

Pay Your Vendors by Single-Use Credit Cards and Improve Your Cash Flow Management

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Introduction

Consumers have been using single-use or a virtual credit card for safe online purchases for a while. Recently many of the banks have been offering single-use credit card solutions for vendor payments in commercial space. This session presents current industry trend for payables, discusses benefits & challenges and will present a case study of a large Oracle e-business suite customer that recently implemented single-use credit card payment solution.

In this session attendees will learn what single-use credit cards are and how they can be used in Oracle for vendor payments to improve cash flow. Process and implementation details will be discussed throughout the paper.

Procurement Cards in Oracle eBusiness Applications

Procurement card, or P-card, is corporate credit card that is issued to employees (or a supplier). The purpose of either the employee or supplier P-Card is to enable the employee to purchase items directly from a supplier. The credit card issuer sends transaction files back to Oracle Payables, which automatically generates accounting distributions and creates invoices to pay the issuer. P-card purchases approvals can be done either through standard requisition approval in iProcurement and/or after importing transactions in Payables through employee verifications and manager approval in Payables.

Card Type	Purpose	Approvals & Features
P-Cards – Supplier Type	Issued to supplier for constant recurring purchases e.g. Office Supplies	May require requisition approval through iProcurement and need to create PO (if corporate policy of having a PO for each spend above a dollar limit)
P-Cards – Employee Type	Issued to individual employees often for purchases in field e.g. conference purchases	May still require requisition approval and/or/both procurement card transaction approval in AP
Corporate Cards – Employee Business Expenses	Issued to individual employees only for travel related business expenses	Approvals managed through iExpenses. May have a spend limit and limited T&E related spend only

Figure 1: Credit Card Types Supported by Oracle Applications

Implementing above procurement cards in Oracle has its limitations and challenges:

- P-Cards purchases are limited to expense purchases only (not allowed for inventory and project purchases)
- Requires implementation of iProcurement with requisition approvals
- May require procurement card transactions approval Process in payables
- PCI Compliance requirements
- Security and Card issuer liability limitations
- May require constant credit card program management and employee support

What is Single-Use Credit Card for Vendor Payment

Single-Use credit card or substitute credit card number, one-time use credit card, and virtual credit card number is an alias for a credit card number generated by specialized banking services programs for one-time use only. Typically, a single-use credit card has a limit, and a short expiration date from the issue date (typically 30 days), both chosen by the account owner, and while it can usually be set up to allow multiple transactions, it can only be used with a single merchant for a single transaction. This single-use number is indistinguishable from an ordinary credit card number, and the user's actual credit card number is never revealed to the merchant and has a no security threat.

