

August 2015

TransAct!

Interchange and revenue share, two high-profile topics within the Commercial Card industry, are closely intertwined and under, what seems like, constant scrutiny.

This is an intro summarizing the broad topical focus for this edition.

In this *TransAct!* issue, Frank Martien of First Annapolis looks at interchange regulation in Europe, suggesting changes there may impact revenue share structure, and ultimately, the way programs are managed in the United States and elsewhere. See what you think of his hypothesis.

Additionally, it's interesting (and refreshing) to learn that voluntary proposals from Visa and MasterCard will preclude additional interchange regulation in Canada. Not quite so friendly in Australia, as the Reserve Bank of Australia considers hard caps on interchange there.

All this talk about interchange change led us to update the Optimizing Revenue Sharing white paper and P-Card Value Proposition report to round out the picture.

Sign in to access resources and register for events.

Your username: @@username@@

Forgot your password? [Click here](#) to reset.



In this issue:

- [The Rebate Conundrum](#)
- [Recent Changes to Interchange](#)
- [Updated NAPCP Reports](#)
- [U.S. Payments System Webinar](#)
- [Working Capital Article Part II](#)
- [Upcoming Webinar and Virtual Presentation](#)
- [Poll](#)
- [eNetworking](#)
- [Upcoming Events](#)
- [Sponsors](#)

The Rebate Conundrum—Basis Points or Dollars?

by Frank B. Martien, Partner, First Annapolis Consulting, Inc.



Frank B. Martien
Partner,
First Annapolis
Consulting, Inc.

In every issue: A feature article covering the broad topic (typically 750 – 1,000 words in length with 2 or 3 infographics or images) is submitted by a sponsor or NAPCP member. A lengthier article can be summarized and used as the feature article with a link to the full article.

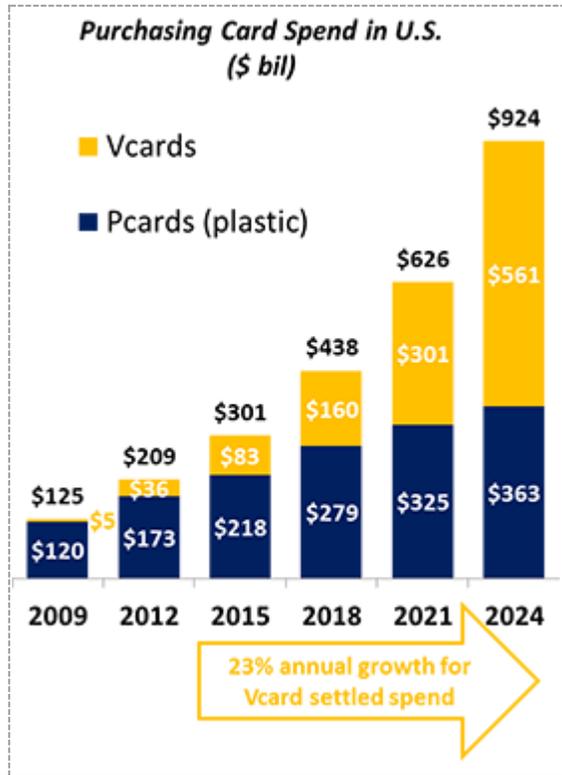
organization prepared for an upcoming new era in B2B payments and ?

rapidly reaching a point of inflection in the U.S. Purchasing Card
As shown in the chart below, by 2021, First Annapolis projects that spend will nearly be at parity with more traditional walking plastic P-card; and, by 2024, Vcards will well surpass P-Cards. While P-Cards remain relevant for most organizations desiring a walking plastic mode of payment for typical indirect spend categories such as office suppliers and services, the real growth story in Purchasing Cards relates to Vcards where annual growth rates in spend are projected for the foreseeable future. Plenty of runway exists, even the \$1 trillion in projected spend in 2024 would only comprise less than 5% of First Annapolis estimates for potential addressable dollar spend for U.S. mid-market and large corporate organizations in the private and public sectors.

the potential growth drivers around VCard adoption, such as potential to move paper to a centralized, controlled, pre-approved, end-to-end work flow integrated form of payment are well documented by the NAPCP and other advocacy organizations and sources.

