

# Emerging Trends in Commercial Payments

AFP Nashville

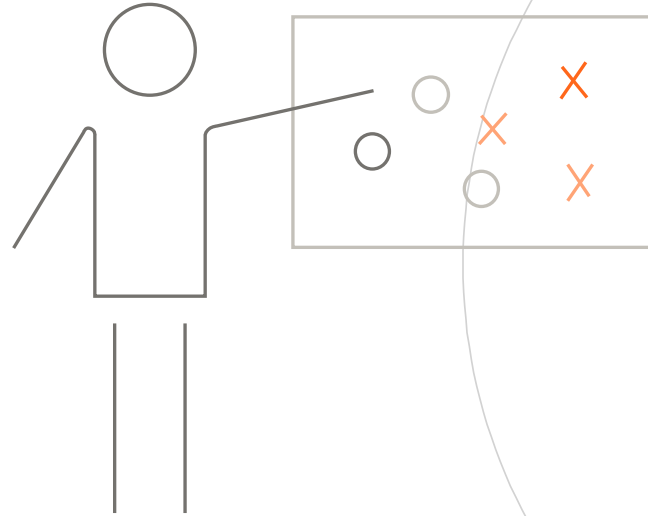
December 13, 2018

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# U.S. Commercial Market Overview

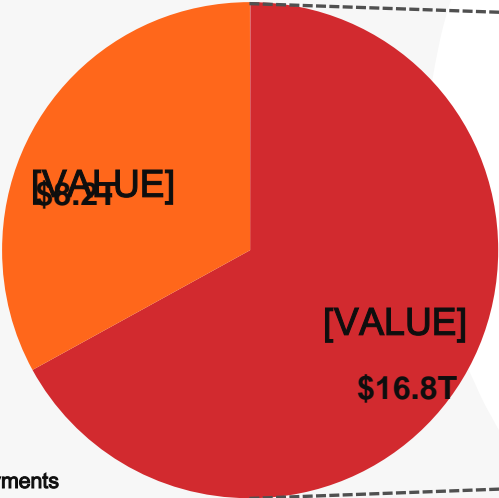
- U.S. Commercial Card Payments Landscape
- Emerging Trends
- Real Time Payments



# U.S. Commercial Payments Landscape

## Total Commercial B2B Payments

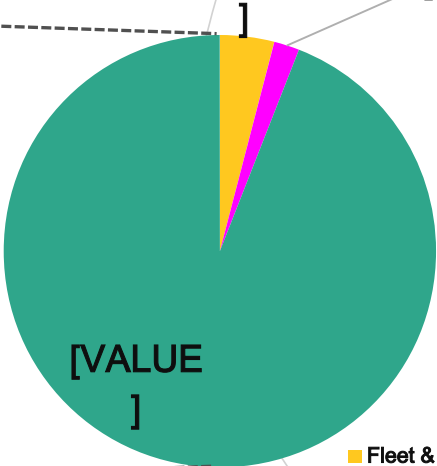
Total = \$25.0T



- Electronic Payments
- Check Payments

## Total Electronic B2B Payments

Total = \$16.8T  
(Dollars below in Billions)



