A virtual (payment) reality

BCD travel

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A virtual (payment) reality

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Claudia leads a research team charged with identifying ideas that businesses can use to improve their travel programs. They take intriguing tactics and concepts that are being used outside our industry—and some that are way out on the frontier, like behavioral economics—and explore how to make them resonate in managed travel.

A virtual (payment) reality

Enhance your corporate card program with virtual credit cards and payment automation

Traditional payment methods carry **fraud risk** and reconciliation **process costs**

62% of organizations experience attempted or actual payments fraud[1]

34% of organizations experience fraud on commercial card accounts[2]

0012 3524 8917

$4.7B Worldwide cost of identity theft[3]

442k hours
$22.7M Annual corporate card data reconciliation cost[4]

Benefits of going **virtual**

While the following benefits aren't exclusive to virtual payments, they are new for infrequent traveler bookings

- Personal identity information protection
- Specific credit limits
- Date range restrictions
- Merchant category controls
- Payment security
- Rich transaction data

Five steps to **implement**

1. Decide on the best virtual card provider for your travel program
2. Put an agreement in place with your TMC
3. Make sure your virtual card is compatible with automation
4. Test and fine-tune the process
5. Roll out virtual payments for your travelers

[1, 2] Association for Financial Professionals, "2015 AFP Payments Fraud and Control Survey," Underwritten by J.P. Morgan, March 2015
[3] Matthew Sparkes, "Worldwide cost of identity theft reaches £3 billion," *The Telegraph*, Telegraph Media Group, 11 February 2014 (1:28 p.m. GMT)
[4] GBTA Foundation Study, "The State of Expense Data Management and Consolidation in the Business Travel Industry," 17 July 2012

Introduction

Travel programs and business travelers tend to pay for corporate travel in one of two ways: business travel accounts (BTAs) and plastic corporate cards. BTAs are usually used for air transactions and corporate cards are usually used for on-trip spend, like hotel and other expenses.

Both payment methods offer benefits to companies, but they also bring challenges. Roadblocks include providing trip payment for infrequent travelers, fraudulent use, and (in the case of corporate cards) inconsistent reporting due to time-consuming manual data matching processes.

Virtual credit cards (VCCs) offer an intriguing payment alternative that lets you dodge these roadblocks. They reduce the risk of fraud, because a VCC number is generated electronically for a particular amount and time window; it's valid for only a single purchase. And by combining VCC with virtual payment automation (VPA), you can capture the data the VCC generates. VPA uses its one-time-only card number to match the payment to the booking.

Used together, VCC and VPA create a viable payment solution for your infrequent travelers, job applicants and guests. And once VCCs are more widely integrated within the industry, you'll be able to use them for a wider audience.

In this paper, we'll familiarize you with VCC and VPA. We'll share tips on vendor selection and outline steps to take as you move towards implementation. Once you're set up for VPA using virtual cards, you can start using them for your infrequent travelers—and you'll be poised to use them more widely when VCC use picks up.

Virtual cards and payment automation

What is a virtual credit card (VCC)?

A VCC isn't a physical card, but it has many of the same features as plastic corporate cards:

- Banks generate VCC and plastic card numbers the same way. They own ranges of card numbers, known as Bank Identification Numbers (BIN), and issue VCC numbers from the same BIN ranges they use for ordinary plastic cards.
- VCCs include the same information as plastic cards; they both have an expiration date and a Card Verification Value (CVV) number (the most commonly used security number found on the back of a plastic card). Unlike plastic cards, VCCs have a pre-set amount or value.
- Suppliers process VCCs as "Card Not Present" (CNP) transactions—the same as they do for any transaction where they don't see a plastic card (e.g. online or telephone purchases).

What is virtual payment automation (VPA)?

