

# Report

## Advancing critical dialogue

### *E-Invoicing: towards a real-time economy*

Despite the challenges, electronic invoicing is a concept whose time has undeniably arrived. Indeed in some regions, such as the Nordic countries, the development of e-invoicing has been a priority for the past decade, so it is no surprise that some of Europe's leading proponents are Nordic.

**F**or Bo Harald, chairman of the European Commission Expert Group on E-Invoicing and head of executive advisors at solution provider Tieto, the case for e-invoicing is compelling for the full spectrum of industry players: large corporates, small and medium-sized enterprises (SMEs), banks and non-bank integrators/invoice service providers. He considers it the single most important tool for improving EU and global productivity and saving money.

"Processing manual invoices costs around EUR 30 apiece compared to EUR 1 for e-invoices and costs Europe about EUR 250 billion a year. Considering that by 2020 there will be 35 million fewer Europeans of working age, automation will not only liberate them into more interesting work, it will be crucial towards financing the welfare state." In addition, says Harald, "Dematerialising the invoice process is fundamental to responsible environmentalism."

In November, 2009, the expert group set out its vision for e-invoicing in a

report entitled European Framework for e-Invoicing, which it submitted to the European Commission. Among other suggestions, it highlights the need to get small and medium-sized enterprises involved in the drive to adoption. It encourages interoperability through standardisation and calls for increased EU harmonisation of legal and VAT frameworks. Actions to implement these recommendations are expected from the EU Commission later in the year.

The Euro Banking Association (EBA) has also organised a financial sector initiative around e-invoicing. In addition to the e-invoice working group, set up in 2006 to explore ways in which the EBA and its community of members could contribute to pan-European solutions in electronic invoicing, there is also a proof of concept group where financial sector stakeholders have joined forces with non-bank e-invoice service providers. A white paper on e-invoicing has been published, explaining the operational model for e-invoicing, roles and responsibilities of different stakeholders and outlining how banks and non-bank e-invoice service



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providers could and should work together to increase interoperability and reach.

### REMOVING SUPPLY CHAIN PAIN

In February 2010, a milestone report, 'Return to Sender: E-invoicing is Paying Off in the Nordics', was published by Johanna Andersén, vice-president, Nordic head of payment & collection services at Nordea. It champions e-invoicing as the core component of real-time accounting, the global financial supply chain and a single procure-to-pay cycle linking banks and non-banks, a view endorsed by Erkki Poutiainen, an EBA board member and head of payments infrastructure, transactions products division at Nordea. For Poutiainen the main

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strength of e-invoicing (he excludes PDFs as being essentially static documents) is that it represents a reliable exchange of structured data. "From this perspective the data transport function is less important than the upstream and downstream usage of data components which can include the automated matching of orders with invoices and all stages of the payment settlement and reconciliation process."

The availability of this structured data has been facilitated by the development of enterprise resource planning (ERP) systems for supply chain integration. Over the past few decades, corporates have been implementing ERP systems to streamline their internal processes, explains Christian Schaefer, product manager for the financial supply chain (FSC) in EMEA at Deutsche Bank. "Now they are beginning to look at extending this integrated data environment externally in order link up buyers and suppliers electronically," he comments. "In the ideal FSC scenario," says Eugenio Cavenaghi, product manager and a colleague of Schaefer's at Deutsche Bank, "both supplier and buyer are connected to an electronic platform provided by the bank. The supplier sends us data in order to generate an invoice for the buyer from which the bank can then create a financing proposal." This financing may be to extend credit to the buyer or to pay the supplier before the due date to improve cash flow and liquidity. By taking on these supply chain functions, the bank is elevated from payment handler to key financial partner in the trade cycle.

### THE CHALLENGES TO ADOPTION

Despite its persuasive business case, e-invoicing adoption faces some serious challenges. "Even if we have two legs in place – the harmonising value added tax (VAT) directive for equal treatment between paper and electronic invoicing, and a soon-to-be-ready global ISO standard – we still lack a network concept to make e-invoicing function like payments," says Harald. "This is a major milestone for the single market and as no commercial constellation can create it, it is up to the European Commission to kick the ball back into play."

### ACHIEVING INTEROPERABILITY

Many large corporates, especially those with complex accounting environments, are already advocates of e-invoicing efficiencies. These organisations typically use service providers like FundTech, Logica, OB10 and Tieto who have expertise in high-volume data integration, transformation and dynamic invoice formatting. Relationships are usually bi-lateral with '3-cornered' links between buyers, sellers and service provider to create a closed-loop financial supply chain. This works smoothly when all partners are customers of the same provider but the complexity increases when external corporates and service providers are added into the mix. Bringing in the payment component (banks) to create a 4-cornered link compounds the interoperability issues.