In addition to this running list, First Annapolis sees a significant potential forthcoming driver related to travel spend.

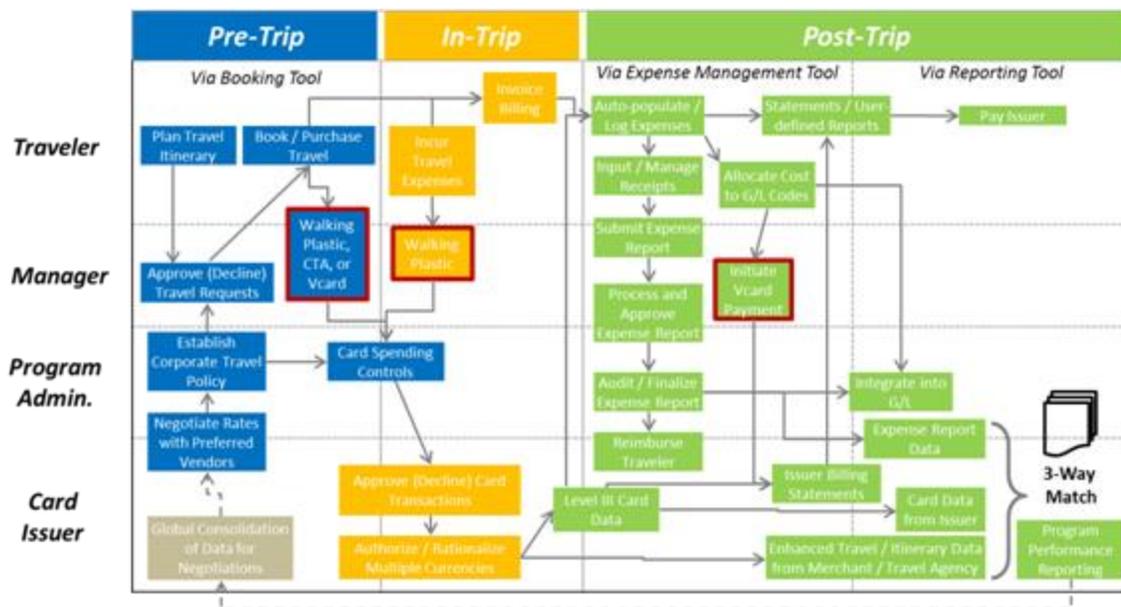
For a quick background, the European Council based in Brussels adopted a regulation capping interchange fees for payments made with debit and credit cards on April 20, 2015. Among many provisions, commencing December 9, 2015, this regulation will reduce credit card interchange rates to 0.30% of the transaction amount. Commercial Cards are exempt from this interchange regulation, but only if "charged directly to the account of the undertaking or public sector entity ²," which has been interpreted by many European Commercial Card providers as requiring client programs to be centrally billed to qualify for regulation exemption. Meanwhile, many European organizations approached by their



providers to consider migration to centrally billed programs have opted instead to stick with their current individual liability, individually billed plastic programs.

Consequently, First Annapolis projects that European Commercial Card providers will seek to divert as much travel spend as possible away from individual plastics and towards centrally billed accounts. As shown in the following chart, we believe this could lead to aggressive use of traditional central travel accounts as well as introduction or expansion of invoice-based billing of certain categories of travel expenditure, which would occur in the post-trip process and for which many individual traveler charges could potentially be packaged, subsequent to expense report approval, into large payments by organizations back to the travel providers via accounts payable ("AP") and Vcards. Should this phenomenon, driven potentially by providers to preserve interchange economics, become common for organizations in Europe, we could see this practice spread to North America beginning with multinational organizations. For many organizations, this could be a triggering event to embed Vcards into AP for travel but then radiate Vcard usage out to many other spend verticals. We would further note that Vcard use for travel-related expenditures is already common in support of online travel booking providers, so this European-led adoption would actually be an expansion rather than an entry of Vcards into travel spend³.

