

# Are Your Virtual Card Payments Really Check Payments in Disguise?



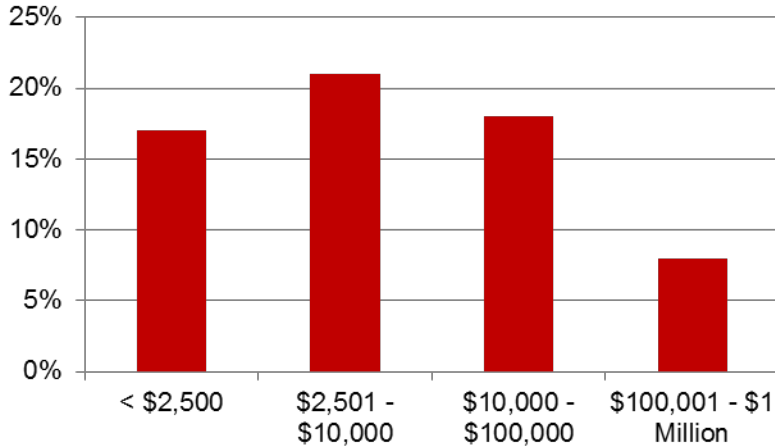
# Agenda

- 1.ePayables in the Payment Landscape
- 2.Overview of Supplier-Initiated Payments (SIP)
- 3.Overview of Buyer-Initiated Payments (BIP)
- 4.Best Practice Functionality of a BIP Program

# ePayables in the Payment Landscape

# ePAYABLES CARD: Industry Trends

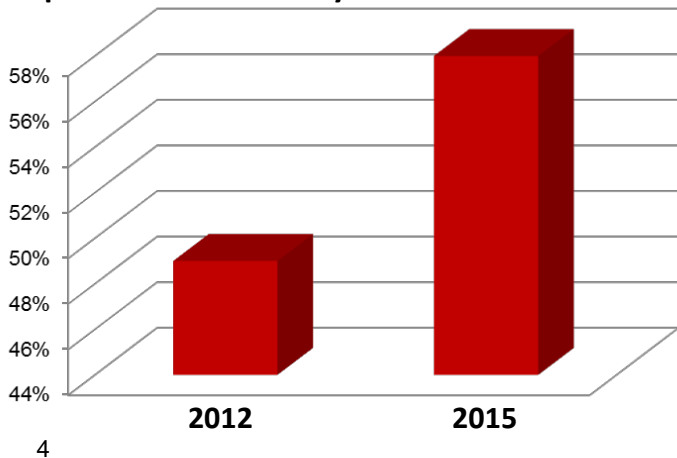
## ePayables Programs Have Large Transaction Sizes



▶ One half of all respondent organizations had used EAP to pay for a single purchase of a good or service in excess of \$125,000 in the past year. One-quarter of the respondents had used EAP to pay for a single purchase of good or service of \$400,964 or more in the past year.

▶ On average, EAP spending is equal to 58% of total purchasing card spending by the organization (including plastic, ghost, cardless, and EAP combined), up from 49% at the beginning of 2012.

## ePayables Users Report 58% of Total Purchasing Card Spend is now on ePayables vs. Plastic Card Programs

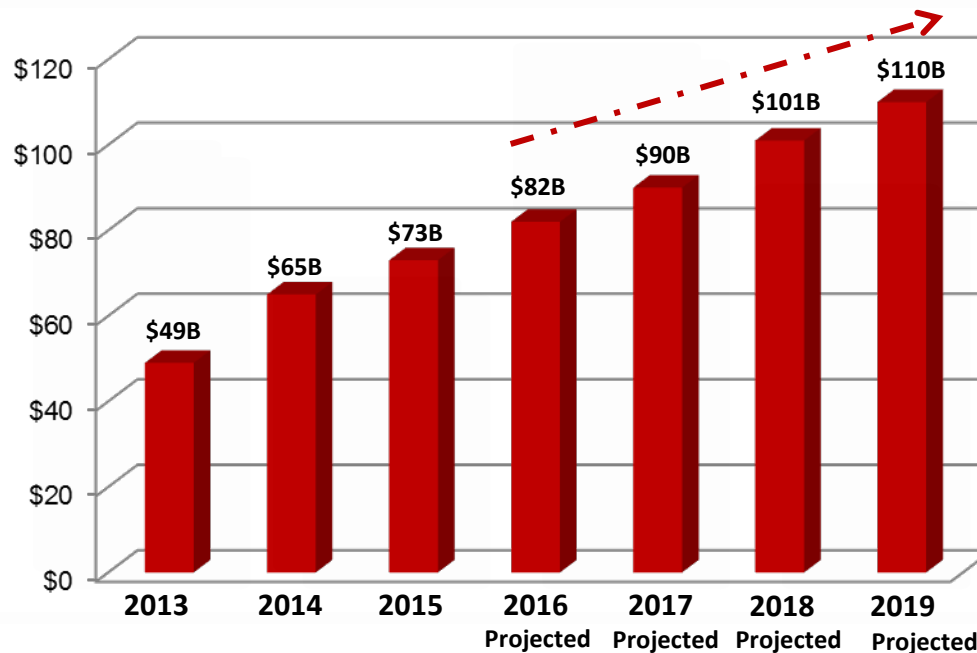


▶ EAP spending "ramps up" quickly in comparison to plastic purchasing card spending, increasing from 57% of plastic spending for respondents with programs less than 1 year old to nearly double the level of plastic card spending by respondents that have used EAP for five or more years.

