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Commercial Card B2B Solutions

Changing Payment Landscape

DBS

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Executive Summary

Pandemic has triggered innovations in B2B payments

The pandemic has triggered innovations in business-to-business (B2B) payments. While there are several modes of B2B payments in Singapore such as GIRO, PayNow, real-time bank transfers, etc., corporate cards offer some key advantages. Corporate cards have always been about extended payment terms and rewards, but the recent launch of virtual cards have added two new features – reconciliation and control – useful for companies with large or remote workforce. Reconciliation with expense management system reduces manual book-keeping while companies can place controls such as transaction value, merchants, and timeframe, etc., where these virtual cards can be used.

Figure 1. What are some of the benefits of corporate cards?

Cashflow improvement with interest-free credit

Reconciliation with expense management system

Control over timeline, amount, merchant category, etc.

Cost savings and rewards

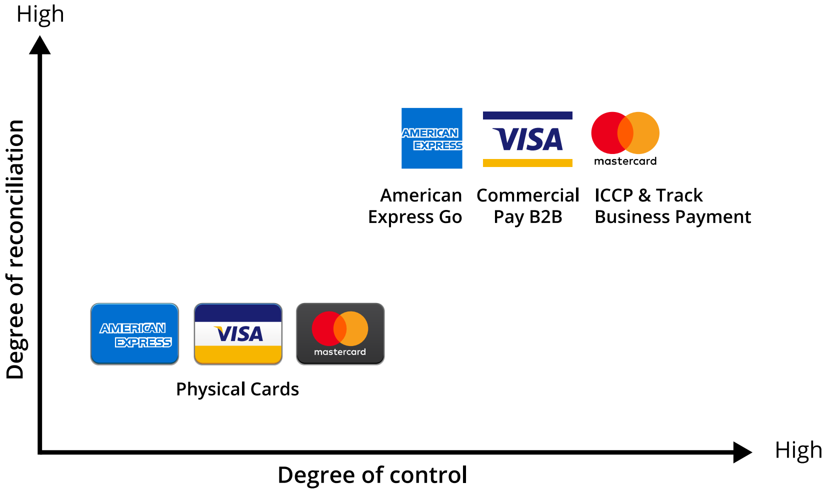
Source: Mastercard, Visa, and DBS Bank

Large corporates and SMEs have very different B2B payment needs

Large corporates and SMEs prefer corporate cards for different needs. The payment innovation matrices in Figure 2 show where innovation is occurring in both the large corporate space as well as small and medium enterprise (SME) space. Our channel checks show that large corporates are primarily concerned with the degree of reconciliation (i.e., enhanced expense management and reporting) and control. Recent launch of virtual cards should help large corporates to address these issues. Meanwhile, SMEs are more concerned about cashflow improvement and the level of savings or rewards they can obtain. According to a Mastercard survey, 80% of respondents have shown interest in using an instalment product that is developed for small businesses.[1]

[1]Mastercard Launches World-First "Buy Now, Pay Later" Commercial Card Solution for Small Business Financing in APAC | Mastercard Newsroom
https://www.mastercard.com/news/ap/en/newsroom/press-releases/en/2021/november/mastercard-launches-world-first-buy-now-pay-later-commercial-card-solution-for-small-business-financing-in-apac/

Figure 2. Large corporates look for the degree of reconciliation and control



Source: Companies, DBS Bank

Battle's in SME Payment Landscape

SME payment landscape is more competitive than large enterprise payment space

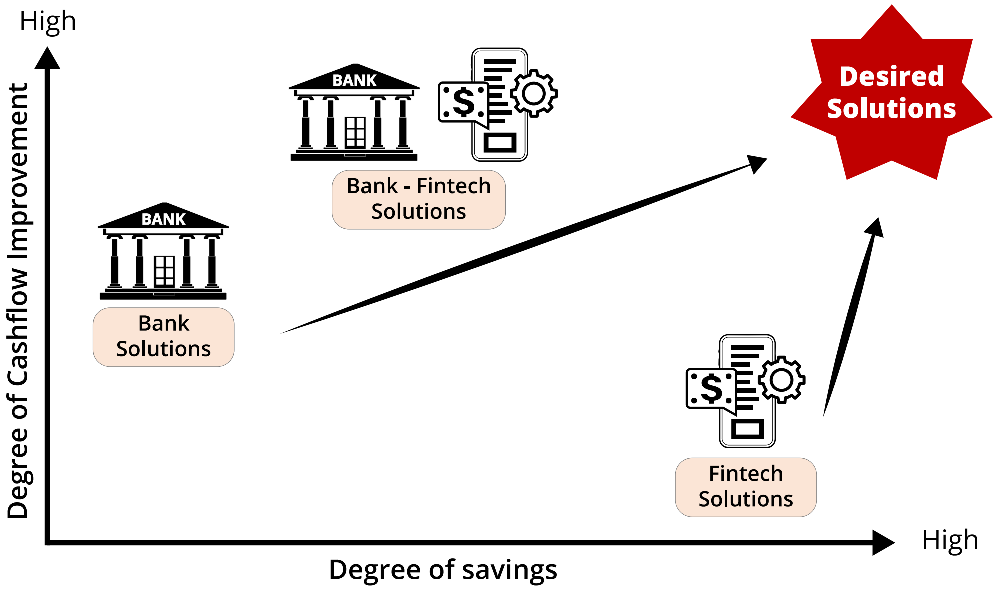
Within the fintech and banking arena, we have identified three dominant models that have emerged: 1) Solutions offered by banks, 2) solutions offered by fintechs, and 3) bank-fintech solutions. With the ability to take on credit risk, banks are able to issue commercial credit cards that can improve cashflow with interest-free loan for certain number of days. Whereas fintechs are competitive in the debit card space and offer savings from more competitive FX rates. In this context, the recent launch of Pay-by-Account (PbA) solution from Mastercard could help banks raise their game in the debit card space as SMEs can use their banking app for global payments. However, there is an emerging threat for banks as successful fintechs collaborate with SME funding platforms to venture into the credit card space. Banks need to raise their game by offering more competitive FX rates to SMEs. That said, there are also solutions that build upon the capabilities of both fintechs and banks. Often, these solutions are able to meet the needs of SMEs in improving cashflow and savings.

