



EMERGING T&E PAYMENT: virtual card & mobile payment

As corporations explore new options for T&E payment, usability, security features and data control top the list of requirements.

Corporate cards, ghost or lodge cards, procurement cards—even ACH and checks in certain situations—corporations use a diverse collection of payment options to cover travel and entertainment expenses. The preferred payment option can be influenced by several factors that often include the size of the company, the regulatory environments in the markets where the company does business, whether travelers qualify for credit, the type of travel being planned (e.g. transient or meetings) and the company's tolerance for risks associated with different forms of payment.

Overall, however, every corporate payment program needs to balance usability concerns with the company's need for control over how the form of payment is used by travelers, the type of data that can be returned, and the assurance that the payment form is secure against traditional fraudulent use as well as broader hacking schemes that have become a pernicious issue for the payment industry and retailers.

As new forms of T&E payment emerge, they must be evaluated with these needs in mind. This paper, from **The BTN Group** and **CSI**, explores these issues as associated with Virtual Cards and Mobile Payment technologies, both of which have drawn significant attention in the managed payment marketplace but are still largely in the learning and research phases for most T&E program managers.

GETTING THE MOST OUT OF VIRTUAL CARDS

Virtual cards have been in the marketplace for about a decade, but have only garnered attention for managed payment programs in the last five years. According to responses to a BTN Group survey in October 2014, just 14 percent of travel and expense managers are currently using virtual card solutions in their programs, but more than twice that many will implement virtual card in the next 12 months or are currently researching the feasibility of doing so (see chart next page).

Virtual cards represent an alternative to a ghost/lodge/central bill card by providing a single credit account against which to charge travel expenses associated with multiple users. Instead of pinging the single card number for every transaction, however, virtual card technology allows organizations to create a unique card number—and, if desired, unique expiration terms and other limitations—per transaction to enhance security and control how the money on the individual “card” can be used.

The virtual card solution can be configured in a variety of ways. In the most limited form, virtual cards are configured with a credit amount that exactly matches a specific transaction, limited to a single MCC (merchant category code, e.g. hotel) with the unique card number set to expire as soon as that transaction takes place. In this way, the card is managed to pay for a single

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A DIVISION OF NORTHSTAR TRAVEL MEDIA

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Virtual card solutions are making inroads into T&E programs by integrating with TMC providers and enhancing data reporting.

expense and cannot be used for any other transaction. This configuration ties every transaction to a single user and a single purchase creating detailed information for reporting and significantly easier reconciliation process for all charges associated with the virtual card (when compared to a ghost/lodge card).

In a more liberal configuration, the unique card number may be set for a certain collection of MCCs, with an expiration date to coincide with the end of a single business trip. In this configuration, the card could be used for multiple transactions, yet it still exerts tight control over how and where the traveler uses the card. In addition, the unique card number (aka the “tokenized” number) with its restrictive expiration date is the only number stored at the POS terminals where the card used. This greatly reduces any risk associated with terminal hacking at retailers, protecting the organization from broader fraud.

Virtual card solutions can be administered locally within a client organization, with access to card creation and fulfillment assigned to a single gatekeeper or dispersed to select managers. A strong trend in the T&E space is to lodge the account with a partner TMC, allowing the TMC to ping the payment provider directly for unique card numbers, and enabling a virtual

“handshake” with the card provider so that the client can receive additional benefits. Within this model, progressive virtual card providers have created enhanced APIs that allow TMCs to attach critical data to each virtual card transaction—including booking number, reference number, employee name, employee number, job number and more—resulting in significantly enhanced reporting that goes beyond what is provided by some corporate card providers.

Current Uses In Managed Travel Programs

Colleen Black, a partner with Goldspring Consulting, commented during The BTN Group webinar that her clients were focused on virtual cards in a handful of situations:

- **Infrequent Travelers** – Supporting employees who travel infrequently along with recruitment travel and contractors that may require one-time or limited-time access to travel funds.
- **Complex Payment Markets** – When consolidating travel on a global basis, virtual cards are handy in some markets where companies have trouble issuing, or cannot issue corporate cards.
- **Meetings & Events** – As more companies look to identify meeting spend separately from transient travel, the data associated with virtual cards makes it easier to consolidate and track separate categories of travel spend.

- **Hotel Direct Bill** – Direct bill accounts are a perennial challenge for managed travel programs; virtual card solutions can be deployed to reduce the number of direct-bill hotel agreements and ease payment to these suppliers (see “Case Study: Solving Hotel Direct Bill,” pages 3 and 5).

Application of virtual cards need not be limited to these areas—and with the insignia of a major credit card brand, virtual cards should be accepted anywhere the card brand is accepted. That said, there remains a need for educa-

WHERE ARE WE NOW?

Buyer registrants for a recent BTN Group webinar covering emerging T&E payment options revealed the status of their payment programs in relation to both Mobile Payment and Virtual Cards.