# ePAYABLES CARD: Industry Trends - continued

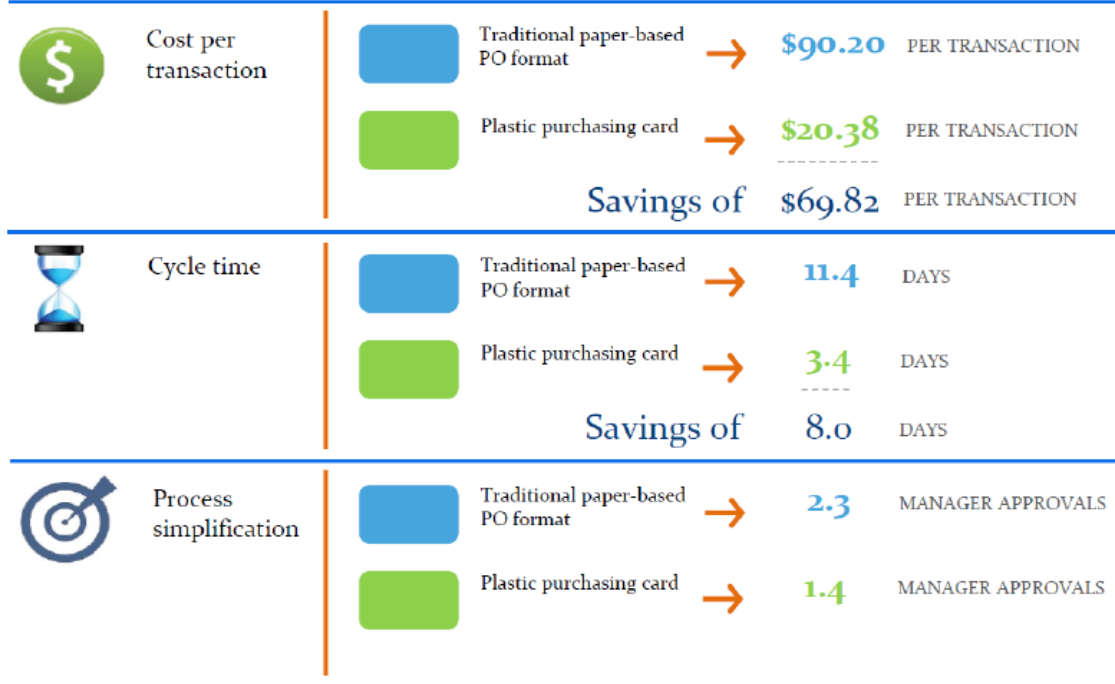
- ePayables spend grew by 33% between 2014 and 2015
- Respondents with multiple ePayables options account for higher % of total ePayables spending
- Organizations with multiple ePayables options account for 34% of the response pool but 47% of ePayables spending

**North American ePayables Growth in Billions**



# Process Cost Savings is the Largest Benefit from Card

**Exhibit 29:** Savings and Simplification Attributed to Purchasing Card Use

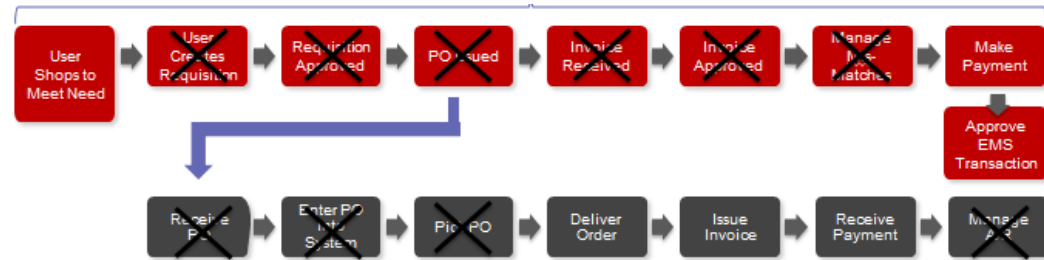


- The RPMG study uses a baseline Purchase Order (PO) cost of \$91. This can be reduced down to \$21 per transaction with a P Card
- P Card ATV = \$346 this would equating to 14,450 transactions for a \$5 million PCard program
- $14,450 \times \$70$  per transaction savings = \$1,011,500
- \$1 million cost savings compares to \$75,000 rebate at 1.5%

