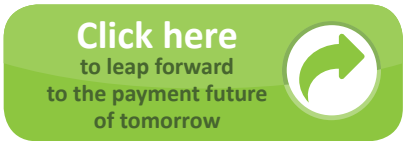


Payment: Virtual is your new reality

March 2019

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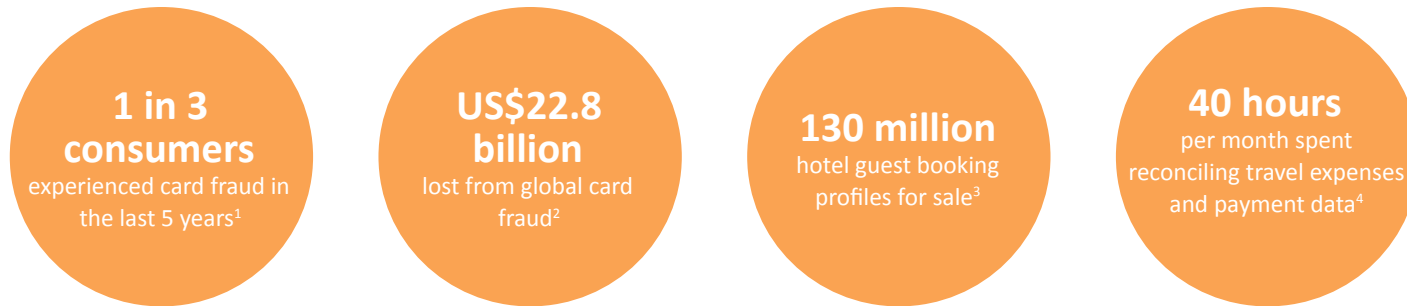
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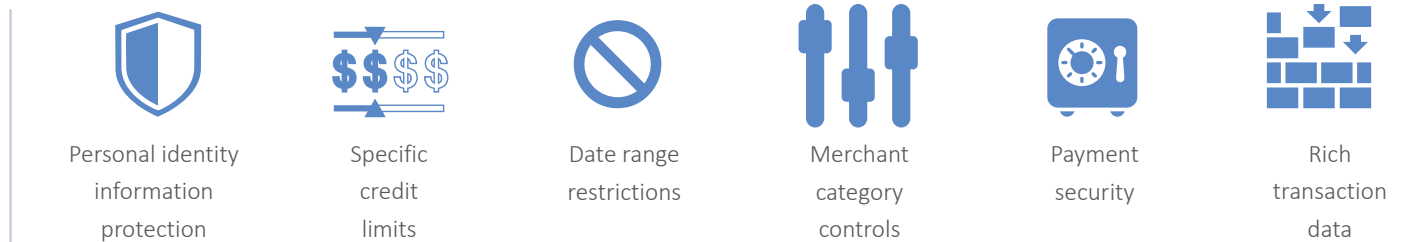
Payment: Virtual is your new reality

Optimize your booking and payment process with virtual credit cards and payment automation

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



Benefits of going virtual



Five steps to virtual payment success



¹2016 data released by ACI Worldwide and financial industry consultant Aite Group. ²Nilson Report, publication covering global payment systems in 2016. ³August 2018 news. ⁴Source: GBTA Foundation study.



Introduction

Travel programs and business travelers tend to pay for corporate travel in one of two ways: lodge cards or physical (plastic) corporate credit cards. Lodge cards tend to be reserved for air transactions, while corporate cards are generally used for on-trip spend, including hotel accommodations and other expenses.

Both payment methods offer benefits to companies, but they also bring some challenges. These 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 a payment alternative that lets you avoid these roadblocks. They reduce the risk of fraud, because a VCC number is generated electronically for a particular amount and time window. And by combining VCC with Virtual Payment Automation (VPA, a BCD Travel solution), you can then capture the data the VCC generates. VPA uses a one-time-only card number to match the payment to the booking.

Used together, VCC and VPA create a payment solution for companies looking to improve their travelers' experience and for companies looking for a payment solution for infrequent travelers, job applicants, contractors and guests.

In this paper, we'll familiarize you with both VCC and VPA. We'll share tips on vendor selection and outline steps to take towards implementation. Once you're set up for VPA using virtual cards, we'd encourage you to share your travelers' experiences across your organization. As central payment becomes more established, VPA offers a new, seamless approach to payment, which travelers and travel managers alike are sure to welcome.



