

The One Card Solution

What it is...
How it can help...
What are the issues?

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What is the One Card Solution?

In most simple terms a “One Card” refers to a commercial card program that utilizes a single card for each cardholder in the program and allows for payment of all the spending categories (MCC’s) typically incorporated in both a Corporate Card and Purchasing Card programs. In some cases, Fleet expenditures are also included. A single hierarchy of cards may also include virtual or “ghost” accounts without physical plastic cards, for any of type of spending. The term “commercial card” encompasses Corporate, Purchasing, Fleet and Business Cards issued to businesses and governments. Corporate cards are for Travel and Entertainment (T&E), Business Cards are targeted to small businesses, Fleet Cards are for vehicle-related expenses, and Purchasing Cards are for all other procurement)

A Historical Perspective

Some history helps in understanding the evolution of commercial cards and the issues that arise today, when One Card is offered as a solution.

The first commercial card payment system was implemented by a group of major airlines in 1937, and was primarily used as a central billing approach for air travel. It is centrally controlled and, from the traveler’s viewpoint, operates in a similar fashion to the ghost cards that would follow years later. In the 1970’s, two large firms launched their Corporate Card offerings leveraging their established market recognition in the T&E industry with their consumer products.

Those first Corporate Cards found resistance from companies, as financial executives and others in senior management were afraid to put credit cards in the hands of traveling employees. The first real traction was developed when cardless accounts, known commonly as ghost cards, were introduced as a method of charging airline tickets to a central account without the apparent risk of employees spending freely on a card. This approach was promoted heavily by travel agencies, who had been carrying airline receivables on their books. The charge card companies began offering liability waivers to their corporate customers to mitigate the concern with inappropriate card usage and the distribution of Corporate Cards increased. The liability waivers, typically joint and several liability, evolved to the individual liability-individual pay option popular with Corporate Cards today.

In the mid to late 80’s bankcard issuers began developing Corporate Card programs and then in the late 1980’s the first Procurement Card (P-Card) was introduced, after being developed for the US Federal Government’s General Services Administration. The P-Card was directed to the purchase of general non-T&E items such as MRO and business supplies. P-Cards were introduced as, and continue to be, central liability-central pay payment vehicles, and this attribute of liability and billing remains the primary distinction between commercial card types. Since the introduction of P-Cards and particularly their wider market acceptance beginning in the mid-90’s, the issue of combining the two cards into a “One Card Solution” has been a hot topic of discussion. This debate continues and, to a lesser degree, incorporates fleet expenses as well.

The Elements of the Debate

The central element of the debate is liability for purchases by the cardholder. Corporate management often continues to feel more comfortable with individual liability for the Corporate Card used primarily for individual T&E expenses and accepts the central liability of a P-Card. The reasons for this appear to be:

- The Corporate Card is generally distributed throughout an enterprise to employees that travel (more likely managers), while the P-Card is typically given to a greater variety of roles (anyone who requisitions anything), which in turn leads to greater awareness of who should be trusted with a card.
- T&E expenses are charged to the card by the same individual utilizing the services, with most usage remote from the workplace.
- The nature of T&E expenses; i.e. airline trips, hotels, restaurant charges, etc. appear to be attractive areas for abuse or even fraud.
- T&E charges represent services that have often been fully consumed prior to a review for approval.
- Many P-Card transactions are for business operations involving other employees and not personally consumed by the cardholder providing additional visibility.

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- Spending controls of P-Card programs are more restrictive than the flexibility required by their effective Corporate Card counterparts.

This list is not exhaustive, and there is little question that there is an emotional element to the debate. Many believe that different features to support tax compliance and internal controls necessitate keeping P-Card and Corporate Card programs separate, but “One Card” users and their issuers have found ways to satisfy such concerns. The more persistent and fundamental issue remaining is that, as long as corporations can have individual liability charge programs for T&E, management will often opt for them until there is a compelling proposition to do otherwise. Others may not worry about liability, but simply see too little incentive to bother to make changes to their existing programs.

If an organization’s culture and control systems facilitate centralized billing and corporate liability for T&E, then many of the “One Card” issues do not apply to that organization. In fact, some firms simply put T&E on their P-Cards and are content to do so. P-Card-style reporting and record-keeping for T&E can efficiently comply with basic internal control principles and tax laws, so long as the necessary data are captured and sufficient records are kept. Some organizations go further than typical P-Card-style reporting and append T&E automated expense reporting and approval systems to centrally-billed card systems, to give T&E expenditures additional visibility and control.

However T&E is invoiced and paid, employees can be held liable by their employer for T&E policy compliance, even where the employer is liable to the issuer for the charges in question. At any time, employers usually owe their employees more than their current T&E expenditures, suggesting leverage to ensure compliance and even recovery, in the event of inappropriate centrally-billed expenses. In spite of this possibility, the culture of many organizations runs counter to such practices and they often insist on more traditional, individual liability for T&E. This allows them to easily deny reimbursement to their employees after charges are incurred, thus requiring employees to personally pay their cards and absorb the cost of denied expenses, without the need to establish policies and procedures to enable garnishment of card charges .