APAC dominates global payments revenue

APAC dominates global payments revenue with almost half of the global revenue pool. More than 60% of payments revenue in APAC can be attributed to commercial payments. In APAC ex China, research by McKinsey shows that 40% of payments revenue can be attributed to commercial payments, of which 4% comes from credit cards. McKinsey also projects APAC ex China revenue growth near 7% between 2021-2025.[2]

[2]The 2021 McKinsey Global Payments Report

Figure 3. SME Payment Landscape: Banks offer higher cashflow improvement while fintechs offer higher savings



Source: DBS Bank

Singapore market to grow at a CAGR of 5% over 2021-2025

We expect Singapore's B2B payments market to grow at a CAGR of 5% over 2021-2025. We project an estimated revenue of US$6.5bn in Singapore by 2025. Commercial payments make up 39% of the payment market in Singapore, with commercial credit cards making up approximately 7.0% of Singapore's total payment revenue. In contrast, credit cards made up 11% of total payment revenue in North America.

Corporate credit cards have one of the highest growth rates in the B2B space in Singapore and is expected to grow at a CAGR of 7-8% in 2021-2025, reaching US$1.31bn by 2025, approximately 7.9% of singapore's total payments revenue. Digitalisation and the benefits of corporate cards such as cashflow optimisation, control, ease of reconciliation, and rewards are key drivers of growth.

The pace of innovation in the B2B space has lagged that of consumer payments. Digital payments continue to evolve but challenges still exist in the B2B payments landscape. For one, transactions in the B2B space are plagued by fragmentations in accounts payable and accounts receivable processes. Legacy systems, lack of common data standards, limited interoperability, and a mismatch in supplier payment methods add additional layers of cost and complexity. Moreover, B2B payments may also involve manual processing which often leads to higher labour costs, slower speed, and risk of human error.

Figure 4. Pros and cons of typical payment modes in Singapore

Payment Mode	Pros	Cons	Often used for
Credit cards	Longer payment terms, simple to use, gain rewards, integration with expense management system, and superior control	Cost of card acceptance, credit card fees	Smaller purchases and subscriptions
Global automated clearing house (ACH)	Reliable and robust model with global reach and universally embraced	Takes 2-3 days of processing time, risk of payments getting lost	Payroll, large expenses, recurring payments and subscriptions, international payments, pay-outs
Real-time bank transfers (RTBT)	Speed	Caps on transfers are often imposed	Mid-range expenses, B2B transactions in countries with RTBT
Wire transfers	Speed and universally accepted	Increased cost	Large expenses , especially for cross-border and international B2B payments
General Interbank Recurring Order (GIRO)	Low-cost means to collect payment automatically on a regular basis, convenient	GIRO collection fails if insufficient funds in payer's account, only for Singapore dollar transactions	Recurrent payments of a fixed quantum
PayNow	Instant payment, simple and seamless	Funds can only be transferred in Singapore dollars	Merchant payments, bill and invoice payments
Cheque	Widely used	Time consuming, inefficient, and high fraudulent rate	Contractor payroll, vendor invoices

Source: DBS Bank

Digitalisation and the benefits of corporate cards such as cashflow optimisation, control, ease of reconciliation, and rewards are key drivers of growth.

Large Enterprises Versus SME Preferences

Based on our channel checks, the payment innovation matrices in Figure 5 shows where innovations in business payments is occurring in both the larger corporate space as well as the SME space. Different parameters are used depending on the varied needs of the larger corporates and SMEs.

With a larger scale of operations, higher value of payments, higher number of transactions, and more employees, large corporates are primarily concerned with the degree of reconciliation (i.e., enhanced expense management and reporting) and control. While SMEs are more concerned with working capital and cashflow issues hence they tend to place a higher importance on the degree of cashflow improvement, level of cost savings and rewards associated with a corporate card.

Understanding Larger Corporates' Priorities

Larger corporates prioritise control, expense management features

Larger corporates prefer utilising corporate cards that give them a higher level of control and more seamless reconciliation over those that improve cashflow and offer cost savings and rewards. Their preferred corporate cards have high levels of control, especially with regard to setting specific limits. This could be based on spending category, individual transactions or the overall amount, depending on the card.

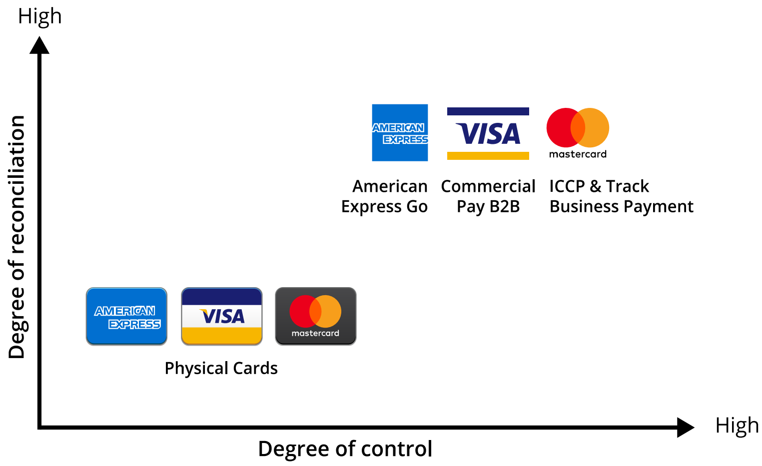
The card's use can also potentially be restricted by the employer. For example, purchases could be restricted to a limited number of merchants, by location or by merchant category, such as airlines, hotels, vehicle rental agencies, and restaurants, as well as associated costs.