- Fleet & Travel Cards
- P Cards
- ACH & Wire

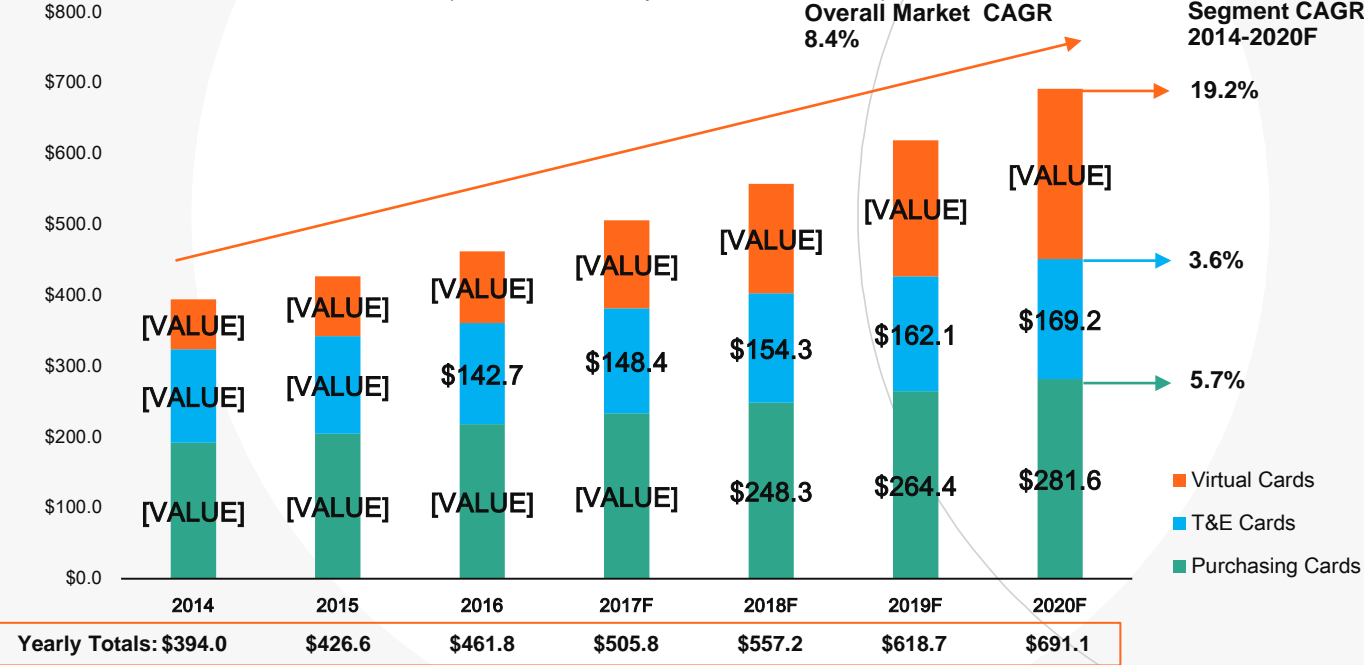
P Card currently represents 1.9% of overall electronic B2B spend

# Virtual Cards are Outpacing All Other Card Products - Representing a \$116B Opportunity Over the Next 3 Years

The overall U.S. commercial card market continues to show strong growth, with Virtual Cards growing fastest amongst all card products

## Estimated U.S. Commercial Card Purchase Volume by Product

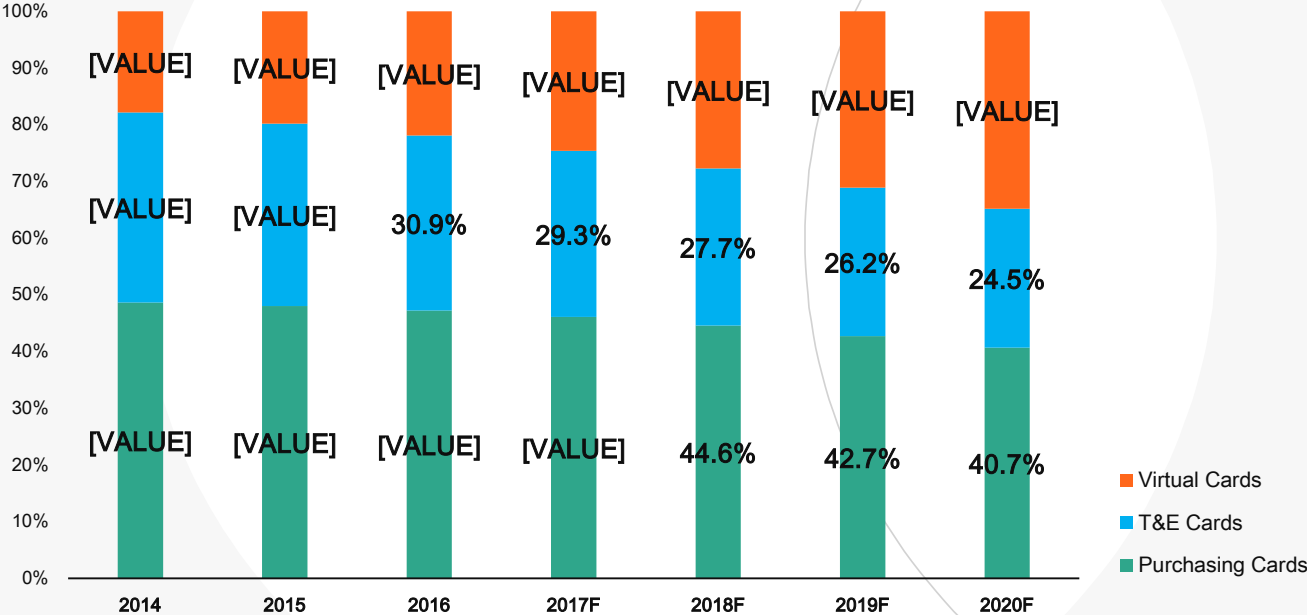
(Dollars below represented in Billions)