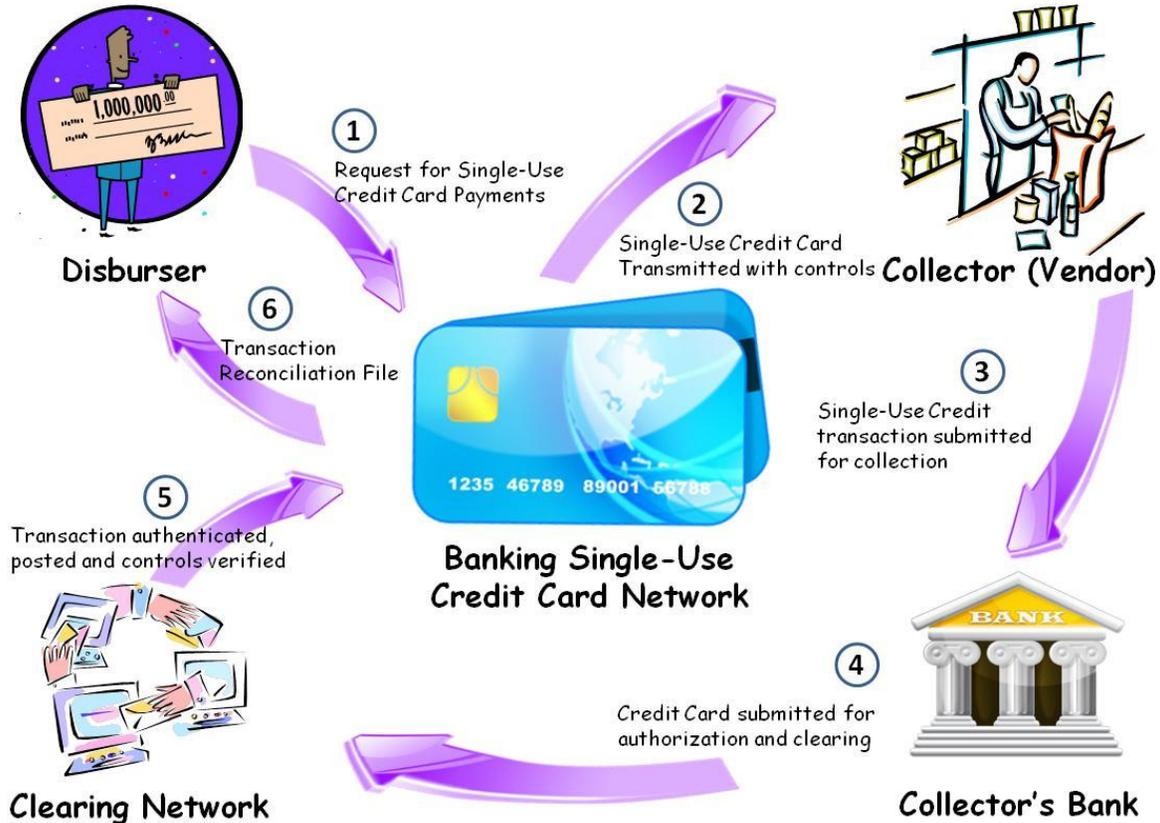


Figure 2: Single-use Credit Card from Disburser to Collector

Key features of single-use credit cards are

- Electronic payment method
- No changes to corporate policies and/or approval process
- Minimal changes to current vendor management, invoicing and payment processes
- Increased Float in accounts payable to improve your cash flow
- Earn credit card rebates
- No PCI compliance required
- Flexibility to add approved vendors
- Controls on each individual payment to specific vendor, specific amount and specific timeframe for expiry
- Powerful security and fraud prevention of the commercial card industry
- Full Payment reconciliation

Using Single-Use Credit Card in Oracle – Process Overview

Oracle Applications doesn't support single-use credit card payments out of the box. Most of the major banks do provide solution to generate single-use credit cards. Oracle Applications can be easily configured to generate bank specific electronic payment file. Bank in turn, once receiving the approved payment file can generate single-use credit card numbers to be used by suppliers to collect payments.