# Where Does the Cost Savings Come From?

## Low Dollar Purchases Needs a Low Cost Purchase Process

**Purchasing Card Were Designed to Eliminate Costs**



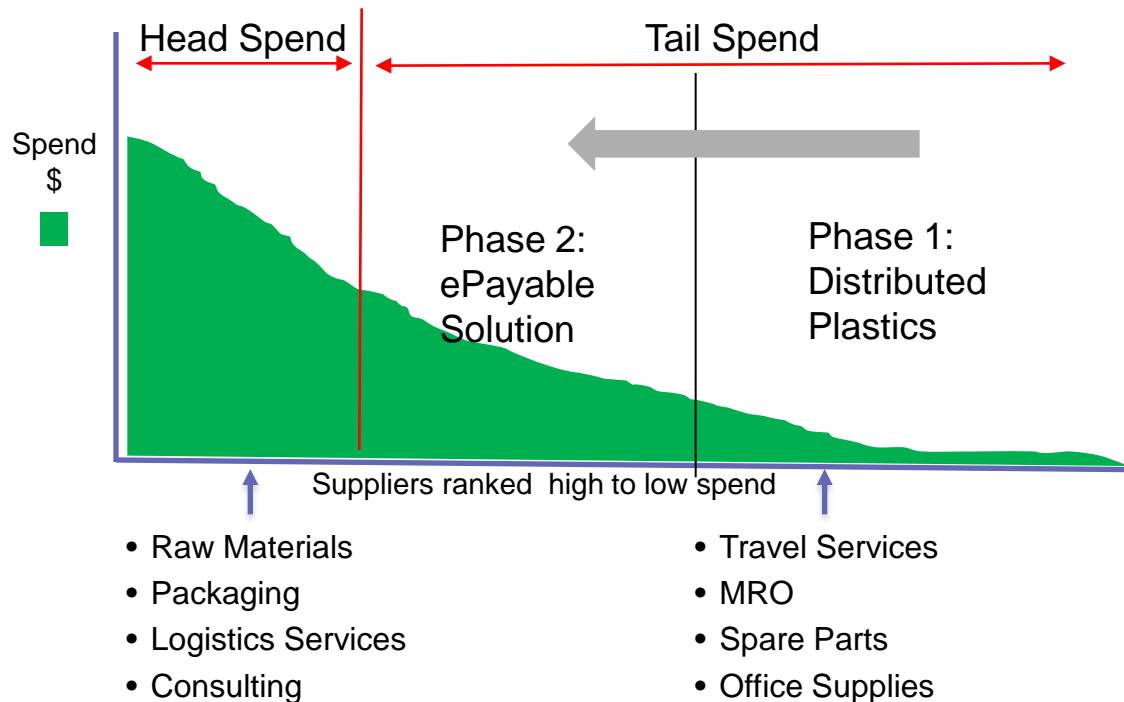
- Traditional card programs focus on replacement of purchase orders
- Purchase order process was originally designed for high risk, high dollar purchases
- Removal of unnecessary steps in purchase requisition process reduces costs within the company

# Expanding the Card Program Introduces ePayables

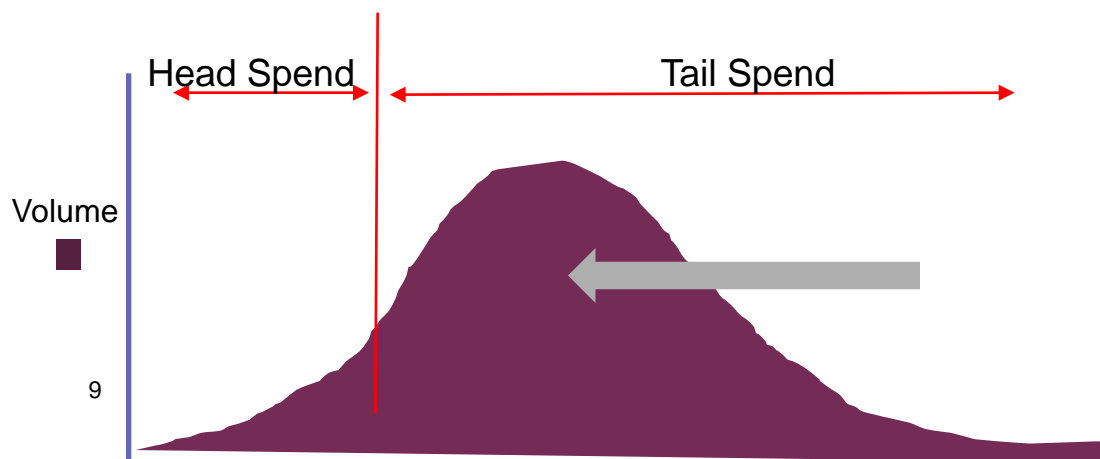
<b>Cost Elimination</b>	
Focused on Low \$ spend	Yes
Eliminated PO Process Steps	Yes
Enrolled suppliers to accept card	Yes
Expanded categories of spend (i.e. office supplies, meetings, etc.)	Yes
REPEAT?	NO