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 in 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 actually see a plastic card (e.g. online or telephone purchases).

What is Virtual Payment Automation (VPA)?

VPA is a payment product offered by BCD Travel. 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. The card number and booking details are communicated via secure e-mail or fax. The unique ID is the key to the advantages of VPA—it ties every payment to its original booking. This is a simple technology offering benefits for both travelers and travel managers. This is a secure and automated process.



The growth of virtual cards

In 2016, fewer than 1% of respondents said their company was using a virtual card as a method of payment.

By 2017, this figure had increased to 11%.

Today, virtual cards are primarily used as an alternative to corporate credit cards for hotel payment.¹

Travel managers are more receptive to using 'progressive' payment methods including virtuals cards.

40% of U.S. travel managers are considering using virtual payment²

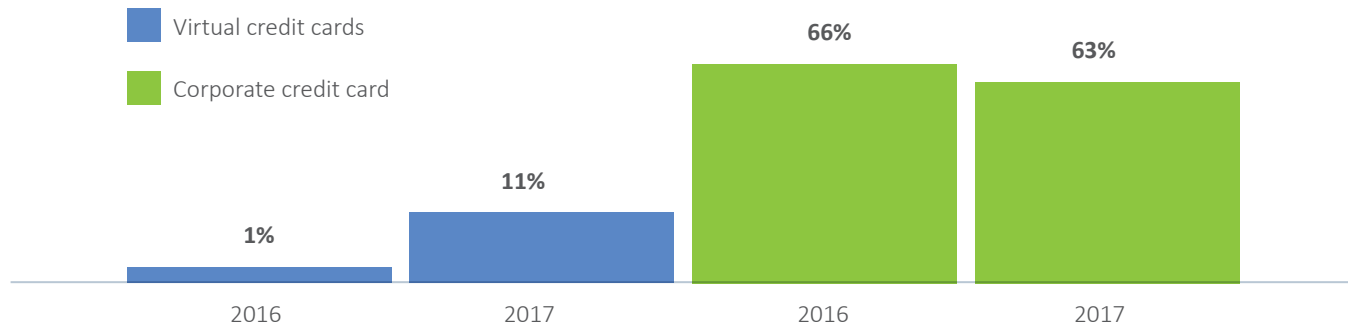
The main benefits of virtual credit cards, according to travel managers³

