the payments association

FIS

Exploring Corporate Payments Cards

In conversation with...

Alan King
Group President, Europe, Australia & New Zealand
Fleetcor

FLEETCOR

The Payments Association's guide to ' The Payments Association's Guide to Corporate Payment Cards' **here**

> There is no doubt that there are huge opportunities for payments businesses to tap into.

Can you describe your personal background, your role at Fleetcor and the expertise you bring to that?

My background covers 25 years in payments, including over five years at Fleetcor, and 11 years at MasterCard in a variety of roles on both the commercial payments and the consumer payment side. I also spent time at Citibank in commercial payments, and Visa for a short period of time on the product side. So I'd say I'm pretty well versed in payments generally with a bias towards B2B.

At Fleetcor, I am Group President for international business, which basically covers the UK, Europe, Russia, Australasia, and any other geographies where we have presence. I run various businesses within those regions, operating pretty much exclusively in the B2B payment space, with a heavy focus on fuel cards and fuel card payment systems.

But in addition to that, there are sets of businesses that operate in the B2B software and Software-as-a-Service (SaaS) space within the fleet domain, and three quarters of organisation. Again, it's predominantly a b2b payments business so we run the largest US B2B payment businesses competing directly with banks and other fintechs. We're also one of the largest non-bank foreign exchange and cross-border payments businesses globally. Having made acquisitions over the last couple of years, we're essentially in the payments business.

How are corporate payment solutions typically being used across public entities and the private sector at the moment in terms of payments and disbursements? What trends are you seeing in those areas?

From an enterprise standpoint, or a large public sector entity standpoint, here in the UK it's a relatively sophisticated landscape overall. Payments infrastructure is sophisticated, and software solutions are creating efficiencies at a corporate level in making and managing those payments. Depending on which part of the ecosystem is involved, there are big opportunities to help organisations become even more efficient before the payment is made, and after the payment is made. You can drive efficiencies in the procure-to-pay process with the latest digital tools.

Within the payment process itself, there are opportunities that companies have to make smarter decisions around which payment channels or payment rails they may be using for any given transaction. There is more complexity around cross-border payments, where businesses may want further help in navigating the pricing complexities, but also hedging opportunities associated with those as well. You can look for more efficiencies in costs, contracts, or hedge for future payments, or de-risk or manage risk in a more effective way.

Despite the sophistication at the top end of the market, there are still opportunities for businesses to drive further efficiencies, especially if they're global in nature or multi-market.

Moving further down the scale, the opportunities emerge in a different way, such as bolting on working capital solutions to payment capabilities. Can you use smart working capital solutions, perhaps in combination with Open Banking, to set up better payment options to customers or to businesses?

How do you bring in automation in order to create more efficiency for large SMEs at the smaller end of the middle market? If you look at their end-to-end purchase-to-pay process, there can be quite a bit of inefficiency in relatively high-volume transaction environments. That could be in how they are ingesting invoices, setting up workflows to manage the payment of those approvals, and the payment to those invoices. Then there is the question of how they then reconcile and integrate those into their general ledgers or other accounting systems.

If you look at mid-tier or the large end of SMEs, there's still a significant amount of inefficiency or fragmentation in that whole process, even though the payment itself may be electronic. It may appear to be efficient but it's the surround sound that drives efficiency.

Going further down into micro small businesses, the opportunity there is very different and is more relevant on cards. Penetration remains low outside of commercial debit cards.

You've got working capital solutions or cashflow benefits that can be provided if you've got the right set of products and services that can encourage these businesses to use smaller payment solutions. Many of these smaller businesses rely on their banks, who offer inefficient means to process cross-border transactions at often inflated prices.

But I'd say overall, we have a relatively advanced marketplace with still plenty of opportunities around the added- value services and in optimisation of what people are already doing today.

What impact has Covid-19 had on accelerating those trends and driving businesses to protect their cashflow with the use of these solutions?

Before Covid-19, AP teams were all based in one location, they had a certain process, which was not necessarily the most efficient, but they had that comfort zone. All of a sudden, everyone was working remotely or in a hybrid way.

Automation has a huge role to play in driving not just efficiency of how you're managing that universal AP, but also in reducing the propensity to make mistakes and errors. As you become more fragmented or more disbursed, software in front end automation can really provide tangible benefits and reduce the admin, reduce errors and also set up payments in the most efficient way.

That then filters into the cashflow piece through intelligent AI-driven software capability. You can set up your payments in a way that's most efficient to you as a business, and then choose the rails that you're going to pay those through. Those solutions maximise and take advantage of your cashflow requirements in the most efficient way.