# Expanding the Card Program Introduces ePayables



- Shift focus from the end of the Tail Spend moving inward
- Purchase size begins to increase
- Some control may be needed to manage expenditures
- Volume of transactions is high but risk remains low
- Introduction of ePayable capabilities expands existing card program – increasing spend and rebate



# Maintaining Controls Enables Higher Dollar Spend

## Higher Dollar Purchases Needs Some Control

### Virtual Cards Were Designed to Control Purchases

**THE 80-20 RULE**

**REQUISITION**

**meet the BUYER**

**Bids**

**REQUEST FOR PROPOSALS**

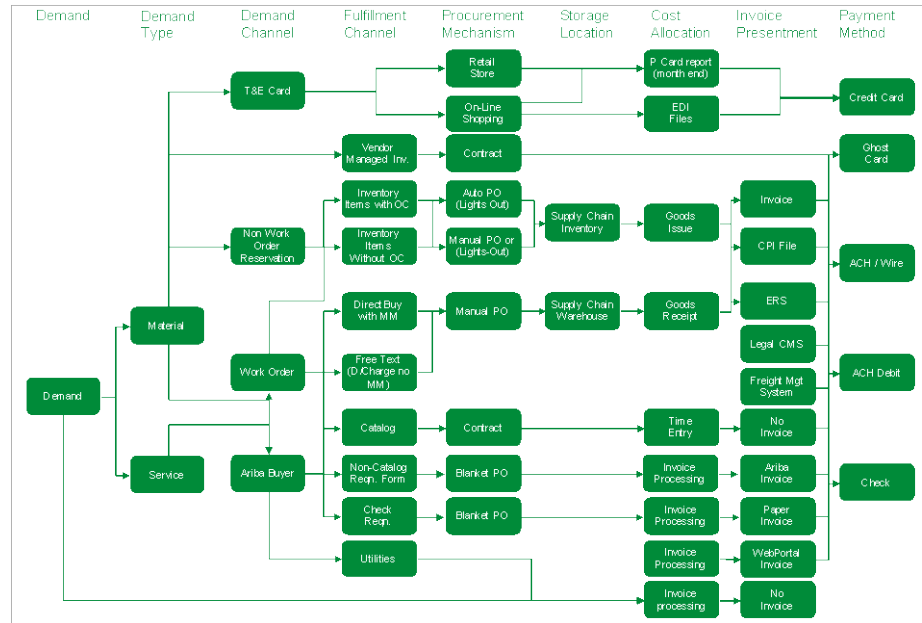
**24/7 DELIVERY**

**THREE WAY MATCH:**

- ✓ Purchase order
- ✓ Receiving information
- ✓ Invoice

**\$ 91 Cost**

**Start Process Here**



- ePayable program leaves the existing purchase process in place
- Card payment file is created once invoices have been approved for payment
- Enables expansion of card payments to higher \$ transactions

# Sophistication Improves With Time

Advanced Technology

Starting Point is a  
Purchasing Card

Employee Cards for  
Small Dollar Purchases



Distributed Plastics

Vendor Ghost Cards  
Removed the Plastic



Vendor Keeps Card  
Number on File

Supplier-Initiated  
Payments Sends Emails  
to Suppliers (SIP)



“Pull Payment”

Starting Point is an  
Approved Payment  
File

Buyer-Initiated Payments  
Sends \$\$\$ to Merchant  
Account (BIP)



