A **Comdata** white paper

e-Payables Growth Through Enablement

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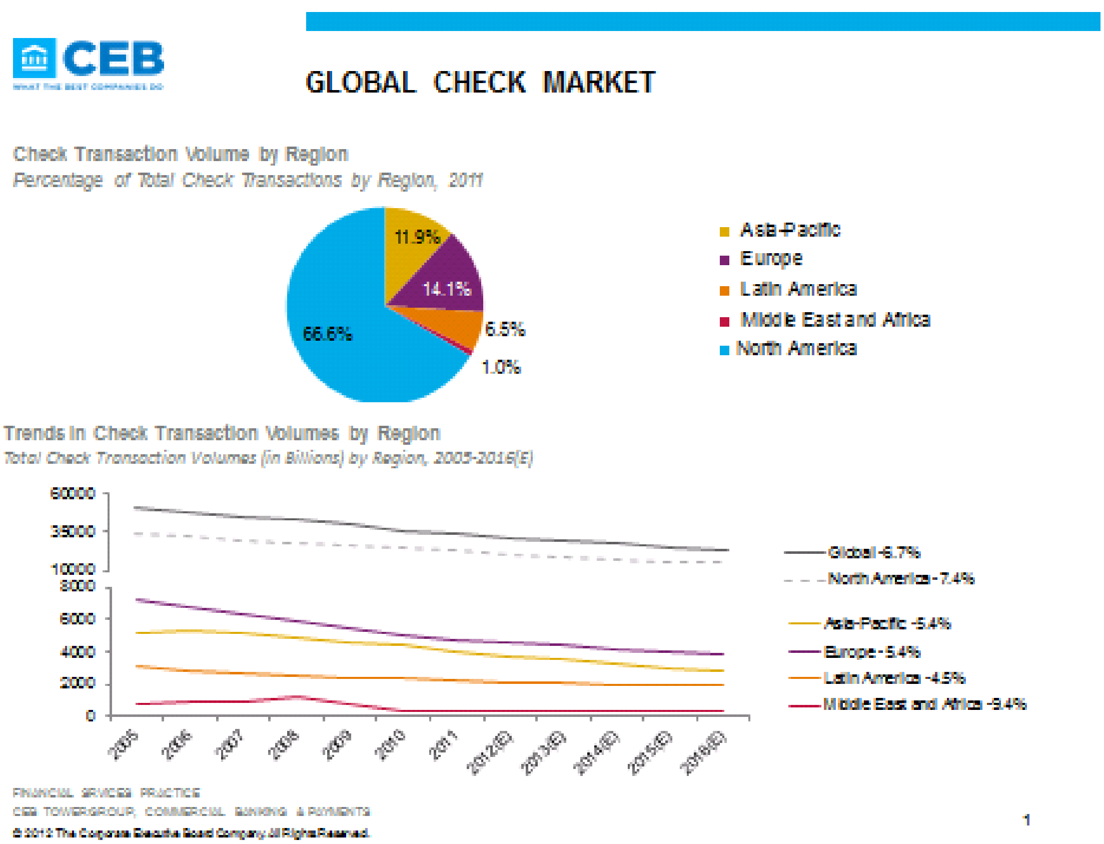
Electronic payments have finally gained the ongoing momentum to allow for projections of a date when paper will no longer be part of a non-cash payment discussion. The use of paper checks across North America is projected to continue a decline at a rate of about 7% annually through 2016.

Correspondingly, all other forms of non-cash payment types (credit card, debit card, credit/debit transfers) will increase between 3-8% per year during the same period. Process efficiency has gained the attention of commercial clients, causing the scope of the role of the Cash Manager/Treasurer to evolve into other core functions of the institution (risk management, international trade).

The following two figures are taken from the CEB TowerGroup Global Payments Database. Figure 1 shows that the declining trend lines are clear for checks across the globe. Figure 2 highlights the North American growth in all forms of electronic payments.



