



B2B Payments and Fintech Guide 2019

Innovations in the Way Businesses Transact

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CleverAdvice

Commercial Cards in Europe - Current Status and Outlook



About Marco Fava: Marco Fava is Managing Director at CleverAdvice. With over 20 years of experience in payments, Marco helps issuers in improving their commercial cards strategy and propositions, customer journey, digital onboarding, online marketing and portfolio performance leveraging Open Banking opportunities. Marco speaks regularly at conferences across Europe.

Marco Fava ■ *Managing Director* ■ CleverAdvice

European issuers face new opportunities in the commercial cards space, but in order to reap full benefits, they must adapt to a payment market strongly impacted by recent regulations.

Mandated changes in Interchange Fees

The average revenue per commercial card used to be 3-4 times higher than revenue per consumer card due to higher spend, annual fees, and most of all interchange fees. Interchange Fee Regulation (IFR) capped interchange fees (IFs) to low levels (0.3% on credit and 0.2% on debit cards) reducing margins on consumer cards to a fraction of what they used to be, making the revenue generating ratio of commercial-to-consumer cards at approx. 8:1. Depending on spending levels, in some countries, the commercial-to-consumer revenue ratio is close to 10:1.

Only central billing commercial cards are exempt from the IFR; the severe reduction in IFs applies also to individual billing business/corporate cards as they now generate consumer interchange revenue. As such, issuers should rethink their strategy to offset expected losses and re-balance their portfolio mix. This can be done by leveraging opportunities to benefit from uncapped IFs, including migration of consumer cardholders with business-like behaviour – as often hide business customers – and individual billing business cards to central billing products.

In addition, their product offering should not be limited to credit/deferred debit cards, but also include commercial debit and prepaid cards: the former mostly addressed to sole traders and smaller companies while the latter offers a number of benefits appealing also to medium-sized companies and larger enterprises.

Product innovation

Current trends in product development suggest that even business customers – not just consumers – expect to be able to self-personalize key features of payment products to flexibly accommodate evolving needs in addition to be integrated with other applications including their accounting systems.

Businesses are increasingly attracted by expense management features that facilitate reconciliation and that may be integrated into the company ERP system. Issuers should look closely at embedding such options in their commercial cards offering, not just because of their appeal but as they make customers stickier – they will be less likely to look for alternative solutions, partly due to higher switching costs.

Multiple points of interaction with payments products are also highly appreciated, particularly if provided with a user-friendly interface accessible from multiple devices, including a mobile app, which is often a 'must' nowadays. Popular services include cardholder's ability to change spending limits – F2F and online – temporarily ban usage on selected product categories, upload receipts at the time of purchase, PIN change & lookup and flexible push notifications.

More structured businesses welcome availability of different user profiles useful to access a set of transaction information and change parameters according to the corporate role. One scenario might be that top management has full access to all company-wide payment products while the administrative personnel enjoys read-only access.



On the other hand, individual cardholders may access only their card profile to view their transaction history and change allowed card parameters.

Onboarding is a critical area of improvement. Today, most commercial products are sold in branch or via a sales person at the company premises. However, many businesses welcome the ability to buy payment products or onboard services online – that apply not only to issuing and acquiring services but also to POS terminals. As such, PSPs should offer quick and simple digital onboarding processes through a user-friendly customer interface along with minimal input requirements. Digital onboarding processes are able to boost sales in addition to shortening timing of revenue generation.

PSD2 challenges and opportunities

In the last few years, initiatives aimed at developing innovative products and services undertaken by traditional banks have been mostly focused on the consumer segments. Commercial offers have usually lagged behind widening the gap with the evolving needs of business customers. In the meantime, a number of challenger banks and diversified players have emerged leveraging opportunities offered by the PSD2 regulatory regime. In particular, these new players benefit from access to customer account information that boosts their ability to compete with traditional peers.

Challenger banks – Fidor, N26, Revolut and Starling, to name a few – are redefining the competitive landscape combining quick digital onboarding with user-friendly customer interfaces, and online/in-app commercial card and account management features, all at competitive prices.

Fintechs are offering a variety of specific business services directly and/or via collaborations/partnerships with digital banks, challenging traditional players. The large majority of services relates to lending & factoring, financial management and payments & acceptance.

The past financial crisis has tightened access to credit, so new lending services are gaining traction as alternative sources of capital. They usually offer competitive rates due to innovative credit scoring techniques that assess customer account information and online marketplaces to enable P2P lending, lower loan applications complexity, quicker service, lower servicing costs in addition to invoice financing options.

Financial management range from accounting solutions – including seamless integration of third-party software via APIs and Payroll services – to e-invoicing services such as buyer-supplier networks, marketplace financing and cloud-based services.

Payments & acceptance options include mobile payments, transaction-based CRM tools and reports, FX in multiple currencies and international transfers at lower rates.

Commercial cards are critical as they enable innovative services, particularly when fully integrated with banking apps and web services, and, in addition, their penetration and usage are set to rise.

We urge issuers to focus on establishing partnerships with fintech and/or providers of specific solutions and evolving their commercial card offering to the changing market dynamics, as both are critical components of success.

About CleverAdvice: CleverAdvice is an independent professional services firm focused on the payments industry and member of the European Payments Consulting Association (EPCA). Areas of expertise include commercial cards and B2B payments, instant payments, access to the account and Open Banking opportunities and strategies, Authentication, Digital onboarding, Conversion techniques and Customer retention.

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