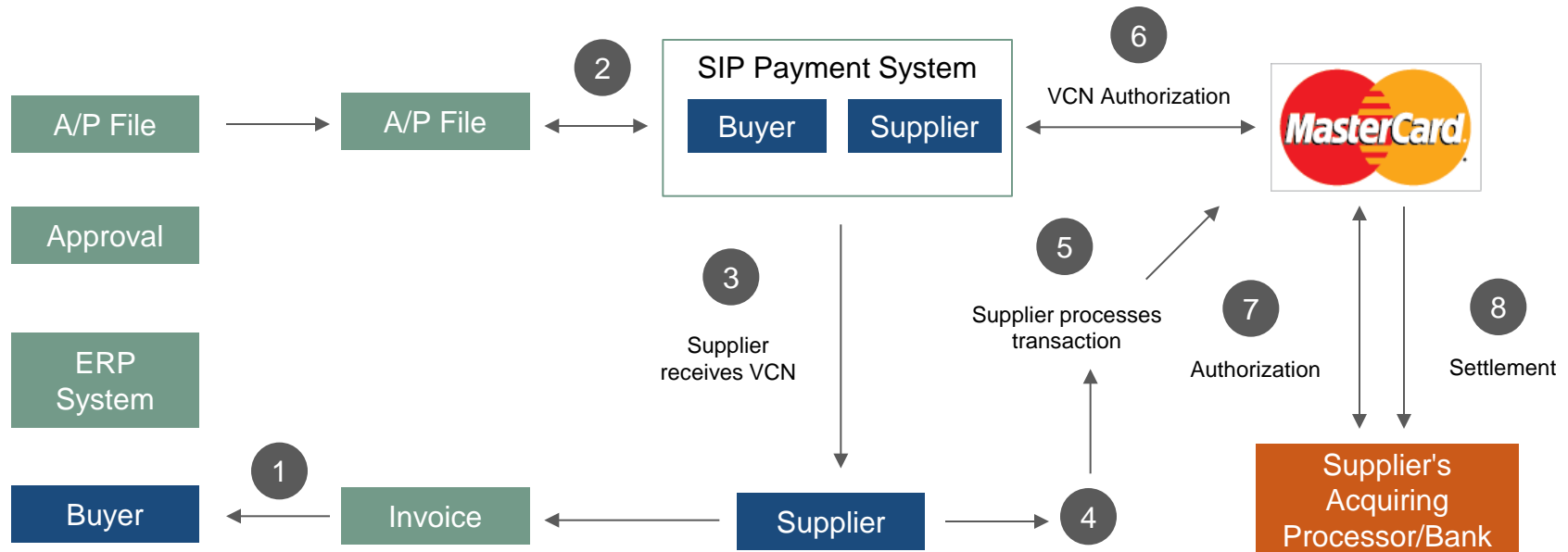
Suppliers' Bank Accounts

“Push Payment”