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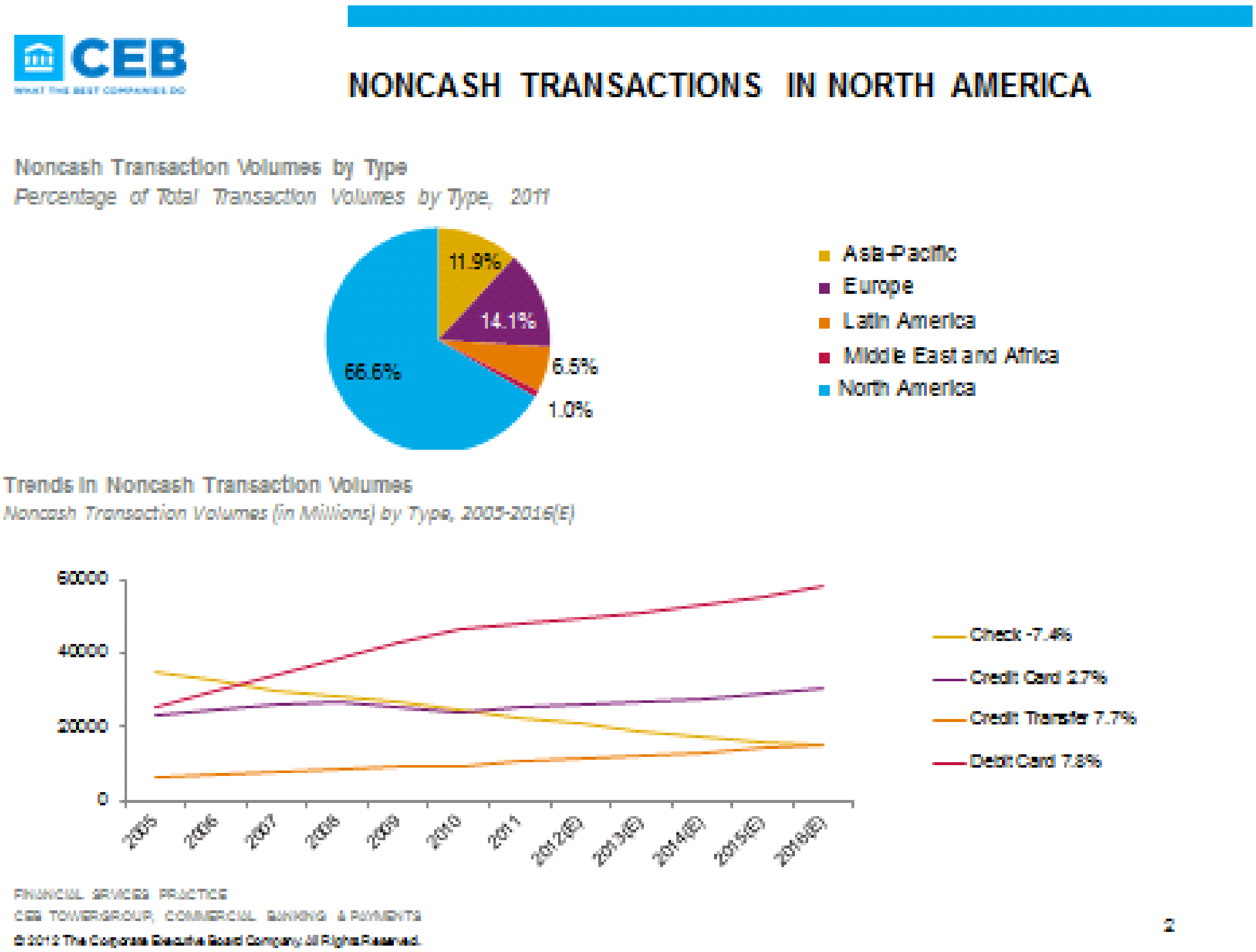


Commercial payments can certainly be seen as a global opportunity. The use of paper continues to play a role but one that is declining, while e-payables capabilities continue to drive investment in commercial payables automation. Expenses outpace revenues over the past four years with operating expenses 20% higher in the first quarter of this year than the same period in 2008.

Although revenues per transaction are decreasing, payment volumes are expected to increase by 150% between 2010 and 2020. Total payment revenues will increase in line with volume growth despite the decreasing revenue per transaction. Process efficiency has gained the attention of commercial clients, causing the scope of the role of the Cash Manager/Treasurer to evolve into other core functions of the institution (risk management, international, trade).

