Emerging markets

The use of corporate cards in developing economies is growing, and with that comes a whole new set of challenges. **Amon Cohen** reports

REGIONAL SPOTLIGHT

EASTERN EUROPE

Card companies say they have experienced major growth in commercial payments in Eastern Europe over the past couple of years. Visa cites **Poland** and **Romania** as strong performers, but the pick of its bunch is **Turkey**. "We had 40-50 per cent growth in Turkey in 2012," says Visa Europe's David Harrison. "It will be the first country to challenge the current big five in Europe: the UK, France, Germany, Italy and Spain."

For Bank of America Merrill Lynch, the major expansion in recent months has been in Poland, the **Czech Republic** and **Bulgaria**. Names like Romania and Bulgaria may be surprising, given that their economic development has lagged other Eastern European neighbours, but Helen Mason, director, senior commercial card product manager, EMEA, for Bank of America Merrill Lynch, says their recent accession to the EU is driving a rapid growth in business. "Multinational companies see them as new markets to sell in and they are also attractive as a source of low-cost labour for 'offshoring'," says Mason.

American Express singles out yet another market as its star performer in the region. "**Russia** is becoming a fast card adopter," says Amex's Alan Gillies. "There has been a lot of interest in the past year in our lodge card product. The culture remains one of controlling high-value items on a centralised basis." Russia needs to go through a cultural change of handing empowerment to the individual before plastic corporate cards for employees take off in a similar way, Gillies believes.

Mason agrees that lodge is proving a popular option in Eastern Europe. "Companies can keep the average limit on employees' corporate cards down by pushing

In days of yore (before Facebook or One Direction), European travellers visiting exotic lands would pay their way locally with a variety of artefacts, ranging from gold ingots to glass beads. These days, in established economies at least, a corporate card will usually do the trick – but perhaps a more pertinent question to consider is how business travellers based in the world's emerging nations pay expenses when they hit the road.

Data for the global corporate payment market is frustratingly meagre, but if the better-researched consumer market is any guide, then the answer is that emerging economies are also turning to cards, too. According to market researcher Euromonitor, North America and Western Europe accounted for 56 per cent of the US$13.8 trillion consumer card market in 2012, but these two regions also showed the slowest growth. Euromonitor forecasts that the amount of money put through cards in Asia Pacific will exceed the figure for North America by 2017.

UPWARD TRAJECTORY

Anecdotally, it would appear that corporate payments are also on a steep upward trajectory. "There is significant growth outside the two traditional regions [North America and Western Europe]," says Rene Stynen, head of corporate payment solutions at Mastercard Worldwide. He attributes the increase to heightened competition between global card issuers and a natural expansion by multinational companies of their card progammes as they attempt to extend customary travel management and financial processes to their newer territories.

Steve Robson, head of commercial cards EMEA for Citi, agrees. His bank now issues in local language and currency in 67 countries worldwide,

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responding to intensifying demand for global coverage from corporate clients. "They may currently be dealing with a lot of cash advances or paying through individual consumer cards in those markets," says Robson. "It is hard to exert control within an expense policy like that, and companies certainly aren't getting any consolidated spend information." He adds that it is not only employers clamouring for change. So, too, are many employees. "They want their spend to be within the company cashflow, not their own," he says.

Despite these compelling reasons to extend a card programme globally, travel managers and their colleagues will not find themselves pushing against a completely open door. As in the West, Robson also admits some employees are resistant, since not everyone welcomes the transparency that comes with documented card payments. Paradoxically, some employers are reluctant to issue cards because they fear the opposite: that giving employees plastic will encourage profligate spending. For that reason, argues Stynen, corporate customers often prefer to start with lodge cards in emerging markets.

Similarly, Diners Club executive vice-president Tom Edgerton sees lodge cards used extensively in Asia, "where the need to consolidate all air spend for companies is critical". He says that outside Europe, Diners Club's largest markets for lodge card programmes are Japan, Australia, Brazil, Colombia, the UAE and Singapore (see 'Regional Spotlight', below).

MANAGEMENT PROCESSES

A fundamental problem is that there is little point introducing a card in isolation. Companies know from lengthy experience in the West that cards need to be part of a fully structured travel and ▶

big items through a lodge account, and there may be reasons why they are unwilling to give local employees a card," she says.

ASIA PACIFIC

Business people are frequently warned not to make the mistake of assuming one market in Asia Pacific is the same as another. The region is larger, more populous and more diverse linguistically, culturally and economically than Europe, making any sort of generalisation impossible.

