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# Commercial Cards

## AN EMERGING SOLUTION FOR MID-SIZE COMPANIES

Commercial credit cards are rapidly developing into an essential financial management tool for mid-size companies.

Until recently, cards available to small businesses were mostly “business cards,” which were not much different from personal credit cards issued to individuals. The robust expense management features found in true “commercial cards” were mostly limited to larger companies. Now, commercial cards are becoming readily available to mid-size companies, generally those with annual sales of \$10 million or more.

### How Commercial Cards Work

Commercial cards fall into two main categories: travel and entertainment cards, the use of which is limited to those two types of expenses, and purchasing cards, which are used for a wide variety of expense items. Both types of card can be extremely valuable in streamlining purchase order and expense reimbursement practices. Commercial cards of either type also come with numerous benefits, including spending controls, billing and payment processing, and a robust online platform, depending on your bank.

**SPENDING CONTROLS.** Expense management practices that would otherwise be implemented through manual review can be built into the functioning of the card, for example:

- Administrators can restrict how a card can be used by merchant code for individuals or for spending groups. For example, one user might be authorized only to purchase office supplies, or a truck driver might be limited to buying fuel and repairs but not meals.
- Spending limits can be set by amount per month or per transaction.
- Cadence or velocity limits can help you control spending on certain recurring expense categories based on daily, weekly, or monthly amounts.
- Administrators can tailor spending limits to a specific individual or to groups of people in the same position.

### A New Horizon for Fraud Prevention

As commercial cards become more and more accessible and desired—one study suggests that, if growth continues on its current path, US commercial card use will double between 2014 and 2021—we can expect to see even more innovations and opportunities arise from that continued growth, particularly in the realm of fraud prevention. As mid-size businesses continue to look ahead to the future, they should consider these potential areas of increased protection for commercial cards, and how they can be incorporated into their day-to-day experience.

#### Real-time, two-way fraud

**alerts:** Fraud alerts are relatively standard for commercial cards, but improvements are being made to continue to allow flexibility and limit declined legitimate transactions while maintaining high levels of fraud prevention. Two-way fraud alerts will allow commercial card holders to quickly and easily be made aware of and approve or reject potential fraudulent transactions right from their cell phone.

**Dynamic CVV:** Soon, the now-standard, three- or four-digit card verification value on the back of your card may be getting an upgrade. Dynamic CVV will take advantage of technology to provide card users with an ever-changing CVV, noted directly on a screen on the back of your card. This additional level of security means that, should your card information be stolen, the likelihood of it being used or negatively impacting your business is greatly minimized.

**BILLING AND PAYMENT PROCESSING.** Consolidating billing and payment through the card system creates a variety of efficiencies as well, such as:

- Cardholders receive a statement for reconciliation of their individual accounts.
- Invoicing is consolidated for all individual card holders and comes directly to the company, reducing or eliminating the need to cut individual checks for each cardholder or transaction.
- Interest is not assessed because the account is paid in full every month.
- Billing date can be aligned with the company's accounting cycle and cash flow.
- Using a central billing account allows high-cost expenditures to be consolidated into one account, and eliminates the need to issue higher credit limits to individual cardholders.

### Card Versus Check

Despite advances in payment technology, many business still use checks for vendor payments.

- ✓ **Check familiarity.** Checks appear to be convenient, simple, and secure. All the mechanics of issuing a check are under the control of the business. There is no need to ask if suppliers accept cards.
- ✗ **Check cost.** Despite its apparent simplicity, issuing a check is still a costly form of handling payments. There's paper stock, approval limits, ink, postage, mailing, and account reconciliation that need to be taken care of to make sure vendors received payment.
- ✗ **Check fraud.** Checks are much more vulnerable to fraud than credit payment. It's not a matter of 'if,' it's a matter of 'when' any business will experience check fraud. Fraud protection is built into the credit system, while paper checks continue to offer many opportunities for fraud.

“With commercial cards, companies can speed up their receivables, slow down their payables, and help eliminate fraud.”

—RALPH AIELLO, STERLING NATIONAL BANK

**ONLINE PLATFORM.** Data is consolidated and presented to the company through a platform that includes workflow tools and online data delivery to provide complete end-to-end expense management, including automated transaction allocation, easier reconciliation, and general ledger integration. As a result:

- Transactions can be viewed in detail and allocated manually to cost centers and expense categories. Expenses can also be allocated automatically.
- Managers can view and reconcile employee expenditures.
- General ledger integration can be done through downloading to the company's accounting system.
- Management reports can be accessed online, emailed to designated recipients, or exported.

### Benefits of A Commercial Card Program

**AUTOMATED PAYABLES.** Some of the most dramatic benefits of commercial cards come from the automation of payables. It may be counterintuitive to think of something that's still referred to as a “card” in terms of data transfer, but that's a fundamental aspect of a commercial card program. A company can send payables files to the bank, similar to requesting funds transfer using ACH (automated clearing house) services, as long as the vendor has agreed to accept cards from the company as a form of payment. The card system generates a single-use card number that is unique to each transaction, which is then paid digitally through the card system, even though no physical card was ever presented.

**FRAUD ELIMINATION.** This method of payment clearing eliminates many avenues for fraud. For example, suppose a commercial cardholder company sends five recurring vendor invoices for the same amount through the card system for automated payment. If the vendor keeps the account number on file and tries to use it the following month when a new set of the same type of recurring charges comes up, the payment would be rejected because the single-use card number could not be reused.

**REVENUE SHARING.** Commercial card programs usually offer revenue-sharing incentives in the form of rebates to participating companies that meet certain criteria, such as spending thresholds. While rebate amounts would vary depending on the program and spending levels, the amounts returned can represent a significant cost savings.

“Today’s commercial cards offer more for their corporate customers: flexibility, personalized programs, spending rules, mobile capabilities, and all the latest interfaces. Customers are taking advantage of these updates—commercial card use in the US has risen dramatically over the last couple of years, accounting for a total of \$504.7 billion in 2018.”

—MAYA VOVCHUK, STERLING NATIONAL BANK


\*SOURCE: [HTTPS://WWW.PAYMENTSJOURNAL.COM/COMMERCIAL-CARDS-GROWTH-ON-GROWTH-AND-OPPORTUNITIES-FOR-SMALLER-BANKS/](https://www.paymentsjournal.com/commercial-cards-growth-on-growth-and-opportunities-for-smaller-banks/)

**REDUCED PROCESSING AND ADMINISTRATIVE WORK.** The traditional purchasing process is expensive. A commercial card program can generate savings from reduced staff time to process requisitions, purchase orders, invoices, and check payments, as well as manage vendors, expenses, transactions, and petty cash, which can be reduced or eliminated. Process cost associated with a purchasing card tends to be dramatically lower: \$20 average process cost per transaction with a purchasing card versus \$90 average process cost using a traditional purchasing process, according to RPMG Research Corporation.

One important thing to keep in mind is that using commercial cards on the purchasing card side only works if any given

vendor is established with merchant services and is willing to accept credit card as form of payment. Since the recession, however, businesses are more willing to accept cards—and pay associated fees—because a card payment is a guaranteed amount when it comes in. When vendors weigh an immediate payment against the uncertainties of waiting for a check, the traditional check payment is often seen as carrying more risk than a card payment.

Sterling National Bank can work with your business to implement a commercial card program. **Contact your relationship manager or Client Services at 212-575-8020.**



“Companies that make a significant amount of business-to-business payments via check are the ones that can probably benefit most from rethinking their payment strategy using a commercial card program.”

—GREG WILLIAMS, STERLING NATIONAL BANK

