NALBA

Innovating in Commercial Card Issuance: Embracing the Digital Shift

Foreword Summary:

As the commercial card issuing environment undergoes changes, emerging participants are spearheading a shift by integrating Enhanced Digital Services. These services empower clients by equipping them with a comprehensive suite of efficient tools, enabling them to optimize the management of employee expenses, as well as provide new payment experiences all along the customers' life cycle. This encompasses not only cost control but also the provision of fully digital experiences, reconciliation with existing systems, automated reporting, and enhanced control, all of which collectively minimize their operational effort and improve de commercial funnel.

In this dynamic industry, traditional players, despite their current leadership position, face an imperative to adapt and innovate. To remain competitive, they must embrace the development of digital platforms, paving the way for cutting-edge solutions to meet the ever-evolving needs of their clients and being able to compete with the new entrants.

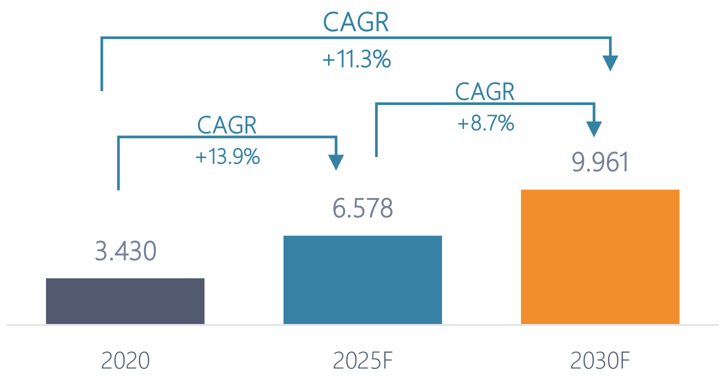
This paradigm shift, underscores the importance of staying agile, responsive, and forward-thinking. Navigating this transformative journey demands a trusted partner with a proven track record in Payment Solutions, Banking, and FinTech. Drawing from their 10 years of expertise in the field, in NALBA, we have extensive experience in the industry and can assist any company in relevant market positioning.

Context:

The use of commercial cards for the articulation of business expenses has been common practice since the last century. These cards, although less significant in number than cards intended for individuals, are a profitable means of payment for the issuer, due to the lower regulatory pressure (especially on interchange fees) to which their use is subject.

The global purchase volume of commercial cards is **expected to grow from €3.43 trillion in 2020 to €9.96 trillion in 2030**. Banks and other traditional players account for more than 90% of the market, and the remaining **10% is being captured by new players or fintechs**[1].

Global total purchase volume of commercial cards (2020-2030) $Bn

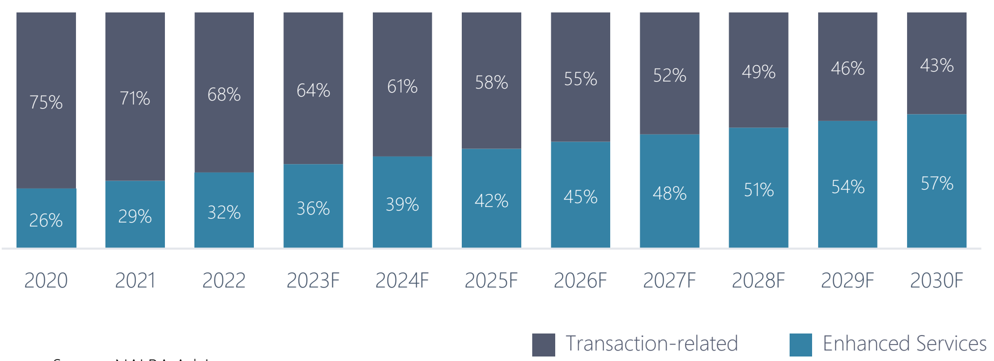


Source: NALBA Advisors

Although for the time being, **the market is still dominated by traditional players, the increase in prestige and use of new financial players in recent years has been exponential**, both in the commercial segment and among individuals.

In recent times, the predominant value contribution stemmed from services intrinsically linked to transactions. However, there is an **increasing emphasis on Enhanced Services provided to business clients**. Such services constitute a crucial element in value contribution, becoming pivotal in determining customer loyalty and profitability.