A Typical Corporate Travel Management Workflow Process



In this new world of B2B payments in which Vcard growth will result in Vcards comprising the majority of many end-users' commercial card programs, we may also enter a new era of rebates. Historically, many end-users have focused on basis points as the hallmark currency of quotation for rebates (e.g., an end-user receiving rebates equal to 80 cents for every \$100 of card spend would say they receive "80 basis points" from their provider). In the new era, Vcards will play a much more prominent role by delivering superior enterprise resource planning ("ERP") and AP integration, functionality, controls, and reporting. Meanwhile, the expansion of lower large ticket interchange

rates to encourage supplier acceptance and improvements in automating acceptance of cards and payment application to invoices in accounts receivable ("AR") systems for suppliers will promote the demand-pull component of Vcard growth. With end-user programs migrating towards larger ticket, enterprise spend transactions, we foresee rebate basis points declining significantly but rebate dollars growing as the portion of an end-users' direct and indirect spend on cards increases exponentially. First Annapolis thereby projects that before or as we reach the tipping point of Vcard spend surpassing P-card spend, end-users will start to refocus on maximizing rebate dollars rather than rebate basis points.

To be clear, end-users, in this new world, will continue to negotiate aggressively with their providers for the best deal they can secure. However, the reign of rebate basis points will end as more sophisticated end-users select providers that will help them most effectively radiate spend and grow their Commercial Card programs, including through introduction and expansion of Vcards. Through such growth, end-users will not only increase rebate dollars while eliminating bank fees associated with checks, ACH, and wires, but they will also achieve the true value promise of Purchasing Cards through process savings and superior access to spend data with which to manage their supplier relationships in a coherent manner across spend verticals.

¹ The term "Vcards" is synonymous with virtual cards, virtual accounts, epayables, EAP, and other commonly used industry terms for non-plastic Purchasing Card accounts often integrated with accounts payable and/or ERP systems.

² Quotation from "Regulation of the European Parliament and of the Council on Interchange Fees for Card-Based Payment Transactions," Brussels, 20 March 2015.

³ "Payment Provider WEX Finding Virtual-Card Niche with TMCs," Business Travel News, November 6, 2014.

Recent Changes to Interchange in Europe, Canada and Australia

Europe: On April 20, 2015, the European Council adopted regulation capping interchange fees for payments made with consumer debit and credit cards. Adoption of the regulation comes after the agreement with the European Parliament on March 10, 2015. See related [press release](#) for details. On March 10, 2015, the European Commission welcomed an overwhelming vote from the European Parliament to cap interchange fees for payments using consumer debit and credit cards. Commercial payment cards, however, will be exempt from the caps. Three-party cards will also be exempt from the caps but after three years, the new regulations will also apply to them. See related [press release](#) for details.

Canada: On November 4, 2014, Canada's Minister of Finance, Joe Oliver made the following statement: "Today, Visa and MasterCard submitted separate and individual voluntary proposals to reduce their credit card fees to an average effective rate of 1.50% for the next five years. As Minister of Finance, I welcome their proposed reductions. In total, the two commitments represent a reduction in credit card fees of approximately 10%. These commitments represent a meaningful

Areas of interest pertaining to the broad topic are represented in this area and can be seen below.

long-term reduction in costs for merchants that should ultimately result in lower prices for consumers..." For the complete statement, [click here](#).