Covid-19 accelerated the drive towards automation and businesses wanting more control, more visibility and transparency. That's providing not just benefits in managing through a pandemic, but longer term benefits as well, even hopefully after the pandemic is done.

What role do challenger banks play in the corporate payments space right now, alongside the emergence of fintechs? How do you see those entities disrupting the corporate payments market?

I think it's yet to be seen and felt in a meaningful way. Most of the challenger banks today, at least the ones that I track and follow, are playing at the very bottom end of town. In relation to entrepreneurs,

"

There is more complexity around cross-border payments, where businesses may want further help in navigating the pricing complexities.

contractors, micro-businesses, their way in there is very much as a deposit business. They can provide an easy way for a new business to set up a bank account, and provide them the basic tools they need to operate their bank account to get money in, and to push money out.

In a couple of cases, they'll provide a business credit card once they feel comfortable doing so, whereas others don't actually provide that at all. I'd say they do a really good job of making it easy and seamless for a business to get started, or for a young business or small business to just operate more efficiently with digital first tools that make it easy for them to manage their banking. In that sense, they are disrupting the start-up end or smaller end of the market.

Whether they'll make inroads into the more mature end is debatable. The challenge that the challengers have is, as they become more mature, the ability to manage businesses' cashflow needs, different forms of credit, different forms of financing.

There are some specialist fintech lenders that provide business lending, but I don't see anyone specifically going in and grabbing the place that a traditional bank has across the range of products and solutions that a business might need. And that doesn't necessarily need to happen. You can still have a relationship with two or three fintech specialists that provide you with all you need, but in a niche rather than in a general environment.

What about Brexit? To what extent do you think this will impact corporate payment and usage in relation to UK businesses who are doing cross-border business with the EU?

The only disruption would be in just in the ups and downs of trade. The act of making the payment is untouched by that. It's just a question of how much business are you going to do with European partners and vice versa, to the extent that you need to send money and receive money. The actual act of initiating and receiving payments through the various rails and channels is constant and still there.

The other element to play out is the whole pricing aspect, and how regulation will impact, the cost of making payments. Will payment service providers or others be opportunistic in being able to charge more than they would otherwise have charged in a unified regulated environment?

How different are the UK and the Europe region to the rest of the world in terms of its uptake of corporate payments?

There are differences all over the place in terms of maturity, and also in how commercial payment products and tools are used. In the UK, which is a relatively sophisticated payments market, that manifests itself through the use of cards for commercial payments. It's a true kind of rounded multi-rail electronic and digital payments market versus parts of continental Europe, where the sophistication of card usage for corporate payments is way lower. Also, the sophistication of working capital solutions that are bolted on to corporate payments is far less than the UK.

Yes, the US may be the most advanced payments market in certain areas, certainly in plastic, but in other areas, it really is lagging behind as it's still a very big paper cheque market, with 50% of B2B payments still physical cheques.

That presents a significant opportunity for players out there, including ourselves, to deliver a solution with better data and better digital integration capabilities. But when you look at the proliferation of virtual cards, the US is way ahead of anyone else in terms of the adoption of virtual cards in all sectors in all industries. Why? Well, one because virtual cards are way more efficient than cheques. And two, because acceptance of cards like Visa, MasterCard, etc, is way higher than it is in Europe or the UK.

Supplier acceptance of those cards in the UK and Europe tends to be lower because of the cost of acceptance, and that creates a barrier. In Europe or in the UK, virtual cards are relevant in certain very specific verticals like the B2B travel vertical, but if you were to overlay that into the construction vertical for paying suppliers or subcontractors for example, that does not exist compared to the US.

There is no doubt that there are huge of opportunities for payments businesses to tap into. Commercial payment flows in a much more profound way. But I'd say the opportunities vary country by country. Certainly, if you look at a lot of continental Europe and Eastern Europe and certainly in Asia, the commercial card opportunity is still so significant. It's an old-fashioned product that's been around for years and still the penetration remains relatively low.

Are you seeing partnerships between different entities across the payment value chain playing a bigger role in providing corporate payments? Is much more activity in terms of collaboration instead of competition, for example?

Yes, the fintech disruptors tend to focus on a niche area that they're very strong in and then use that niche to then either broaden an offering. Once they've established a foot in the door, they can work with other partners to enable that. The examples of marketplaces are good examples of where fintechs can point to their captive audience or customer bases which are loyal and engaged. Then they work with partners to offer them the ancillary services they need in order to run their businesses.

Open Banking is creating an opportunity to partner with others in order to open up new opportunities. We are a transactional B2B payments business. We don't provide lending and we have no interest in providing lending, because there are partners that can deliver that for us. There are partners who can deliver Open Banking solutions for us that allow us to get and extract the information that we need.