# Card Product Market Share Landscape

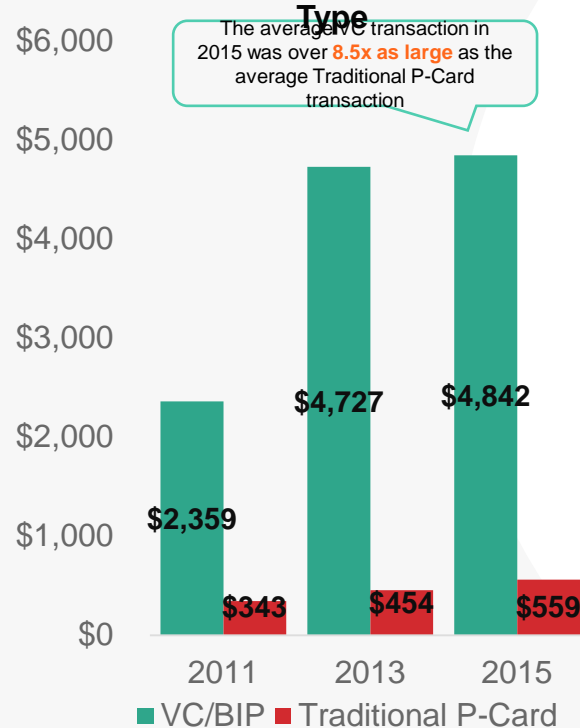
While all card products will continue to see purchase volume growth, by 2019, Virtual Cards will have eclipsed Travel Cards in overall spend percentage

## Estimated U.S. Commercial Card Percentage Spend by Product



# Virtual Card Transaction Size Highlights

## Average Purchasing Card Transaction Size by Type

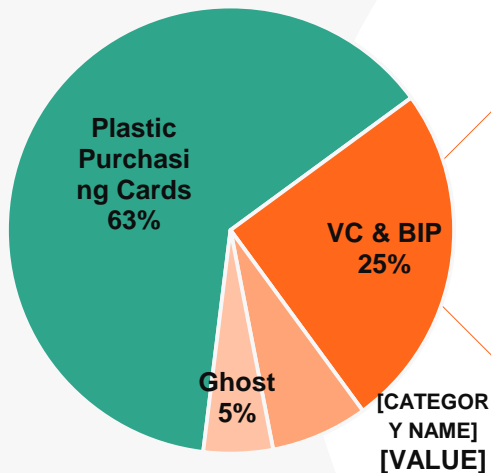


The average Virtual Card transaction size has increased 105% from 2011 as Corporates prioritize large-ticket purchases to maximize rebates

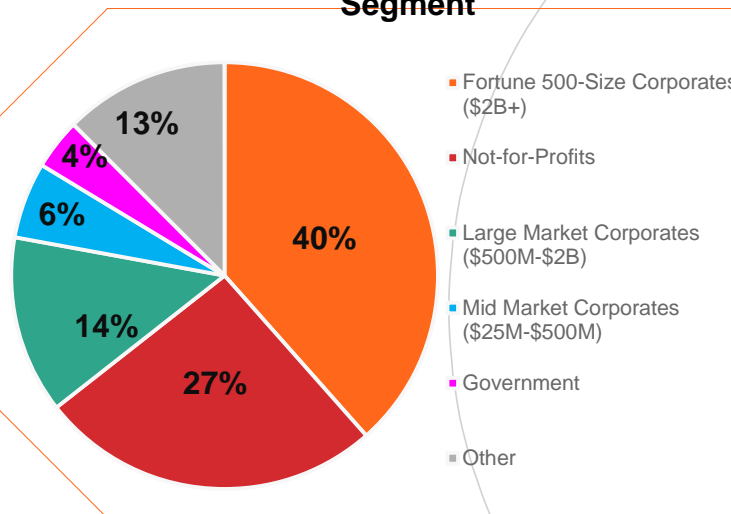
- Rebates are the primary driver of increased high-dollar purchases with Virtual Card
  - “As we try to grow our cash rebates, we are pushing Suppliers to accept VC for **large capital expenditures** such as major equipment” – DIRECTOR OF CREDIT, MEDIA
  - Many Issuers require Corporates to maintain an average transaction of over \$1,000 to earn the full rebate
- Virtual Card spend increases quickly for new programs as Corporates shift Suppliers away from checks
  - **For new programs, spend increases from 57% of Traditional P-Card spending in Year 1 to nearly 200% in Year 5**