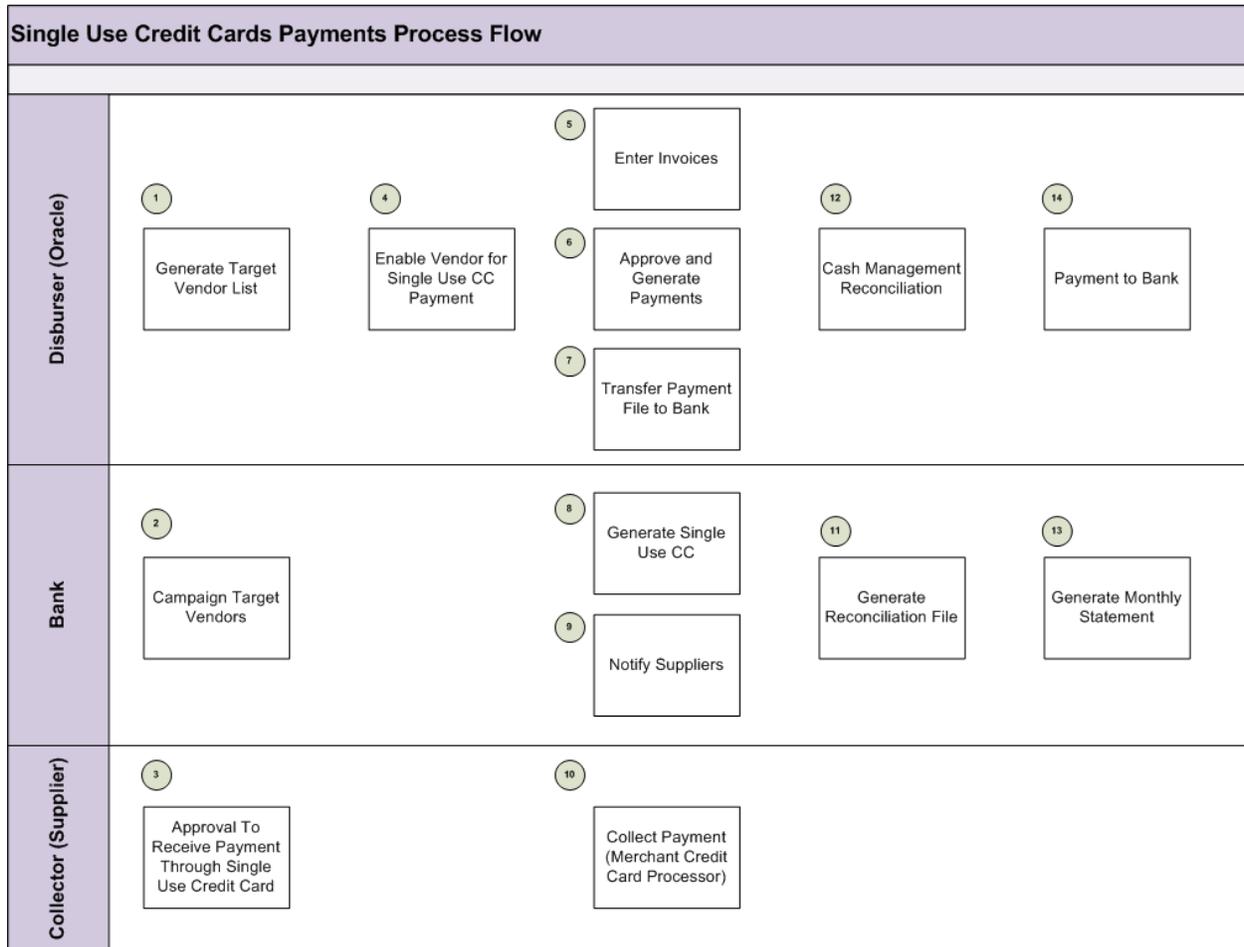


Figure 3: Single-use Credit Card Payments Process Flow

Banking Solutions

Most major bank today offers products and solutions for single-use credit card in commercial space. Some of the key banking solutions are listed below:

- American Express vPayment
- Citi Virtual Card Accounts
- JP Morgan Chase Single-Use Accounts (SUA)

Functionality and features of the above solutions are quite similar but may require different level of effort in integration with Oracle. Most of the above are available if you spend min \$1million or above and offer spending rewards.

Vendor Campaign & Signup

Signing up vendors to accept payment through credit cards is the key part of the single-use credit card payments process. If you are already paying a vendor by credit card, transitioning them to single-use credit card is transparent and easy. If they are not, agreement to pay by credit card may not be easy. Often banking partner can help in the campaign.

Process starts with sharing your yearly vendor spend summary file. Note:

- Banking partner can help identify target vendors. Note
 - Certain types of vendors, e.g. real state, banks etc., usually do not accept credit cards
 - Certain types of vendors may easily accept credit cards e.g. telecom service providers, monthly coffee/car service providers
 - Vendors may not agree to accept credit cards for high dollar payments
 - Specific vendors may have accepted or rejected prior campaigns to accept credit cards
- Banking partner may help in communicating, on your behalf, to target vendors to accept credit cards
- May have to offer favorable payment terms to accept credit card payments. E.g. reducing Net 60 to Net 30 if paid via credit cards.
- Once the vendor agrees to be paid by credit card, vendor can be setup to:
 - Either signup for banking credit card collector services
 - Or receive single-use credit card numbers through secure email or postal mail

Oracle Integration

Integrating single-use credit card solution with Oracle may differ based on the banking solution provider. Note whatever the solution is key is, it is just like any other electronix payment method. Following are the key areas of effort required in Oracle:

Bank and Bank Account Setup

Bank and bank account need to be defined for making single-use credit card payments. Setup is same as your current bank and account definition except that bank will create a test credit card program account number which can vary from 16-27 characters long. Often this will be different from test and production. Note GL accounts for cash and cash clearing for the bank account setup should be based on the accounting flow section below.

Vendor Payment Segregation Method

To segregate vendor payments through single-use credit cards multiple options are there and will depend upon current release of Oracle Applications (11i/R12). If you are running 11i, Paygroup and/or Payment priority is the only option. If you are on R12 new payment method can be created.

Vendor Details File

Your banking partner may require you to send vendor details in a specific format. This is required to configure vendors as collectors in banking system. Key information required is name, address, tax id, contact person details including email address. A simple program can be written to extract the information by vendor payment segregation method. Note often banking systems will not support Oracle TCA architecture; hence separate vendor address will be treated as a separate collector.