	MOBILE PAY	VIRTUAL CARD
No experience, just learning	71%	54%
Currently researching options	23%	26%
Will implement within 12 months	2%	5%
Already implemented	2%	14%
Not interested in this form of payment	2%	1%

Source: The BTN Group, “Emerging T&E Payment: Mobile Pay & Virtual Card,” October 2014, 275 Travel & Expense Managers



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CASE STUDY: Solving Hotel Direct Bill

TRAVEL MANAGEMENT

PROFESSIONAL: Rick Wakida

COMPANY TYPE: Midsize Global
Technology Firm

THE CHALLENGE

Five years ago, Rick Wakida a 15-year veteran of travel and card management for midsize and large corporations was looking for a solution to what had become an unmanageable hotel direct bill program. “We had preferred hotels in each of our four headquarter markets, but we had no corporate card in place, so policy stated that employees were to pay for their hotel rooms at check out and then submit an expense report for reimbursement.”

To handle instances where travelers did not have a credit card, Wakida set up direct bill at one or more hotels per market. This required manual reconciliation for multiple hotel bills. “With six or seven hotels on direct bill, it was manageable,” said Wakida, but it quickly became an issue as the company grew, acquired more global travelers and expanded its travel patterns to cover broader markets. Traveler demographics changed as well, said Wakida: “It became much less common for our travelers to have [personal] credit cards, so they had no mechanism to pay.”

For **THE SOLUTION** to this challenge, see page 5.

tion in the marketplace in terms of acceptance. That may be the biggest question mark for T&E managers as they look to deploy virtual cards on broader basis. To that point, companion mobile applications that allow front and back images of the virtual card to be displayed on mobile devices are helping to bridge gaps by offering a more tangible connection to a physical card. As the concept of mobile and virtual payment becomes more mainstream, however, growing pains are likely to ease.

Speaking on the webinar, David Disque, COO of CSI, underscored that point and took it further.

“Use cases over the last two years have evolved dramatically for virtual cards in the travel space,” he said. “What I have seen—particularly with the issues around data breaches—is that retailers are becoming more cognizant of mobile and virtual forms of payment, as they can represent more secure transactions.”

UNDERSTANDING MOBILE PAYMENT

Indeed, knowledge of virtual card and mobile payment is on the rise. And while virtual card is clearly the more mature of the two—especially within managed payment programs—new developments in the mobile payment space may rapidly change adoption levels and help to move both of these emerging solutions toward the mainstream as retailers become more accustomed to accepting increasingly intangible forms of payment.

When it comes to mobile payment, several types of solutions compete for approximately \$500 billion mobile transactions conducted worldwide. The majority of these solutions rely on existing credit card and interchange technology, but particularly in under-banked regions—such as Africa and China—mobile phone providers are getting into the game, seeing larger transactions and even payroll distribution charged or credited to mobile phone accounts.

As this type of alternative “banking” relationship has occurred, mobile payment transactions have skyrocketed in these regions.

In Western Europe and North America, however, where consumers tend to have strong banking relationships and exhibit heavy usage of existing card-based processes, mobile phone providers see much smaller spend volume going through their channels. Micro-purchases, such as ringtones or music, are often purchased here, but larger mobile payments tend to take more established pathways.

In developed banking markets, such players as Apple, Google and PayPal (along with some smaller technology firms) are competing feverishly for share—and to identify the breakout technology that will push adoption across the threshold that will convert mobile payment into a major revenue producer. Each of them enables users to store credit card information on their mobile devices and allows them to share that information with retailers without having to pull out cash or a plastic card. Several technologies are currently in play to enable these emerging solutions:

- Near Field Communication (Apple Pay, Google Wallet)
- QR Codes (Square, PayPal)
- Bluetooth LE (PayPal)

POS infrastructure remains the biggest obstacle from a functionality standpoint, with mobile payment providers either limited to retailers with existing NFC or barcode scanners, or compelled to offer work-around technologies that can co-exist with retailers’ current POS systems. For now, QR codes appear to be the dominant player, with 39 percent of consumers surveyed by the U.S. Federal Reserve Bank who had used mobile payment technologies opting for this format, while just 14 percent relied on mobile wallets powered by NFC technology.

The dynamics may change quickly, however, as chip-and-pin cards (also called EMV cards)



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begin to penetrate the U.S. market and force retailers to upgrade their POS terminals to accept them. The new terminals will incorporate NFC technology, with banks and retailers planning to migrate to the new EMV products and systems by October 2015, though many industry analysts agree that it will take at least another year to complete that process. As a side effect, NFC-enabled mobile payment systems will gain infrastructure penetration in the marketplace, conceivably making them the de facto option for consumers.

For now, however, the lack of infrastructure translates into a fairly limited number of outlets where users can take advantage of the benefits associated with mobile pay—that is, if they see the benefit at all.

Hurdles to Adoption

Aside from usability issues, breaking through consumer perceptions and their established payment habits has been a challenge for mobile payment providers. According to the Federal Reserve Bank study published in March 2014, only 17 percent of smartphone owners in the United States had made a purchase via a mobile payment app. Among non-users, 76 percent of reported that they felt using cash or a credit card was easier, while 63 percent of non-users were dissuaded from adopting mobile payment solutions due to security concerns with the technology. According to webinar registration data gathered by The BTN Group, data and transaction security was also the primary concern among travel and payment program managers.

