Those pushy emails about "e-payments" were probably enticing. Your vendor sent you an invoice—you forwarded it to your payment provider—and they said to the vendor, "Hey, want to get paid faster? Try e-payments! It's the future!" Little did your vendor realize, "e-payments" is code for virtual cards and credit cards. They would have to pay up to a 3.5% credit card acceptance fee to receive these payments. Faster? Sure. Painful? Definitely.

Accounts payable (AP) teams seldom intend to slam vendors with the cost of transactions. They are just keen on the rebates, controls, and spending limits virtual cards can provide. They don't necessarily realize their 0.5% rebate will come out of the vendors' pockets.

That is one of the hidden pitfalls of virtual cards. Payment providers offer to take over your relationship with the vendor as a service. From there, the providers pressure your vendors to open merchant accounts and eat that 3.5% "swipe" fee,

A virtual card is a 16-digit credit card generated by your payment provider for purchases. The provider can program a spending limit and even category limits onto the virtual card, ensuring that corporate funds aren't misused.

For payment providers that issue virtual cards, the game is to maximize their revenue. With each new vendor they can cajole into accepting virtual cards, they will get a cut of the credit card acceptance fee charged by the card network. They often share a small portion of that cut with their vendors, in the form of a rebate based on the value of the transaction. The math is simple. The more vendors the payment provider can get to accept virtual card payments, the more money they will make from the card networks.

If, for instance, a payment provider facilitates $1 million in daily transactions on virtual cards, the card network will keep 2.5%, the payment provider will get 1%, and the payer might receive a 0.5% rebate, at best. However, if the payment provider can raise virtual card transactions to $5 million, it will make more money on volume alone, and it might be able to negotiate a higher kickback with the card network. No matter how you slice it, the payment provider makes good money by luring more of your vendors into virtual cards. It's reminiscent of a multi-level marketing scheme.

As such, payment providers invest heavily in marketing virtual cards—with pitches about rebates, fraud prevention, control, speed, reconciliation, cash management, and so forth. While these benefits aren't necessarily untrue, they overlook important tradeoffs.

The Catch

Again, to magically rebate part of your transactions, payment providers force your vendors to accept credit cards—including the painful, 3.5% fees levied on lowvolume merchants. To be clear, your vendors end up paying 3.5% for you to get a

The vendors, many used to ACH and checks, will catch on quickly to the added cost of accepting these faster payments, which doesn't look good for you. They don't want to eat 3.5%. They'll raise your costs to compensate, often without saying why.

While you're excited about a 0.5% rebate, your vendors are now adding 4% or 5% to your bill. Who benefits from that? The payment provider and card networks. The higher the volume and transaction values, the bigger their take.

You could be negotiating a 3% to 5% discount with your vendor *just* for using ACH, which costs you less than $1 per transaction. Instead, you're paying dimes for pennies while alienating vendors.

Have Options

Although virtual cards have a catch, there are two circumstances in which they may be useful.

First, a controller may want to cap purchases before they're made. Marketing (notorious for its spending habits) might want to buy 300 t-shirts. The controller can issue a virtual card that caps the spending at $800, giving the AP department one less thing to stress about.

Second, virtual cards can offer better security and fraud prevention than traditional credit cards. In the extremely unlikely event someone steals the 16 digits, the spending is still capped and maybe category-restricted.

The bottom line is this: rather than become a credit card, ACH, or check purist, *have options*. Be in a position to use the payment method that best suits the situation and your AP department's available resources. Discuss the costs and benefits of various payment options with your vendors rather than imposing a payment method on them. If you think virtual cards are the obvious way to go, think twice. One way or

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