Particularly if management desires individual liability for T&E, a proposed one card solution should address the following:

1. How charges with individual liability are separated from central, so that T&E may be billed to the individual.
 - a. This can be done by flagging distinctive cards in a single hierarchy, or
 - b. At the transaction level by Merchant Category Codes (MCC)
2. If transactions are distinguished by MCC code, there will be charges expected to fall into one category, that are from suppliers coded to another category
 - a. Programs must accept the general accuracy of MCC coding assignment by merchants and acquirers, and
 - b. Situations must be anticipated and accepted where the classification of a merchant does not indicate the nature of its charge, e.g.
 - i. A hotel may provide facilities for a business meeting (not T&E)
 - ii. A restaurant may cater an onsite employee meeting (not T&E)
 - iii. Employees may eat meals at general merchandise stores (T&E)
 - iv. An airline may ship freight (not T&E)
 - v. A car rental firm may rent a truck to move materials (not T&E)
 - vi. An employee may use a company-leased vehicle for personal transportation (T&E)

Policies and procedures may either require reprocessing for such transactions, or they may allow them to remain in their default process according to the MCC classification while ensuring that account coding and management approvals enable compliance with policies and tax laws.

3. As with P-Cards, if all T&E on a card is assigned to one G/L code, some transactions may be not be coded as expected
 - a. As with capital or any distinctive spending, programs should provide for efficient refinement or reclassification of default account coding.
4. The travel function may be managed by one department and other purchasing functions may be managed by a different department
 - a. Sourcing and supplier management roles may need refinement or consolidation for both types of spending

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- b. Policy management and compliance assurance roles may need refinement or consolidation for both types of spending
- c. Accounts Payable and Card program administration roles may need refinement or consolidation for both types of spending.
- d. Organizational effectiveness, structure, and staffing may need review and adjustment

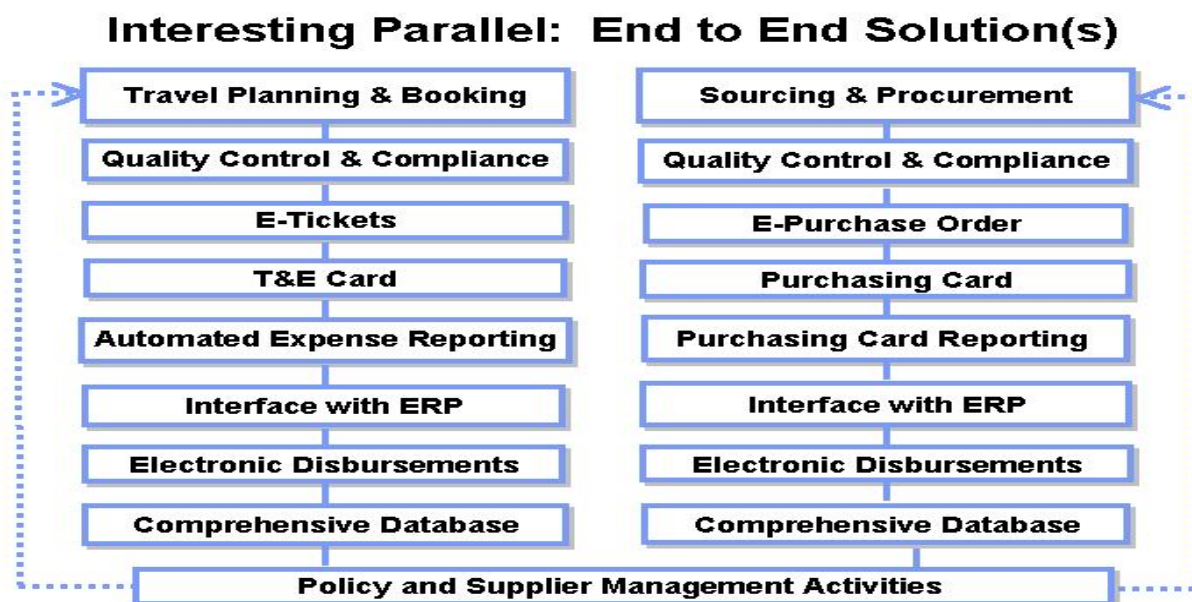
Each of these roles may be consolidated or segregated, with or without a One Card solution. Before forming a conclusion one way or the other, cross-functional teams with senior executive sponsorship should conduct an objective review of such considerations, to review the pros and cons of potential changes.

The Business Case for One Card

The proponents for instituting a one card program typically advocate the following:

1. The organization only needs to manage one program, reducing the administrative staff headcount and related costs associated with two or more programs.
2. Cardholders need to carry only one piece of plastic without concern about which one to use.
3. There is a single database for all card spend, facilitating consistent analysis of spending that was formerly segregated with less visibility, e.g. supplies on Corporate Cards or meetings on P-Cards.
4. The technology exists today to enable Fleet, Travel and Purchasing Card data capture, accounting control, reporting, and interfaces to be consolidated into a single program
5. The same tools and techniques that satisfactorily address tax compliance (e.g. sales/use (P-Card) and federal income (T&E)) can be continued within one card program just as they are within currently-separated card programs
6. The commercial terms with the issuer are probably improved by consolidating issuers and offering them sales and service efficiencies as well
7. The desire to have an individual liability program is not justified by its costs and avoided risks, because:
 - a. Strong controls can be put in place, even with central liability
 - b. Non-compliant spend lacks materiality when and if it occurs,
 - c. Fraud has proven to be relatively small with commercial card, and
 - d. The organization accepts risk even in individual liability card programs in any case, since commercial terms often require that rebates be reduced by any write-offs due to employee non-payment.