What we've learned is we don't have to do it all ourselves and build it all, because these are not our areas of expertise, nor are there diehard areas of strategic value for us. We've partnered with Modulr for example, to help deliver a product or service that leverages the faster payments infrastructure, and another business to give us access to Open Banking data. We can then use that to serve up more intelligent information to our customers around their cashflow positions. We may work with a specialist lending company that then uses that information to be able to sell a better working capital solution for their requirements.

There is way more openness to collaboration and recognition that it's actually a quicker way to market than to try and grab it all. For banks and mature banks, historically, it's been all about what can they bring and build and do themselves or bring in-house. They are now much more open today to leveraging the assets that the smaller, more nimble players can provide.

Would Fleetcor be considered an ideal case study for any businesses looking to bring more efficiencies to corporate payments by using your solutions?

In some geographies, like in the US, we have a full suite of capabilities. In other geographies, like the UK, we have part of the puzzle where we help businesses with managing their fuel cards, payments processing, and digitalisation. Over the last couple of years, we've branched out in the UK to provide more holistic AP solutions to businesses, and we're still building those capabilities as we go along.

If you're a construction company or a logistics company, and your ability to do business is reliant on you driving around, then a big chunk of your headaches and your operating expenses are going to be tied to fuel and your fleet. and tied to the span around that. So you've got drivers driving around various construction projects, you've got trucks, fuel costs and then costs for maintaining those vehicles. You've got costs for managing staff that are out and about, you've got to buy goods and supplies.

So there are various areas that we immediately have solutions to help bring all that together. What we're doing now is building out AP automation to companies to drive more efficiency.

For a business that's looking to optimise its corporate payment processes and B2B payment processors, what would you consider to be the key things they need to implement?

You need to look where the low-hanging fruit is, and where the inefficiencies are at the front end. Are you receiving a lot of paper invoices and having to manage those? Do you have a lot of employees that incur expenses that need to be managed and reimbursed? Do you buy supplies quickly, like take advantage of online buying prices? Based on that, there could be easy solutions to implement.

"

Covid-19 accelerated the drive towards automation and businesses wanting more control, more visibility and transparency.

You've got an employee travelling on business trips, incur out of office expenses, which they have to pay themselves, and then figure out how to get the money back. You obviously want to see receipts, or advance cash to them, which would be a silly thing to do. You can change that and make your business more efficient and actually provide even more control but with less control.

If you give an employee a company business card, and then all of a sudden they run amok with it, then you've lost control. But what we see in most cases is employees take that sense of responsibility seriously, and obviously an electronic transaction gives you full transparency on people misusing the card.

A commercial business cars or corporate card can help you be more efficient, and actually be a better employer because you're looking after your employees and not letting them worry about where to find money to pay for some unexpected business expense and then wait for reimbursement. So that's super low-hanging fruit.

If you move up the scale, how does this help cashflow? Are you receiving lots of paper invoices, and having to employ somebody to go through those paper invoices input them into Excel or some other accounting software package? You can scan it, but sometimes the software that scans it doesn't quite read things correctly. Then you have to figure out the date, and when to pay, how many people have you got doing that? If you're a tiny business and you've got two people working there, well guess what? One of you is going to be doing it, and that takes away from your ability to run a business. There are software tools already there that can help simplify this and make your life easier.

There is a need for businesses to become digital, but also to adopt smarter ways of managing their payments. If you're going to become digital in how you're managing your invoicing and your receipts, then obviously the payments themselves being digital helps enormously. That's going to be a big catalyst for adoption of corporate payment solutions.

What are Fleetcor's growth plans for the next few years to capitalise on the success you've had so far?

If you look at us globally, we've done a good job in growing as one of the biggest B2B payments companies. We are a predominantly diversified B2B payments business in the US, but I think our mission in Europe is to diversify further. We'll provide some working capital solutions to help you manage payments effectively and efficiently.

We're here to provide a better digital set of solutions for companies to be able to manage, ingest, and make payments. That's our mission - to deliver the full end-to-end experience with everything a company needs, from managing the stream of invoices, digitising those managing the channels and rails where payments are made, and supporting those payments. And then obviously making sure that all of that gets integrated and reconciled into your accounting software or ERP system. We have no desire to be the deposit taker. We're not the bank. We don't need to have that relationship. But we could provide a much more efficient way of actually managing payments without having to disrupt the bank account relationship.

Our strategy will be to continue to grow our presence in that B2B space, both for domestic payments and cross-border payments. And we're doing that through building solutions by also acquiring businesses that have those solutions already.

"

There is way more openness to collaboration and recognition that it's actually a quicker way to market than to try and grab it all.