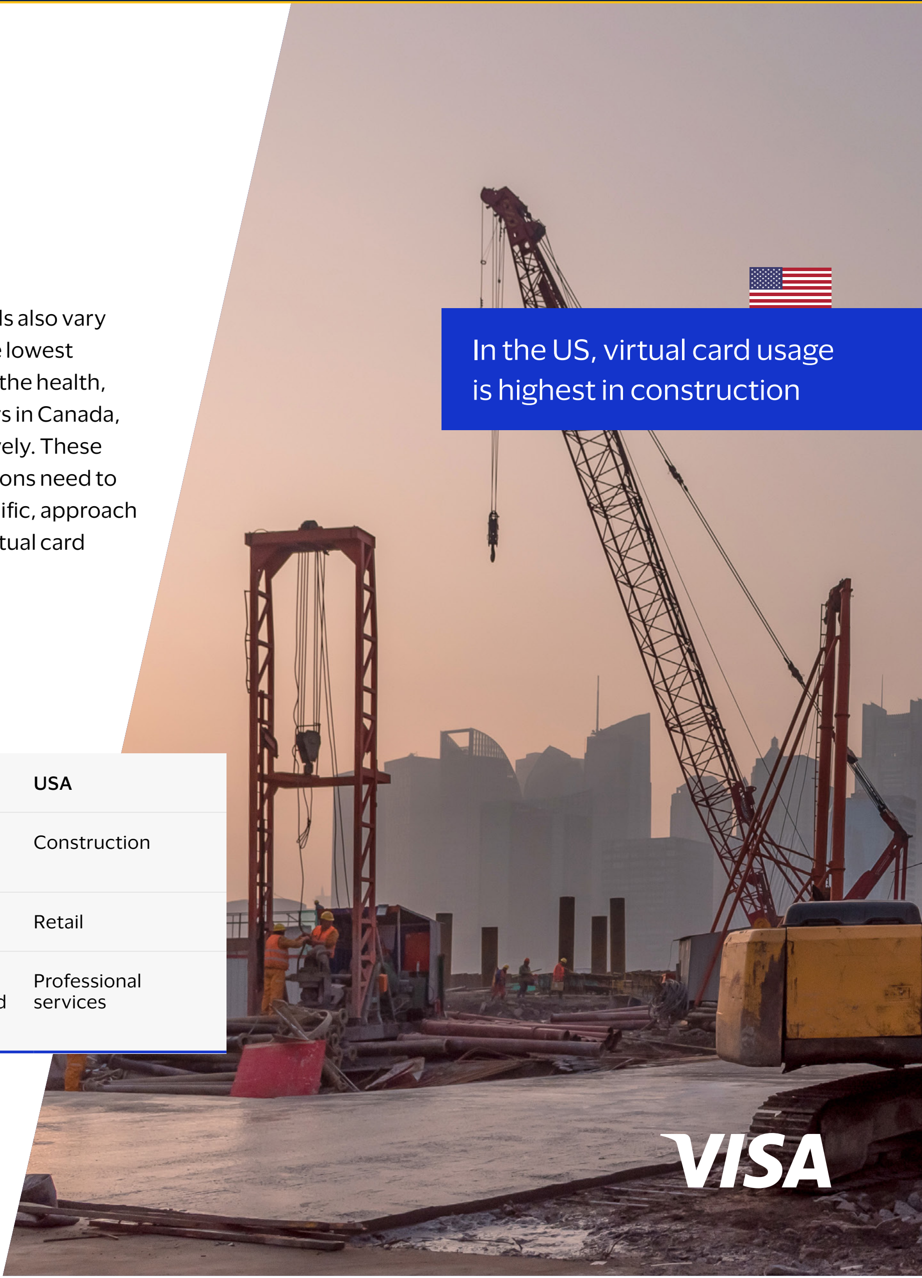
Target businesses in select industries are embracing virtual cards to a greater extent than others