The following diagram demonstrates the strong parallel between the travel purchase process and the procurement process further reinforcing the case for the two to be consolidated:



The diagram above not only displays the strong parallel between the two processes but suggests that sharing common elements is not out of the question and may further support the case for consolidating program and utilizing just one card.

In making their case, proponent of one card programs often expound on new technologies that enable tax compliance and financial control. Just as some organizations have systems to facilitate electronic review, reporting and reconciliation to control PCard charges, Corporate Card programs are often attached to automated expense reporting systems for the review, reporting and payment of employee travel expenses. Many such systems import card statement data to pre-populate expense reports, enable validation and refinement of coding and item descriptions, and apply rules to test charges for policy compliance. Some organizations utilize such systems for all card transactions, in effect putting general purchases on T&E expense reports and routing them for approval to increase their visibility and control. Regardless of where T&E and non-T&E spend is billed and who has the initial liability to pay the card issuer, such systems increase assurance that proper account coding is made, that the division between liability/billing types (if any) is maintained and that policies are being complied with.

The Barriers to One Card or “The Case Against”

The opponents of implementing a one card program typically advocate the following:

- 1) Few employees require more than one of the three card types; i.e.
 - a) Managers and sales personnel travel, so carry Corporate Cards but do not need to order goods and services
 - b) Operating and administrative staff need P-Cards and/or Fleet cards to order goods and services, but do not travel on company business.
- 2) T&E spending is intrinsically subject to abuse and non-compliance, and individual employees need to be held liable to personally pay for all such charges,
- 3) The time that employees take to pay their Corporate Cards and complete T&E expense reports is not significant and is often done on their personal time
- 4) Corporate Cards with individual liability do not utilize the organization’s credit facilities or impact its balance sheet
- 5) Segregating T&E billings from one card by MCC is too problematic to be worthwhile, as is driving GL account coding and reporting by MCC.
 - a) If separate cards are used for T&E, they may as well be in separate hierarchies and reports. No one needs such reports and databases to be integrated.
 - b) The implementation of tools and techniques to divert charges by MCC is an unnecessary effort, since few personnel need two cards in the alternative
 - c) Carrying two cards and operating two reporting systems is not a significant effort
- 6) Organizational change (staff resources and skills in the travel and purchasing groups) is too difficult to manage relative to the expected benefits.
- 7) Tax issues are more difficult to address correctly, compliant procedures exist and do not need to be revised.
- 8) Enhanced commercial terms can be realized by consolidating business with one issuer while maintaining separate card programs.

The Decision: Weighing the Trade-offs

There is rarely a simple answer to the question of “Should my organization utilize one card to replace multiple cards?” and the answer will vary for different organizations. We suggest that cross-functional teams evaluate the answers to the following questions, as a starting point for this decision:

1. How much overlap is there (% of total) between those people who require Corporate Cards and those that require P-Cards and/or fleet cards?
2. If you transitioned to a one card program, how many staff (FTE’s) could be removed from the current departments? How many if you continued with multiple cards but with a single issuer? Could you reduce IT/IS costs?
3. Do you currently have overlap or bypass spending of a commodity category on two card programs? Do you capture all card transactions in a single database for analysis? Should you do this without a change in card programs?

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4. Can you estimate the number and value of non-T&E transactions that may fall into the “T&E MCC’s”, if you went to a one card and used a diversion approach for liability and billing? Would the related efforts be significant in your case?
5. If you utilize, or plan to implement, an automated expense reporting system, could it provide the features and controls to make a one card approach viable for your organization?
6. If managing an individual liability Corporate Card program today, what level of fraud and misuse have you experienced? What write-offs from bad debt or impact of late payments have been deducted from your rebate? In your organizations culture, is policy compliance a problem? Are employees trusted?
7. Can you estimate, with input from current issuers, the impact on rebates from transition to a one card? To single issuer?
8. If considering a one card, what would be the incremental benefits, hard and soft, between a one card and multiple cards with a single issuer? Note: Consider the overlap in answer to #1 above.

There may be more questions and, no doubt your management will have some of their own. An objective evaluation of your answers to the above questions will provide a strong foundation for the decision that eventually follows the first key question: “Should I recommend that the company consider one card for all our commercial card transactions?”

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About the National Association of Purchasing Card Professionals

The National Association of Purchasing Card Professionals (NAPCP) is a non-profit professional trade association committed to the advancement of Purchasing Card professionals and practices. The NAPCP is a resource for Purchasing Card professionals at all levels – from novice to expert. It provides the Purchasing Card industry with a broad and in-depth forum for news and information, networking, and professional education for end users, card associations, card issuers, and solution providers.

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