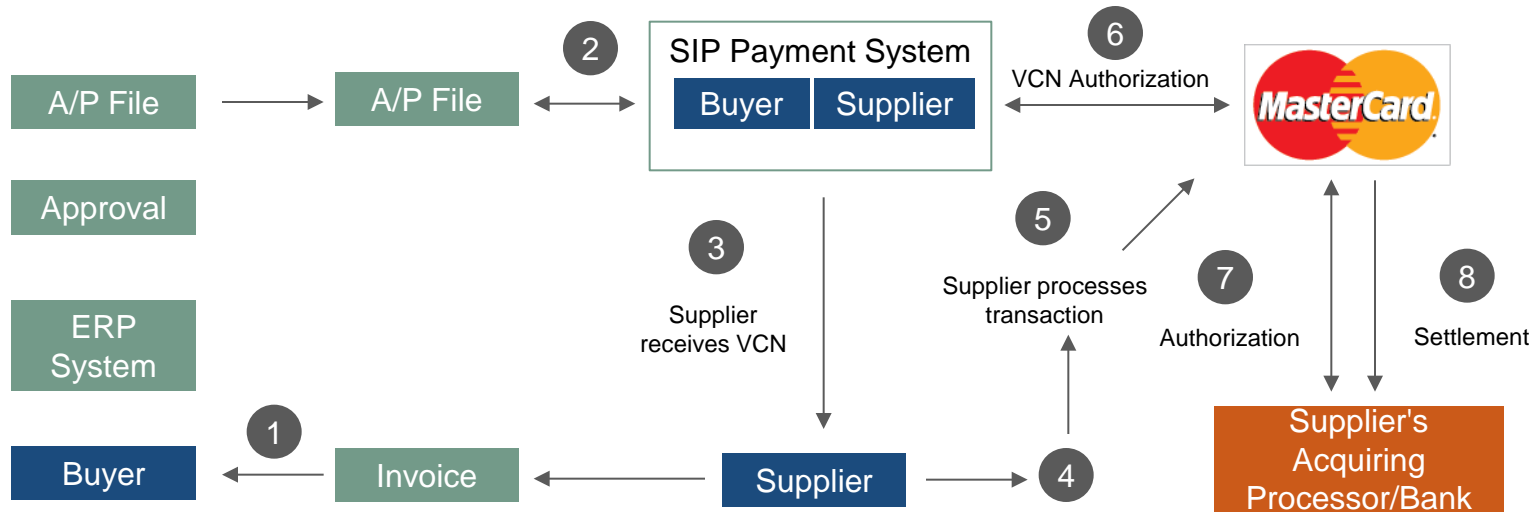
ePayable / Virtual Cards

# Overview of Supplier-Initiated Payments (SIP)

# Supplier-Initiated Payment Process



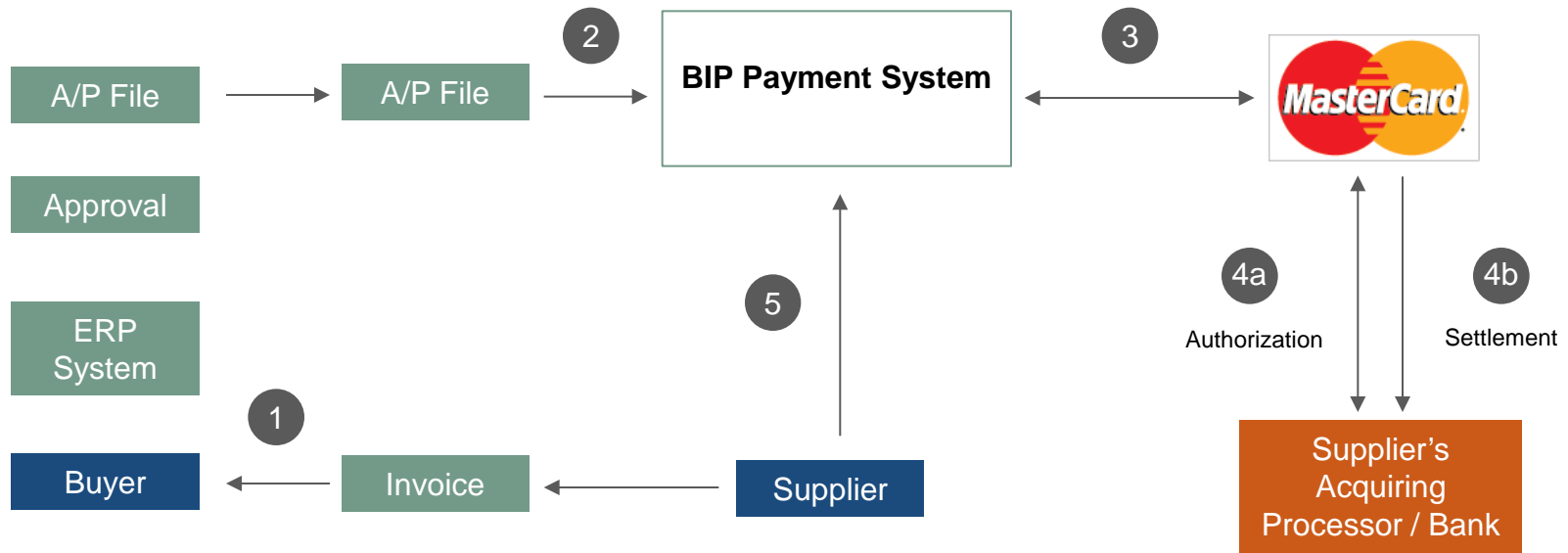
# Why Are Supplier-Initiated Payments Like a Check?



Buyer Not In Control of Payment	Supplier Initiated Payment
Email Float	Payments completed must be reconciled against emails sent
Supplier Processing	Supplier resource needed for card terminal entry
Card Expiration	Card no longer valid after 7 – 14 days; Buyer contacted to reissue
Card Declination	Authorization declined at either virtual card or posting card level; Buyer contacted to resolve
Invoice Reconciliation	Supplier applies a credit/debit to card authorization amount; offset must be reconciled against invoices intended to be paid

# Overview of Buyer-Initiated Payments (BIP)

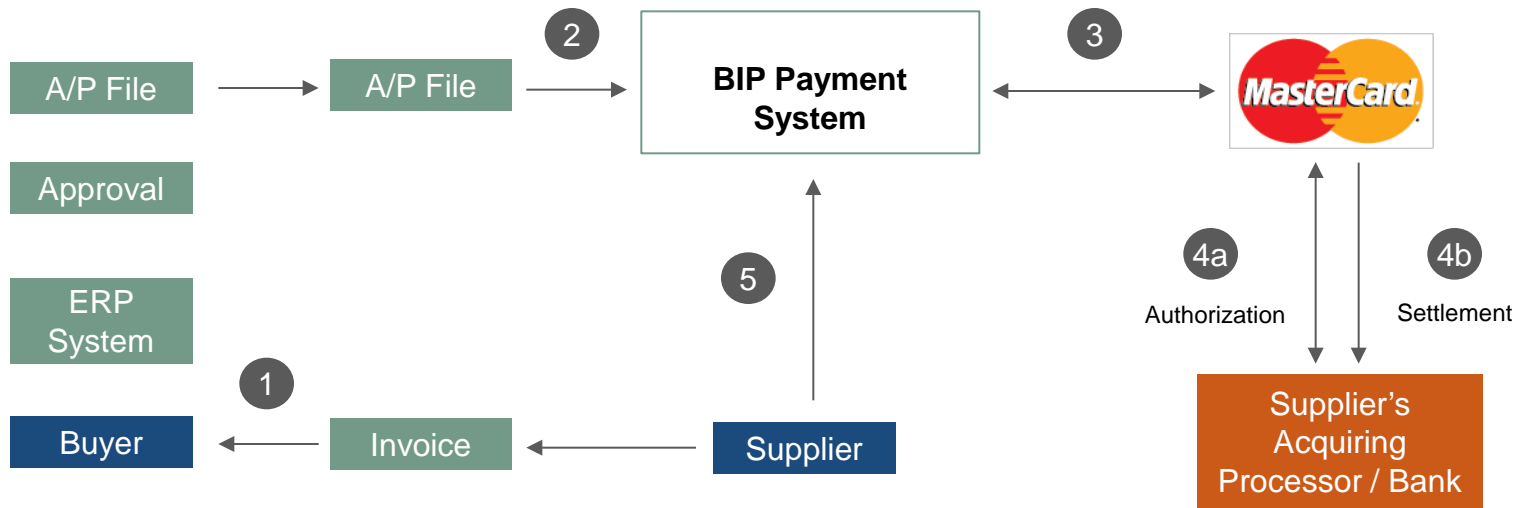
# Buyer-Initiated Payment Process



1. Supplier sends invoice to Buyer who enters into their ERP System
2. Buyer submits payment file to BIP System
3. BIP System uses Network to make payment direct to Supplier
4. Payment automatically deposited into Supplier's bank account
5. Supplier has 24x7 access to Payment Portal