While mobile payment is distinct from the concept of virtual cards, some mobile payment products do rely on similar security features. In addition to fingerprint and/or personal identification number (PIN) sign in requirements to access the mobile apps, tokenization of the actual credit card number is a common security feature among mobile payment solutions. The tokenization of the credit card numbers is performed

in different ways, depending on the device and application used for mobile pay. Both Google Wallet and Apple Pay employ the concept of the Secure Element (though it functions differently on each) to provide additional protection from theft and fraud.

Indeed, despite consumer perceptions, payment industry insiders generally acknowledge that mobile pay solutions offer increased security when compared to traditional magnetic strip cards. And as travel and payment program managers learn more about their options, they may also begin to see some potential benefits of incorporating mobile payment into their policy and approved solutions.

VIRTUAL CARDS & MOBILE PAYMENT: POSSIBILITIES FOR MANAGED PROGRAMS

Comparing the two forms of payment, virtual cards present the more mature technology, and providers have already made inroads into the managed travel space with tailored products and integrations with TMC partners that can forward specific travel management goals:

- Unique “tokenized” card numbers to identify specific purchases and ease reconciliation
- Enhanced data that goes beyond what is provided by credit card interchange
- Customized controls and MCC configurations that “gatekeep” purchases
- Enhanced security controls to prevent employee misuse, theft and fraud schemes

According to BTN Group surveys, the managed payment market has begun to recognize the potential of virtual cards for travel programs, and seems poised for larger adoption.

While mobile payment technologies are less mature—and have not yet been specifically targeted to the managed marketplace—travel and expense managers do well to follow develop-



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CASE STUDY: Solving Hotel Direct Bill

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THE SOLUTION

With a virtual card solution Wakida brought considerable efficiencies to his hotel program and he was able to implement precautionary measures to protect the company from card misuse, considering his travel population's inexperience with credit cards.

"The key factor was that it was a Mastercard number, so it was accepted globally wherever Mastercard was offered. And we put a lot of limits on them—activated MCC controls, expiration, etc. We also customized our data fields for reconciliation," he said. "In addition, we captured the hotel confirmation number. The hotel would get a fax with image front and back of the Mastercard. They had the individual's name, the company name and instruction that the virtual card would pay for room and tax only."

Ultimately, said Wakida, he was able to eliminate the need for direct bill. "We consolidated multiple payments—you can imagine that we had six or seven direct bill hotels set up and we had to reconcile individually. But after we implemented virtual cards, it didn't matter if we had 20 different hotels," he said. "Also, the hotels were happy because they got paid faster."

ments and the potential benefits (and drawbacks) of mobile pay for managed programs.

In the near-term, corporate policy will become critical as mobile payment technologies become more widely adopted in the consumer space. Corporations will need to offer guidance to travelers about whether the company will allow them to put corporate card information either on their personal or company-issued mobile device. Even if neither is allowed, a policy still provides employees with a sense that their company is aware of and considering emerging options.

With longer term developments, however, companies may benefit from advanced data that could eventually be collected from mobile payment sources. As with seemingly all emerging technologies, data collection is king, and mobile payment is falling in line. Google, PayPal and others (with the exception of Apple, which is making data privacy a differentiator) are all looking at how to leverage data collection with their mobile payment schemes to feed after-market advertising and other revenue opportunities. If the data becomes accessible to corporations, its precision could be useful to travel and expense management for reconciliation, supplier negotiations and duty of care efforts. Those possibilities are down the line, but it behooves travel and payment managers to look ahead as consumer payment habits inevitably flow back to the managed space.

MOVING FORWARD

As payment options become less tangible—i.e. the former prevalence of cash migrating to credit cards and the current move toward more virtual and mobile solutions that remove the physical card from the transaction process—the steep learning curve witnessed thus far with retailers and consumers will begin to flatten. Indeed, it already has, with some virtual card providers estimating double-digit increases in virtual card transactions over the past 12 months and many industry analysts expecting a boom in mobile

payment in North America over the next 12 months.

Travel and payment managers would do well to look closely—and still critically—at new payment options, without allowing uninformed "perceptions" or overly enthusiastic industry endorsements to play a large roll in their search for better payment options. To be sure, security issues should remain a top concern when researching both virtual cards and mobile payment solutions, but it is clear that even our most established payment methods have left consumers and corporations open to security failures.

Moreover, new payment options that are being carefully tailored to integrate with other corporate suppliers and partners may offer advantages that traditional forms of payment have, to this point, left unaddressed. ■

ABOUT THE SPONSOR



CSI, a private company founded in 1989, provides innovative payment solutions to some of the world's leading brands.

The company launched its virtual card brand in 2009 and has recently configured its product to address payment pain points for managed travel programs:

- Program compliance
- Payment security
- Back-end reconciliation

**For more information
about CSI Travel, visit**

www.corporatespending.com