

Outsourcing Payments? Here's What You Need to Know About Virtual Cards



If you're looking to outsource your supplier payments, you're likely to hear references to virtual cards or virtual credit cards.

These cards are not really cards at all. They're also not very complicated. But they do differ from ordinary credit cards, p-cards, and gift cards. So, here's a little help understanding how virtual cards work, especially if you are using an outsourced payments company.

What Is a Virtual Card?

Simply put, a virtual card is a randomly generated, 16-digit credit card number that exists electronically, and is referenced through email or online portal, rather than a physical card.

Each virtual card number is unique and can only be used to pay for a pre-designated transaction or transactions. It is usually backed by Visa or Mastercard, which charges an interchange fee for its usage.

Why Are Virtual Cards Used by Payments Companies?

Outsourced payments companies often rely on virtual cards to pay suppliers - on behalf of their clients - because virtual cards are far easier to issue and more reliable than checks, not to mention secure. Should a hacker get hold of the virtual card number, the card is only valid for a very specific transaction or transactions. Moreover, virtual cards expire after a short period of time, often 60 days. So, the chances for fraud are minimal.

Another plus: The supplier doesn't have to surrender any financial information, like where he/she banks, or any account numbers, to receive virtual cards.

The suppliers just process these virtual cards in their POS systems by entering the 16-digit number, which is usually sent by email. The money is deposited directly into the suppliers' designated bank accounts.



Suppliers process virtual cards the same way they process credit cards.

Finally, virtual cards carry an interchange fee – and part of that fee can be rebated back to the payments company and/or the buyer.

What Are the Virtues of Virtual Cards for Buyers?

Virtual cards can be used by businesses of all sizes who need an efficient way to pay suppliers. In real estate, they can be used to pay for all the invoices that are constantly streaming in, such as those for landscaping, maintenance, upkeep, repairs, etc. Here are some of the reasons buyers might want to start leveraging virtual cards:

1. **No mail float/delays** – by switching from paper checks to issuing virtual cards, suppliers are paid faster. That often means the buyer doesn't incur late fees. Virtual cards are often sent faster than ACH payments, too.
2. **Lowered risk of fraud** – each virtual card has a pre-specified amount, is issued for a specific invoice (or set of invoices) and has a set expiration date. It can't be duplicated or have its amount or recipient changed once sent. After reaching a \$0 balance, it automatically expires. These features make the virtual card almost impossible to misuse.
3. **Cash rebates** – buyers can earn cash back for invoices paid with virtual cards. Amounts of rebates vary among payments companies.
4. **Business continuity** – when buyers (or their outsourced payments company) pay suppliers electronically, such as through virtual cards, they can perform every step of the payments process from anywhere with an internet connection. Buyers won't be tied to an office and all their check stock, ink, check printers, etc.

What About Suppliers?

How do all the painters, repairmen, locksmiths, general contractors, and other suppliers actually process virtual cards?

As mentioned previously, suppliers can process virtual cards in exactly the same manner as they do regular credit cards. So, there's no learning curve. Moreover, there are other key advantages.



Supplier

1. **Faster payment:** virtual card payments clear faster than traditional payment methods and help suppliers maintain critical cash flow.
2. **Full visibility:** with virtual cards, suppliers never need to call their buyers about lost or late payments. Virtual cards offer full online traceability, and suppliers can check status at any time.
3. **Detailed remittance info:** suppliers can perform reconciliation quickly and easily thanks to all the detailed information that comes along with virtual card payments.
4. **Guaranteed payment:** since the virtual card is backed by Visa or Mastercard, payment is guaranteed.
5. **Preferred status among buyers:** by accepting virtual cards, suppliers can become more appealing to those customers who prefer to pay electronically.

How Do Outsourced Payments Companies Encourage Adoption?

Outsourced Payments companies are often responsible for evangelizing the benefits of virtual cards to suppliers and switching them to this payment method.

Many have teams who are responsible for this "onboarding" where they contact suppliers and get their OK to send all or some of their payments for their invoices via card, instead of paper check.

While a wide variety of suppliers will accept virtual card, suppliers in the following fields almost always accept virtual card as their payment method: Hardware Providers, Plumbing, HVAC, Security, and Pest Control.

The buyer, meanwhile, doesn't have to do much to embrace virtual card:



- Once the buyer approves their invoices, the buyer submits a payment file to their selected payments provider.
- The payments partner generates all the needed virtual cards and emails them to the buyer's suppliers with instructions on how to process them, along with all the reconciliation information.
- The buyer maintains 24-7 visibility into both processed and unprocessed cards – so they can have this information at the ready should a supplier inquire about payment status.

Can Everyone Use a Virtual Card?

While all buyers can use a virtual card, not all suppliers can or want to. Suppliers must have a Point of Sale system to process the card. Other suppliers may not be willing to accept them because it costs them money.

Suppliers have also turned down virtual cards because there are some manual steps required to retrieve card numbers and remittance details from emails, enter information into POS terminals, and apply payments in their systems.

Is Virtual Card Usage Increasing?

These objections are disappearing daily, especially because Covid-19 has made handling paper checks – and managing the associated mail float - very problematic.

Based on Nexus data, suppliers started increasing their acceptance of Nexus virtual cards in Q2 of 2020. Monthly acceptance rates of virtual cards went up 56% in March, 38% in April, and 45% in May, compared to the prior year. And, similar increases have continued throughout the year.

Virtual cards are one of the best ways to pay your suppliers. For more information about how they'll work as part of an outsourced payments program, visit <https://nexusystems.com/ap-payments/>.