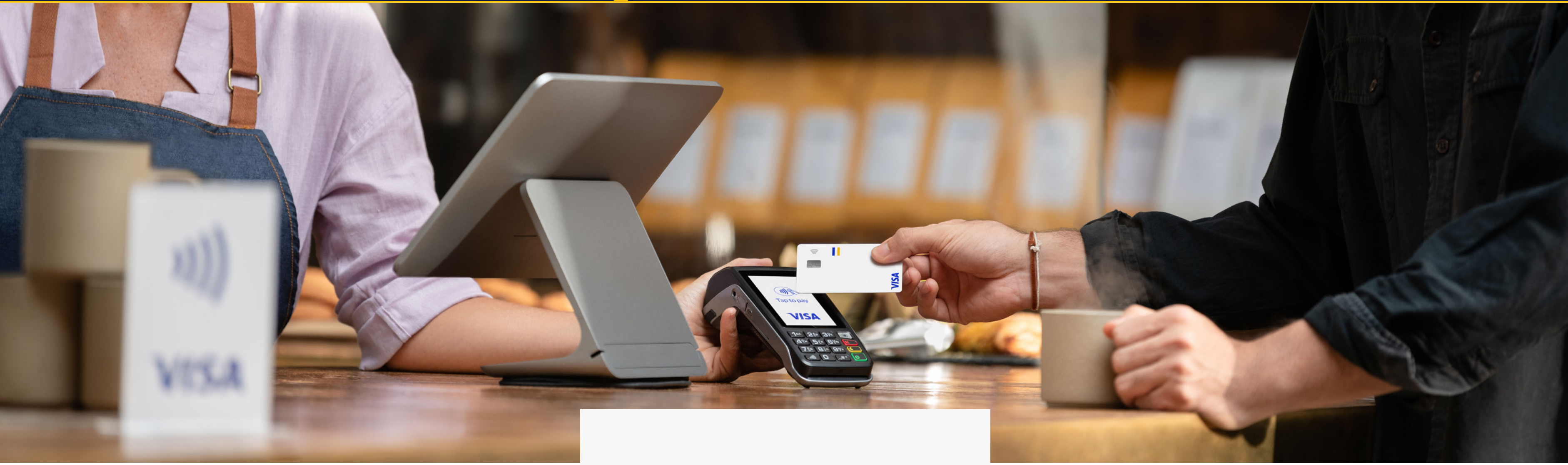
Virtual card use also varies by industry vertical. In the US, virtual card usage is highest in construction (19%), but in the UK and Australia the industry vertical with the highest virtual card adoption is professional services (10% and 13% respectively) and in Singapore the consumer services industry has the highest level of adoption (15%).

Industries with low adoption levels also vary by market. Manufacturing has the lowest usage in the US and the UK, as do the health, retail and primary industry sectors in Canada, Singapore and Australia respectively. These findings suggest financial institutions need to take an industry, and market specific, approach to understanding and growing virtual card adoption.

In the US, virtual card usage is highest in construction



	Australia	Canada	Singapore	UK	USA
1	Professional services	Manufacturing	Consumer services	Professional services	Construction
2	Manufacturing	Construction	Construction	Retail	Retail
3	Retail	Wholesale transportation and warehousing	Manufacturing	Wholesale transportation and warehousing	Professional services

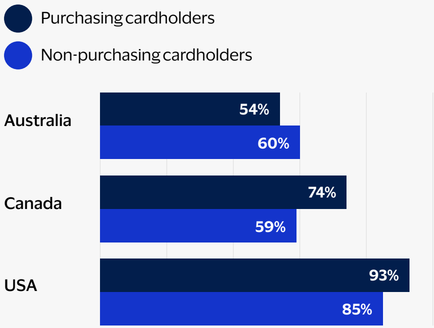


Businesses are seeing utility in purchasing cards but are not making the leap to virtual

The finding that some businesses are embracing purchasing cards but only the physical variant of them is interesting. It reveals businesses are identifying utility in purchasing cards to automate and manage their Accounts Payable operations. Purchasing cards can deliver significant cost and efficiency gains to businesses that include streamlined procurement processes and better expense tracking and control.

However, due to low awareness and under-standing, and in some cases poor availability, these same businesses are not yet embracing virtual card propositions. These businesses present quick wins in efforts to increase virtual card usage. They are already in possession of card products and are likely to be enjoying the benefits of their use. Indeed, RFi's research asked businesses in the US, Canada and Australia that do not currently use virtual cards to rate their appeal. It finds that in both the US and Canada businesses that currently use purchasing cards rate virtual cards as more appealing than those that do not. Furthermore, in Australia more than half of businesses using purchasing cards but not virtual cards still rated them as appealing.

