



## **Payment Technologies Forum**

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### **Virtual Payment Cards A Handbook for Hoteliers**

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## Executive Summary

Virtual payment cards are commonly used across the hotel industry, and their use is likely to become even more widespread in future. Unlike traditional credit cards used by guests to pay for their own hotel charges, virtual payment cards are used by third parties to pay for some, though not necessarily all, guest charges -- in corporate travel, for example. It is difficult for hotels to differentiate a virtual card from a traditional card based on the information on a reservation. There is no systematic way to communicate the special handling requirements of virtual card transactions, such as what can be charged to a virtual card, when, by whom and how.

This paper serves the dual objectives of providing education and best practices regarding current processes, as well as setting forth the specifications for future systems development to address current limitations. This is the combined output of the Virtual payment cards Workgroups of Hotel Electronic Distribution Network Association (HEDNA) and Hotel Technology Next Generation (HTNG).

The document provides an overview of virtual payment cards, outlines the benefits and challenges they pose to hotels, and recommends alternatives for identifying virtual payment cards and handling them most appropriately within the limitations of current systems.

The corresponding Technical Specification, [HTNG Virtual payment cards 2015A Technical Specification](#), provides guidance on a standardized systems approach. It outlines and defines the HTNG scenarios and business processes for including virtual payment card information as part of the reservation delivery process, based on OpenTravel Alliance messages. It provides details on a series of messages that simplify the process of issuing, modifying, cancelling and transmitting virtual payment cards along the entire booking chain.

In creating this handbook, HEDNA and HTNG sought input from their members, including hotel chains, payment providers, global distribution systems (GDS) and software/application providers. Both associations encourage the widest possible dissemination of this document and adoption of the specifications herein.

This will help hotels understand the challenges associated with virtual payment cards, address relevant issues when engaging with distribution partners and develop suitable operational policies. Additionally, as providers across the booking network update their systems in accordance with the specifications as defined, this shared set of enhancements will provide an efficient and common method for delivering the information that hotels need to process virtual payment cards appropriately.

## Disclaimer

This document seeks to provide information to members to foster a better understanding of the virtual credit card environment. It does not purport to be a comprehensive expert resource on the topic, but rather a basic primer for stakeholders to use as they assess the use of virtual payment cards. This document does not claim to address all aspects and issues of virtual payment cards and it specifically excludes recommending the terms of any contracts or agreements.

All decisions related to the business, commercial or contractual terms of all relationships are left solely to the relevant parties to determine between each other and outside of HEDNA and HTNG. Any reliance on the information in this document in the development or implementation of a policy is done at the user's sole risk and expense.

# Introduction to Virtual Payment Cards

## Background

In 2004, *controlled payment numbers* were introduced into the online market, enabling consumers to pay for products without sharing their credit card or bank details across numerous merchants. Applications for this technology soon were extended from B2C (business-to-consumer) transactions to B2B (business-to-business) and eventually to P2P (person-to-person) transactions.

In the hotel industry today, B2B payments dominate the use of virtual payment cards, largely in the form of payments from Online Travel Agencies (OTAs), Travel Management Companies (TMCs) and Corporations (including traditional travel agents, tour operators and wholesalers) to hotels.

The technology developed has taken many names over the years. Regardless of name, they are all essentially the same solution:

- Virtual Card (VC)
- Virtual Credit Card (VCC)
- Virtual Payment Card (VPC)
- Virtual Account Number (VAN)
- Virtual Card Number (VCN)
- One-Time Use Credit Card (OTUCC)
- Single-Use Virtual Account (SUVA)
- Single-Use Credit Card (SUCC)
- Ghost Card
- Lodged Card

## What Is a Virtual Card?

A virtual card is a method of payment that is issued for a specific purpose or reservation that functions similarly to a credit or debit card, without the physical plastic typically associated with major card networks (Visa, MasterCard, American Express, etc.). Removing the physical nature of a traditional credit card, issuers can generate card numbers dynamically. Virtual payment cards are well suited for electronic commerce environments, but there is market demand to expand virtual card acceptance to complex point of sale environments such as hotels.

In addition to leveraging the global, regulated and trusted card scheme networks, virtual payment cards can also be issued with a range of additional controls in order to further protect their use.