55% Ease of use

48% Security

48% Control

Rapid growth in virtual cards, as corporate card use declines⁴

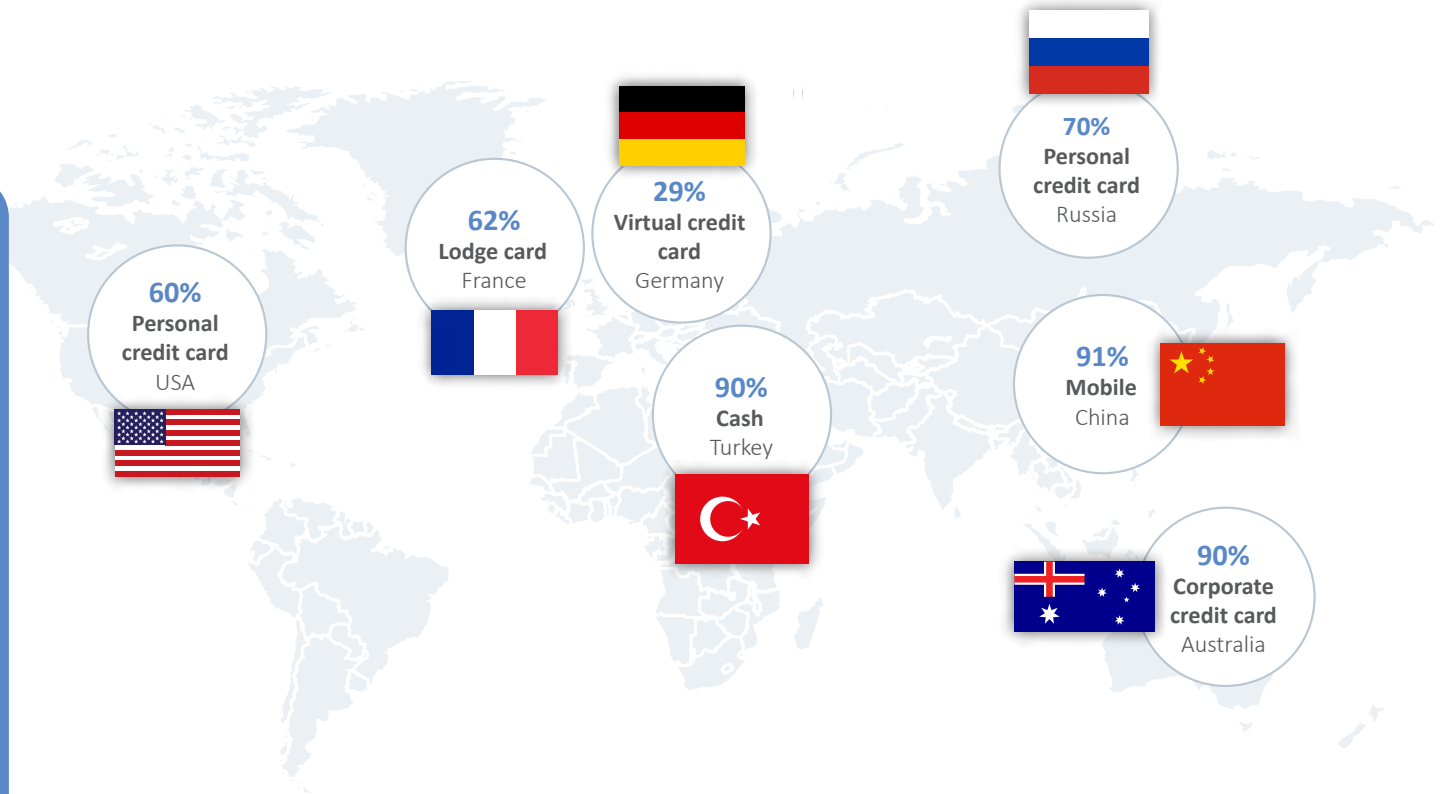


¹AirPlus 2017 International Travel. ²40% of 72. The Company Dime Survey- 2018. ³Source: AirPlus 2017 International Travel. ⁴Source: AirPlus 2017 International Travel.

How virtual fits into the payment landscape

Global use of payment methods by business travelers:

- 63%** Corporate credit card
- 45%** Cash
- 45%** Personal credit card
- 23%** Lodge account
- 11%** Virtual credit card



How travel is paid for around the world

To understand the role that virtual payment can play, it's important to compare it to existing forms of payment. Plastic corporate cards and lodge cards are the two main types of traditional payment used by business travelers. In some cases, cash may be used for lower value transactions, too. Payment preferences vary by country.⁵ Credit cards are the most popular method of payment in many countries, but cash is preferred in Turkey. German travelers, on the other hand, are embracing virtual payment.

⁵AirPlus 2017 International Travel Management Study



Fraud facts:



78% of companies experienced attempted or actual payments fraud in 2017⁶



92% report that fraud costs their companies **0.5%** of total revenue⁶



Cyber-crime may cost the global economy **US\$2 trillion** by 2019 (according to projections)⁷

Traditional payment benefits

Traditional payment methods remain popular in some markets, where they are regarded to offer some benefits:

- **Convenience:** an easy way to pay travel-related expenses.
- **Management information:** confirming traveler policy compliance and assisting with supplier negotiations.
- **Working capital optimization:** keeping cash within the business with 30 to 60 day payment terms.
- **Reporting:** automated flow of payment data into expense reporting tools like Concur.

Traditional payment challenges

Corporate cards and lodge cards each come with a set of challenges:

Corporate cards

- **Limited users:** It's not reasonable to expect companies to issue a corporate card to every employee. And this solution is not available to certain types of traveler, 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. This also puts the traveler's digital identity information at risk.

Lodge cards

- **Hard to use on the go:** Lodge cards 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:** Lodge cards can't be used to book most low-cost carrier fares because they don't come with the security code that these companies require.
- **Fraud risk:** For lodge card transactions, the same card number is used repeatedly. Theoretically, many people could use the number to make a payment. Most lodge cards are recorded securely in travel systems and used in automated processes; therefore they're less exposed than corporate cards. But the limits on lodge cards tend to be very high; so just one successful fraud attack could have devastating consequences.

⁶2018 AFP Payments Fraud and Control survey report. ⁷SC Magazine UK, 2016.