Payment File

Your banking partner will require you to send payment file in specific format. Single-use credit cards are generated by banks after receiving the payment file. Key details required are vendor id/name, payment number, payment amount and respective remittance details (Invoice number, date, amount and description). Once the payment file is received, bank generates the single-use credit cards and communicates to respective collectors (vendors).

Payment Reconciliation File

Your banking partner will provide a periodic (daily, weekly or monthly) payment reconciliation file as payments are collected by vendors. These can be in standard BAI2 format or can be tailored as per your needs. These can be

uploaded in Oracle Cash Management for payment reconciliation. Note this step can be skipped if manual reconciliation is performed.

Transmission

Your banking partner will require you to transmit and receive all files over a secure network. Note even if you already have connectivity established with your banking partner, this will require a separate secure connections as typically the banking platforms are different for single-use credit card payments.

Accounting Flow

Below table details out the respective accounting entries generated for the single-use credit card payment process.

Transaction	Accounting
Vendor Invoice	Dr Expense OR Accrued Liability Cr AP Trade Liability
Vendor Payments (via Single-use Credit Cards)	Dr. AP Trade Liability Cr. AP Accrual – Single-use Credit Card
Payment Reconciliation (through Cash Management)	Dr. AP Accrual – Single-use CC Pay Cr. AP Liability – Single-use Credit Card
Bank Statement (Invoice) for payment	Dr. AP Liability – Single-use Credit Card Cr. AP Trade Liability

Figure 4: Accounting Flow for single-use credit card payment process

Note:

- Balance in ‘AP Accrual – Single-use Credit Card’ will specify payments made from Oracle but not yet collected by vendors yet (Unclaimed Payments)
- Balance in ‘AP Liability – Single-use Credit Card’ will specify monies owed to the bank for vendor payments via single-use credit cards. This should reconcile with bank’s statements.

Oracle Process Flow

Vendor Management

No changes are expected in your vendor management process. Except all vendors who have agreed upon receiving payment through single-use credit card need to be segregate by paygroup, payment priority and/or payment method.

Invoicing

No changes are expected in your Invoicing process.

Payments

Since single-use credit payments is a payment method, you can make periodic payments as per your Invoice/Payment volume. Whenever making a single-use credit card payment ensure appropriate paygroup, payment priority and/or payment method and appropriate bank is selected. Once the preliminary payment register is approved and payment is formatted, payment file can be transmitted to your bank. Once the file is received by the bank and processed you can confirm the payments in Oracle. Banking partner will generate single-use credit card numbers for each vendor payment and communicate to respective vendor.

Payment Voids

You and your bank may setup transaction control to expire the single-use credit cards after a specific time frame (say 30 days) if not used. Typically bank may either alert you or send a report of unused (expired or unclaimed) single-use credit cards. You have to void all these unclaimed payments in Oracle.

Period End & Reconciliation

Your bank will send a periodic reconciliation file (say daily claimed payments) as well as a monthly statement. Daily claimed (cleared) payments can be uploaded to Oracle Cash Management if you are using cash clearing otherwise can be used to manually reconcile payments. Monthly statements should be entered as an Invoice for your Bank as a vendor for payment. Note appropriate bank liability account (as mentioned above) should be charged when entering the bank statement as Invoice for payment.

Key Considerations and Lessons Learnt

Some of the key considerations and lessons learned during the implementation of single-use credit card payments from Oracle

- Agreeing vendors to accept payment through single-use credit cards was the most challenging tasks.
- If you have already outsourced payments (e.g. Check Printing, ACH/Wire Payments etc) this could be a good add-on and can help on cash flow
- Secure connectivity has to be done again, even if you already have secure connection with your bank, as banking platforms are different for single-use credit card payments
- Setup and development time was minimum however establishing connectivity and multiple rounds of testing took longer
- Monitor Credit Limit after the account is setup with your banking partner. Thumb rule is minimum should be the two months spend on targeted vendors.

About the Author

Mr. Kapoor is a partner at Prisio Technologies where he manages Oracle Practice and oversees deliveries of financial, projects and procurement implementation and upgrade projects. He has over 20 years of sales, implementation strategy and delivery experience in Oracle Applications for numerous fortune 500 customers in various industries. He can be reached at ShyamK@prisiotechnologies.com.