Percentage of businesses that find virtual cards appealing



The same question was not asked in Singapore and the UK

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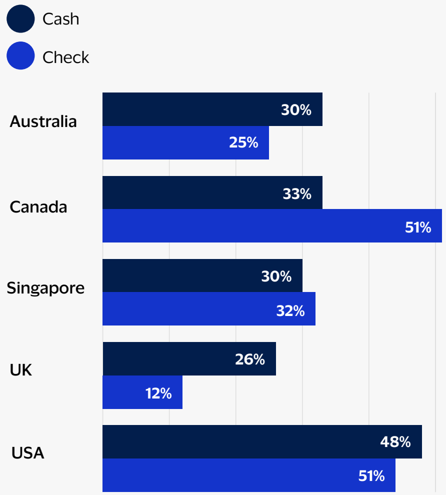
A traditional payments mindset holds back virtual card adoption

Of course, focus on businesses that already use purchasing cards should not detract from two common characteristics of business payment behavior across markets and segments:

1. Many businesses have a traditional, paper-based approach to addressing their payments needs; and
2. Many businesses are yet to embrace purchasing cards as an important component of their accounts payable functions.

Asking businesses to list the different payment methods they use reveals just how many businesses are still using cash and check. For example, RFi's research reveals use of cash ranging from 26% of businesses in the UK to 48% in the US. Similarly use of check ranges from 12% in the UK to 51% in the US and Canada. These businesses need to be encouraged to migrate away from paper-based payment methods and to embrace digital alternatives. Ongoing initiatives to displace cash and check should be prioritized by issuers.

Proportion of businesses using cash and check



Despite more traditional behaviors, businesses want to increase their card usage

The positive, common characteristic behind high levels of cash and check usage is that many businesses want to increase their card usage.

RFi's research reveals use of cash ranging from **26%** of businesses in the UK to **48%** in the US.

Across the markets included in the research, a minimum of 53% of businesses want to be using cards for more of their expenses than they do today. In the US this increases to 75%. Furthermore, across all markets the appetite for greater card usage peaks among businesses that have already embraced virtual cards. Collectively, these findings confirm:

1. There is significant, unfulfilled appetite for greater card usage that can be satisfied with strengthened propositions and greater supplier preference; and
2. Virtual cards will be key in migrating spend from more traditional payment methods.

Financial institutions will benefit from higher levels of virtual card uptake

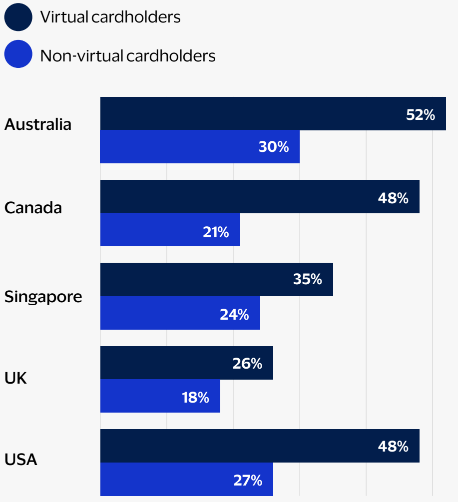
Given their benefits, financial institutions should encourage more of their customers to discover and embrace virtual cards. Indeed, offering propositions that resonate with businesses that are or could use virtual cards can deliver tangible benefits for financial institutions. The profile of businesses that already use virtual cards is characterized by growth and opportunity. They are exactly the type of businesses issuers would aspire to acquire and retain.

Businesses that use virtual cards are characterized by growth

Across markets, RFi's research reveals businesses that use virtual cards are typically larger than non-using businesses, but also younger. These characteristics illustrate that businesses that use virtual cards are often rapidly growing, ascendant operations. Indeed, RFi's research validates this. In all five markets – US, Canada, Australia, Singapore, and the UK – businesses already using virtual cards are more likely to:

- Report turnover growth over the last two years than businesses that do not use virtual cards. In the US, UK and Australia more than 1 in 5 businesses that already use virtual cards report turnover growth over the last two years of more than 25%.
- Indicate plans to invest in the business in the next 12 months. In Canada, the proportion of businesses that use virtual cards planning to invest in their operations in the next 12 months is more than twice the proportion among non-using businesses. This tendency towards investment is also markedly higher in the US and Australia.