Australia: On May 21, 2015, [The Reserve Bank of Australia](#) (RBA) attended the Cards & Payments Conference in Melbourne. During the conference, Assistant Governor Malcom Edey stated that the RBA is considering imposing a hard cap on interchange fees of 0.3 percent over the next three years. He went on to say, "On Interchange fee regulation, there are a number of issues to consider. These include the overall level of the interchange cap, the complexity and proliferation of interchange categories, the phenomenon of 'interchange drift' with the three-year compliance cycle, and the wide disparity between interchange rates for preferred merchants and those applying to others." It is still not certain whether or not lowering interchange fees would ultimately lead to fewer credit card rewards.

[Click here for more information relative to Interchange Around the World.](#)

NAPCP Report: Optimizing Revenue Sharing

While we cannot provide actual revenue share numbers, we have updated the [Optimizing Revenue Sharing report](#), which sheds light on the numerous facets to this particular program benefit.

The associated [Executive Summary](#) is available to members and subscribers. The [full report](#) is available to members only. If you are a subscriber and would like to purchase the report, please visit the [NAPCP Store](#).

Other related resources:

- [Demonstrating the Value of P-Card Process Savings](#)
- [First Annapolis: Commercial Card Rebates—A Snapshot from the Public Sector](#)
- [Commercial Card Programs: Sizing the Prize](#)

NAPCP Report: The P-Card Value Proposition

Whether you are concerned about potential changes to interchange leading to changes in rebate or not, it's wise to make sure your organization and senior managers understand the P-Card Value Proposition of Commercial Cards and that the prevailing value of programs are a result of process efficiency versus revenue share. Please [click here](#) for this updated report.

Recorded Webinar: Improvements to the U.S. Payments System

A complimentary webinar titled, "[Improvements to the U.S. Payments System](#)," was presented by Connie Theien, Vice President of Payments Industry Relations for the Federal Reserve Financial Services. On July 15, 2015, Connie spoke about the need to enhance security, increase speed of pay and the need for efficiency in business and consumer payments. The Federal Reserve has conducted extensive stakeholder input gathering and research on these needs and continues to

seek input. [This complimentary webinar](#) is available in the [NAPCP store](#) and is available to members and subscribers.

Working Capital Part II—The David Letterman Approach by Neil McHugh, TD Bank

In the June 2015 issue of *TransAct!*, Neil provided Part I of II which walked readers through the definition of working capital and how it relates to the Commercial Card industry. Now in Part II, Neil further examines this relationship and follows up with a review of strategic card initiatives that optimize working capital. [Click here to read Part II—The David Letterman Approach.](#)

Upcoming Webinar Presentation

- ◆ **Breaking Up Is Hard to Do—Changing Providers** Complimentary Education by Alta Herndon, University of Northern Colorado, September 16, 2015

Items also accessible to subscribers are denoted with a diamond (◆). [Join the NAPCP today](#) as a member—review the member benefits—or subscriber.

Included in every edition are upcoming webinars or demos and upcoming events (as shown below).

Upcoming Virtual Presentation

- ◆ **Strategies that Make Virtual Payments a Win-Win for Buyers and Suppliers** Complimentary Virtual Presentation by U.S. Bank, Wednesday, October 21, 2015. For end-users only.

Items also accessible to subscribers are denoted with a diamond (◆). [Join the NAPCP today](#) as a member—review the member benefits—or subscriber.