CEB TowerGroup believes that the adoption of one or more electronic product, process or service along the commercial value chain will have a natural domino effect, further influencing the increasingly rapid transformation of the e-payments ecosystem. One example of this effect is the onboarding of a supplier into an e-commerce vertical or horizontal network, which expands the electronic marketplace for buyers and sellers, but also results in the adoption of e-invoicing by the supplier. A continued domino effect occurs when e-invoicing leads to automated receivables and three-way data matching for straight-through-processing (STP). This enablement can be taken to an even further transformative degree by virtue of the increasing utilization of messaging standard ISO 20022 for payments, which allows for a greater integration of financing opportunities within the global supply chain.

Driven by the growth opportunity in payments and cost management demands, investment in payables automation systems is expected to increase. Supporting an integrated payment file, a comingled file containing ACH, wire, check, and/or card transactions, will be a priority in supporting a modern payables automation system.

Executives faced with increased regulatory burdens and slowing industry revenues have shifted focus to expense management. Eighty percent of executives identify system limitation as the key challenge in remaining compliant. They struggle with managing regulatory changes and reducing costs within outdated systems environments categorized by inflexibility and manual processes. The payment landscape is becoming more competitive with value-added and complementary services to differentiate providers and vendors.

Corporate clients and financial institutions, alike, are moving toward an enterprise payment solution, where the individual payment network (and process) is transparent to the corporate client. We expect that many of the emerging technologies will be standard offerings in the next 24 months. Firms will leverage emerging technologies to help meet the changing regulatory environment. Rule-based workflows will remain important to ensure proper execution of controls and reconciliation of transactions. As electronic payments continue to grow within corporate clients, there will be a greater focus on leveraging tools that allow decisions 'on-the-go.'

One product that fits nicely into the increasing need to optimize working capital and more efficiently process payments is commercial cards. Tremendous growth potential remains for the inherent efficiencies of the open-network, card-based systems, especially for enabling e-commerce in procurement-related activities. The increasing incorporation of card-based settlement into accounts payable through single-use card numbers and proprietary networks has been growing rapidly during the past several years. CEB TowerGroup has projected overall spending volume growth for commercial credit cards in North America to be at a CAGR of 8.3% through 2014.

More importantly, the Purchase Card (P Card) volumes are expected to grow at a CAGR of 10.6%, driven by even faster growth in A/P file integration and single-use accounts. There are various studies that highlight the cost savings realized in using P Cards in the procurement process. The RPMG Purchasing Card Benchmark Survey of 2010 assigns an end-to-end administrative cost savings of $70.58 per transaction by switching from traditional procurement to card based. This is certainly one of the many reasons why buyer initiated payments solutions have been gaining wider use.