Payment option overview

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

Comparing payment options

Traditional and virtual payment methods currently co-exist, as each differs in terms of:

- Who has access to the payment method
- The type of bookings that can be made with each payment option
- The stage of the trip in which they can be used
- The availability of enhanced data



How companies pay for travel today

Traditional methods of payment	New methods of payment	Alternative forms of payment
<p>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.</p> <p>Lodge card (also known as ‘lodge cards’, ‘ghost cards’ or ‘centrally billed accounts’) A Business Travel Account (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.</p> <p>Personal credit cards Travelers pay for company travel with their own credit cards and then claim reimbursement.</p> <p>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 is sometimes used for travel.</p> <p>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.</p> <p>Cash Travelers pay with their own cash and claim reimbursement, or the company may give them a cash advance.</p> <p>Pre-paid cards The traveler is given a card loaded with a pre-set amount to spend on their trip.</p>	<p>Virtual credit cards Travelers don’t have to worry about payment. Virtual credit cards are a central form of payment usually used to pay for hotel.</p> <p>e-wallets The traveler uses their mobile phone to make a payment. Credit cards and accounts information are encrypted in a digital wallet examples include: Apple Pay, Google Pay</p>	<p>WeChat Chinese travelers use WeChat Pay, the mobile payment capability of WeChat, an online social and messaging network (a combination of WhatsApp-Facebook-Instagram-Skype).</p> <p>Alipay Alipay was launched in 2004. It is used to hail a cab, book a hotel and offers other day-to-day capabilities like making doctors’ appointments. Alipay claims 600 million active users and has announced a partnership with merchants in North America.</p> <p>PayPal Global travelers can use online money transfers.</p>



Using virtual payment options

Simplified payment

“When travelers spend too much time on travel administrative tasks like booking, paying and completing expense reports, a company the size of Daimler loses an equivalent of €25 million in productive working time each year” —Bernd Burkhardt, head of global travel management, Daimler AG.

This has persuaded Daimler AG to choose a frictionless travel approach for its employees. **Using invisible payment methods including central payment methods like virtual payment helps them simplify the payment process for their travelers.**

Solve the non-cardholder headache

Companies often need payment options for infrequent travelers who aren't usually given a card, or are new hires or employees at junior levels. In some countries, corporations only hand cards out to their most senior executives. There may also be third parties traveling on behalf of a company, but who are not employees and don't 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?



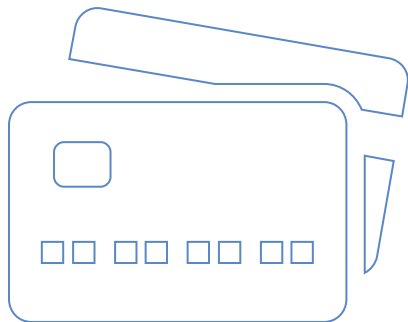
VCCs can be used in any country where plastic cards are accepted. BCD Travel's virtual card technology partner has generated virtual numbers for acceptance in 197 countries.



Any supplier accepting CNP (card not present) payments can accept VCCs. But not all suppliers know this. Today, up to 97% of hotel payments facilitate seamless check-in by accepting virtual payment.⁸

⁸Conferma source. Conferma has a vision of a world with 100% frictionless virtual payment process for hotels and a superior seamless check in experience. They have set out to make this happen by 2020.





Recognize the limitations

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 now offer payment using virtual cards.

As the technology may still be unfamiliar to some users, it's worth making travelers aware of some of the issues they might face, especially at hotel check-out. In some countries, a virtual card might occasionally not be accepted at check-out or the front-desk staff might not be familiar with the procedure. Travelers need to be prepared to use a personal or corporate credit card, should the hotel be unable to complete a VCC transaction. Travel managers should check with their TMC to confirm that their travel program is VCC-ready, especially when handling travel to more than one country.

VCCs remain a good way to capture payment for your infrequent travelers—a group with few viable payment tracking alternatives.