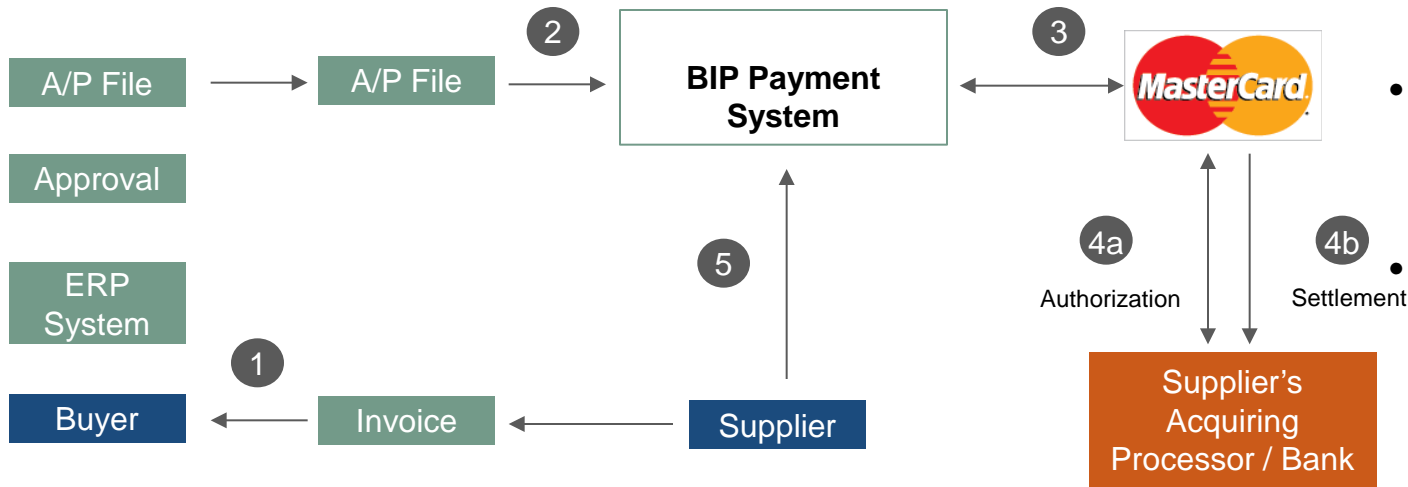
# Why Are Buyer-Initiated Payments Like a ACH?



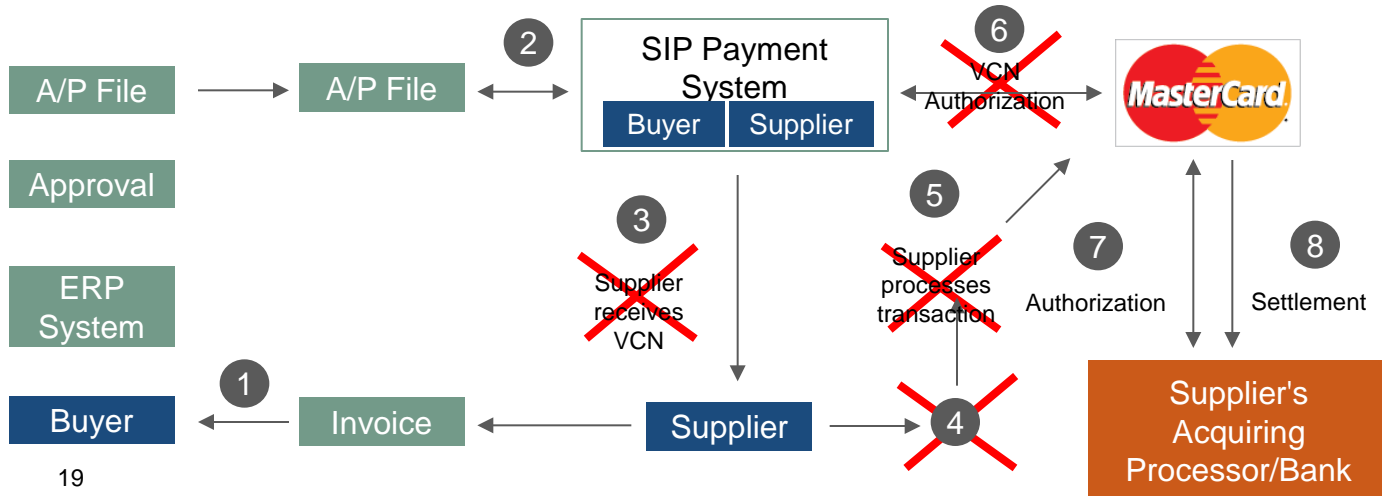
Buyer Controls Payment	Buyer Initiated Payment
Elimination of Payment Float	Card payments authorized within seconds of release
Supplier Portal	Supplier reviews payment detail via portal including invoices paid and credits taken
Payment Confirmation	Payment confirmation file available to close AP
Exact Payment	Buyer determines amount of payment
Invoice Reconciliation	Supplier applies a credit/debit to card authorization amount; offset must be reconciled against invoices intended to be paid

