

## Credit Card Management

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B2B Services Gain Traction ;  
Card companies are adding new services for their corporate clients, especially variations on prepaid cards. Will these services be a hit in corporate America?

By Richard Mitchell

After engineering a boom in consumer debit and prepaid programs in recent years, card companies, processors and issuers also are working to bolster their product offerings in the business-to-business sector.

Commercial card products-which are designed to help businesses better manage and control spending-are receiving greater attention from American Express Co., MasterCard International and Visa USA. The payment companies are enhancing their more mature offerings while launching new products as they drill for what analysts say are vast, untapped business-sector opportunities.

"There is room for growth in every commercial market," says John Gould, director of consumer lending and bankcards for TowerGroup, a Needham, Mass.-based financial industry research and consulting firm recently acquired by MasterCard. "The payment organizations are looking to support additional programs with cards that are more useful for issuers and the institutions' corporate customers."

Smaller businesses with annual revenues under \$25 million and fewer than 100 employees are among the key targets of processors and issuers. Visa says spending in the segment will total \$4.5 trillion this year, not including payments for payrolls, rent and inventory. Cards now account for less than 10% of the activity.

While Visa's overall business-to-business card volumes already are increasing 40% annually, there still is ample space for further expansion, says Jean Burkhart, Visa USA vice president. To generate greater interest and activity by businesses, the payment organizations are partnering with major suppliers to provide discounts to commercial card users. Visa cardholders, for instance, can receive 20% off Thrifty Car Rental's regular rates, and \$10 off purchases of at least \$75 at OfficeMax.

American Express also offers discounts with eight corporate card partners that include Starwood Hotels, American Airlines, Avis, Budget, Staples, FedEx, Dell and AT&T Wireless Services.

Newer online tools that also are intended to assist in businesses' cost cutting are taking shape as well. AmEx, through its Corporate Defined Expense program, last year began offering commercial cards that enable companies to set their own expiration dates and such spending limits for expenses as per diem travel expenses, market project budgets and educational seminars. Firms are able to issue, monitor and adjust card limits in real time on an AmEx administrative Web site. Aimed at larger companies, the product is designed to help organizations better manage short-term or special projects.

"There is greater interest by companies in overall expense management and they are getting smarter in how they handle T&E programs," says Mitch Stevens, AmEx senior vice president. "They are looking at long-term savings and in the middle-market space there is a greater recognition of the effectiveness of corporate cards."

To more closely track corporate card spending, AmEx, as well as Visa and MasterCard, also are marketing enhanced Web systems that companies can access to quantify their employees' expenditures with specific airlines, hotels, car-rental companies, restaurants, rail lines and other suppliers.

Gathering such data better positions firms to negotiate special rates with travel-and-entertainment companies by demonstrating the value of their business, analysts say. Indeed, following a study last year of the expense-management practices of more than 100 companies, AmEx determined that businesses could save up to 9% by using comprehensive corporate card management information for negotiations and expense processing.

The figure includes an estimated 7.2% in savings above the deals companies already have with T&E firms, and 1.8% in savings on processing and paying for T&E. Consulting firm Accenture conducted the study for AmEx by analyzing firms in North America, Europe and Asia-Pacific.

"Traditionally there has been some resistance to commercial credit cards from companies that couldn't get needed spending information," says Tom Dailey, a Chicago-based payments consultant and former Discover senior vice president who headed up the company's merchant network. "But with enhancements in data formats, there now is active growth."

While such upgrades could help revitalize the relatively mature corporate products, much newer payment tools, including prepaid cards, also being positioned to ignite commercial activity. Executives from payment companies supporting stored-value cards say the products could eventually become a popular way for businesses to cut operating costs, while adding convenience to employees and customers.

Visa estimates potential prepaid spending in the business-to-employee sector-

which includes cards for distributing wages, incentives and bonuses, and flexible spending accounts-to exceed \$555 billion annually.

Additional corporate prepaid products are available to pay workers compensation, and provide employees with petty cash, travel per diem and relocation funds.

"The use of stored-value cards by businesses is just beginning," says Patricia Loria, MasterCard vice president. MasterCard in 2004 has launched 361 new prepaid programs, including 226 workplace-oriented initiatives.

Cutting Expenses

Payroll cards-which enable companies to electronically pay those employees

who **do not have banks**

**accounts** or have rejected direct deposit-are one of the most active corporate debit segments, though its growth potential still remains huge.

Businesses fund payroll cards by depositing workers' wages into specially created accounts. Employees then use the plastic-which typically carries a MasterCard, Visa or regional electronic funds transfer network brand-to withdraw cash from automated teller machines and initiate signature and personal identification number-based point-of-sale transactions at merchant locations.

Employee use of payroll cards and direct deposit enables firms to avoid the \$1.90 average cost of printing and distributing each paycheck, says Ariana Michele-Moore, an analyst with Celent Communications, a Boston-based research firm. Employers also eliminate the expense of shipping paychecks to satellite offices via overnight mail, and the typical \$10 to \$12 fee to reissue lost and stolen checks.

"Companies most interested in payroll cards are prone to have more

**unbanked** and short-term employees, and include

manufacturing and construction firms and fast-food restaurants," Moore says.

"Payroll cards are not as big as other payment products, but more banks are

embracing them to address the **unbanked** population and solidify their commercial accounts."

The slow corporate acceptance of payroll cards was demonstrated in an online

survey conducted last September by MasterCard with members of the American Payroll Association, a San Antonio, Texas-based trade group of executives responsible for payrolls. Ninety-six percent of the 1,763 respondents indicated that they had heard of the product, but only 6% noted that payroll cards are available from their firms.