Matching vs. reconciliation

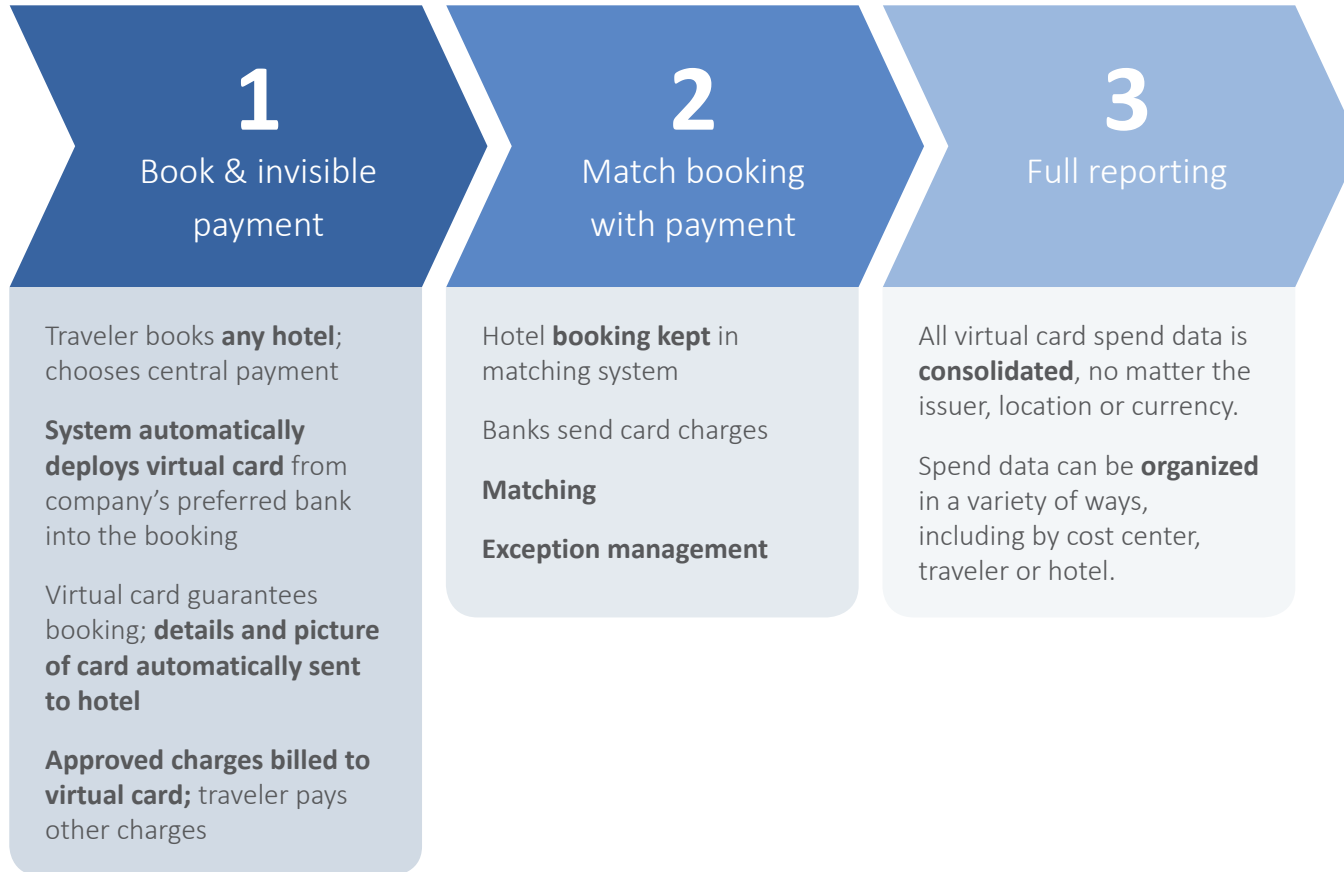
Matching and reconciliation aren't the same thing and it's important to know the difference. Understanding this distinction will help you assess your own needs as well as the services offered by your credit card provider.

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

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*.

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.

Virtual payment in action



Benefits of going virtual

For travelers

Seamless process

Payment becomes invisible for travelers. Travelers will no longer need to worry about the payment step. This leaves them free to focus on their core duties without the distraction of organizing cash advances or a lengthy expense process.

For travel managers

More control over hotel spend

- Virtual payment will encourage more travelers to book their hotel through the preferred booking channel.
- This will give travel managers more visibility of their hotel spend. Additional data captured at time of booking — business unit, travel reason, room rate — will make expense reporting more valuable.
- Travel managers can improve compliance by applying rules upfront which define merchant categories and total spend amount (including a buffer).

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. These constraints substantially reduce the risk of fraud occurring.