# Best Practice Functionality of a BIP Program

# BIP Saves Supplier Process Steps



- BIP fully automates card payment processing
- “Card Payment That Acts Like an ACH Credit”



- SIP relies on the supplier to process card payments
- “Card Payment That Acts Like a Check”

# Why Are There Still So Many Checks?

	Checks	SIP	Wire, ACH, BIP
Set Up	<b>EASY</b> Mail check to invoice address	<b>MODERATE</b> Suppliers already accept cards	<b>HARD</b> Supplier agreement and capture of account info
Ongoing Cost	<b>EXPENSIVE</b> Mailing AND Added Products Needed to Manage Checks	<b>EXPENSIVE</b> Reminder emails and calls to/from suppliers	<b>INEXPENSIVE</b> Fully automated
Reconciliation	<b>HARD</b> Check float	<b>HARD</b> Card / email float Supplier retention issue	<b>EASY</b> Payments confirmed Suppliers maintained

# BIP - A Winning Combination for Buyer and Supplier

## Reasons Buyers Pay by Card

1. Rebates turn a cost center into a profit center - tangible
2. Costs savings from check elimination
3. Extended billing terms



## Reasons Suppliers Don't Want to Accept Cards

1. Merchant Discount Fee
2. Price discounts and terms previously offered to supplier
3. Lack of awareness of BIP payment efficiency and reduced cost



- BIP increases rebate by moving more payments from check to card
- BIP reduces merchant discount fee by enabling the Buyer to control interchange, which is approximately 80% of the discount rate

# Suppliers are the Key to Success of ePayables

## Critical Small Suppliers

- Often already accepts credit card payments
- Timing of payment is important
- Recognizes the importance of “preferred vendor” status
- Willing to process payments through card terminal
- Focus on card enrollment for Supplier Initiated Payments

## Strategic Suppliers

- Power of equals
- Aggressively negotiated pricing
- Agreed payment terms and discounts
- High invoice frequency and purchase amount
- Significant financial impact of card acceptance
- Focus on card enablement for Buyer Initiated Payments

Invoice Amount	Small Suppliers	Strategic Suppliers	Savings
	3% Discount Rate	2% Discount Rate or less	
\$500	\$15	\$10	\$5
\$5,000	\$150	\$100	\$50
\$50,000	\$1,500	\$1000	\$500
\$150,000	\$4,500	\$3,000	\$1,500

# BIP - A Winning Combination for Buyer and Supplier

## Functionality to Look for in a BIP Program

1. Success with transactions ranging from \$100K to \$1 million
2. Ability to leverage a payable file to initiate card payments
3. Buyer ability to control the interchange rate and reduce the supplier discount rate
4. Supplier enrollment focusing on an ePayable specific pricing
5. Real-time authorization/payment confirmation
6. System intelligence to stop card declines
7. Option to add a secondary approval hierarchy outside ERP
8. Supplier portal to enable invoice reconciliation

# Questions

**Diane M. Kush, Sr.**  
**Product Manager**  
**MUFG Union Bank, N.A.**  
**[Diane.Kush@UnionBank.com](mailto:Diane.Kush@UnionBank.com)**  
**(925) 947-2436**



# Disclosure

These materials have been prepared by MUFG Union Bank, N.A., (“MUB”) and are intended to provide general observations on the topics addressed for clients or prospective clients to whom such materials are directly addressed and delivered. They may not be used or relied upon for any purpose. The materials presented are for discussion purposes only and should be considered only in combination with other information and disclosures, oral or written, provided or to be provided by your qualified security professionals. These materials may not reflect information known to other professionals in other business areas of MUB and its affiliates. Additionally, these materials have not been prepared with a view towards public disclosure under applicable laws or otherwise, and are intended for the consideration of clients or prospective clients, and may not be reproduced, disseminated, quoted or referred to, in whole or in part, without MUB’s prior written consent. MUB assumes no obligation to update or otherwise revise these materials.

The materials presented are not intended to provide legal or information security advice, and MUB is not advising you on these matters. If you believe that you need assistance in evaluating and understanding the risks of a particular matter or procedure, you should consult appropriate independent legal or information security advisers (other than MUB) before entering into, or deciding to modify, terminate, extend or replace the transaction or the procedure. Neither this, nor any other communication received from MUB, whether written or oral, is, or should be construed as, a recommendation or solicitation with respect to the execution of any particular transaction or procedure with MUB or any other potential counterparty.

No representation or warranty, express or implied, is made as to the accuracy or completeness of such information and nothing contained herein is, or shall be relied upon as, a representation, whether as to the past, the present or the future. No statements made in this seminar or in the PowerPoint or other materials should be construed as legal or other advice or as pertaining to specific factual situations.