VPA is a payment product offered through BCD Travel's partner Conferma. VPA enables the creation of a VCC and payment for a specific booking. It does this by matching the payment from the bank to the original booking data from the travel management company (TMC). It supplies a unique ID for that booking and payment. The VCC number is used for only one purchase. Conferma's system communicates the card number and booking details via secure fax. The unique ID is the key to the advantages of VPA—it ties every payment to its original booking. That means less work, more control and better data.

How virtual fits into the payment landscape

The two main forms of traditional corporate payment are plastic corporate cards and BTAs.

These payment methods provide many benefits, including:

- **Convenience:** Corporate cards and BTAs give employees an easy way to pay travel-related expenses.
- **Management information:** They help you monitor whether travelers are complying with policy and support negotiations with your travel suppliers.
- **Cash flow:** They keep cash within the business (technically known as "working capital optimization"). Using a card product usually delays payment by 30 to 60 days.
- **Reporting:** Expense reporting is easier for travelers. Data from corporate card payments flow into automated expense reporting tools like Concur.

However, corporate cards and BTAs each come with a set of challenges:

Corporate cards

- **Limited users:** Companies can't issue corporate cards for every employee. There's no payment solution for travelers without a card, such as job applicants, interns, new hires and contractors.
- **Limited data:** Travel managers often receive no more than a supplier name, date and transaction amount on purchases made through corporate cards. Matching transactions requires a significant amount of manual labor.
- **Fraud risk:** Like any plastic card, corporate cards can be stolen or copied, exposing the company to financial losses.

62% of organizations experience attempted or actual payments fraud.[5]
34% of organizations experience fraud on commercial card accounts.[6]
The worldwide cost of identity theft is **$4.7 billion**.[7]

Business Travel Accounts (BTAs)

- **Hard to use on the go:** BTAs are used mainly for pre-trip payments made through TMCs. This makes them especially practical for air and rail bookings, but travelers can't use them during their trip.
- **Incompatible with low-cost carriers:** BTAs can't be used to book most low-cost carrier airfares because they don't come with the security code that these companies require.
- **Fraud risk:** In BTA transactions, the same card number is used repeatedly. Theoretically, many people could use the number to make a payment. Most BTAs are recorded securely in travel systems and used in automated processes; therefore they're less exposed than corporate cards. But the limits on BTAs tend to be very high, so just one successful fraud attack could have devastating consequences.

[5, 6] Association for Financial Professionals, "2015 AFP Payments Fraud and Control Survey," Underwritten by J.P. Morgan, March 2015
[7] Matthew Sparkes, "Worldwide cost of identity theft reaches £3 billion," *The Telegraph*, Telegraph Media Group, 11 February 2014 (1:28 p.m. GMT)

Payment option overview

The graphic at right provides an overview of common payment options. It covers who has access to the payment method, the type of bookings that can be made with each payment option and whether data matching is possible.

	Travelers		Air		Hotel	Car rental	Other ground transport	On trip	Data matching
	Frequent	Infrequent	GDS	Non-GDS					
Corporate credit card	✓		✓	✓	✓	✓	✓	✓	
BTA	✓	✓	✓						✓
Personal credit card	✓	✓	✓	✓	✓	✓	✓	✓	
Virtual credit card		✓		✓	✓	✓			✓

How companies pay for travel today

Corporate cards (also known as 'walking cards')

These are tangible plastic cards companies issue to employees to pay for business-related expenses. They're usually connected to the traveler's personal bank account and need to be expensed monthly.

Business travel accounts (also known as 'lodge cards', 'ghost cards' or 'centrally billed accounts')

A BTA features a card number "lodged" by a corporate client with a TMC. The same number is used to pay various suppliers for bookings made by all travelers through the TMC. The client settles with the issuer through a single payment, usually made on a monthly basis.

Personal credit cards

Travelers pay for company travel with their own credit cards and then claim reimbursement.

Purchasing card (p-card)

Like a BTA, a p-card is a centrally billed account with a card number used by different employees. It's primarily used for office-related expenses such as stationery, but sometimes used for travel.

