Virtual cards to show good growth, which is good news for consumers and banks

Although South Africa was a little late to the party when it came to the uptake in virtual-card usage, businesses are quickly realising the benefits of this payment method.

Source: Supplied. Chris Wood, regional managing director, Southern Africa and Palops at Network International.

And, with a good change management approach, virtual cards could offer big benefits to organisations looking to cut down on accounting administration - as well as a valuable revenue stream for traditional and neobanks.

Juniper Research expects the global value of virtual card transactions to increase from $1.9tn in 2021 to a sizable $6.8tn by 2026.

In addition, an FRI group study commissioned by Visa sees the biggest growth in virtual cards coming from businesses, reporting that Canadian and US firms that already use purchasing cards showed a strong interest (74 and 93% respectively) in adopting virtual cards.

“The growth opportunity of virtual cards in South Africa is comparatively larger given that we were already running slightly behind in adoption. This is through no fault of our banks since the scheme tokenisation required for mobile wallet payments such as Apple Pay, Samsung Pay and others were released a little later than in some other global markets.

"Soon after we had the launch of Instant EFT, and then of course Covid hit. The drive for lower contact payment methods was accelerated by the pandemic with many consumers shifting to tapping either cards or phones on terminals.

"As consumers become more comfortable with using their phones, and generating and using virtual cards, this should translate into healthy growth in the coming year," shares Chris Wood, regional managing director, Southern Africa and Palops at Network International.

Wood says that he expects to see continued utilisation of virtual cards in both the consumer and business segments, where the application of a travel or procurement-based commercial virtual card can give local businesses several advantages over traditional plastic, especially when it comes to customising how, where and when they can be used.

"The shift towards increased self-management of payment tools within the business space now means that finance or procurement departments can issue, manage, track and reconcile activities on a virtual card within set parameters.

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Katja Hamilton 30 Sep 2022

"Previously this all had to be centrally managed by an issuing bank with a lot of back-office administration between bank and business customer. For instance, if team members are travelling, they can ensure that the card can only be used at the relevant merchants, the designated hotel, Uber and pre-arranged venues.

"They can also add time or value parameters to the card. Now, the employee is freed up from collecting receipts and submitting the litany of claim paperwork when they return," he explains.

The administrative burden is further reduced since virtual-card charges are instantly reconciled and give the accounts teams a very clear overview. They know who each card was issued to and the parameters of where and when the card could be used.

Unlike their plastic counterparts, virtual cards can also be generated on the go and, once approved, are available instantly on the relevant mobile device, allowing staff to toggle between their personal and business cards as needed.

Resistance to change can be overcome

Like all new payment methods, Wood says virtual cards are quickly embraced as soon as a user has the opportunity to transact with one.

"It only takes you making one successful transaction with a new payment method to overcome user resistance. It's all about getting over the chicken and egg conundrum.

"Whenever change in the payments industry is introduced, we see a slow burn and then a scaling not often seen in most industries as users adapt. This is largely because of the inter-relationship between the players in the ecosystem; you must have a merchant willing to take a payment type and must have a consumer willing to try a new payment type for the first time," he says.

"Change management will be a big part of all new payment technology. Once your teams understand that they will be freed up to focus on more value-added functions, they quickly embrace the time-saving aspects of the new tech," he explains.

Good growth likely to attract fintech and neobanks

Like individuals, financial service providers, whether large or small, will also need to shift their mindset if they hope to benefit from the opportunities presented by emerging payments.

“Big banks have departments that have historically focussed on selling cards and point-of-sale devices. It’s easy to see why they may feel threatened by new payment technologies that appear to disrupt this device and plastic-centric paradigm.

Retail goes mobile - 95% of customers make purchases via smartphone

15 Nov 2022

"The future of payments is increased interoperability across payment types, allowing the person making the payment to choose which method works for them, and allowing the merchant, or the entity receiving the payment, to accept it in any way imaginable.

"This may also require some change management to help them transition from what they’ve always known to a much broader payments value chain where the payment itself becomes less prominent, but the value-added services built around it rise to the forefront,” Wood explains.

Any resistance is easily overcome, however, when the business opportunity is better understood.

The Juniper projection of global spend on virtual cards is expected to be driven by B2B spend, which the company says will account for 70% of overall virtual card spend in 2026. What’s more, uptake of virtual cards seems to be particularly associated with high-growth companies.

The Visa commissioned study points to almost half of US companies using virtual cards planning to further invest in their business over the coming year, compared to just 27% of companies not making use of the technology.

“Not only do virtual cards answer a growing need of the average consumer, but businesses who are using the technology are clearly attractive clients for business bankers.

"It would be foolish for any bank, old or new, to ignore this attractive growth opportunity and this is especially true for Southern African banks who have even more runway ahead of them,” Wood sums up.