Evolution of source of value contribution: transaction related vs. Enhanced Digital Services

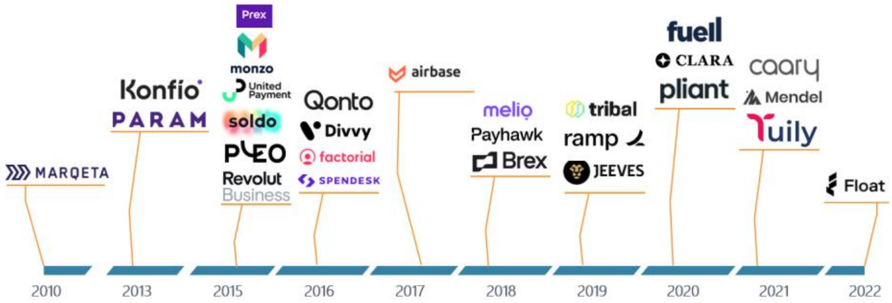


Source: NALBA Advisors

[1] Source: Jeeves

In addition, the proliferation of fintech companies specialising in the commercial card segment shows the large number of competitors facing traditional players:

Year of creation of the main worldwide Enhanced Digital Services providers [1]



[1] Non-exhaustive list

> *"Banks and other traditional players account for more than 90% of the market, and the remaining 10% is being captured by new players or fintechs"*

NALBA´s view:

A pronounced shift is evident in the commercial cards industry: customers are increasingly valuing Enhanced Digital Services over those services directly linked to the transaction.

This evolution underscores the industry's adaptability and its ability to adjust to changing consumer preferences and needs. For traditional players in this market, it's imperative to uphold their commitment to customer-centric solutions and actively adopt technological advancements in order to maintain their relevant positioning.

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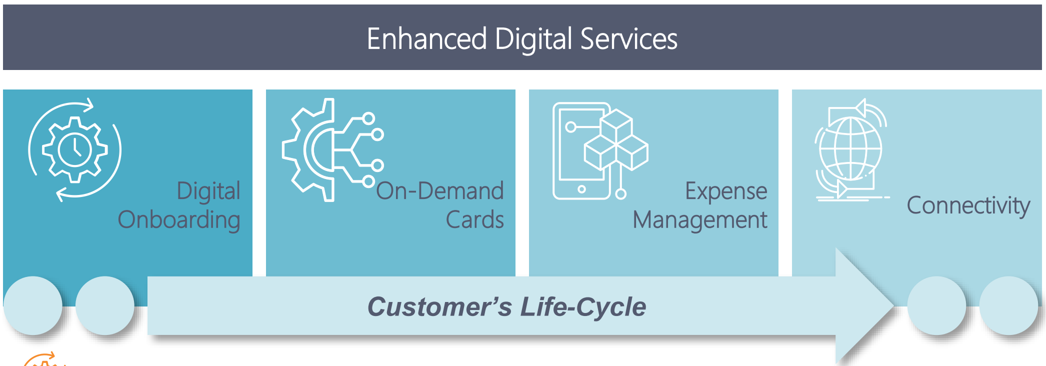
Enhancing the digital shift:

When seeking a commercial card provider, customers are presented with two choices: either they select one of the traditional players that had been offering all commercial card services focused on transactional services up until the 2010s, or they opt for one of the new players that have entered the market in the last 15 years, which, in addition to transactional services, offer a wide range of Enhanced Digital Services.

All these features come to life through **digital experiences**, built by providers who started as purely digital entities, thus making their creation a natural progression of their digital roots. On the contrary, traditional players have significant room for improvement when it comes to platforms and other digital services related to employee expense management.

In addition, **the capacity of integration with companies' own systems has the potential to make these platforms a key lever for articulating expenses**, increasing convenience for the company and employee, and thereby creating a big incentive for the use of the card.

To better understand and explain these new digital Enhanced Digital Services, we have assorted them into four groups based on the customers' lifecycle phase of the service: i) Entirely Digital Onboarding, ii) On-demand Cards, iii) Expense Management, iv) Connectivity.



Entirely Digital Onboarding

End-to-End digital onboarding encompasses both the registration of new employees and cards on platforms, —a basic yet often significant barrier to card adoption—as well as the acquisition of new customers, without the necessity of physical presence at the service provider's office.