# Virtual Card Transaction Type Highlights

## Virtual Card Spend by Card Type



## Virtual Card/BIP Spend by Customer Segment

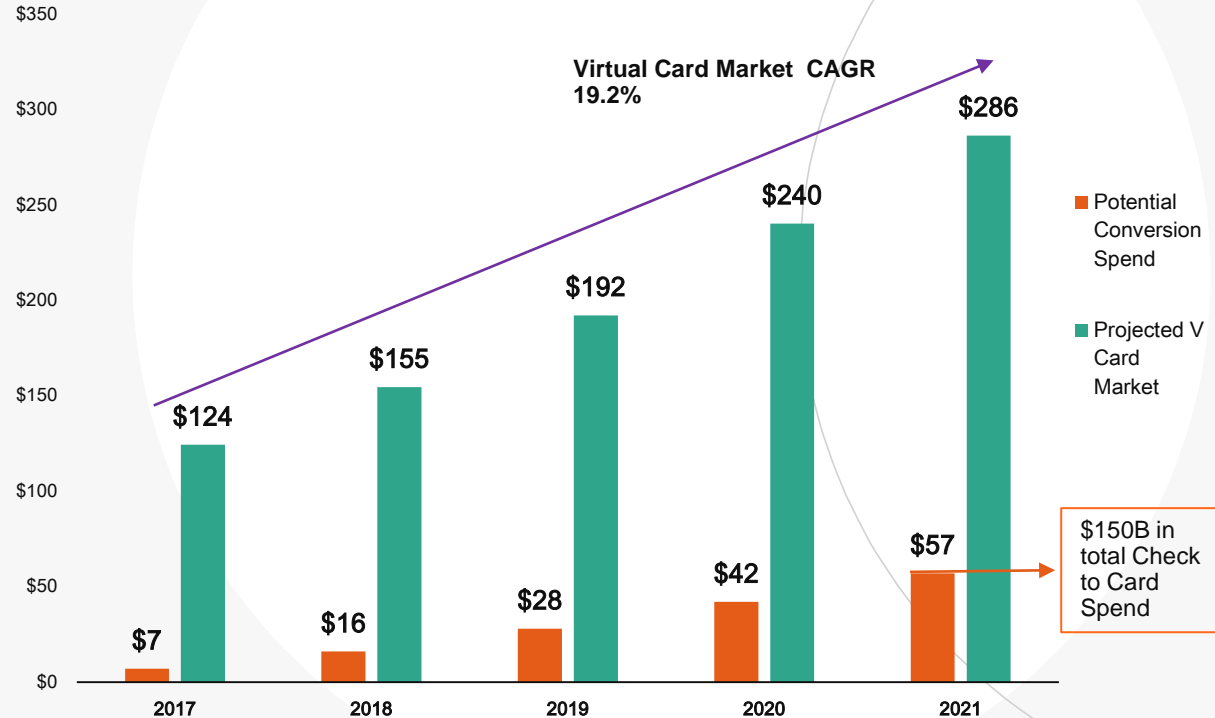


- Virtual Card (VC) and Buyer-Initiated Payments (BIP) comprise 25% of P-Card spend, indicating room to grow
  - **VC growth usually does not cannibalize Traditional P-Card spend**, instead converting spend from Check
- Annual spend on VC and BIP increases with organization size, in part due to Supplier enrollment efforts
  - Fortune 500s are most likely to have engaged in efforts to enroll Suppliers and to shorten terms to drive acceptance
- **Large Market Corporates make up only 14% of spend but are poised for rapid growth** with ~80% expecting an increase in VC spend by 2019 at an average annual rate of ~13%