Larger corporates also value expense management facilities such as automatic reconciliation, which removes the lengthy reimbursement process associated with upfront payment of expenses by employees. As larger corporates have a huge volume of transactions, they prefer automated expense reporting as it enables rapid receipt collection and quicker report filings over manual processes which are less efficient and more costly.

Upside of using corporate cards

Corporate cards are frequently connected with sophisticated analytical tools enabling corporate managers to better understand how money is spent. When it comes to reconciliation and reimbursement, having this level of control is crucial. Keeping track of various spending can be challenging when corporate cards are handed to a big number of employees.

Figure 5. Large corporates look for the degree of reconciliation and controllability



Source: Companies, DBS Bank

Degree of Reconciliation: Automated accounting reconciliation, expense management, and reporting by integrating the company's accounting software thereby reducing manual book-keeping

Degree of Control: Companies can easily set controls on employee spending, including specific timeframes, amounts, and approved merchant categories, etc.

Corporate cards are designed to meet that need, ensuring that the business maintains control over its spending. The following are innovative corporate card solutions which cater to large corporations seeking control and reconciliation:

- **Visa Commercial Pay B2B:** A B2B payment solution simplifying money movement between buyers and suppliers. Features enhanced data, automated payment processing, and expense reconciliation. Provides consolidated spending information, streamlined expense reporting, and monitors employee compliance with business spending policies.
- **Mastercard In Control for Commercial Payments (ICCP):** A virtual card solution that enhances B2B payments. Mastercard ICCP can be used for the creation of virtual cards, make updates to virtual cards, and reconciliation of B2B payments.
- **Mastercard Track Business Payment Service:** A modernised B2B payment service that automates exchange of payments-related data between buyers and suppliers. The open-loop network and multi-rail service enable buyers and suppliers to partner with any payment agent and offer choices on payment types and preferences. The service benefits payment agents (generate added revenue and low connectivity cost), suppliers (more control of cashflow and increased efficiency), and buyers (improve working capital and reduce supplier inquiries).

In addition, fintechs such as Nium and Stripe enable card issuances and they come with controlling features such as card limits and restrictions to avoid out-of-policy spending and virtual invoices for increased granularity of data.

Visa, Mastercard dominate the payments market

By far, Visa, and Mastercard enjoy the highest acceptance rates in the payments market. The core business of Visa and Mastercard links parties in card transactions. Given their dominance in the payments market, their network dynamics, and their acceptance by most businesses, it is no surprise they continue to be large corporates' preferred choice (they tend to be stickier than SMEs who are nimbler).

Visa and Mastercard are payment processing networks and they do not issue cards directly or offer any credit. Thus, they require financial institutions such as banks to play the role of an issuing bank. The high acceptance rates of Visa and Mastercard help to cement banks' position in the large corporates space.

In addition, banks offer a slew of other products and services including credit and loans, deposits, cash and liquidity management, to name a few. Moreover, the stability of banks, strong customer base, established infrastructure, and experience in a highly regulated ecosystem cannot be easily replicated by fintechs. Hence, we believe banks are still the preferred way for large corporates to address their payments needs.

SMEs Yet to Jump on Digital Payments Bandwagon

Digital payments still not fully embraced by SMEs

Despite the benefits, digital payments are still not fully embraced by SMEs in Singapore. Digital payments have become a way of life for many. People frequently utilise credit cards, debit cards, and network for electronic transfer (NETS) payment for regular purchases. In the case of SMEs, however, the same has not been witnessed. It is estimated that more than US$1bn of business spends have been observed on customer cards, demonstrating that SMEs need card-based working capital.

The primary instruments for B2B payments in Singapore are cheques and bank-to-bank transfers. Although universal acceptance and the ubiquity of cheques have made it a popular form of payment, the overall use of cheques is decreasing annually as companies turn to more efficient and seamless payment modes. As economies move toward becoming cashless, SMEs must begin to embrace digital payments to avoid being left behind.

SMEs prioritise cashflow improvement, cost savings

When using corporate cards for their business, SMEs predominantly prefer cashflow improvement and high level of cost savings or rewards as opposed to controllability and reconciliation features since SMEs are smaller in scale and prioritise lower cost and better cashflow management. According to a Mastercard-commissioned survey, 80% of respondents in Singapore have shown interest in using an instalment product that isdeveloped for small businesses.

The survey also reveals that 63% of the 163 small business respondents in Singapore were either "likely" or "very likely"" to use small business instalments. Globally, 75% of SME owners who use instalments for their personal purchases have also indicated that they are likely to use similar payment methods for their business.

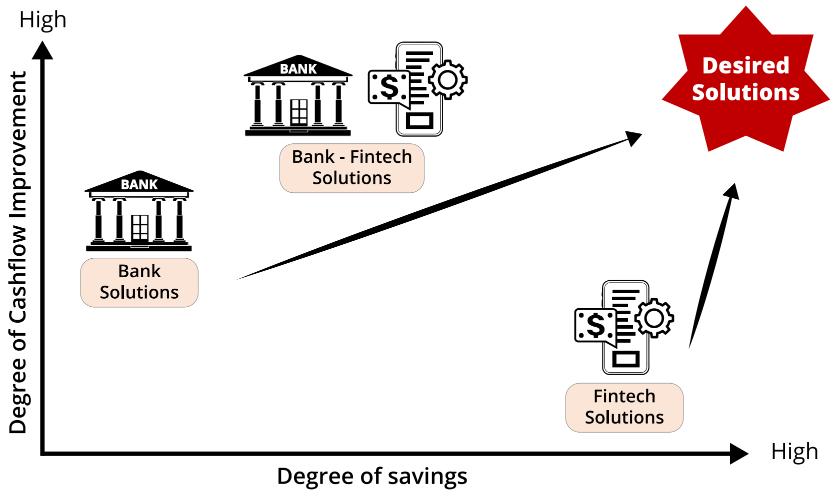
Research has also shown that more than 50% of SMEs have an average instalment transaction size of US$2,500 and below, with 86% anticipating a purchase on instalments at least once every quarter3. According to a survey carried out by Kaiser in 2021[3], 60% of SMEs indicated they would increase their credit card spending if instalments are offered. By taking advantage of the lending period, which is typically 55 days, solutions with flexible financing options can help SMEs maximise their working capital and ease cashflow issues.