The customary aspects of a virtual card are as follows:

- A traditional credit card number, but without a physical card
- A transaction-specific, one-to-one payment
- Supported by existing payment technologies
- Usually single-use only, set to expire after a specific length of time, for a specific expenditure
- May be multi-use, with a single merchant, for the same reservation
- A range of user-defined data associated with each payment including activation date, monetary limit and expiry date
- Can only be used for the reservation to which it was assigned

## Payments to Hotels (Without Virtual Payment Cards)

In order to appreciate the benefits of virtual payment cards, it is useful to understand how payments from hotel distribution partners have historically been made.

Online Travel Agencies (OTAs), Travel Management Companies (TMCs) and Global Distribution Systems (GDSs) obtain payment details: credit card, cash or accounts receivable. These intermediaries then pass the payment information (i.e. card details) to the hotels or otherwise establish a contractual direct-bill relationship with them. With direct billing, hotels effectively offer credit to their distribution partners by invoicing them for the guest stays and subsequently receiving their payments according to agreed payment terms.

### Challenges

Managing the invoicing, payment and collection process involved substantial overhead, not to mention cumbersome operational procedures for all parties.

- **Credit Management.** Direct bill offers credit to the partner and, therefore, requires hoteliers to develop banking and credit functions within their organization. This often involves substantial vetting and approval processes and security deposits that may cover only a portion of the risk. This also requires an ongoing process of re-assessing their partners' performance, potential exposure and the appropriate level of credit or security deposit.
- **Default Risk.** Hoteliers must be mindful of their partner's solvency and manage possible default.
- **Monthly Invoicing Processes and Procedures.** Generating, distributing and ensuring invoice accuracy is costly. Hoteliers need to ensure that rates are correct and incidentals excluded.
- **Reconciliation.** Distribution partners also perform in-depth reconciliation and may barrage hotels with inquiries related to invoicing and accuracy.
- **Cash Flow.** Hotels often do not receive payment for the guest stay until well after check-out, perhaps up to sixty days later, depending on the hotel's billing cycle and agreed payment terms. Furthermore, hotels may need to chase partners who have not paid on time.

Overall operations of a traditional invoicing scheme can be expensive.

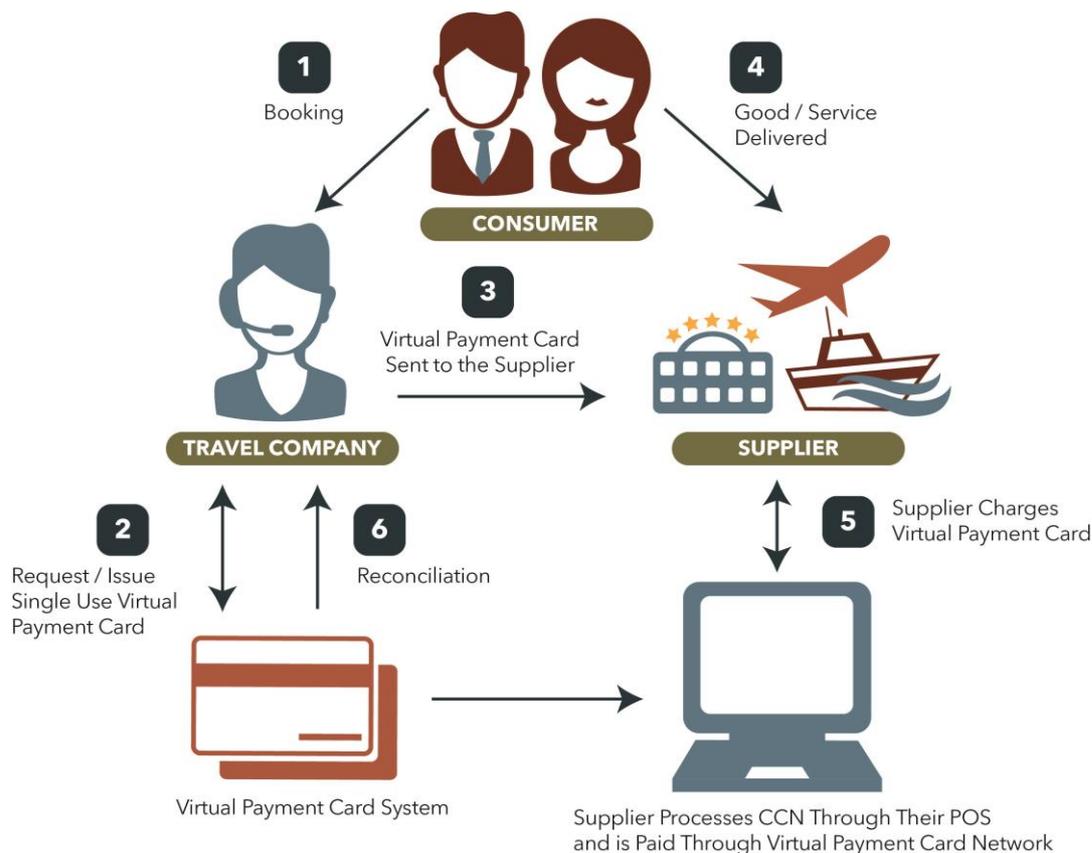
## Payments to Hotels - Online Travel Agencies