Bank transfer (also known as wireless transfer or automated clearing house (ACH))

The supplier issues an invoice and the customer settles through an electronic bank transfer.

Pre-paid cards

The traveler is given a card loaded with a pre-set amount to spend on their trip.

Cash

Travelers pay with their own cash and claim reimbursement, or the company may give them a cash advance.

Checks/travelers' checks

Checks are rarely used by companies to pay for travel.

Who should use virtual payment options?

Few companies give corporate cards to everyone traveling on business. Infrequent travelers aren't usually given a card, nor are new hires or employees at junior levels. In many countries, corporations only hand cards out to their most senior executives. This is especially true in emerging markets where cards are a special perk and still seen as a symbol of prestige.

There may also be third parties traveling on behalf of a company, but are not employees and do not have access to a corporate card. This group could include contractors, job applicants, interns, temporary staff, and clients, to name a few.

Making payments for travelers without a corporate card normally involves complicated invoicing procedures or time-consuming and expensive processes like issuing cash advances. Finance departments dislike the cash advance option as it takes money out of the business.

VCCs solve the non-cardholder headache. They're issued at time of booking, so the traveler is removed from the payment process.

Did you know?

VCCs can be used in any country where plastic cards are accepted. BCD Travel's virtual card technology partner, Conferma, has generated virtual numbers for acceptance in 185 countries. VCCs can also be accepted in any currency.

Matching vs. reconciliation

Matching and reconciliation aren't the same and it's important to know the difference. Understanding this distinction will help you assess your own needs as well as the services offered by your provider.

Matching: A booking transaction record, provided by your TMC, is matched to a payment transaction record, provided by your bank. BCD Travel does this matching automatically through *Virtual Payment Automation powered by Conferma*.

Reconciliation: This takes matching further, by matching the booking transaction record, the payment transaction record and the actual supplier invoice. Invoice data and collection processes vary significantly among suppliers, so this is a manual process.

Check with your finance department to determine whether you need reconciliation, or if an automated matched report is sufficient.

VCC acceptance

In theory, any supplier that accepts CNP (card not present) payments can accept VCCs. But not all suppliers know this. A U.S. Bank-sponsored survey released by the GBTA Foundation found that only 53% of suppliers accept VCCs, while 90% accept plastic corporate cards.[8] However, the true figure for virtual card acceptance is probably higher than this. VCC numbers look and function no differently than plastic or lodge card numbers. So, suppliers may often accept a virtual payment without even realizing it. Also, the survey was restricted to the U.S., where VCCs are far less common than in Europe.

Teething problems

In the future, VCCs can be expected to work well for all types of travel payment, but some parts of the travel industry aren't quite ready for virtual payments. For example, BCD Travel estimates 20% of payments for hotels made with a virtual card still require some manual steps to complete the transaction, because of issues such as:

- Missing payment confirmations
- Hotel staff unfamiliar with processing VCCs
- Hotels forgetting to send the folio invoice

VCCs are now widely used within the banking and travel industries. They can be issued on MasterCard, Visa and American Express platforms, and all major banks with multinational card programs offer virtual cards too. BCD Travel and other major TMCs work with virtual cards. However, in addition to the hotel-specific issues noted above, not all GDSs integrate with all virtual card technology providers yet, and neither do all online booking tools. Check with your TMC to see whether your travel program is VCC-ready, especially if you manage travel in more than one country. Despite the challenges at this time, VCCs remain a good way to capture payment for your infrequent travelers—a group with few viable payment tracking alternatives.

[8] "Buyer and Supplier Outlook on Virtual Payment Solutions", GBTA Foundation, Sponsored by U.S. Bank, May 2015

Benefits of going virtual

While the following benefits aren't exclusive to virtual payments, they are new for infrequent traveler bookings.