We believe banks are still the preferred way for large corporates to address their payments needs.

- **Buy now and pay later (BNPL) for business purchases.** There are two interest-free plans under DBS' commercial credit card BNPL offering. 1) The My Preferred Payment Plan (MP3) is suitable for businesses who have already made an existing retail purchase but yet to pay in full. Under MP3, business owners have the option to convert up to four transactions into instalments for up to two years. For up to six months, businesses also enjoy a low processing fee and 0% interest. 2) The Instalment Payment Plan (IPP) is suitable for businesses who have not made any existing purchases. The list of participating merchants covers a range of areas such as automotive, electronics and computers, home and furnishing, insurance, and medical. These commercial card-based BNPL solutions can ease SMEs' cashflow issues.
- **Through Mastercard Pay & Split, SMEs earn rewards and split purchases into smaller payments.** Mastercard Pay & Split is a commercial credit card BNPL solution designed for SMEs, allowing cardholders to convert any purchase from merchants globally into periodic or monthly instalments. Businesses can now better manage their cashflow while eliminating the hassle of managing fragmented payment plans. Especially for new or small businesses that lack financial records, accessing loans with favourable conditions have often proved challenging. Pay & Split allows SMEs to build their credit history which can qualify the company for more sophisticated credit products in the future.

[3]Mastercard commissioned survey – Instalment Opportunity Size & Anticipated SB Adoption

Figure 6. Most SME fintech solutions are high in savings but low in cashflow improvement, presenting an untapped opportunity



Source: DBS Bank

Cashflow improvement – An extension of payment terms including flexible financing options such as BNPL, that eases short-term liquidity and improves cashflow.
Level of cost savings – Mainly driven by competitive FX fees, free transfers, and membership rewards.

Cost savings and rewards as an integral option

A significant proportion of SME employees use their personal cards to pay for business expenses for a variety of reasons – one of which is to gain card benefits such as cashback and reward points. Beyond the cashback and reward points, corporate cards can also provide additional perks such as cashflow improvement, high introductory offers, numerous bonus spending categories, to name a few.

Recognising that SMEs prioritise cashflow improvement, several solutions were launched to meet this need. Mastercard Pay & Split, Amex Pay Overtime, and certain DBS commercial cards offer BNPL (flexible financing) solutions for SMEs and some of these solutions also enable users to earn rewards. We view the number of merchant tie-ups and acceptance rates as the key source of cashflow improvement. For example, Mastercard Pay & Split is accepted at 80 million merchants worldwide, allowing it to process a larger volume and size of transactions. This supports its higher relative rank in terms of cashflow improvement and cost savings.

Tapping credit card limit as working capital

Fintechs such as Cardup and Instarem allow SMEs to shift payments such as rent, utilities, supplier invoices, and corporate taxes onto credit cards, even where cards are not accepted. These solutions close the gap by allowing the supplier to receive their payments via a bank transfer. Essentially utilising the credit card's limit as working capital until the card bill is due, optimising cashflow in the process. In addition to improving cashflow, shifting payments onto a credit card also allows SMEs to earn rewards such as cash rebates or points.

Singapore-founded SGeBIZ offers a similar model. The procure-to-pay platform's EzyPayment solution allows SMEs to extend their credit terms using a tokenised virtual card lodged in the system. The SME pays its suppliers EzyPayment (up to 60-day interest-free credit terms) and suppliers will receive the funds in their bank account. The early payment enables the SME to gain additional discounts from suppliers.

Potential cost savings in cross-border payments

There are also several solutions that facilitate cross-border payments. For instance, solutions from Wise, Volopay, Instarem, Cardup, and Aspire enable cross-border payments with competitive exchange rates and/or lower transfer fees. With the option of cross-border payments, the payment reach expands from the domestic pool to the international markets, suggesting there is greater potential to accumulate cost savings and rewards.

Corporate cards offer control, reconciliation

By transitioning from paper checks to digital solutions, SMEs stand to gain from the richer data generated. Using corporate cards enable better expense reconciliation, where transaction records are readily available and accessible for SME owners. Corporate cards can also be used as a tool to limit extra spending, track expenses, and eliminate probable fraud. However, utilising these solutions may come with certain costs and it is crucial for SMEs to understand the terms and conditions before deciding which solution best suit their needs.

> *By transitioning to digital solutions, SMEs' expense reconciliation and control will improve.*

Fighting for a Slice of SMEs' Payments Pie

Although traditional banks still dominant the large corporates payment space due to the plethora of banking services, fintechs have been gaining market share among SMEs. We identified three dominant models that have emerged: 1) Solutions offered by banks, 2) solutions offered by fintechs, and 3) bank-fintech solutions. With the ability to take on credit risk, banks are able to issue commercial credit cards that are aimed at cashflow management. While fintechs are more focused on the aspect of savings such as more competitive FX rates especially through their debit card offerings. Lastly, there are also solutions that build upon the capabilities of both fintechs and banks. Often, these solutions are able to meet the needs of SMEs in both cashflow improvement and savings.

Fintechs giving banks a run for their money ...

Fintechs' key value proposition has been through debit cards that offer benefits such as FX savings and convenient dashboards for expense management. Hence, cost savings have become a major feature for fintech solutions. This can be witnessed in debit card solutions offered by players such as Aspire and Volopay.

For instance, Singapore-based Volopay creates a seamless expense management system that can disburse payments to employees and vendors across the globe using Visa's network. Nium is a licensed Visa card issuer partner, enabling Volopay to take advantage of Nium's payment rails, along with Visa's global licence network.