Proportion of businesses intending to invest more in the business in the next 12 months



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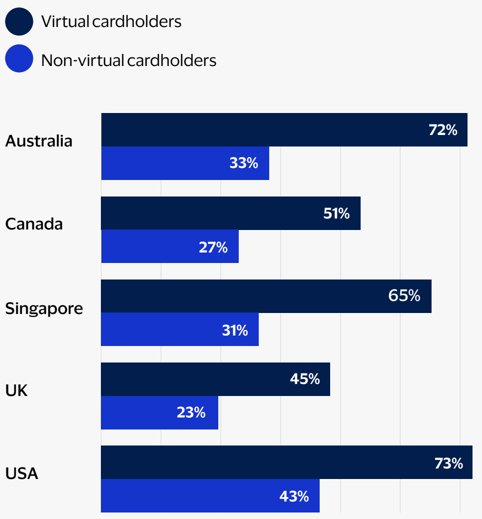
In Canada the proportion of businesses that use virtual cards intending to take out another product is almost **30% higher** than the proportion of non-using businesses that plan to do so

New product demand is elevated among virtual cardholding businesses

Growth by businesses already using virtual cards presents financial institutions with considerable opportunity because products and services are often needed to fuel that growth. RFi's data validates this statement. Businesses that already use virtual cards are more likely to say they intend to take out another financial services product in the next 12 months than non-using businesses. In Canada, for example, the proportion of businesses that use virtual cards intending to take out another product is almost 30% higher than the proportion of non-using businesses that plan to do so. In Australia and

Proportion of businesses intending to apply for borrowing product(s) in the next 12 months



the US, and focusing on borrowing products specifically, the differences are magnified. 72% of Australian businesses using virtual cards intend to take out a borrowing product in the next 12 months versus only 33% of non-using businesses. Similarly, in the US the proportion is 73% versus only 43% in the rest of the market.

Businesses that use virtual cards tend to be internationally focused

RFi's research also reveals businesses that use virtual cards are much more likely to be internationally focused than non-using businesses. In the US, 95% of businesses that use virtual cards operate internationally and in Australia 92% do so. In both markets the proportion of non- using businesses that operate internationally is 76%. Similarly, in four of the five markets, with the exception being Canada, plans to expand geographically in the next 12 months are more common among businesses that already use virtual cards. In Australia and Singapore, almost twice as many businesses using virtual cards plan to expand geographically than do non-using businesses.

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In Australia and Singapore, almost twice as many businesses using virtual cards plan to expand geographically than do non-using businesses.

The broader footprint of businesses that have already embraced virtual cards will reflect their more rapid growth trajectory. It is also indicative of further opportunity for financial institutions. Businesses that operate internationally have incremental needs that relate to trade products, FX, and advisory services. These needs present opportunity for financial institutions to deepen relationships with their customers.

Businesses that have embraced virtual cards are more progressive and innovation focused

Finally, RFi's research reveals that businesses using virtual cards tend to place greater value on innovation and digital experience and capability.

For example, in the UK, 51% of businesses that use virtual cards say they chose their main bank because it offered "innovation in the digital banking space". Among those businesses that only use physical purchasing cards the proportion is 37% and among other businesses the proportion is less than 15%. The proportion of UK businesses using virtual cards who say they chose their main bank because it provides "innovative, market leading solutions" stands at 62%. Among businesses that only use physical purchasing cards it is 23% and among other segments it is no more than 12%.

In the UK, 51% of businesses that use virtual cards say they chose their main bank because it offered "innovation in the digital banking space".

It stands to reason that businesses that already use an innovative solution like virtual cards would be the same businesses that place greater importance on innovation more broadly. This highlights the opportunity for financial institutions to foster deeper relationships with virtual card using businesses by strengthening their digital offerings. It also confirms that virtual cards need to be supported by a market leading digital experience to ensure cardholder engagement.

Sharpening the message around virtual cards

Targeting acquisition efforts at businesses that are already using cards and purchasing cards specifically, provides the quickest route to growing virtual card adoption.

Similarly, there is opportunity to grow spend by harnessing appetite for greater card use among virtual card holding businesses.

Locally focused customer engagement strategies are the key to success

When issuers are engaging businesses on the topic of virtual cards, efforts will be more effective if they do two things:

1. Focus on key expense categories where businesses are already showing appetite and capability to use virtual cards
2. Focus on the card features that matter most to current and prospective virtual cardholding businesses.

RFi's research explored these topics in more detail. What it found highlights the need to take a market and segment-based approach to customer engagement. Such an approach needs to prioritize expense categories and product features based on the behavior and preferences of the target audience. The power of messaging will be enhanced if it is supported by industry-specific case studies of businesses that have implemented virtual cards and who are realizing their benefits.

