# VIRTUAL CARDS:

## SIMPLIFY SUPPLIER PAYMENTS AND STRENGTHEN PARTNERSHIPS.

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MARCH 2025

Citizens

## KEY TAKEAWAYS:

- Commercial virtual cards are a **growing trend** happening now. In the market for nearly two decades, they have been proven to **unlock significant value by providing increased security, optimal working capital management and operational efficiencies**.
- While some suppliers resist accepting virtual card payments due to concerns about higher fees and integration complexities, many others have capitalized on **positive impacts to their bottom line**.
- **Robust communication, effective education and collaboration** between buyers and suppliers are critical to unlocking value for both sides of a commercial transaction.

Virtual cards continue to rise as a top payment method between businesses. Many companies are finding that core challenges including security, late, inaccurate or delayed payments, effective working capital management and spend visibility can be improved when paying with a virtual card.

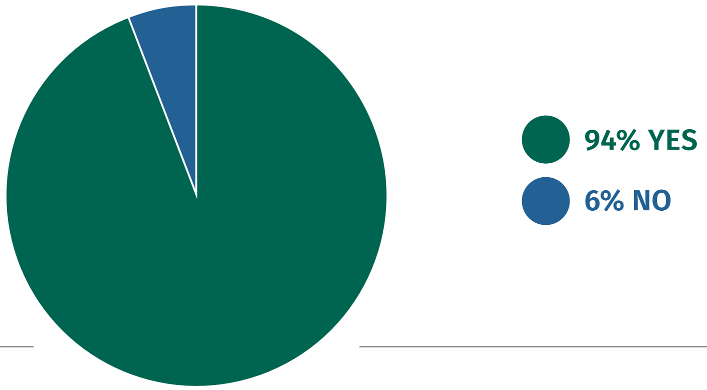
While virtual cards can provide many benefits, one persistent challenge has been supplier acceptance, often stemming from a lack of awareness or education about benefits that go beyond the card acceptance fee. Many suppliers remain resistant due to misconceptions about fees, integration complexities, or a general reluctance to move away from traditional methods like checks or Automated Clearing House (ACH) payments. There are some compelling reasons both parties are embracing virtual card payments.

## TRENDS IN THE COMMERCIAL PAYMENT LANDSCAPE

The digitization of commercial payments has accelerated rapidly, with virtual cards at the forefront, advancing how businesses transact. According to Javelin[1], virtual cards were the highest growing card payment segment in the U.S. from 2022 – 2023, at 13% YoY spend growth compared to overall commercial card spend growth at 8.3%.

Positive sentiments and transitioning towards payment digitization has grown across the corporate landscape, while traditional payment methods like check and cash payment options are losing appeal. Responding to a recent Citizens Payments Trends survey[2], C-suite executives at midsize companies validate that digitization has refined cash flow forecasting and enhanced spend visibility and control. **Ninety-four percent of the respondents indicated that their company intends to transition to exclusively digital payments within the next 5 years**.

Does your company intend to transition to exclusively digital payments within the next 5 years?




The Citizens Payment Trends 2024 report[2] emphasizes that the number of respondents who view cash and checks as critical supplier payment methods has dropped significantly to 56% and 53% respectively compared to 73% for both in 2023.

Percentage that view cash as important


Percentage that view checks as important

While buyer adoption, pandemic upsurge and increased demand for digital payment solutions have shifted the virtual card acceptance needle, supplier reluctance remains a bottleneck in propelling its growth. **Forty-one percent** of respondents in our Payment Trends report[2] cite supplier resistance as a deterrent to using virtual cards. Many suppliers perceive card acceptance as costly due to acceptance fees, which they believe reduce profit margins, particularly on high-volume or low-margin transactions. Others worry about the complexity of integrating virtual card payments into existing workflows, fearing disruptions to accounts receivable processes. **As the market matures, the growing availability of automation tools and advancements in payment technologies is making it easier for suppliers to integrate virtual cards seamlessly, paving the way for broader supplier acceptance and adoption**.

Issuers and payment ecosystem providers have realized they play a crucial role in fueling the growth of virtual card acceptance through services and solutions that support virtual card acceptance. Many of these "value-add" services are offered through partnerships that go beyond the provisioning of virtual card numbers.