But successful fintechs may also gravitate towards credit card solutions in the future by collaborating with non-traditional banking partners. For instance, Volopay has partnered with Validus, Southeast Asia's leading SME financing platform. Volopay has done well in the SME debit card market and keen to expand into credit line offerings by partnering with Validus. Another popular example is Elevate, which is issuing a credit line supported by peer-to-peer (P2P) lending platform Funding Societies.

Notably, the interest rates offered by financing platforms such as Validus and Funding Societies are generally higher than that of bank loans. Companies who are unable to secure bank loans often turn to these financing platforms to source for credit. This is a classic example of how fintechs target the segment of the market that banks do not serve due to higher potential risk of default.

... but they can achieve synergies through partnership

Rather than solely seeing fintechs as direct competitors, financial institutions are starting to embrace fintechs. Fintechs have emerged as digital natives that enhance the capabilities of banks without the burden of operations and infrastructure sustainment. Through a synergistic partnership, financial institutions can leverage fintechs' innovative capabilities while fintechs can benefit from banks' established relationships and customer base.

Singapore-based CardUp enables B2B payments with non-card accepting suppliers, offering up to 55 days of interest-free credit. It also leverages early settlement discount. CardUp generates its income by charging a processing fee per transaction. It collaborates with banks such as DBS, UOB, and Citi, to promote its solution to their VISA card customer-base. CardUp's business model is charging a small fee for the card payment and delivering funds to the supplier's bank account through bank transfer. The supplier does not need to sign up with CardUp or have a CardUp account to receive the money, so there is no disruption to their operational processes. Meanwhile, CardUp deducts the cash from the Visa card of its clients. This provides a solution that enables any payment made by bank transfer or cheque to be shifted to cards – regardless of whether the end-recipient accepts card payments. CardUp's technology connects to accounting and enterprise resource planning (ERP) platforms, to provide businesses with seamless data flow and reporting.

Figure 7. Value proposition of various players

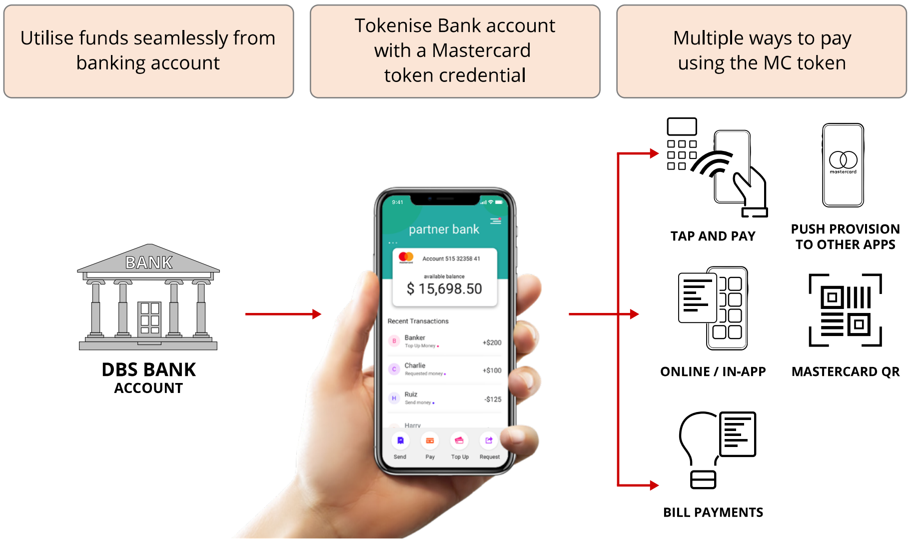
Player	Focuses on	Description
Banks	Cashflow management	Banks tend to focus on offering cashflow management as the starting point. Their major feature relies on having a resilient user/customer base which is not typically found in fintech players. Banks have been building this base through regular banking products like deposits, savings, mortgage facilities, etc. Virtual cards have been a major disruption and has brought their IT capabilities to banks. In addition, with their capabilities in analysing credit risk, banks are able to provide credit cards that enable SMEs to improve cashflow and earn rewards. E.g., UOB, DBS
Fintechs	Savings	Competition between banks and fintechs is the most intense in the debit card space, which does not require fintechs to take on the credit risk. One of the ways that fintechs help to maximise savings is by offering competitive exchange rates for cross-border payments and a dashboard for expense management. E.g., Volopay, Wise. Fintechs in this category do not partner with banks, instead they partner with software companies to access the Visa/Mastercard network and P2P lending platforms to secure credit facility for SMEs. These fintechs tend to bypass banks and offer solutions with credit facility, cheaper FX transactions and easy dashboard for expense management. E.g., Elevate from Matchmove, Funding Societies.
Banks-fintechs	Cashflow management, and savings	These companies partner with banks and payment gateways to offer better cash management and savings. When transacting, certain suppliers do not accept VISA/Mastercard. These fintechs offer a solution by paying the supplier via bank transfer while charging to the buyer's bank credit card, allowing the buyer an effective 55-60 days of settlement. In many cases, these fintech also provide very competitive FX rates. E.g., CardUp, SGeBIZ

Source: Companies, DBS Bank

Helping banks raise their game in SME debit card space

The launch of Mastercard Pay-by-Account (PbA) solution may help banks to raise their game in the SME debit card space. It is an omni-channel solution that enables SMEs to use their banking app for payment at more than 70 million Mastercard-accepting locations.

Figure 8. Mastercard PbA works with a partner bank to pay using the Banking app



Source: MasterCard

Figure 9. Projects planning to adopt FLNG

Fintech platform	Features
CARDUP	• Generally recurring payments are made using CardUp and allows payments that do not accept credit cards to be collected. • Earn up to 0.4% cash rebates for business payments made through CardUp, with an effective fee of 1% for 55 days of financing (based on a 1.4% CardUp fee (u.p. 2.6%), minus the 0.4% cash rebate earned on DBS Visa Commercial card. • The credit card can also be used for international business payments in more than 80 countries at attractive FX rates.
INSTAREM	• Its Bizpay service acts as a funding source where unutilised credit card limit can be converted to working capital without any interest for up to 55 days. This unique solution addresses SMEs' cashflow challenges. It • Can be used to pay local and international vendors, including those who do not accept card payments. • SMEs can save up to 0.75% on borrowing costs and processing fee charges using their cards. Cash rebates and membership rewards are also offered. • Its Send facility enables international money transfer with competitive FX rates to more than 170 countries.