Some 19% of respondents, however, reported that their companies were considering offering payroll cards, and 28% indicated that their employers were gathering information to make such a decision.

Most companies contemplating payroll cards are large, service-sector firms, MasterCard found. Smaller businesses that are heavily dominated by employees using direct deposit are less interested, MasterCard reports.

"It is in the best interest of companies with direct deposit to provide payroll cards to employees because they are less expensive than checks and enable workers to collect their wages easier," says Sarah Grotta, senior vice president at KeyBank, Cleveland. "But not a lot of companies are embracing them."

About a dozen businesses offer KeyBank's PayWorks card to their employees. KeyBank charges a \$2 monthly cardholder fee and \$1 to \$2 for each ATM withdrawal.

Grotta attributes the laggard product adoption rate to the time and effort required for companies to educate workers about the benefits of payroll cards. Though

**unbanked** employees can pay more than \$15 in fees to cash their paychecks at check-cashing locations, depending on the amount of the check, many workers remain comfortable with that procedure.

"Getting company treasurers and human-resource personnel interested in payroll cards doesn't necessarily get translated into use at the employee level," Grotta says. "A lot of upfront money must be spent to get employees to use cards, particularly because many states do not allow companies to mandate how workers must get paid."

To spur more interest, Grotta says KeyBank is considering adding "bells and whistles" to its cards. Such enhancements could include attaching telephone calling minutes or a bill-pay service to PayWorks.

#### FSA's

Despite the market's slow adoption of payroll cards, many financial institutions apparently are becoming more interested in supporting the product because of the large potential user base. In 2003, 8.5% of the 14.2 million

**unbanked** households received prepaid payroll cards, up from 6% in 2002, Celent reports. It projects 12.4% of the 14.4 million

**unbanked** households will receive payroll cards in 2004.

"Payroll cards are an emerging market, but the jury still is out on whether they will be attractive to small businesses because that group has a smaller percentage of

its workforce **without bank**

**accounts**," says Marty Uhle, president and chief operating officer of Heartland Payment Systems Inc., a Princeton, N.J. independent sales organization. "But some banks are finding it important to promote the cards to reduce the number of people trying to cash checks in their branches."

Among the companies leveraging payroll cards is Phoenix-based U-Haul International, which has 17%, or about 3,000, of its more than 17,500 employees accessing their wages with the plastic. The remaining 83% of workers are paid with direct deposit.

U-Haul launched its payroll card program in 2001 and charges cardholders a \$1.50 monthly service fee that is waived for the first year. Employees also get one free ATM withdrawal per week, with no charges for point-of-sale transactions. Charlotte, N.C.-based Bank of America issues the cards.

A U-Haul spokesperson says the company offers payroll cards to make it faster and less expensive for employees to access wages, and to reduce corporate operating costs.

More corporations also are starting to embrace debit products that give employees easier access to funds in their flexible spending accounts. The pre-tax funds are deducted from workers' paychecks and earmarked for expenses not covered by insurance, such as physician and pharmacy co-payments and medical treatments.

Employees traditionally pay these out-of-pocket expenses and then submit receipts to their company's FSA administrator for reimbursement. But by swiping FSA cards at the point of service, the deducted funds are electronically sent from the FSA to the physician, pharmacy or other accredited party. The procedure removes the need for cardholders to pay the expenses upfront, streamlines processing and eliminates the time and expense of sending checks to

employees.

MBI Inc., a Waltham, Mass.-based distributor of FSA cards and a transaction processor, has provided more than one million cards to employees on behalf of its clients that administer FSA benefits, up from about 350,000 cards last December, says Tom Torre, MBI vice president of operations. Torre expects the card base to grow to 1.5 million by next summer.

Torre says debit card issuance by current FSA corporate participants should increase as a result of a ruling by the Internal Revenue Service last year that approved the use of the products for FSA transactions. Though the practice had not been prohibited, many companies elected to remain on the sidelines until the matter was clarified, he says.

Only about two million of the more than 17 million employees in FSA programs have debit cards, analysts say.

MBI, which supports about 12,000 employer programs, charges monthly card fees to FSA program administrators and also receives the bulk of the merchant-paid interchange. Administrators typically pass those costs on to their corporate customers.

"Payment organizations are healthiest when they are increasing their transaction volume, so they are constantly looking at new products and markets," says David Lott, a director with Collective Dynamics LLC, an Atlanta-based management consulting company specializing in payment systems. "They are trying specialized products within segments and working to get those markets to use the cards."

And the products are gaining greater acceptance. Todd Brockman, a Visa vice president of prepaid products, says corporate prepaid spending with Visa cards is increasing 189% annually. About 50 banks issue Visa-branded payroll cards on behalf of more 1,000 companies.

#### 'Halo Effect'

While he says flexible spending account card activity is light, Brockman projects it will steadily increase as more businesses seek the tax benefits associated with the program. Employers that typically pay a portion of employees' Social Security taxes, for instance, are able to decrease their expenditures when workers move pre-tax funds into FSAs, he notes.

Other newer commercial products include prepaid incentive cards, which enable workers to access from ATMs their cash bonuses for meeting sales quotas or achieving other goals. The cards, which can display company logos, are intended to create a "halo effect" in the minds of employees by reinforcing their value to the firm each time they see the plastic in their wallets, says Stephen Diamond, Visa vice president, prepaid products group.

"Debit cards are growing more than 20% annually, and now banks are looking at the next area for expansion," TowerGroup's Gould adds. "And there is a lot of opportunity in corporate prepaid products."

While it might be a while before the corporate sector matches the consumer market's enthusiasm for newer payment options, the roots for expansion appear to be taking hold.