As an example of the danger of resorting to stereotypes, Airplus International Asia Pacific region director Christian Gall points out that **Australia** is one of the most mature card markets in the world. "In fact, it has gone further than the EU in terms of transparency," he says.

When Australian merchants accept payment by card, Gall says, they are required to itemise the merchant fee (the fee the merchant pays to the card issuer) as well as any surcharge the merchant has imposed.

Mature as it is, the Australian card market continues to evolve. Amex reports strong growth in recent months in non-travel and entertainment expenditure through corporate cards. "High interest rates means businesses are looking for effective working capital solutions," says Gillies.
Another mature market in the region is **Singapore**. "There is a full set of competitors, both Western and local," says Airplus's Christian Gall. "Singapore is the regional centre for multinational card issuers." Australian banks are major players in this market, and another quirk is that several travel agents issue their own branded corporate cards in partnership with financial services companies.

Possibly the most idiosyncratic market of all in Asia Pacific, but also potentially the most important, is **China**. Regulatory and cultural reasons both play their part.

The Chinese government has generally deterred Western payment companies as it builds its state-owned network Union

expense management process, of which one example is automatically pre-populating an online expense reporting system with transaction information from the card. "Many of these countries are still developing their automated expense management capability," says Alan Gillies, vice-president of UK sales for global corporate payments at American Express. "The whole buying cycle of online purchasing and expense processing remains fragmented."

Step one in a card programme expansion, therefore, is to resolve the underlying basics of the wider travel and expense programme. "Get your policy nailed down first," says David Harrison, vice-president of Visa Commercial at Visa Europe. "There will always be cultural issues, so it is important to have a strong policy that allows for no negotiation."

Others advocate a more softly-softly attitude. "You have to sell the benefits of the programme locally," says Amex's Gillies. "Applying a mandatory approach won't work with all clients."

Citi's Robson, meanwhile, argues for both carrot and stick. "There may have to be a lot of hand-holding in companies with a decentralised management structure," he says. "You need to be very clear about the benefits to the organisation so you can win senior management buy-in, because without their backing it will be hard to roll out." Robson recommends that clients work with the issuer on the roll-out by appointing a dedicated internal team that understands the nuances of corporate culture in each market. He also recommends rolling out in the largest markets first, so that their success stories can be communicated to other countries.

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REGULATORY FRAMEWORKS

In addition to differing cultural issues, every country has a unique, complex regulatory framework surrounding corporate payments. Wading in without expert knowledge is not to be recommended. Issuers will, of course, assist, but, says Mastercard's Rene Stynen, it is also important to consult the internal legal department and possibly specialist external lawyers as well.

Many other decisions will need to be made along the way – for example, whether to choose a card in each market issued in the local currency (answer: yes, generally, because it is more convenient for the local workforce, but there may be exceptions). However, formidable as these challenges undoubtedly are, the growing familiarity of cards in emerging markets and widening range of issuers mean global expansion of the corporate payment programme is an issue which should no longer be ignored. ■

Pay. Airplus has until recently been the only Western company with permission to operate a lodge card. The reason is that Airplus operates on the airline-owned UATP (Universal Air Travel Plan) network, which China's regulatory authorities deem a billing system as opposed to a payment network like Amex, Visa or Mastercard.

However, China has started to soften its position and both Amex (which is a 'closed-loop' provider, meaning it is an issuer as well as a payment network) and Citi have obtained licences in recent months to start issuing in renminbi, the national Chinese currency. For example, Citi announced its first sole-branded cards for China in September 2012, issued through Visa and Mastercard as well as Union Pay.

Yet even when Western-style payment products become more widely available, that will only be half the battle won. Culturally and economically, China is still not entirely ready for corporate cards. According to Gillies, corporate payments are more usually made by bank drafts, telegraphic transfer, credit vouchers or letters of credit. With relatively few Chinese business people possessing corporate or personal cards, suppliers typically invoice the traveller's travel management company, which in turn re-invoices the client.

Nor does it help, says Gall, that banks usually insist on credit checks of individuals before issuing a corporate card, even when the employer is liable in the event of a bill going unpaid. "Most employees are insufficiently wealthy to have a card," says Gall.

In spite of these challenges, Gall and others insist interest is awakening in China as economic growth slows and companies start to understand the need to control their expenses in a more managed and transparent manner. Gall says Airplus is now getting its foot inside the door of China's largest companies, and chairman Patrick Diemer even stated recently that China could become the number one market worldwide for Airplus.