Source: Companies, DBS Bank

Figure 9. Projects planning to adopt FLNG (cont'd)

Fintech platform	Features
Wise	• Wise charges at the mid-market rate, in addition to a small fee for currency conversion. • Wise Business can be used for invoice payments, salary payments, and cash management in more than 70 countries. It also allows SMEs to receive overseas payments without high recipient or conversion fees. • It has a clear advantage in offering savings in cross-border transactions compared with pure domestic transfer solutions.
funding societies	• This digital financing platform allows SMEs to take business loans that are funded through debt investments. • It offers various loan solutions such as invoice financing, supply chain financing, term loans, and revolving credit financing that will inject additional cashflow into SMEs, leading to cashflow improvement.
aspire	• Businesses can issue unlimited virtual cards and earn 1% cashback for marketing and software as a service (SaaS) purchases. • Transaction fees of FX transactions are up to 4x cheaper than banks and allows businesses to convert and pay in more than 50 currencies. • Local transfers in SGD and USD are free while international transfers are charged at the mid-market rate.
volopay	• It enables businesses to generate virtual cards and physical cards, with up to 5% cashback on FX spends and no upper limit on card FX spend. • Enables domestic and international money transfers to more than 130 countries. • Has partnered with Validus to allow SMEs to access up to S$500,000.
SGeBIZ EMPOWER BUSINESSES GLOBALLY	• SGeBIZ is a procure-to-pay platform and its EzyPayment feature allows buyers to enjoy up to 60-day interest-free credit for cashflow optimisation. • EzySource offers a curated marketplace of suppliers, simultaneously giving buyers more options while helping suppliers with their outreach. • Savings can also be achieved through early payment discount.

Source: Companies, DBS Bank

Innovations in Corporate Card Space

Rise of flexible payments, virtual cards

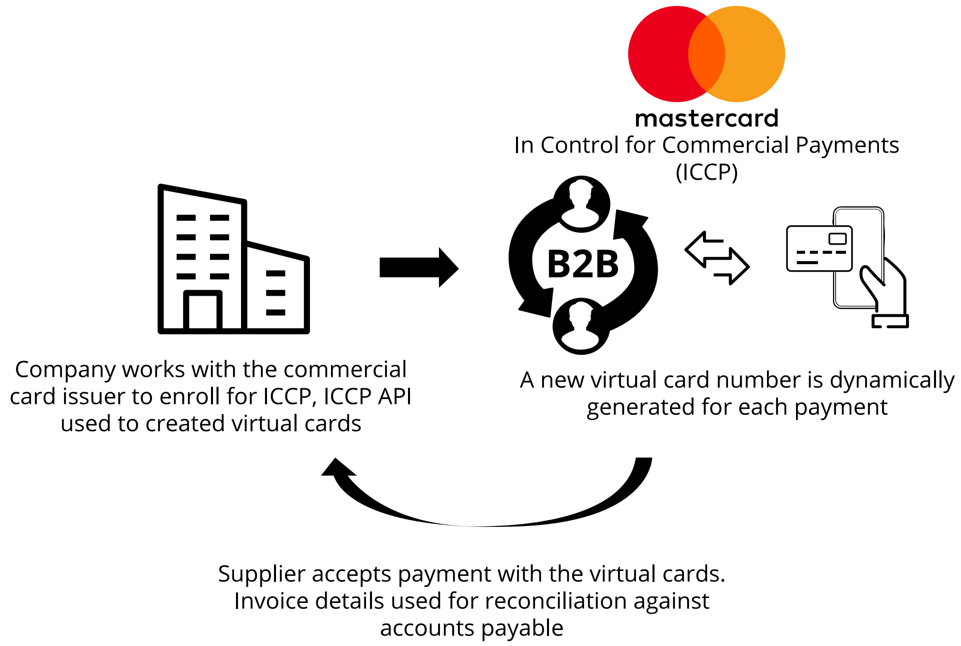
Ranging from flexible payments to virtual cards, corporate cards are exhibiting numerous innovations in recent times. B2B payment solution providers are developing innovative payment products to address issues associated with B2B payments. Major card networks are offering virtual cards to enterprises to enhance control over expenses. Cryptocurrency has been used for cross-border payments and settlements. New payment networks may also facilitate transactions between business parties. The corporate card is varied, with options ranging from flexible repayment plans for cashflow management to sustainability initiatives that offset carbon emissions from fleet vehicles. The following are some of the latest technologies in the business payments landscape.

Figure 10. New technologies in the payments space

Technologies	Features	Owned by
In Control for Commercial Payments (ICCP)	A solution that creates unique, dynamically generated virtual account numbers. It helps make sending payments to suppliers easy and secure.	Mastercard
Virtual Card Numbers (VCN)	Temporary card numbers associated with a credit card account for use online to make transactions more secure. VCNs offer individuals and businesses an alternative and a more streamlined way to pay merchants.	n/a
Mastercard Track Business Payment Service	Allows buyers and suppliers to connect and share payment-related data using common rules and standards, eliminating delays arising from payment-related issues. Suppliers have access to rich, usable remittance data with every payment, reducing the number of inquiries they need to make to buyers and the amount of time spent on reconciliation.	Mastercard
FIS Payment Hub - Quantum Edition	Handles all domestic and cross-border payment types and direct debits, whether created in the hub or imported from other systems.	FIS Global
Business Payments Network (BPN)	Supplier-driven B2B payments network and platform that automates the delivery of supplier payments while converting transactions to a format the recipient prefers.	Billtrust and Visa
Visa Commercial Pay B2B	A digital platform that enables corporates to generate VCNs for invoice payments to suppliers. It gives payers and buyers more flexibility as they transact across third-party procurement platforms or programme management platforms.	Visa and Conferma Pay

Source: Companies, DBS Bank

Figure 11. What is Mastercard ICCP and how does it work?