Strengthened compliance

VCCs mean policy compliance work is done up front. Since each card is a one-off, you can set precise controls on it. You can configure:

- How much the traveler can spend
- Which type of supplier, such as hotels only, they can spend it with
- When they must spend it

Reduced risk of fraud

A VCC is only valid for a short window of time, the spend allowance is limited, and it can only be used with a particular merchant category. Under these circumstances, fraudulent charges are highly unlikely.

Better accountability

Tying every payment to a named individual through a unique card number makes a travel program much easier to audit.

Enriched travel data

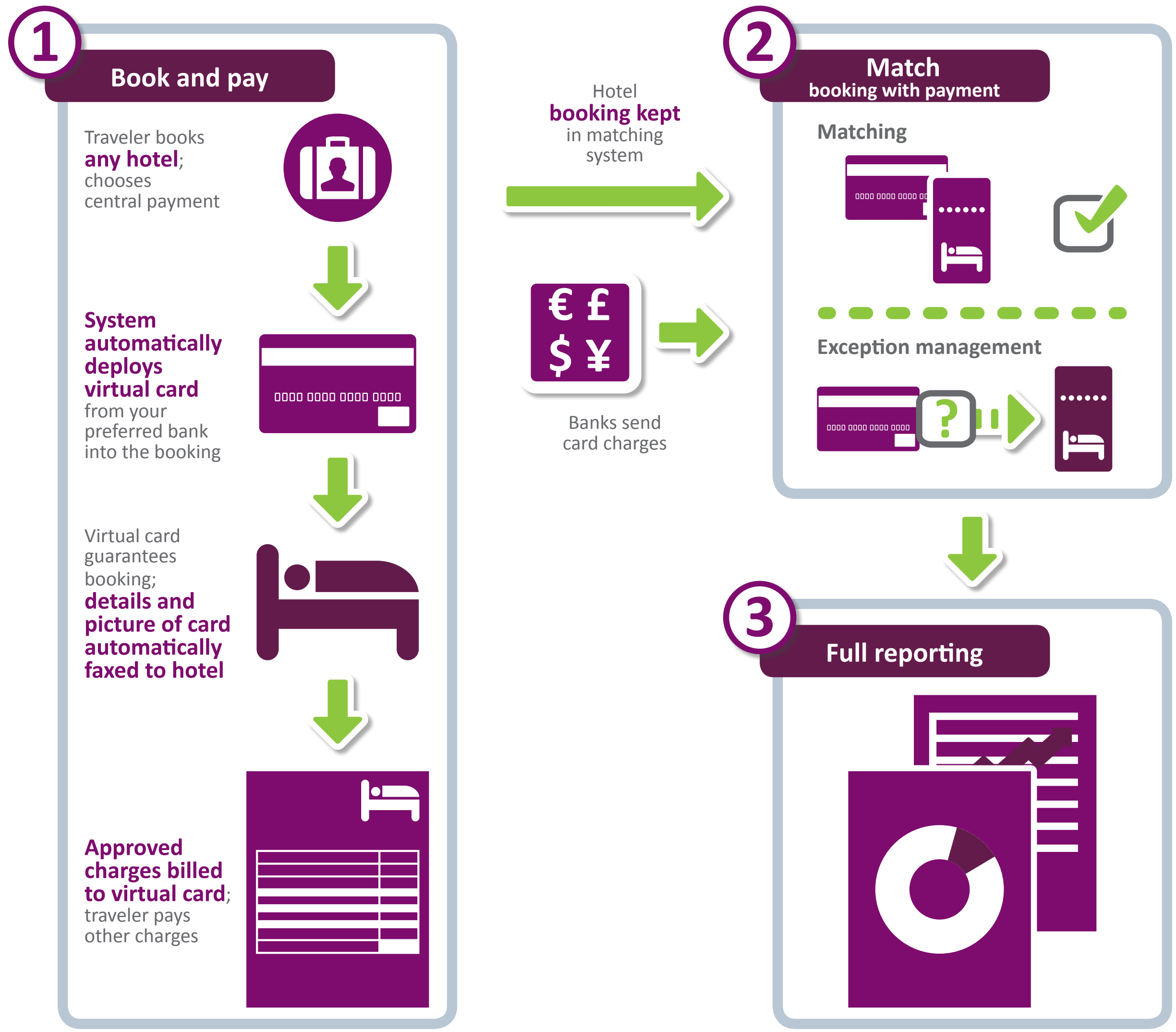
Managed travel programs normally take data feeds from both a TMC and a card provider. The TMC supplies data on what was booked and the card provider gives data on what was actually paid. Those two sets of figures aren't necessarily the same: A traveler staying in a hotel might accrue extra charges such as meals or parking, and sometimes taxes are only added to the final invoice.