Through supplier enablement programs, issuers and payment providers support company goals by executing vendor targeting and outreach programs. They promote strategies to boost supplier acceptance depending on payment conditions such as longer payment terms or high transaction and spend volumes.

**Straight Through Processing (STP) services push payment funds directly to the supplier's bank account while eliminating the supplier's burden of retrieving and processing each virtual card payment.** Further, with STP, suppliers need not worry about sharing bank credentials at the transaction level. With detailed remittance data, this is a win-win for supplier receivables and reconciliation. Partners offering STP typically maintain and grow their supplier acceptance network, providing quick wins for buyers to transition participating suppliers to digital payments.

## FORWARD-LOOKING VIRTUAL CARD OPPORTUNITIES

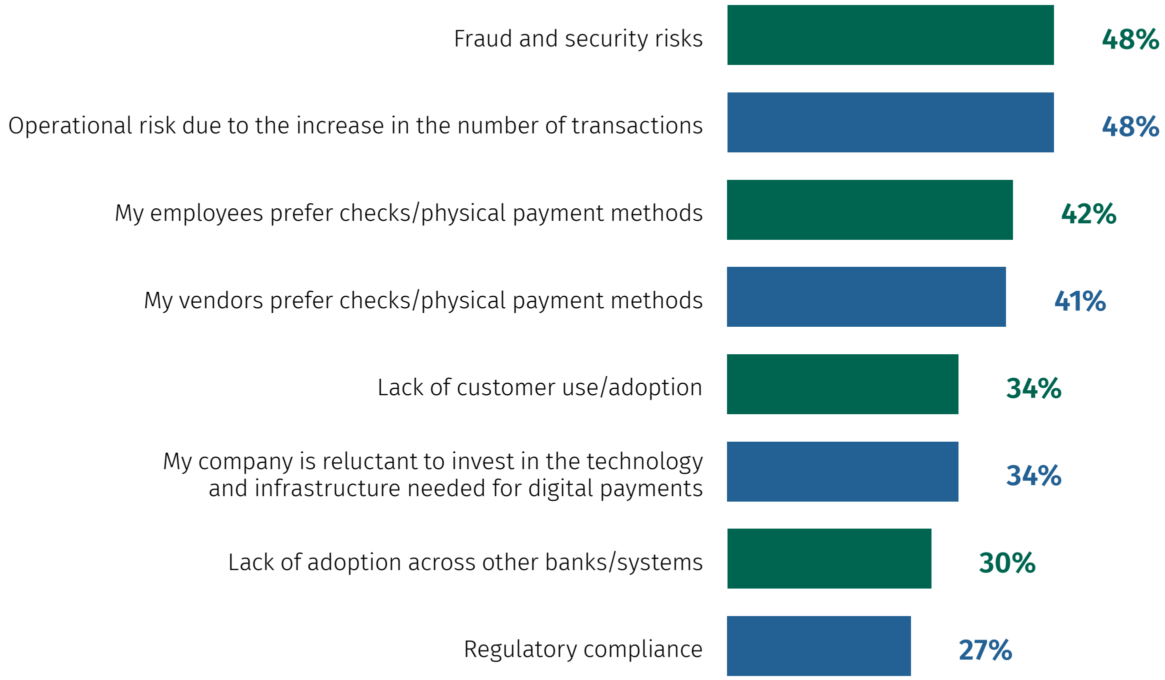
Shifting to digital payment methods like virtual cards can help future-proof companies and is a top use case in our 2025 AI Trends Report[3]. **Innovative technologies, such as Artificial Intelligence (AI), are playing a crucial role in amplifying the value unlocked through commercial virtual cards by enhancing automation, predictive analytics, and decision-making.** AI-powered insights can improve efficiency, streamlining the account payables (AP) and account receivables (AR) processes. In AP, AI can match invoices with purchase orders and optimally time virtual card payments. In AR, AI can automate invoicing, send reminders, and prioritize collections based on virtual card payment behavior and data insights that inform the AI system.

Staying on top of macroeconomic conditions including fluctuating interest rates and inflation remains a concern and challenge for many businesses. Most look for ways to optimize cash flow and minimize the impact of higher costs of funds. Solutions like virtual cards offer greater transparency, faster settlements, and more secure transactions, helping buyers and suppliers improve cash management and working capital positions through varying economic conditions.