# STP will Accelerate the Conversion of Check to Card Payments in the B2B Space

## Check to Card Conversion Represents a \$150B Opportunity

(Dollars below represented in Billions)



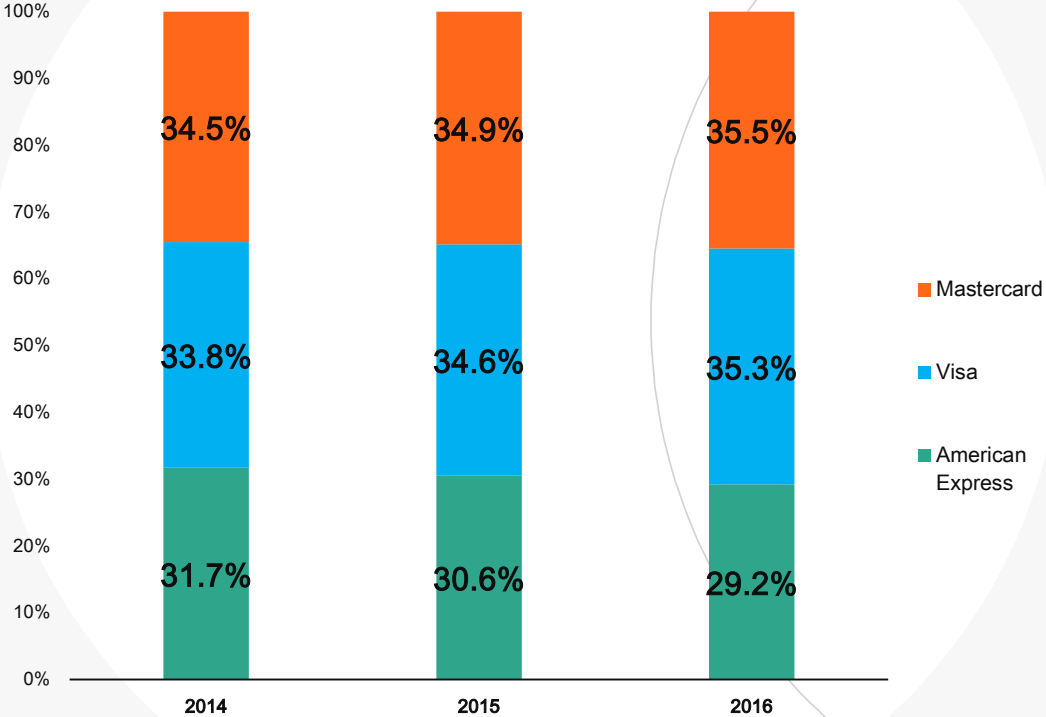
- U.S. businesses want to eliminate checks
- STP makes virtual card a great check replacement service



# Market Share by Network

Mastercard's overall Commercial market leadership position is driven primarily by Virtual Card portfolio growth, as most U.S. issuers have decided to partner (either in whole or in part) with Mastercard for Virtual Card products

### U.S. Commercial Card Volume Percentage Share by Network



# U.S. Virtual Card Market Share by Network

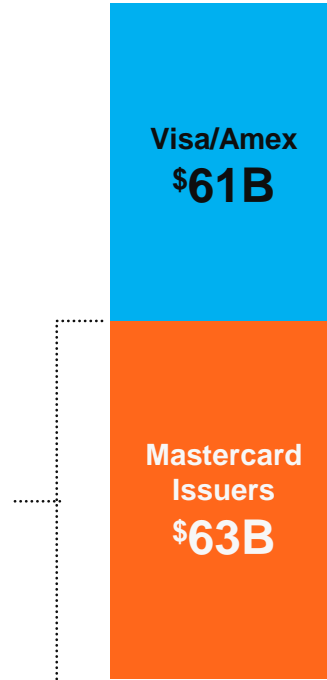
Mastercard Issuers lead all other brands in ePayables, with:

**51%** market share

Leadership position driven by both traditional & non-traditional FIs

Total Virtual Card Market Size:

\$124B



2017

Mastercard Issuers represent the Virtual Card market leadership position by spend volume with a 51% share:

- Mastercard Issuers lead all networks in Supplier acceptance
- Mastercard Issuers lead all others in transaction growth

Mastercard Issuers are heavily concentrated across large traditional & non-traditional financial institutions within North America.