Many distribution partners have replaced the direct bill process with the use of virtual payment cards. In this model:

- The guest or booker still pays the distribution partner for the stay; this is important if the distribution partner marks up the rate or packages it with flights, car rental, etc.
- The distribution partner then works with a virtual card issuer to obtain a virtual card number with appropriate funds allocated to that number.
- The distribution partner provides the virtual card number to the hotel with the booking.
- The hotel charges the virtual card, according to the terms agreed, in order to receive payment for the guest stay.

This process enables one payment from the booker to the distribution partner and a separate payment from the distribution partner to the hotel, while eliminating the invoicing and collection process between the hotel and the distribution partner.

This process is illustrated in the following diagram for online travel agencies.



## Payments to Hotels - Corporate Business Travel



When corporations use a virtual card for business travel, the payment process largely follows traditional processes. The virtual card number would be included in the reservation but the guest would not provide a corresponding physical card upon arrival. It is important to understand the conditions of sale in the reservation such as what can and should be authorized and charged against the virtual card.

## Benefits of Accepting Virtual Payment Cards

Virtual payment cards may provide a means of a more reliable, secure payment acceptance method and remove certain complexities of invoicing for hoteliers. These benefits may be achieved through one or more of the following:

- **Eliminates Credit Management.** Since the virtual card process enables payment before or upon check-out through the standard card scheme infrastructure rather than through direct billing, it eliminates the need for managing credit facilities for these partners.
- **No credit risk.** By not issuing credit to distribution partners, hotels can remove the associated risk of default.
- **Eliminates Invoicing.** Virtual payment cards often eliminate the invoicing process and the overhead associated with managing accounts receivable.
- **Improves Cash Flow.** Virtual payment cards are settled alongside the standard card transactions, thereby potentially improving hotel cash flow.

## Challenges of Accepting Virtual Payment Cards

Hotel operators have cited various challenges with virtual payment cards, particularly procedural differences between processing virtual payment cards and traditional cards. Additional controls on the use of virtual payment cards are deemed a challenge. Hotels also have problems identifying when a virtual card is being used. Based on the information provided in a typical reservation delivered electronically, there is nothing to differentiate a virtual card from a traditional credit card.

### *Procedural Differences*

Hotels process traditional and virtual payment cards differently, *but there is currently no differentiator between the two types of numbers*. Virtual card numbers look like traditional card numbers and are not limited to specific card number ranges. This poses problems for hoteliers. For example:

**With traditional cards**, the number is provided as a guarantee, which hotels only use to charge for no-shows or late cancellations. Otherwise, they may require the guest to provide a physical card upon check-in, at which point they may charge the value of the stay or take a pre-authorization on the card to hold a reasonable level of credit for potential charges.

**With Virtual Payment Cards**, the number may not be provided for purposes of guaranteeing, such as for online travel agency transactions. It is critical to review reservation details to understand all conditions of sale.

### *Virtual Card Controls and Usage Limitations*

Even if the card can be identified by the hotel as a virtual card, other challenges exist. The issues vary and depend on the process of the issuer, instructions received and the capabilities of the hotelier. The main challenges are highlighted below:

If the XML specifications found in the [HTNG Virtual payment cards 2015A Technical Specification](#) are implemented, the OpenTravel Payment Type (PMT Code List) will be indicated in the data tag <UserType>. Otherwise, the card type will be identified on the fax or email generated to the hotel.