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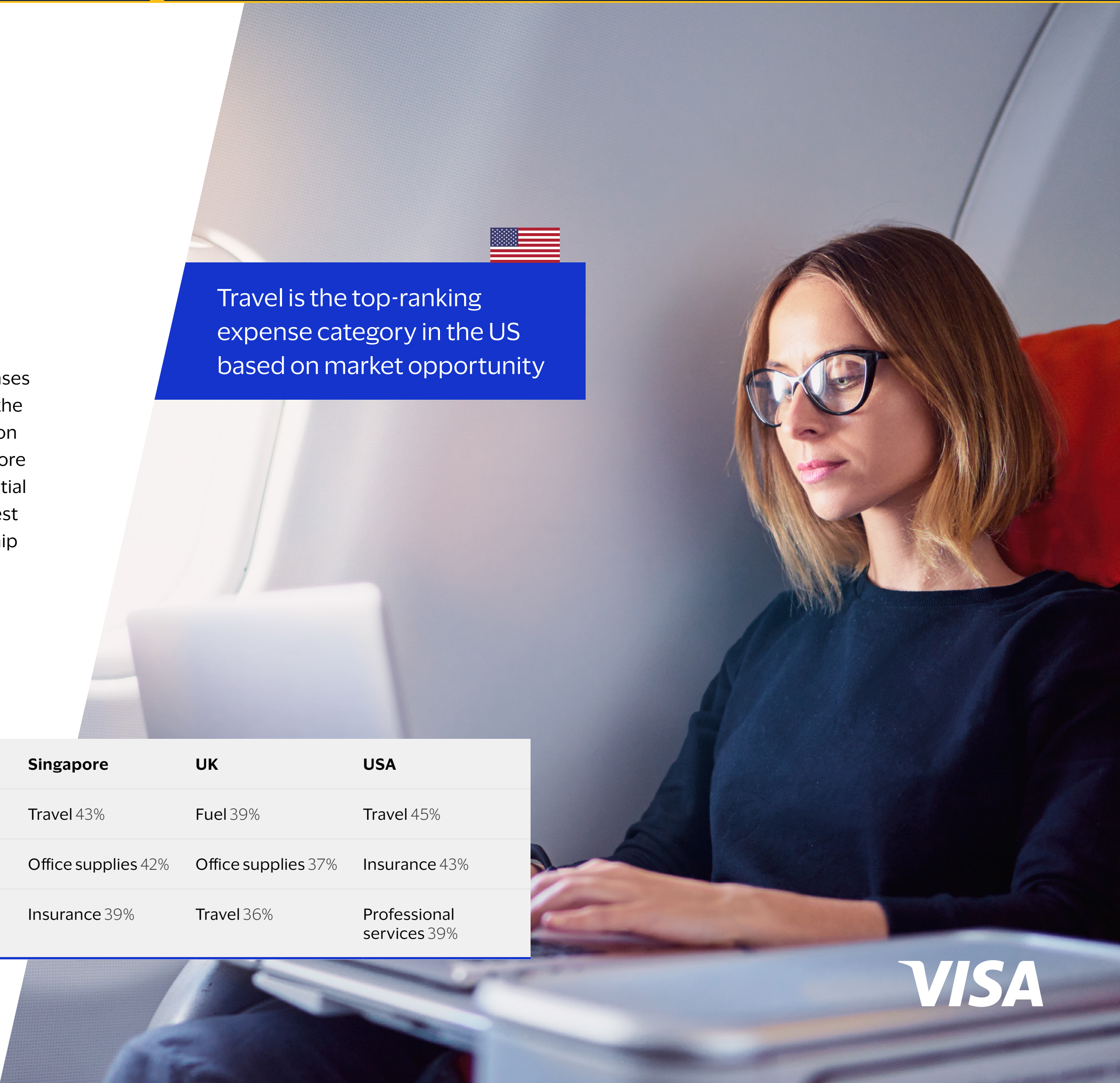
Travel is a key expense category for greater virtual card usage

In the US, RFi's research found that 45% of businesses that already use virtual cards either currently use their virtual cards for travel expenses or would like to be doing so. Travel is therefore the top-ranking expense category in the US based on market opportunity. The same is true in Singapore and Canada. In Australia there is greatest potential in insurance (51%) and in the UK fuel ranks highest (39%). These findings should point to partnership opportunities with key suppliers that operate in these industries, notably corporate travel providers and booking agents.