The traditional onboarding process for businesses has typically been physically present, laborious, slow, and involving multiple individuals and higher-level positions within companies. **New digital players enable a fully digital sign-up, saving on displacements, paperwork, and involvement from top executives.** The results of previous studies show that high street banks can achieve **more than 30%** of their sign-ups through digital means

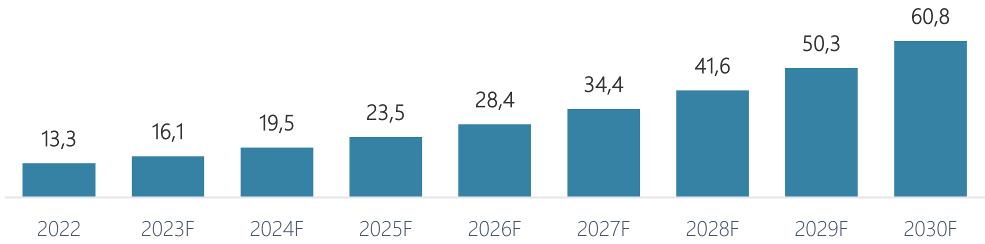
On-demand cards:

Can you imagine a card that allows for its immediate creation and use –even for specific purposes-, eliminating the need for a physical one? That is a virtual card. **They facilitate instant access and use of the associated funds or credit upon approval** and is especially useful for online transactions and contactless payments via mobile payment technologies.

While numerous traditional players have already the capability to produce cards instantly, often these services are reserved for consumer clients. Furthermore, the offerings from new players in the commercial market extend much beyond. They offer the issuance of an **unlimited number of virtual cards**, with usage that can be **highly personalised**. This encompasses, among others, single-use cards, cards with a set expiration date, subscription-only cards, merchant-specific cards, and cards tailored for recurring expenses.

Thus, in 2022, the worldwide market for virtual cards was valued at USD 13.31 billion and is expected to grow at a compound annual growth rate (CAGR) of 20.9% from 2023 to 2030.

Projected Growth of the Global Virtual Cards Market (2023-2030) $Bn



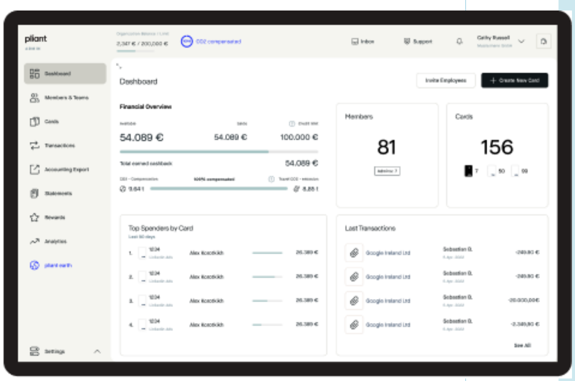
Source: Grand View Research

Expense Management:

In terms of expense management, the customer is granted **comprehensive remote control over its employees' spending**. Among various features, the new players can provide **customisation of limits** per employee, **activation** and **deactivation** of cards, **instant approval of expenses**, creation of dynamic rules for immediate approval and **expense hierarchies** and approval paths. This entails the removal of manual processes and administrative work devoted to managing employee spending, along with their associated operational risks.

In the context of cardholder management, a specially designed **app for the client's employee streamlines the day-to-day management of their card**, thereby minimizing the need for interaction with administrative services and improving operational efficiency.

Complementing these functionalities, the **automatic generation of comprehensive dashboards and reports** showcases the evolution and principal metrics of the company's spending through commercial cards, all while maintaining the possibility to download the data that populates the dashboard to enhance analysis when needed. This not only ensures the availability of an automatic expense tracking tool but also obviates the costs of creating and maintaining separate dashboards, fostering data-driven decisioning.



Connectivity:

Efficient expense management is evolving through enhanced connectivity and systems synchronization. This includes ERP integration, payment reconciliation, VAT management, and cloud-based API integration.

The integration of the card expense platform with de client's ERP systems is a key Enhanced Digital Service, allowing the company to have a centralized, one-site view of their expenses. Furthermore, the integration may also pertain to the accounting software, thereby facilitating data exchange and the automation of processes in expense management.

Payment reconciliation allows comparing bank account and card statements with the internal bookkeeping records in other to identify and correct discrepancies. Some players, additionally offer bill recognition, minimising redundant work through automatic detection and notification of possible misalignments.