For Finance

Better accountability and faster reconciliation

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 details 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 *Virtual Payment Automation* (VPA) from BCD Travel makes the difference. A VCC links a unique ID from purchase through 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 it's easy to see which bookings might need further investigation, for example when additional charges (such as breakfast, WI FI 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 the need for employees to manually provide this information.



Choosing the right payment option

Align with strategy

As always, any new solution must meet the strategic objectives of both the travel program and the wider business. Potential strategic objectives include:

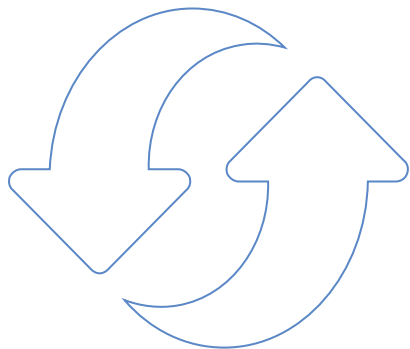
Strategic objective	How VCCs help
✔ Control direct costs	Travelers can't exceed the amount specified on the virtual card.
✔ Reduce process costs	Automated matching of bookings and payments.
✔ Reduce risk	Fraud dramatically reduced.
✔ Improve transparency	Clear attribution of expenses to cost centers,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

Using a grid like this can help make the business case to senior management.

Virtual cards are particularly worth investigating if:

- There are a lot of travelers without corporate cards.
- Central payment forms a critical part of a strategy to offer travelers frictionless payment.
- Booked and paid data matching is a time-consuming chore.
- Assigning costs to specific cost centers or project codes is important.
- Travelers visit countries where card fraud is high.





Who to talk to

It's a good first step to involve the usual stakeholders, including the finance and tax departments, human resources and IT. Talk to the security department as well, as they can help with any data concerns. Lastly, remember to communicate with travelers—warn them 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, 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?
- **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 a virtual card. It's best practice to inform preferred suppliers to make sure their staff are aware about virtual card payment.
- **Your online booking tool:** Check that it is virtual card-friendly.



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

Virtual Payment Automation helps clients save travel budget

4 out of BCD Travel's top 5 Virtual Payment Automation by BCD Travel clients make some savings on hotel spend when using this service.

Our data analysis shows that our clients can reduce their average daily rate for hotel accommodation by 3%, with some reporting savings of 6% when using *Virtual Payment Automation*.⁹

Implementing virtual payment

Once you've decided that virtual payment are right for your travel program, the next step is to make a list of the markets in which you want to use virtual payment. 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 payment.

Five steps for successful implementation



1
Decide on the optimal VCC provider for your travel program. Work 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. Inform your frequently booked hotels that your payment method has changed. If you have a hotel program, include virtual card acceptance as a requirement.

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 is worth the effort.

⁹Analysis based on BCD Travel Virtual Payment Automation clients using DecisionSource and transactional data.

The future of virtual payment

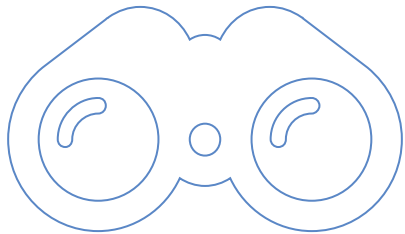
As they become accepted for a wider range of transactions, the use of virtual credit cards will inevitably continue to grow. Here are some of the reasons why.

Security and regulations are a catalyst for change.

High profile data breaches have hit leading air and hotel suppliers in recent years, and there's no reason not to expect further incidents. They provide a useful reminder of the vulnerability of using traditional credit cards to pay for travel. Companies may suffer financial loss; travelers risk the misuse of their personal data. Travel managers should do all they can to protect their company and travelers. Central payment options, and virtual card payment in particular, offer the extra protection they're looking for.

Regulatory changes aimed at protecting both consumers and companies from fraud may also make central forms of payment more compelling. From September 2019, all remote electronic payments in the European Economic Area will require a Strong Customer Authentication (SCA) known as two-factor authentication. This new security process will improve the level of security for remote payments. However, this change brings some challenges for the travel industry. It requires the traveler to provide authentication at the time of payment, which is not always possible. In this context, central forms of payment are the only option to guarantee a seamless and secure payment experience for corporate travelers.





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. There's already an option for air booking that enables VCC payments and it is likely that this will extend to more travel categories very soon.