That's where VPA makes the difference. A VCC links a unique ID from purchase to final payment. It means the sum paid on check-out can be tied back to the original booking. Data includes the total billed amount, not just the original rate. Through matched data reports you can easily see which bookings might need further investigation, for example when additional charges (such as breakfast, wireless or dry cleaning) send the total cost over US$ 100 for a one-night stay.

VPA also adds corporate information to every VCC transaction. In fact, with VPA it's easy to use custom data fields (like employee number, cost center and project code)—without chasing your employees to fill in forms.

Virtual payment in action

Virtual payment powered by Conferma



How to choose what's right for you

As always, make sure any new solution helps meet strategic objectives for your travel program and the wider business. Potential strategic objectives include:

Strategic objective	How VCCs help
Control direct costs	Travelers can't exceed the amount specified on the virtual card.
Reduce process costs	Automated matching of bookings and payments.
Reduce risk	Fraud is less likely to occur.
Improve transparency	Clear attribution of expenses to cost centers, individual projects, individual employees etc.

You can use a grid like this to make the business case to senior management. Reducing manpower through automated matching is an especially strong selling point. It saves on processing time and is less prone to error because there's less human interaction.

Virtual cards are particularly worth investigating if:

- You have a lot of travelers without corporate cards.
- You are (or want to become) a user of hotel billback (where the TMC pays the hotel and bills the client later).
- Booked and paid data matching is a time-consuming chore for your business.
- Assigning costs to specific cost centers or project codes is important to your business.
- Your travelers visit countries where card fraud is especially high.

Implementing virtual payments

Once you've decided that virtual payments are right for your travel program, the next step is to make a list of the markets in which you want to use virtual payments. Discuss this with your current card provider and your TMC to find the right product for you. Remember to get your local accounting teams on board to prepare and adjust for virtual payments.

Who to talk to

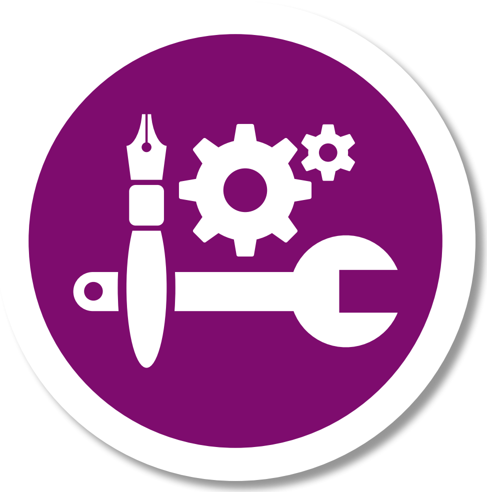
Within your business, you should talk to the usual suspects, like the finance and tax departments, human resources and IT. You should talk to security about data safety concerns. Lastly, remember to communicate with your travelers—let them know that hotel staff may not be familiar with VCCs; they might need to explain that the payment should be processed as a CNP transaction.

Externally, you should talk to:

- **Your TMC:** What kind of solution can it offer? Does it use an updated version of a GDS that can handle VCCs? Can it work with your usual card issuer? Does using a VCC disrupt the normal booking and payment process?

  BCD Travel's *Virtual Payment Automation powered by Conferma* allows customers to use their normal card issuer without process disruption. This isn't always the case with other solutions in the market.