Source: Mastercard, DBS Bank

Mastercard's In Control for Commercial Payments (ICCP) is a virtual card solution that enhances B2B payments with better controls, security, efficiency, and data. The company that wants to make payments using Mastercard's ICCP first enrols for ICCP with the commercial card issuer. The ICCP API is then used to create virtual cards, make payments, and reconcile payments. Once ICCP has been set up, the company that wants to make payments using virtual cards will register one or more real cards to finance the virtual card payments.

The company then submits purchase requests for the creation of virtual cards. In addition, controls can be set, and invoice details can be recorded. Thereafter, the supplier would accept payment with the virtual cards and the company can use the invoice details for reconciliation of accounts payables.

Virtual cards offer much more than VCNs

Virtual card technology is becoming a popular subject of innovation projects as corporations need solutions to support a remote workforce. Mastercard and Visa recently adopted virtual cards to improve employee expenditure management and supplier payments. In Singapore, DBS has come up with a solution utilising virtual cards which enables corporations to consolidate corporate travel expenses without having to issue several cards.

This card provides a centralised travel account that can be used to book flights through travel management companies, as well as a card reporting and expense management tool that can be customised to integrate with the company's existing ERP system.

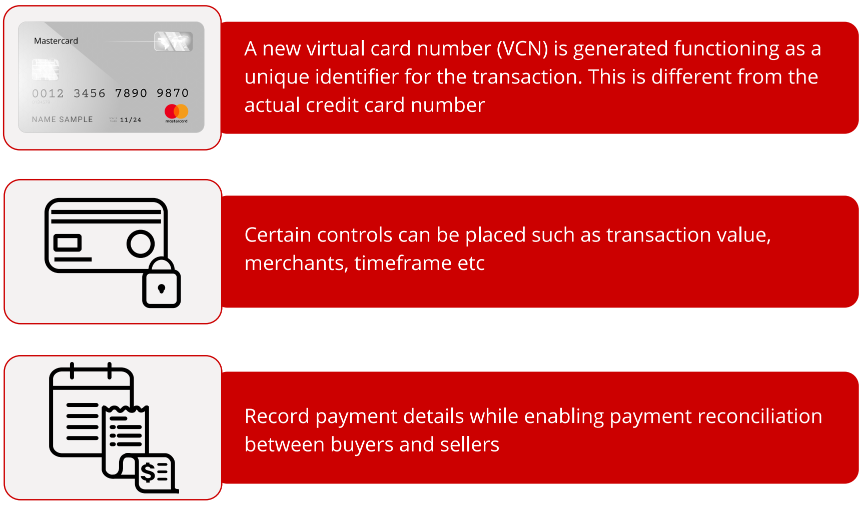
Added layer of security, control, and convenience

VCN refers to a randomly generated 16-digit number that is registered with a real account. The generated numbers are commonly used for a single transaction and may expire after the validity period passes, depending on preferences. With this feature, there is an added layer of security since the credit card number on the real card is not disclosed to payees, which could help make businesses less susceptible to scams and fraudulent transactions.

Furthermore, controls such as the supplier category, a specific supplier, validity period, geography, transaction dollar value limit, and number of uses for the account number can be set, giving businesses a higher level of control compared to cash reimbursement to employees.

With virtual cards, payment reconciliation is also streamlined as specific transaction-related data are captured. Often, virtual card providers may also offer integration with ERP systems which makes reconciliation processes more seamless, faster, and automated.

Figure 12. Key features



Source: DBS Bank

Payments market in APAC and Singapore

APAC dominates global payments revenue

APAC dominates global payments revenue with almost half of the global payments revenue pool. Although the COVID-19 pandemic dented 2020's global payments revenue, overall driving forces for global payments will propel it going forward. McKinsey estimates global payments will grow at a trajectory of 7% p.a., growing from US$1.9tn in 2020 to US$2.5tn by 2025[4]. APAC's payments revenue is also expected to grow from US$0.9tn in 2020 to US$1.3tn in 2025. Moreover, APAC is expected to lead the growth with the highest CAGR of 8% compared with Latin America's, EMEA's, and North America's CAGR of 6%, 4%, and 6%, respectively.

Commercial payments make up bulk of payments revenue in APAC

McKinsey research shows more than 60% of the payments revenue in APAC was attributed to commercial payments in 2020[5] This far outweighs the proportion of commercial payments in other regions such as North America, EMEA, and Latin America with commercial payments making up 38%, 52%, and 36%, respectively.

On closer inspection, this is a result of the varied payments revenue dynamics across Asia Pacific, with China accounting for more than 75% of the region's payments revenue. Furthermore, payments revenue generated by net interest margins earned on deposit balances in China is disproportionate compared to other regions. For this reason, we expect Singapore's commercial payments revenue to tread closer to what is observed in APAC ex China.

In APAC ex China, 40% of the payments revenue can be attributed to commercial payments, of which 4% comes from credit cards. According to McKinsey, revenue growth of the APAC ex China region is expected to be near 7% between 2021 and 2025.