As Harald points out, "What is needed are solutions that combine the reach of



the banking network with the specialised skills of big corporate service providers. These two ends need to be joined together to achieve mass adoption and supply chain efficiency.” Accountis, acquired by FundTech in 2008, is an EIPP (Electronic Invoice Presentment & Payment) provider that partners with banks to promote e-invoicing interoperability and white-labels a service for Royal Bank of Scotland. “The number of banks offering e-banking services is increasing and this facilitates the exchange of e-invoices between corporates, but only if they are clients of the same bank,” observes Ifor Williams, senior vice president, financial supply chain solutions, Accountis. “To open this up, we are part of a SWIFT-supported *ad hoc* group to demonstrate interbank interoperability.” SWIFT also offers interoperability services, says Raimo Naatsaari, e-invoicing product manager SWIFT. “SWIFT has developed robust solutions that enable invoice providers to exchange e-invoice messages without having to alter their existing system,” he notes. “We also work with banks and providers at the network level which gives them an opportunity to expand their reach across the SWIFT community.”

Despite advances in interoperability, some invoice providers are reticent about creating links with banks for fear of losing the exclusive relationship they currently enjoy with their customers. For their part, banks that are slow to embrace e-invoicing often either lack e-invoicing competence or feel it’s a just commitment too far. “Given SEPA, MiFID and the other investment pressures facing banks, this reluctance is understandable,” offers Harald. However, for banks that do want to add e-invoicing to their portfolio, one solution is to team up with a provider as RBS has done with FundTech and Nordea with Tieto. The advantage of a strategic partnership is



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that the non-bank gains reach through the banking network, while the bank can leverage specialist expertise.

Interoperability calls for standards. “Pan-European e-invoicing requires a standard platform, otherwise 27 different countries will be exchanging e-invoices in as many different formats involving expensive data transformation services,” Poutiainen warns. “The obvious framework is SEPA and the ISO 20022 protocol. In addition to being an internationally accepted standard, ISO 20022 has lots of extra fields for invoice data that can sit easily on top of payments

information. The messages can then be transported via SWIFT which is secure, reliable and offers global reach.”

“Through SWIFT’s participation in a number of e-invoice related working groups and discussions with the stakeholders, we have gained insights on the pain points with e-invoicing and have also identified how we believe we can help the community to move forward with e-invoicing,” says André Casterman, head of trade and supply chain, SWIFT. “To validate our proposition, SWIFT has initiated an e-invoice *ad hoc* group. Its

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purpose is to explore how to exchange e-invoice messages over SWIFT's network, test and prove how core SWIFT components can be used and help SWIFT to package it all together to support an interoperable ecosystem for e-invoicing."

**TIPPING THE ADOPTION BALANCE**

Harald feels that mass adoption of the e-invoice will only speed up when more countries, municipalities and major invoice receivers declare a deadline beyond which they will not accept paper or PDFs, as has already been done in the Nordic region. In 2005, Denmark mandated that all government suppliers must submit invoices electronically: the choice was 'an e-invoice or no invoice'. Finland issued the same ultimatum in 2009 and has already saved EUR 3.2 billion (USD 3.9 billion).

For Poutiainen, the answer is an e-invoicing model in which all supply chain partners win. "At the moment demand is coming from high-volume corporates and providers who can see the supply chain efficiencies," he says. "For SMEs, it is the banks that enable




easy entry to the supply chain. Most banks already offer low-cost e-banking channels and a reliable, high-volume, interoperable payment network in SWIFT, so this offers a great value proposition for the smaller corporate." The hope is that as more SMEs realise the benefits of e-invoicing, from faster payments to streamlined accounting, they will demand this service from their banks.


**THE FUTURE OF E-INVOCING**

Harald's expert group predicts that e-invoicing will be the predominant invoicing method across Europe within five to eight years, and in some countries


earlier. According to Deutsche Bank's Schaefer, e-invoicing and the broader world of the financial supply chain is firmly on the European corporate roadmap. "Financial supply chain management is complex and takes time to obtain broad adoption, but it is on the agenda of all significant industry players," he comments. "Over the next five years we will see many more corporates adopting trade services with closer links between partners calling for more integrated solutions."

As for the banks, Poutiainen believes e-invoicing holds the key to the industry's future. "Traditional banking is about shifting money from one account to another in the same bank or across the world. The problem is that payments is a mature industry and margins are low. To increase profit from a transaction, banks must focus on the whole supply chain, position themselves early in the trade cycle and provide an integrated portfolio of value-added services." 

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 Attend the session on "E-invoicing: The need for interoperability between banks and non-bank service providers."

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*Christian Schaefer, Deutsche Bank*