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B2B and B2G: The road ahead

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Want to earn more this year? ISOs and merchant level salespeople (MLs) will find ample opportunities in 2008 in the business-to-business marketplace, one of the fastest growing verticals in our industry.

Growth opportunities also abound in the business-to-government (B2G) market as the use of purchase cards, also known as p-cards, by federal employees to acquire low-cost goods from suppliers expands. The top three trends to watch for this year are:

- Greater technological change and efficiencies in the p-card market (federal government and major banks will be key drivers)
- Blending accounts payable processes with card technologies
- Greater emphasis on preventing credit card security breaches and fraud

These trends will establish the need for product expansion, as well as integration with other processes.

Government hold

As the administrative arm of the federal government, the U.S. General Services Administration (GSA) contracts all agency purchasing, travel, fleet and integrated charge card services under its GSA SmartPay program.

Billed as the world's largest government credit card program, GSA SmartPay was designed to streamline federal procurement and payment processes by replacing time consuming, paper-based purchase orders for transactions less than \$2,500 with charge cards. It also ensures faster, secure electronic reporting with greater transaction detail.

When a GSA SmartPay card account is set up, a federal agency determines what limits to set on each card profile, ranging from the dollar amount per transaction and monthly total spending limit to the total number of transactions per month and the types of businesses at which the p-card may be used. The agency also decides who should be issued p-cards, limits on use of the cards and approval procedures.

During fiscal year 2006, the GSA estimated more than 350 federal agencies and groups participated in GSA SmartPay and spent more than \$26 billion in 98 million transactions on approximately 3 million charge cards. Of this total, p-cards represented approximately \$17.8

billion in expenditures across 25 million transactions by 299,000 cardholders (the balance being travel and fleet card transactions).

Since 1998, five banks have provided credit cards to the GSA SmartPay program – Bank of America Corp., Bank One Corp. (now JPMorgan & Chase Co.), Citigroup, The Bank of New York Mellon Corp. and U.S. Bank. With their contracts expiring Nov. 29, 2008, the GSA solicited competitive bids for its next generation SmartPay 2 program and awarded new contracts to Citigroup, General Electric Capital Financial Inc., Chase and U.S. Bank. These will last until 2018 if all options are exercised.

In addition to providing GSA with expanded p-card, travel card and fleet card services over the next decade, these four banks will also be responsible for ensuring:

- Better data quality, including expanded level 3 line-item detail on card transactions, to improve information accuracy and transparency, mitigate risk and enhance federal management reporting requirements.
- Increased data and systems security, including compliance with the Federal Information Security Management Act of 2002 and Payment Card Industry (PCI) Data Security Standard (DSS).
- New payment products and services, such as pre-paid cards, contactless cards and cards in foreign currencies.
- Lower interchange rates for government-to-government transactions and reduced rates or alternative approaches for large-ticket purchases.
- Expanded, 24/7 worldwide customer service, including foreign language support for federal cardholders using their cards overseas.

In retrospect, one of the best outcomes of the GSA SmartPay program for our industry since the late 1990s has been the development of sophisticated, electronic card management reporting systems. Today, we have better tool sets, fraud controls and auditing capabilities than ever before.

In the next decade, I expect the SmartPay 2 will produce even greater card data flow as more merchants capture level 3 payment transaction data and participate in the program. Also, the program will place an emphasis on real-time event and card managements. Relative to the acquiring industries, this means more opportunities to work with suppliers in meeting these advancing needs.

Implementation process

With expanded federal p-card tools and capabilities, I

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predict we'll also see more flexibility and variations in electronic payment processing during 2008, along with greater integration of payment systems with embedded accounts payable processes. Electronic push-pay technologies allow buyers to automate and initiate payments to merchants over the Internet, capture level 3 line-item detail and use credit card processing networks to disburse funds securely and easily.

The payments industry remains in the early adoption phase of this process which, in many respects, resembles early p-card adoption during the 1990s. While a number of entrants are jumping in to provide push-pay technologies, it's not yet clear which of these will prevail.

Added protection


To manage payment systems in an increasingly networked and interconnected world, I expect we'll see far greater technological developments and innovation in credit card security over the next decade as the government and participating SmartPay 2 banks find better ways to protect sensitive card data against hackers.

For any organization that accepts credit and debit card payments, data breaches are among the most serious operating risks. Protecting cardholder data and complying with U.S. government and PCI rules aimed at ensur-

ing merchants keep customer payment data secure is a significant undertaking. Yet thousands of merchants still use payment technology that doesn't adequately protect card data.

Firms that sell in the B2B or B2G markets, for example, typically collect 10% or less of their gross sales from credit card transactions. But if they collect and manage sensitive card data themselves, accepting credit cards can become an enormous headache with potentially significant liabilities rather than a convenience for their customers.

To be successful in the B2B and B2G markets, ISOs must stay abreast of PCI compliance rules, know which service providers and solutions are compliant, and be able to recommend the best options for protecting sensitive customer information by merchants who store, process or transmit card account data.

Enabling merchants to transfer their customers' sensitive credit card and payment transaction data off-site where it is encrypted and stored at highly secure, PCI compliant processing centers is often the best solution. 

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