**U.S. commercial virtual card spend volume is forecasted to grow YoY by over 11% between 2023-2027. Rising from $294 billion in 2023 to $452 billion in 2027[1].**

## UNLOCKING STRATEGIC VALUE

Which of the following factors, if any, deter your company from using primarily digital/card payments?
Base: Among those with <50% of digital transactions (2024 N=107).



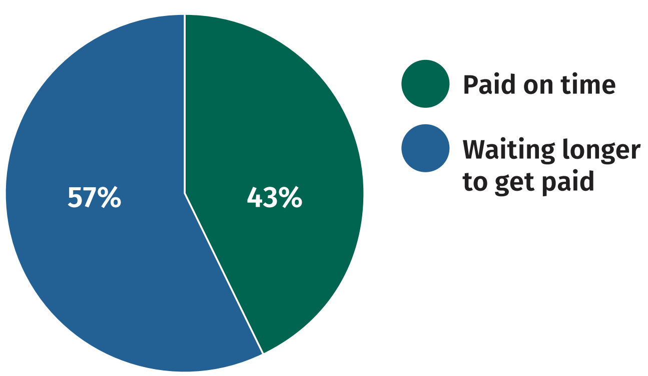

While concerns over fraud and preferences expressed by vendors and even employees have prevented some businesses from committing to a higher proportion of digital payments, many have realized that virtual cards not only mitigate some concerns but offer incremental benefits that are foundational to acknowledge.

| **Value and Benefits for Buyers**<br>*It's not just about the rebate!* | **Value and Benefits for Suppliers**<br>*What do suppliers have to gain?* |
|---|---|
| **Traditional payment method challenges:** Inefficient, error-prone processes, lengthy expense approvals, lack of spend visibility, security, automation | **Virtual card pushback:** Help suppliers look beyond acceptance fees to the time and cost to process every payment and the cost of late payments. Communication of the benefits many suppliers overlook is key |

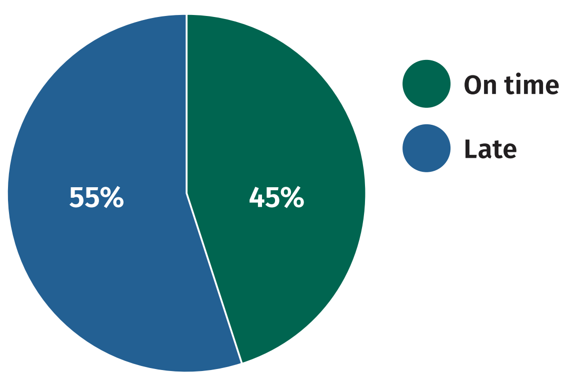
| **BENEFITS** | **BENEFITS** |
|---|---|
| **Reinforce security** with single use and authorization controls to reduce the risk of fraud | **Enhanced security** offers protection of sensitive financial information and immediate remittance data visibility |
| **Improve working capital management** by maximizing "Days Payment Outstanding (DPO)" and card "float" | **Exchange getting paid** on-time or faster for accepting virtual card AND reduce "Days Sale Outstanding (DSO)" |
| **Advance cost savings and efficiencies** with increased automation and reduced manual entry and errors | **Reduce administrative costs** with purchase controls and detailed data that support automation and reconciliation efficiencies |
| **Increase spend transparency/visibility** with payment data details to facilitate digital automation, integration and data insights | **Gain competitive advantage** over non-accepters as buyers patronize accepting suppliers and offer "preferred status" |

**Slower payments:** According to an Atradius Report[4], **57%** of suppliers are waiting longer to get paid and usually **55%** of payments are late; leading to cash flow issues requiring short term borrowing (factoring) to meet cash demands. Invoice approval and check delays are top culprits.

## % of Suppliers Waiting Longer To Get Paid




## % of Timely vs. Late Payments



## STRIKING THE RIGHT BALANCE

Embarking upon a digital payments transformation ultimately requires you and your suppliers to more deeply understand each other's goals and challenges. It starts with factoring in all your benefits and identifying what types and levels of trade-offs are possible to offer targeted suppliers to gain virtual card acceptance. By the same token, suppliers need to acknowledge benefits outside of any offered incentives to be able to properly quantify what that incentive needs to look like.