- Most banks choose Mastercard for VC products
- Mastercard Issuers conduct supplier enablement campaigns at a rate of almost 2:1 over Visa

# U.S. Commercial Market Trends



# Current Market Trends

Mastercard is observing a number of key trends across the commercial landscape



Wholesale travel is moving share from T&E to VCN products



Sales forces are focusing exclusively on epayables opportunities



**Improved supplier enablement** solutions



**Vertically focused** issuers are experiencing the fastest VCN growth



Improving the value proposition to suppliers



Leveraging ecosystem partnerships



Implementation of **AP automation** and ERP integration tools are accelerating



EMV development for fleet issuers is in full swing



**BIP/STP** solutions are struggling to amass scale

# Emerging Market Trends

There are also a number of emerging trends that are beginning to impact market conditions



Cross-border VCN solutions are gaining traction



Growing need to define mobile and digital strategies



Emerging supplier trade directory solutions



Commercial Issuers are driving differentiation through UI customization



Meetings & events spend is becoming strategic



Banks and networks are developing new **Real Time Payments** and non-carded solutions



Persistent disruption associated with safety and security solutions



Increasing need for enterprise-wide API solutions



Seamless, end to end integration from Buyer AP systems to Supplier AR systems

MARKET DEVELOPMENTS:

# Real-Time Payments (Payments Modernization): The first new payment system in the U.S. in over 40 years is here

Technology pioneered by Vocalink, a Mastercard company, powers the Real-Time Payments (RTP) infrastructure and rails operated by The Clearing House (TCH)

## RTP AT A GLANCE

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The foundation for a safer, smarter, faster digital payments system



# The U.S. RTP system is the most advanced globally given its data and messaging functionality

Innovation unlocked through messaging and data standards

## THE KEY VALUE OF RTP GOES BEYOND SPEED OF PAYMENT

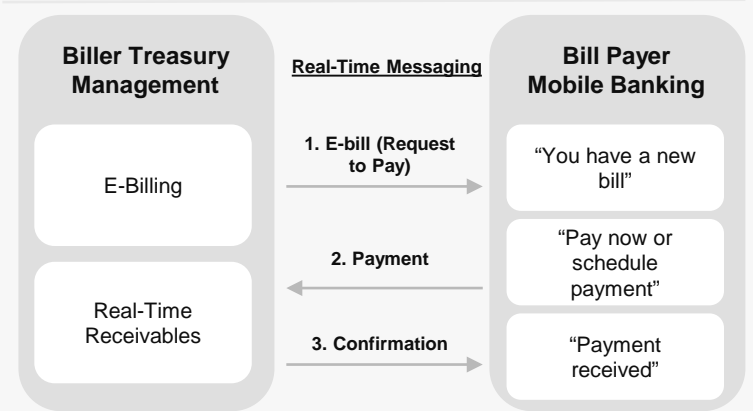
### ISO 20022

A robust international framework enabling security, flexibility, scalability and interoperability through a common language for global financial communications

### RTP MESSAGE TYPES

Beyond payment messages, RTP uniquely supports rich **non-payment messages like Request for Pay**, Payment Confirmation, Extended Remittance Advice, and several exception and admin messages

## REQUEST FOR PAYMENT EXAMPLE



# RTP presents significant benefits

# 85%

OF BANKS GLOBALLY BELIEVE THAT REAL-TIME PAYMENTS ARE THE FOUNDATION FOR GROWTH AND NEW PRODUCT ENHANCEMENTS

## REVENUE UPLIFT

- ✓ Transaction Fees
- ✓ Net Interest Income
- ✓ Product Cross Sell Opportunities

## SYSTEMS MODERNIZATION

- ✓ Enhanced Data Capabilities
- ✓ Greater Process Automation
- ✓ Improved Performance and Scalability
- ✓ Shorter Time to Compliance

## COST SAVINGS

- ✓ Reduced cash and check handling
- ✓ Reduced branch footfall
- ✓ Reduced per transaction processing costs
- ✓ Increased efficiency in IT spend

## ANCILLARY BENEFITS

- ✓ Competitive differentiation
- ✓ Increased agility & responsiveness to customer needs
- ✓ Enhanced fraud monitoring capabilities
- ✓ Greater use of online/mobile banking

Source: ACI Worldwide, 2018 Global Payments Insight Survey: Retail Banking



thank you