The Payment Facilitator Model: Extending the Reach of Commercial Cards

Commercial cards have gained considerable ground as a payment tool over the past decade among corporates in EMEA and around the world. For companies, they offer certainty of rapid payment, enhanced visibility of data flows, and improvements in procure-to-pay process efficiency. Perhaps most importantly, commercial cards can deliver significant cashflow and working capital benefits as the corporate benefits from the card billing and payment period) and a potential rebate to the corporate based on their spend.

Given these attractions, corporates have been eager to migrate their payment flows onto commercial cards wherever possible. What’s new, however, is that fresh ideas are emerging to shift additional payment flows to commercial cards where previously this might not have been possible. For instance, corporates in both the Middle East and Europe are now using cards to pay their tax bills as Business to Government (B2G) flows are opening up. While some countries still do not offer cards as a payment option for settling tax by credit cards or impose a surcharge, this B2G flow using commercial cards is beginning to widen, with governments appreciating that the Card is now a common payment tool for many companies.

However, there remain a number of suppliers that have yet to accept credit card payments – often because they do not want to incur the merchant fees associated with their use – and instead insist on being paid via funds transfers. How can corporates use commercial cards for payments to these suppliers in order to gain the greater control of their spend, enhanced data flow, and valuable working capital benefits?
A win-win outcome for corporates and suppliers

The answer is a new model that converts card payments into a payment type that is acceptable to the supplier. This idea, which originated in the consumer payment world, allows companies to pay using a commercial card even where the end supplier does not wish to accept card. This is made possible by a payment facilitator, working with a captive card acquirer, converting that card payment to a form that is acceptable to the supplier, such as a local ACH or an international SWIFT payment; the supplier does not even have to be aware of the conversion. And Citi is at the forefront of this new structure, working with payment facilitators to enable the end to end process.

In such a model, Citi would issue a commercial card as usual to its client; then when the client wishes to pay using the card, a payment facilitator converts the payment to a wire or ACH payment before remitting funds to the supplier.

The payment facilitator solution ensures that the buyer gets working capital benefits, which include both the billing cycle (i.e. the time until the bill is due) and the payment term. In addition, the company enjoys improved data flow and reconciliation, as well as potential in working capital and balance sheet benefits. At the same time, the supplier continues to be paid in the form most acceptable to them, does not need to work with a card acquirer, incur interchange fees, or be onboarded – it’s a win-win outcome for both corporates and their suppliers. In fact some corporates will settle suppliers early for a discount, but use the card billing and payment cycle to ensure their cashflow is unaffected or even improved.

How the payment facilitator model enhances flexibility

The payment facilitator model can be applied to a variety of situations and implemented in a number of different ways. This flexibility makes it a useful addition to a corporate’s working capital toolkit (which might also include standard payment via electronic funds transfer, regular use of commercial cards and supply chain finance, for example).

One important thing to note about the payment facilitator model is that it entails a small fee. In many instances the working capital benefits that accrue to the corporate from the effective extension of payment terms will more than outweigh this cost, so a straight through buyer-funded model – where suppliers get the full value of the payment – makes sense. However, in other situations the working capital benefit gained by suppliers when they are paid promptly may be sufficiently attractive to encourage them to bear at least some of the fees, mitigating part of the cost of using a payment facilitator for the corporate.

B2B Payment Solution: Improve Working Capital

1. Issues card
2. Issues Payment Instruction
3. Charges card
4. Remits Funds to Supplier
5. Processing Fees
   Or
5. Early Payment Discount
   Supplier Funded Solution

Advantages
• Working Capital and DPO extension
• Fixed cost for suppliers to drive larger uptake and benefits
• Single solution for card accepting and non-card accepting suppliers
Citi has worked with a number of leading companies in EMEA on the implementation of both models.

In one case, Citi worked with a company with very short payment terms to help improve cashflow. By using a Citi Commercial Card combined with a third-party payment facilitator, the company still pays its supplier in two days, while obtaining working capital at an effective cost – in terms of the fees paid to the payment facilitator – that is lower than other forms from more traditional sources.

For another Citi client, a shared funding model makes sense because the benefits of the solution are more equally shared between the corporate and its suppliers. A third Citi client, which operates in the global logistics sector, found that its internal processes (such as onboarding suppliers to its enterprise resource planning (ERP) system) meant it often failed to pay suppliers within the 30-day timeframe, damaging its relationship with them. Switching to payment cards using the payment facilitator model enabled it to make convenient and timely payments and avoid having to register one-off suppliers in its ERP system.

Opening up new payments to cards

By providing another option to pay suppliers, the payment facilitator model can enable corporates to optimize their working capital and strengthen their supplier relationships. It enhances the corporate’s flexibility by enabling them to adapt their payment strategy to their own changing needs and those of their suppliers. As a result, corporates are better placed to achieve their working capital or other objectives.

In the past, card payment was dependent on supplier acceptance and industry norms regarding willingness to pay interchange fees and other costs. The payment facilitator model overcomes those barriers, opening up new types of payment, markets and suppliers to cards – increasing the benefits for corporates. The payment facilitator model is beginning to gain momentum in EMEA (largely because of the historical reluctance of some suppliers to accept cards). However, its benefits are universal and look set to be enjoyed by corporations around the world in the coming years.

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