Singapore's B2B payments market to grow at a CAGR of 5% over 2021-2025

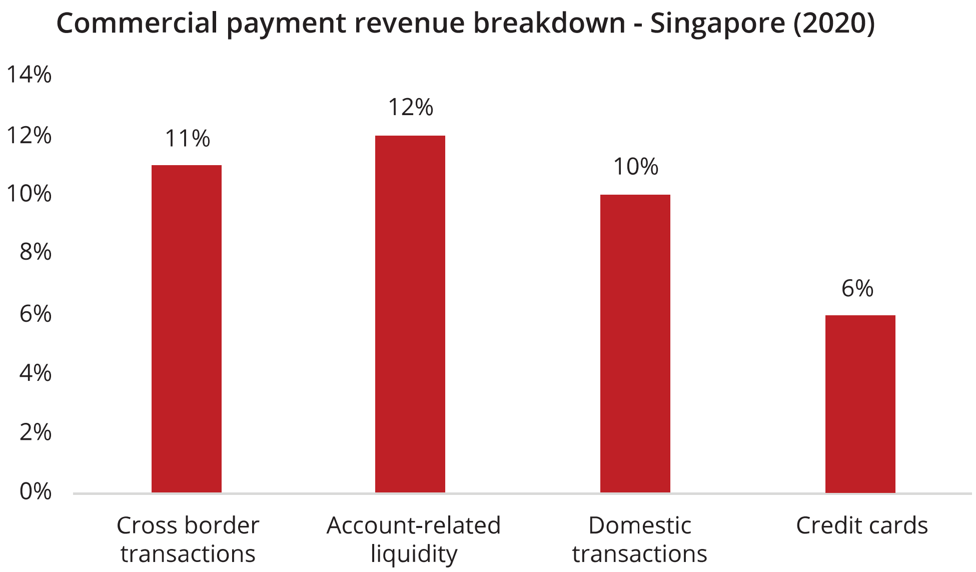
Given Singapore's relatively more mature payments industry, we expect Singapore's B2B payments market to grow at a CAGR of 5% over 2021-2025, reaching an estimated revenue of US$6.5bn by 2025. Commercial payments are expected to make up 39% of the payments market in Singapore. The major contributors to commercial payments are account-related liquidity, cross-border transactions, domestic transactions, followed by credit cards.

Across APAC, a significant rise in virtual card payments has been supporting the growth of the credit card segment of the B2B market. This could be ascribed to digitalisation and benefits of corporate cards such as optimisation of cashflow, the associated rewards, a greater degree of control, and ease of reconciliation. According to McKinsey, corporate

[4] The 2021 McKinsey Global Payments Report
[5] The 2021 McKinsey Global Payments Report

credit cards' contribution to total payment revenue stood at 4% in APAC ex China and 11% in North America in 2020.[6] We estimate that the contribution is likely to hover around 7% in Singapore.

Figure 13. Commercial payments contribute 39% to Singapore's overall payments market



Source: DBS Bank's estimates based on 2021 McKinsey's Global Payments Report

Cross-border payment market fraught with pain points and inefficiencies

Cross-border transactions refer to transactions involving companies, banks or settlement institutions operating in at least two different countries. The cross-border payment market has always been fraught with pain points and inefficiencies from both a cost and time perspective, resulting in expensive transaction fees and complicated, lengthy payment processing methods. Due to COVID-19, reduced travel and global supply chain challenges led to a decline in cross-border revenue. Nonetheless, the global move towards improving cross-border payment strategies will see businesses achieving a better return on investment (ROI) and control over international payments, as well as payments security.

Cross-border payments can be made in several different ways. Currently, the most prevalent way of transferring funds across borders include bank transfers, credit card payments, and alternative payment methods (APMs) such as e-money wallets and mobile payments.

[6]The 2021 McKinsey Global Payments Report

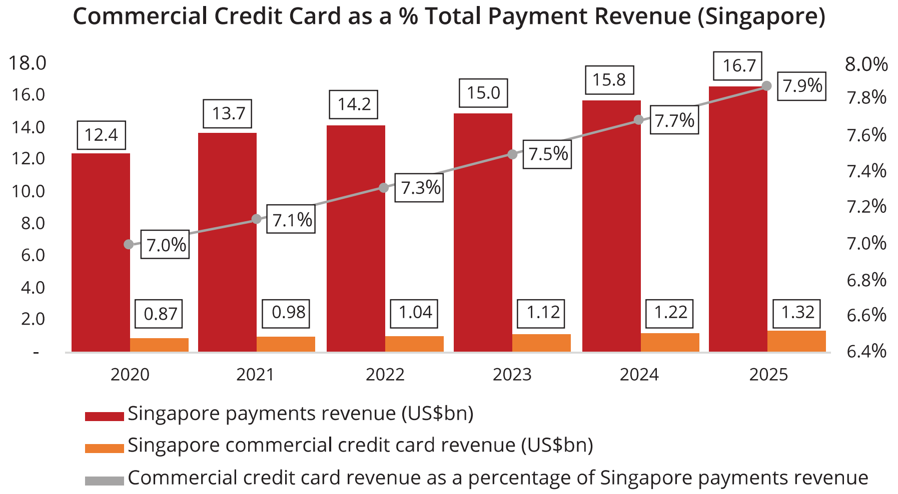
The high growth rates in corporate card usage is a testament to the benefits that it brings to companies.

Account-related liquidity largely emphasises net interest income (NII) on current accounts and overdrafts. The global contribution of NII to payments revenue has declined steadily to 46% in 2020 from 51% in 2010. In 2020, a 31-basis-point contraction in global interest margins reduced payments revenue by US$66bn – two-thirds the total global net decline in payments.

Domestic transactions are fee revenue on domestic payment transactions and account maintenance. During the COVID-19 pandemic, the explosion in e-commerce and reduction in cash usage helped minimise the decline in domestic transaction fee income.

Commercial cards are issued by employers to employees for the purpose of making company-related purchases. They are designed to be centrally managed and come with a wide range of benefits such as rewards, better security, and more seamless reconciliation.

Figure 14. Singapore's corporate credit card market is expected to grow at a CAGR of 8% over 2020-2025



Source: DBS Bank's estimates based on 2021 McKinsey's Global Payments Report

Within the B2B market, corporate credit cards have been experiencing one of the highest growth rates. The corporate credit card sector in Singapore is expected to grow at a CAGR between 7-8% in 2021-2025, reaching US$1.31bn by 2025. The high growth rates in corporate card usage are a testament to the benefits that it brings to companies. For instance, innovations such as virtual credit cards or mobile-enabled payments give rise to a greater degree of control, more seamless reconciliation, cashflow improvement, and rewards as mentioned.

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