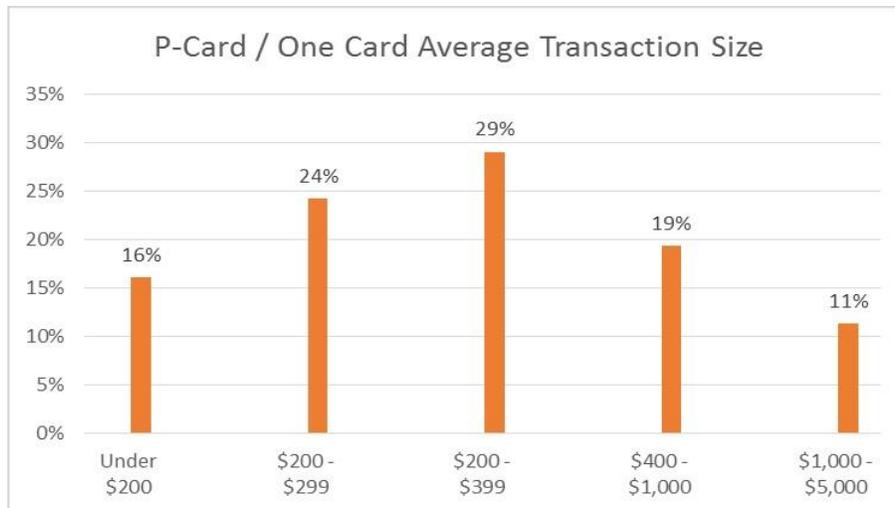
NAPCP Poll: Average Transaction Size

Included in every edition are past polls that relate to the broad topic. A poll can be run simultaneously to the publishing of the *TransAct!* edition.

... your last fiscal or rebate year, what was your average P-Card / One Card transaction

... graph below reflects results compiled by dollar range, with responses ranging from less than \$5,000. **The average is \$559.** This result is higher than the last NAPCP poll conducted in 2012 where the average transaction size was \$359. *Note: Three responses were not included since they ranged from \$7,250 to \$36,404 and would skew the results greatly.*

... the average transaction size reported in the [2014 Purchasing Card Benchmark Survey Results](#) by RPMG Research Corporation was \$454, up from \$343 reported in 2012.



ePayables

The poll invited respondents to separately specify their average transaction size for ePayables. Of the 69 that responded, 29 had ePayables in place. The average transaction size was not calculated, but according to the [2015 Electronic Accounts Payable \(EAP\) Benchmark Survey Results](#), the average EAP transaction size is \$4,842 compared to \$2,359 reported in 2012.

The NAPCP poll results by dollar range are:

- Under \$1,000: 14%
- \$1,000 to \$3,999: 41%
- \$4,000 to \$9,999: 24%
- \$10,000 or more: 21%

This poll was conducted from July 17 to August 7, 2015. Sixty-nine end-users responded.

Visit www.napcp.org/polls to access the results of more than 100 past polls.

eNetworking

- [Meals and Hotel Stay for Local Business](#)
- [Gift Card Policy](#)
- [W9 Form](#)
- [Large Ticket Rebate Amounts](#)
- [How Often Do You Send Checks or ACH?](#) (This blog submission corresponds with this issue's topic and provides additional insight for readers.)

What Are Your Peers
Benchmark

Often included is this eNetworking section which highlights recent posts. eNetworking is not just a Q&A forum; members can open a discussion, offer their expertise and encourage member commentary.

Register for Upcoming Events



For the complete calendar, please visit www.napcp.org/events.

NAPCP Partner Sponsors

GOLD



GLOBAL
CORPORATE PAYMENTS

Fræedom

VISA

SILVER



First Bankcard®
A Division of First National Bank of Omaha

HSBC



J.P.Morgan



MasterCard

MUFG UnionBank®

PNC

usbank

ALLIANCE

Bank of America Merrill Lynch

Citi®

CSI globalVCard

Scotiabank

TSYS

Wells Fargo Bank, N.A.

In every edition the NAPCP Partner Sponsors are featured. The "learn more: link takes readers to the NAPCP Partner Sponsor webpage that includes logos and a hyperlinked company description.

[Learn more about the NAPCP's Partner Sponsors](#)





Advancing Commercial Card and Payment Practices Worldwide

12701 Whitewater Drive, Suite 110
Minnetonka, Minnesota 55343 USA
(952) 546-1880 ext. 4
+1+952-546-1880 ext. 4
www.napcp.org/contactus

[choose e-mail preferences](#) [unsubscribe](#) [request removal from the NAPCP database](#)

NAPCP's dedicated IP address for e-mail is 24.73.102.78. Please add this IP address, napcp@napcp.org and [@ymem.net](#) to your approved or "safe sender" list to ensure that you receive NAPCP news and event notifications.