Virtual card issuers can also specify additional limitations on the card usage.

- **Single-Use Cards.** Such cards are limited to a single reservation but may be authorized multiple times up to the specified payment amount.
- **Multi-use Cards.** These are 'recycled' cards that are issued and reissued for different, unrelated reservations.
- **Ghost Cards.** These card numbers are kept active and opened for use as needed but not associated with any specific booking or bookings.
- **Charge Validity Period.** The virtual card issuer can limit, at the distribution partner's instruction, when the card can be charged; for example, immediately, 24, 48, 72 hours in advance of check-in; on the date of check-in; on the date of check-out; within a week after check-out, etc. There is no designator that identifies when the card can be charged.
- **Authorized Charges.** Often, the card has been funded for room and tax only, but some partners (especially corporate clients) may allow additional bills such as breakfast, Wi-Fi, etc. to be charged. There is no designator that accompanies the card to indicate what charges or value can be charged.
- **Pre-Authorization.** The ability to pre-authorize a virtual card is dependent on the type of virtual card you received with the reservation.

## ***Systems Issues***

Virtual payment cards were introduced *after* the development of the systems through which booking and payment information is communicated to hotels. This has resulted in problems with hotels being unable to identify virtual credit cards or understand their unique processing requirements.

HTNG has created specifications that are designed to, at minimum, identify that a virtual card account has been created for a specific transaction. While requirements, sales terms, usage limits, "controls" and other factors may vary between virtual card requestor, payment brand, issuer and cardholder, the HTNG specifications create a common means of identifying that a physical card will not be provided, and special handling will be required. In addition to identifying that a virtual card will be used for payment, it is very important that the requestor identify all special handling conditions in the reservation detail.

There are many systems involved in a single electronic booking, and they all need to support the HTNG specifications in order to provide complete information to the hotel for efficient processing. The hotel's property management system is the fundamental enabler of this functionality, but all other systems in the reservation processing cycle must also follow the HTNG standards. Since reservations flow through many paths before they arrive at the hotel, it is likely that the functionality and information described in this document will gradually increase as systems are enhanced to support the standards.

## Hotel Operations and Suggested Best Practices

This section was developed for the purpose of educating hoteliers regarding virtual payment cards and to provide an overview of the front desk and accounting practices for processing virtual payment cards. In order to overcome the challenges with virtual payment cards, it seems that hotels must be able to identify which bookings are paid with a virtual card, and identify and understand the specific terms relevant to each virtual card.

### Identifying Virtual Payment Cards and Payment Terms

Without a payment field that differentiates virtual payment cards from traditional cards, hotels must use other information in the booking to identify potential virtual card payments; such as:

- **Agency profile.** Identify OTAs or TMCs that are attached to the booking and that are known to pay with virtual payment cards.
- **Rate code.** Look for bookings on particular rate codes that are known to be booked only by companies using virtual payment cards.
- **Comments field.** Look for payment instructions and other information in the notes or comments section of the reservation.
- **Fax/email/mobile.** Some distributors send a fax or email in conjunction with each reservation that is using a virtual card. This communication will include the specific processing rules for the transaction. In this case, it is important that such communication does not breach Payment Card Industry Data Security Standards, by including full card information for example.

Hotel companies should evaluate their systems and processes in order to define and communicate to their properties the standard process for identifying which bookings have a card number attached that must be used as virtual card, rather than as a traditional card.

### Completing Guest Check-In

Once it has been determined that a particular reservation is to be paid by virtual card, the hotel needs to set up the reservation at or prior to check-in so that it is handled properly.

Multiple folios may be required, depending on the type of sale and payment conditions. For example, for guests whose stays are paid by virtual card provided by an online travel agency, hotels should prepare:

- **One folio for the room + tax** to be charged to the virtual card. See card procedures above.
- **One folio for incidental charges** to be settled by the guest; e.g. by personal credit card. All such charges (resort fees, service fees, extra nights, movies, room service, telephone, etc.) must be charged to the guest's credit card obtained at check in. These charges are typically not pre-paid by the distribution partner.

The above two-folio system requires attention to determine whether any incidental charges are allowed to be billed to the virtual card.

**Note:** Often, net rates are confidential between the hotel and the agent, so the hotel should be careful not to disclose them to the guest.