VAT management solutions facilitate the automated retrieval of transaction data, thereby enabling the efficient acquisition and categorisation of tax-related information from invoices and receipts. These systems ensure adherence to tax compliance, expedite the requisition of VAT refunds, and integrate seamlessly with additional financial systems, thereby mitigating manual efforts and potential inaccuracies.

> *"As company systems gradually shift towards adopting cloud-based APIs, contrasting with traditional local implementations, new players are allowing their clients to integrate their systems through Open APIs"*

As company systems gradually shift towards adopting cloud-based APIs, contrasting with traditional local implementations, **new players are allowing their clients to integrate their systems through Open APIs**, making such integrations increasingly seamless. These services represent a powerful tool for fostering strong connections between service providers and their clients.

Comparison of administrative workload in company card management by type of provider[1]

Administrative effort with a standard traditional player	Administrative effort with a forefront new player

In this exercise, we examine a small enterprise of 100 employees, where 30 have been assigned with corporate cards. The analysis spans a standard working month of 20 business days, with an average of three transactions per cardholder daily. The initial scenario presents a total of 1,800 tickets managed monthly, with a 1% and 2% incidence of non-compliance to company policies and receipt discrepancies, respectively.

Standard traditional player	Forefront new player
Review of expense alignment with company policies	
1800 tickets x 20 seg/ticket x 60 seg/minute	Automatic comparison with company policies
600 minutes	0 minutes
Management of unauthorized expense incidences	
1800 tickets x 5 minutes/incidence x 1% incidences	1800 tickets x 30 seg/incidence x 60 seg/minute x 1% incidences
90 minutes	9 minutes
Comparison of statement with receipts	
1800 tickets x 30 seg/ticket x 60 seg/minute	Automatic comparison between receipt and expense
900 minutes	0 minutes
Management of missing receipt incidences	
1800 tickets x 4 minutes/incidence x 2% incidences	1800 tickets x 30 seg/incidence x 60 seg/minute x 2% incidences
144 minutes	18 minutes
Inclusion of expenses in accounting	
	Automatic integration
120 minutes	0 minutes
Preparation and submission of monthly report	
	Automatic reporting
120 minutes	0 minutes
Four full working days of a full-time employee	One fourth of a working day from a full-time employee

[1] Illustrative example. Nalba analysis

Companies can unlock 98% of administrative work with New Players Services

Despite the significant technological development complexities inherent in offering these services, they are already available in the market and accessible to all companies. Such platforms are not only crafted to deliver maximum value to their clients but also engineered to foster stickiness on their commercial card provider, thereby effectively cultivating customer loyalty.

The integration of a company's systems with employees' expense management systems creates formidable barriers to switching, as clients would need to invest resources in transitioning from one provider to another (employee training on new platforms, development of integrations through APIs, and more).

In this ever-evolving landscape, traditional players have realised before the urgency of staying competitive against new competitors. It's not uncommon for them to either develop technology solutions from scratch or acquire fintech companies to remain relevant in the market.

For instance, JPMorgan Chase's acquisition of WePay, Visa's purchase of Plaid and BNP's acquisition of Kantox exemplify the strategic moves made by traditional financial institutions to keep pace with the fintech revolution.

These solutions will be the pivotal element in enhancing the players technological capabilities, ensuring they remain at the forefront of their industry and preventing them from being left behind in this rapidly evolving digital landscape.

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Conclusions:

As a consequence of the substantial enhancement in Enhanced Digital Services presently offered by several market players, traditional players must engage in the development and integration of new digital experiences if they wish to avoid lagging in the competition to provide commercial cards to their clients.

Considering that traditional players hold a significant share of the commercial market and enjoy the trust of their clients; they are still able to undertake the necessary developments to match the best value propositions offered by new players. In fact, there are already examples within traditional banking of in-house developments and acquisitions of fintech companies to leverage their technological capabilities.

Nalba Advisors, as a boutique specializing in Payment Solutions, Banking, and FinTech, backed by professionals with over two decades of experience in the financial sector and payment solutions, stands as the ideal partner to drive these competitive initiatives forward.

> *At Nalba Advisors, we are committed to assisting our clients in achieving success and maintaining a leading position in the financial industry. You can rely on us to help realize your vision and bring it to life.*

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