Virtual, mobile and invisible payments stimulate growth

Mobile technology has provided the catalyst for combining virtual, mobile and invisible payment. Initially the uptake was slow. Now, with companies like Apple, Samsung and Google offering mobile payments to the consumer market, there is a growing pressure to offer a similar experience for corporate travelers.

Today, 27% of programs use single-use virtual cards.¹⁰ Mobile payments will help accelerate the uptake of virtual cards. Mobile technology will also promote the use of invisible payments, where consumers need do nothing to complete a transaction with a payment. We expect this trend to rapidly gain momentum as it is even more secure than traditional payments. We expect travelers will benefit from a growing number of mobile payment options and travel managers will have more central payment options to choose from, applicable to a broader range of travel content.

One trip; one VCC



Today, one VCC normally covers a single transaction during a trip, such as payment for a hotel stay. In the future, a single VCC could cover payment for an entire trip, to include booking a flight and accommodation, as well as meals and local ground transportation. At a glance, it would possible to see the full cost of a trip, without the need for an expense reporting system.

¹⁰2018 GBTA Committee Omnibus Survey.



What's next for payment?

Virtual credit cards clearly offer benefits, including invisible payment, reduced risk of fraud and enriched travel data. But most payments are still handled by one of three major credit card companies – American Express, MasterCard and Visa. The merchant fees and other costs associated with these transactions add up. For example, IATA's 290 member airlines currently incur \$8 billion annually in payment processing costs and fraudulent activity, and this figure continues to rise.¹¹

Payments to airlines are currently processed mainly via debit and credit transactions. The EU's revised Payments Services Directive (PSD2) has opened the way for a disruptive new payment model. PSD2 requires banks to enable authorized third parties to access customers' accounts and initiate credit transfers (with prior customer consent).¹²

PSD2 is helping to promote open banking, where direct payments are made between a customer's bank account and the bank account of the merchant. This approach is intended to improve speed, security and transparency. And it eliminates the need for an intermediary.

This principle is now being applied in the travel industry. Working with pan-European digital bank ipagoo, IATA is developing IATA Pay, a new way for consumers to pay when purchasing tickets direct from an airline website. With direct payments processed and received in near-real time, airlines will see an improvement in their cashflow and save merchant fees. Customers will benefit from a more convenient payments process. But it may not be an attractive option for customers, both consumer and corporate, who are looking to preserve their own cashflow.

With PSD2 allowing "authorized third parties" to participate in the payment process, it's not hard to imagine fintech companies (including existing credit card suppliers) developing new payment solutions tailored to the needs of individual clients. That way they can offer a solution meeting the needs of clients who want to combine simpler and more secure payment while preserving their cashflow.

Blockchain's cryptocurrency proposition may appear compelling when set against today's payment methods. But it becomes less attractive when compared to the new approaches enabled by PSD2, which are secure, inexpensive, and most importantly, regulated.

As they remain so unpredictable and prone to fluctuation, cryptocurrency systems are still a long way from widespread acceptance for everyday payments.¹³ More than half of respondents to a survey conducted by Edgar Dunn & Company see illegal payments and speculation as the most likely roles for cryptocurrencies in the future. Just 9% believe they will have a role to play in business-to-business payments.

Blockchain makes it possible to move money, but it's yet to offer a valid form of payment for consumers and companies. It could be as long as ten years before cryptocurrencies are widely used for payment.¹⁴ By this time, fintech companies may have delivered payment solutions which devalue or eliminate blockchain's perceived advantages.

¹¹Deutsche Bank, May 7 2018. ¹²Edgar Dunn & Company, July 4, 2018. ¹³Edgar Dunn & Company, Advanced Payments Report 2018.

¹⁴Edgar Dunn & Company, Advanced Payments Report 2018.



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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. In short, we help our clients travel smart and achieve more. We make this happen in 109 countries with almost 13,500 creative, committed and experienced people. And it's how we maintain the industry's most consistent client retention rate (95% over the past 10 years), with 2017 sales of US\$25.7 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, Flugladen and Vayama), Park 'N Fly (off-airport parking), Airtrade Holland (consolidation and fulfillment) and joint ventures Parkmobile International (mobile parking applications). BCD Group employs over 14,000 people and operates in 109 countries with total sales of US\$26.4 billion, including US\$10.4 billion partner sales. For more information, visit www.bcdgroup.com.