- **Changes to Reservations.** Depending on how the reservation was made, the hotel may need to advise the guests to contact the OTA or TMC to change reservations.
- **Cancellations.** Cancellations should be consistent with reservation policies or contracts, if applicable.
- **Refunds.** All credits should be issued to the same virtual card account provided for the original reservation.

## Processing Virtual Payment Cards

Virtual card transactions must be processed properly since improperly conducted authorizations may result in declines. Similarly, improperly billed charges may result in chargebacks.

- **Charge validity period.** The period during which hotels can charge the virtual card depends on terms established by the cardholder and issuer (e.g. no earlier than 48 hours before check-in, no earlier than check-in or no earlier than check-out). It is important to authorize the virtual card consistent with reservation detail and any other contract terms.
- **Authorizations.** Do not authorize the card prior to the card activation date.
- **Taxes.** Charge the virtual card for the room rate plus governmental taxes (including sales, county, city, tourism and occupancy taxes) for the duration of the stay paid with a virtual card. In order to alleviate the need for payment adjustments, sales tax, fees and rates should be at the rate effective at the time of the reservation. *Always be sure to comply with local tax rules. For example, some rules require the hotel to charge only the room rate to the virtual card, and then the OTA to remit taxes due directly to the state.*
- **Incidental charges.** Incidental charges may or may not be billable to the virtual card depending on the terms of sale. For example, OTAs typically do not allow hotels to charge additional fees (incidental charges, resort fees, parking charges, etc.) to the virtual card unless specifically agreed. Normally, these should be charged to the guest's card presented at check-in for incidental charges. ***Prior to authorizing a virtual card, you may need to change the authorization rule in your PMS to ensure incidentals are not automatically added to the room and tax folio, and are instead charged to the card presented at check-in for incidentals. Refer to your PMS procedures for further instruction.***
- **Declined charges.** If the virtual card for an OTA booking is declined, contact your distribution partner hotline. For other transactions, resolution should be directly with the guest.

## Helpful Hints

- Generate daily or shift reports to identify newly-booked OTA reservations.
- Establish proper authorization rules and procedures.
- Collect a form of payment for incidental charges directly from the guest if applicable.

- When required, ensure the rate is suppressed for the guest folio and/or create two folios in order to separate the charges on the virtual card from those to be paid by the guest.
- Upon check-out, provide the guest with only the folio for the incidental charges, if applicable.
- , If the guest calls after check-out to request a copy of the bill for the room and tax, advise the guest to contact the travel company that provided the card directly. Only the charges not included within the virtual card transaction can be shared with the guest.
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- If the hotel does not charge the virtual card within the validity period, the hotel should contact the travel company that provided the card to get a new virtual card, or at least a new validity period.

Amended bookings may be accompanied by a new virtual card. Hotels should be careful to use the current and correct virtual card.

## Glossary of Terms

<u>TERM</u>	<u>DEFINITION</u>
Activation Date	The date in which the virtual card is available for use
Effective Date	The date in which the virtual card is available for use
Valid From	The date in which the virtual card is available for use
Valid To	The date in which the virtual card expires and cannot be charged
Expiration Date	The date in which the virtual card expires and cannot be charged
Ghost Card	Traditionally, a credit card that is lodged with the TMC or stored with a supplier to charge for hotel guarantees, bookings and payment. Physical plastic may or may not be issued.
Issue Date	The date in which the virtual card number is generated
MCC	Merchant category code (MCC) is a four-digit number used to classify a business by the type of goods or services it provides: airline, hotel, apparel, restaurant, etc.
Multi-Use	A configuration that defines that the use of a virtual card to be used multiple times for a single guest(s) stay at a property. Multiple authorizations and settlements are allowed.
Single-Use / One-Time Use	A configuration that allows one settlement but multiple authorizations can be created against the same account number
SUCC	Single use credit card; term for virtual card
SUVA	Single use virtual account; term for virtual card
VAN	Virtual account number; term for virtual card
VC	Virtual card; term for virtual card
VCC	Virtual credit card; term for virtual card
VCA	Virtual card account; term for virtual card
VCN	Virtual card number; term for virtual card
Virtual Card	A credit card without the physical plastic. This affords the ability for users to control the parameters of their payables: defining amount limits, allowable merchants/suppliers and when the cards can be charged.