Travel is the top-ranking expense category in the US based on market opportunity

Key expense categories where there is greatest usage and appetite for higher virtual card

	Australia	Canada	Singapore	UK	USA
1	Insurance 51%	Travel 42%	Travel 43%	Fuel 39%	Travel 45%
2	Office supplies 44%	Stock 42%	Office supplies 42%	Office supplies 37%	Insurance 43%
3	Fuel 43%	Office supplies 41%	Insurance 39%	Travel 36%	Professional services 39%

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Prioritizing key card features will help grow uptake and usage of virtual cards

RFi's research also identified the most important card features among three cohorts of businesses:

1. Businesses already using virtual cards
2. Businesses currently using physical purchasing cards, but not virtual cards
3. Businesses not using purchasing cards at all (physical nor virtual) who instead use other business credit/charge card products.

It did this to identify features that issuers can prioritize in efforts to convert businesses to virtual cards as well as to increase engagement among existing virtual cardholding businesses.

The research found the most important card features among businesses already using virtual cards differ across markets. In the US key features are the pricing & fees, spend incentives and the grace period. However, in the UK they are spend incentives, clear statements and pricing & fees. Similar variation is seen among businesses

Most important card features for businesses using virtual cards

	Australia	Canada	Singapore	UK	USA
1	Pricing & fees 53%	The ability to link additional cards to the account 41%	Pricing & fees 52%	Spend incentives 54%	Pricing & fees 54%
2	Credit limit 31%	Spend incentives 40%	Spend incentives 46%	Clear statements/ easy reconciliation of payments 45%	Spend incentives 37%
3	Clear and transparent statements 27%	Pricing & fees 37%	Contactless/mobile payments 40%	Pricing and fees 43%	Grace period 31%

Most important card features for businesses using physical purchasing cards only

	Australia	Canada	Singapore	UK	USA
1	Pricing & fees 48%	Pricing & fees 43%	Ability to view and analyze card usage 49%	Clear statements/ easy reconciliation of payments 45%	Pricing & fees 62%
2	Credit limit 29%	Spend incentives 34%	Spend incentives 40%	Spend incentives 42%	Spend incentives 43%
3	Grace period 27%	Ability to link additional cards to the account 33%	Pricing & fees 34%	Card management platform 41%	Card management platform 33%

that only use physical purchasing cards and among businesses that are yet to start using purchasing cards at all. For example, priority features among businesses in Singapore that currently only use physical purchasing cards are the ability to view and analyze card usage, spend incentives and pricing & fees. Priority features among businesses in Australia that do not currently use purchasing cards at all are pricing & fees, credit limit and merchant acceptance.

Priority features among businesses in Australia that do not currently use purchasing cards at all are pricing & fees, credit limit and merchant acceptance.

Most important card features for businesses not using purchasing cards (physical nor virtual)

	Australia	Canada	Singapore	UK	USA
1	Pricing & fees 52%	Pricing & fees 52%	Pricing & fees 42%	Pricing & fees 47%	Pricing & fees 51%
2	Credit limit 28%	Spend incentives 39%	Ability to view and analyze card usage 38%	Clear statement/ easy reconciliation of payments 47%	Credit limit 41%
3	Merchant acceptance 22%	Credit limit 32%	Spend incentives 28%	Card controls 37%	Spend incentives 32%

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A bright future for virtual cards

This report has outlined strategies to grow virtual card uptake and usage among businesses in five markets – US, Canada, Australia, Singapore and the UK – arriving at the ultimate conclusion that there is opportunity for both issuers and users of virtual cards alike.

Collectively, the findings outlined in this report point to a bright future for virtual cards, which can be summarized as follows.

- **Appetite and opportunity for virtual cards far outweigh current usage.**
- **Virtual cards can deliver tangible benefits to businesses that embrace them.**
- **Businesses have needs that can be more effectively addressed by virtual cards than by other payment methods.**
- **There is a clear rationale explaining why financial institutions should want to encourage virtual card use and appeal to businesses that are or could use virtual cards.**

There are nuances across the markets in the expense categories and industries that offer the greatest opportunity for growth, but the fundamental strategies remain consistent. By prioritizing expense categories where there is already heightened usage, stakeholders in virtual cards can negate possible concerns around supplier acceptance. Similarly, by prioritizing key card features issuers can ensure alignment with the behavior and preferences of target businesses.

Visa Business Solutions

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We design solutions to meet business objectives, creating ways to improve visibility and optimize cash flow, so businesses can confidently make smart decisions. And through our global reach, we deliver industry insights and technical expertise that empower them to succeed now and into the future.

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