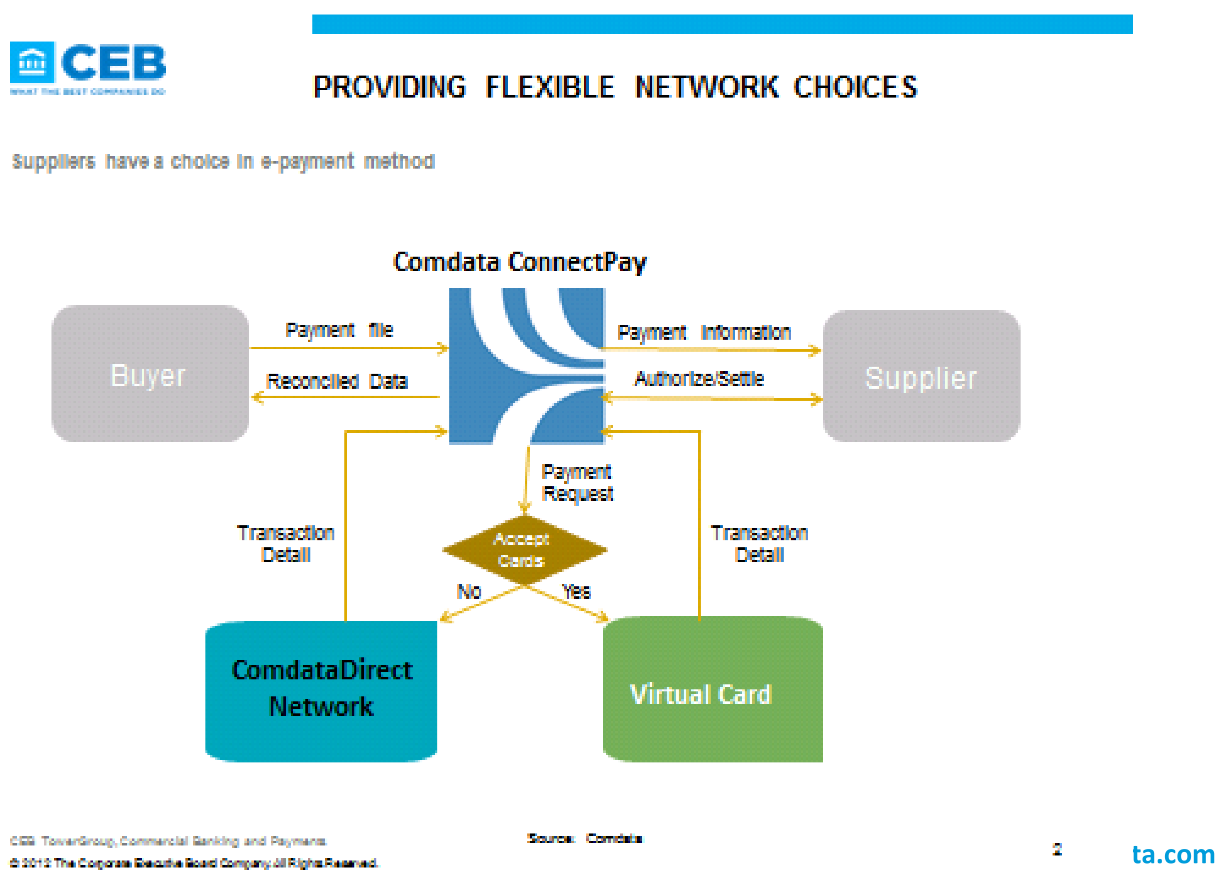
However, an ongoing challenge in this type of automated solution is the ease of merchant enablement and choice. Gaining more buy-in from suppliers remains a key to e-commerce and e-payables expansion. The earlier point about the expansion of the e-payments ecosystem can also be negatively impacted by lack of supplier adoption.

In a recent study focused on accounts payable in the e-Payables landscape, Ardent Partners found that 77% of their survey responders cite "getting suppliers to participate in the initiative" as the single the largest roadblock to migrating from paper to electronic invoices. RPMG reports that acceptance remains the number one issue for P Card growth outside of North America. In many cases suppliers either have not enabled card based payments acceptance or prefer with lower inherent fees. Clearly making things easier for suppliers will help to increase e-payments growth.

Automated payables systems and networks that allow for straight through payables processing with a broader choice of settlement methods will be more attractive to suppliers. An example of this type of capability is Comdata's ConnectPay. ConnectPay is a full suite of accounts payable solutions, including:

- Electronic payables.
- Disbursement management.
- Electronic invoicing presentment and payment.

For electronic payables, ConnectPay provides a dual-network capability, offering one-time use MasterCard account numbers, as well as access to the ComdataDirect network. The key here is creating merchant flexibility by allowing for additional e-payment choices when cards are not a viable option. The numerous benefits of automated payables (reduced costs, improved liquidity management, financial control) are open to all suppliers in the network, also creating enablement for their expansion of the e-commerce ecosystem. The following figure depicts how ComdataDirect enables this supplier flexibility.



Commercial clients are demanding products and services that integrate into their Enterprise Resource Planning (ERP) system. The interconnected nature of e-commerce requires flexible and innovative approaches so that the greatest number of buyers and suppliers can participate. CEB TowerGroup views network solutions such as ComdataDirect as an enabler for faster growth in the e-Payables space.