- **Your card issuer:** Does it issue virtual cards in the markets you are looking for and can it integrate them into your TMC's booking process? If not, ask why not and when this feature will be available.
- **Your suppliers:** It's worth letting them know that you're about to start making payments via virtual card.
- **Your online booking tool:** Check that your OBT is virtual card-friendly.



Five steps for successful implementation

1. Decide on the optimal VCC provider for your travel program—together with your banks, card providers and your TMC.
2. Put an agreement in place with your TMC – remember to specifically address data security.
3. Confirm that your VCC provider connects with your TMC's virtual payment solution.
4. After set-up, make sure you run tests with your TMC support team to fine-tune the process and iron out any kinks.
5. Roll out VCCs in your organization. Remember to collect traveler feedback to track progress and assess how virtual payments are working for you.

Be prepared to invest ample time and resources into getting your program up and running. You'll need to coordinate with many internal and external stakeholders. But adding VCCs to your program could be well worth the effort!

The future of virtual payments

We believe VCC providers will improve their products' security even more and expand their scope of use. Here are some of the things we expect to happen with virtual payments in the not-too-distant future.

Virtual payments will expand to other travel categories

While VCCs currently work best for hotel payments, this is not going to be the only way to use them for long. There's already an alternative for air booking in the making that enables VCC payments for infrequent travelers, job interviewees and contractors.

Strong growth in emerging markets

Alternative payment systems, including Paypal, mobile wallets and bitcoins, could prove to be leapfrog technologies. Making and receiving payments without a credit card merchant is becoming the normal way of doing business in some emerging economies—before it has gained traction in mature markets. Latin America and Asia have already adopted this technology, making them a fertile ground for VCC expansion.

The EU interchange fee cap could spur virtual card growth

Card issuers are set to start charging transaction fees on some plastic corporate cards because of the 2015 European Union regulation on interchange fees for card-based payment transactions. The fees will apply only to certain corporate card types (mainly Visa and MasterCard connected to personal bank accounts.

The issue is complicated, but one point seems certain: The regulation doesn't affect virtual credit cards and therefore payments made using VCCs won't be surcharged. This could make them a more attractive option when weighed against corporate cards.

Mobile payments may finally take off

People have been able to make payments via a mobile phone instead of a credit card for several years, but the concept has lacked momentum—especially in the developed world. Now that competing mobile payment options have emerged, it could really take off. If it does, corporate travel will benefit from an even more seamless connection from booking to payment to expense reports.

If mobile payments become popular, so could VCCs, because both eliminate the need to show an actual plastic card. In the future, a mobile device could be used to generate a new virtual card number for each payment. This would give travelers easy access to money for company expenses on trip, and provide travel managers with all the benefits of matching and reporting.

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About BCD Travel

BCD Travel helps companies make the most of what they spend on travel. For travelers, this means keeping them safe and productive, and equipping them to make good choices on the road. For travel and procurement managers, it means advising them on how to grow the value of their travel program. For executives, we ensure that the travel program supports company objectives. In short, we help our clients travel smart and achieve more. We make this happen in nearly 100 countries with 11,000 creative, committed and experienced people. And it's how we maintain an industry-leading client-retention rate of more than 97%, with 2013 sales of US$22.4 billion. For more information, visit www.bcdtravel.com.

About BCD Group

BCD Group is a market leader in the travel industry. The privately owned company was founded in 1975 by John Fentener van Vlissingen and consists of BCD Travel (global corporate travel management), Travix (online travel: CheapTickets, Vliegwinkel, BudgetAir and Vayama), Park 'N Fly (off-airport parking), Parkmobile International (mobile parking and traffic applications) and joint ventures Airtrade (consolidating and fulfillment) and VakantieXperts (leisure travel). BCD Group employs over 12,000 people and operates in almost 100 countries with total sales, including US$9.2 billion partner sales, of US$24 billion. For more information, visit www.bcdgroup.com.