What we are observing in this negotiation is a mixture of different levers and incentives that can help address pushbacks and goals on each side of the equation.

- **Offering a service such as straight-through processing** to reduce high volume operational pain points or negotiating a more palatable acceptance fee may be necessary when targeting more strategic suppliers. This still gives you ample float while providing a cash flow advantage for the supplier, potentially reducing their borrowing needs.

- **More strategic suppliers may require additional incentive to accept card**. This may include offering a service such as Straight Through Processing to reduce high volume operational pain points or may require negotiating a more palatable acceptance fee. Most providers leverage working capital tools to quantify and identify appropriate incentives for buyers and suppliers to consider.

- **Suppliers may agree to accepting virtual card but require the payments to be made through a bill-pay service or on-line portal**. Your ability and willingness to support these requirements will surprisingly expand your virtual card spend volumes.

- **Throughout supplier negotiations it is important to point out that some can be led by the virtual card provider or a trusted partner while others may be led by companies themselves**. Knowing the right supplier contacts to engage becomes critically important. Just as important is acknowledging who at the company really "owns" the supplier relationship and is best suited to have these conversations. This ensures a deeper understanding of each targeted supplier as the virtual card dialogue ensues.

## PROVIDERS OF VIRTUAL CARDS

Commercial virtual card payments are supported through a multi-party model – the supplier and their merchant bank/acquirer and acquiring processor, your business and your bank/issuer and processor; and other trusted partners supporting virtual card acceptance. The role of the issuer is just as important as acceptance by your supplier. As you look for the right partner, it is critical to ensure the issuer has a deep understanding of the commercial payment ecosystem. Apart from seamlessly setting up the virtual card program, the issuer should provide robust and experienced supplier enablement support and value add services – whether internally or through proven partners – such as supplier targeting, outreach and materials aimed to educate and increase adoption. As businesses seek long-term partners, they should consider these services along with broader commercial and treasury banking needs.

### Expanded use cases to optimize virtual card spend.

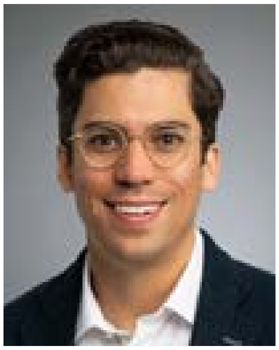
While the most common uses for virtual cards have been to embed them with accounts payable and on-line procurement platforms, there are additional prospects when looking closer at travel spend, even going beyond online travel associations (OTA) or travel management companies (TMC) that can propel your program to new heights.

## ACTIONS TO CONSIDER:

- Have an educational dialogue with targeted suppliers
- Focus on a shared understanding of the benefits
- Discuss any approved incentives and trade-offs as appropriate
- Optimize the use of virtual cards, creating a more efficient, secure, and mutually beneficial payment ecosystem

**The transformation to more digitally sound and secure payments is well underway and the time to adapt to changing technology and digitization benefits is now.**

**Contact our experts to further understand how virtual cards and digitizing payments can help your business at www.citizensbank.com/commercial**



## ABOUT THE AUTHOR

Rodrigo Sanchez,
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As Head of Commercial Cards, Rodrigo is focused on the expansion of our card issuing business, with responsibility for business strategy, product management, sales and account management. Rodrigo has 15 years of experience in the payments and cards industry, having served in leadership roles across product, strategy, and analytics both in the United States and abroad in South Africa and Uganda. Prior to joining Citizens in May 2021, Rodrigo worked at Silicon Valley Bank in various roles across Global Payments, FX, and Cards.

He holds a Bachelor's Degree in Finance and International Business from Georgetown University and a Strategic Management Certificate from Oxford University. Rodrigo lives in Connecticut with his wife and two children.

**References**
[1] Javelin Advisory Services, NAM Commercial Credit Card Review & Forecast, December 2023
[2] Citizens, Payment Trends 2024, February 2024
[3] Citizens, 2025 AI Trends in Financial Management
[4] Atradius, B2B Payment Practices Trend, United States 2023