

## Electronic invoicing and the banking industry

### Discussion Paper

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## 1. Purpose of document

The document sets out the business rationale for the provision of electronic invoicing and related services by banks to their customers in the following sections:

- It gives the background to e-invoicing and summarizes the benefits
- It describes the opportunity for banks and the key features of the market landscape that they will confront
- It goes on to review the main drivers for customer adoption focusing on small and medium sized enterprises, but not precluding consumers, the public sector and large corporate entities.
- It then summarizes the reasons why a customer would look to a bank for these services as opposed to another kind of service provider and makes the case from the bank's point of view.
- It briefly recalls the engagement of EBA with the topic of e-invoicing
- It sets out in the following paragraph a number of recommendations

## 2. Recommendations

It is recommended that:

1. The banking industry continues to monitor the development of e-invoicing in Europe as well as globally.
2. That banks and communities continue to evaluate the role they may wish to play, whether processing and delivery, integration with payments and/or invoice finance. They may wish to focus on the inclusion of small and medium-sized businesses (SMEs) in the e-invoicing eco-system, since banks are well-placed in this market space.
3. Any role taken by banks should be subject to the development of a compelling value proposition and business case. There is scope for sharing best practice and market experience, especially by early adopter banking communities.
4. That the banking industry welcomes and supports the growth in supply chain automation practices and technologies as a means of growing greater efficiency and cost effectiveness in B2B and B2G trading and delivering a wide range of benefits to their clients.
5. That the industry welcomes regulatory measures to encourage standards and adoption in public procurement.
6. EBA should continue to monitor and report to its membership on developments through its membership of the European Multi-Stakeholder Forum on e-Invoicing.
7. Over time EBA could be in a position to develop supporting infrastructure for the banking industry as specific needs and a proven business case are forthcoming, for example in line with work already undertaken in the EBA e-

Invoicing Working Group (now the EBA Supply Chain Working Group) and any subsequent industry developments.

### **3. Background on e-invoicing**

The replacement of business processes based on paper documents with the exchange of information in electronic form is a highly beneficial global trend, and the competitiveness of worldwide economic activity will benefit from this migration.

Electronic invoicing has been achieving growing but varying rates of adoption and is potentially capable of achieving critical mass in many industry sectors in the short to medium term. This is owing to adoption by governments and generally to private sector adoption through supply chain automation. An active electronic invoicing service provider and solutions industry is supporting this growth. It is, however, recognized that further efforts are required in order for electronic invoicing to achieve its full potential, especially bearing in mind the needs of small and medium-sized enterprises (SME).

Electronic invoicing requires the complete removal of paper from the invoicing process. Many large corporate enterprises and many public administrations throughout the world are already realizing the major benefits of automating their business processes, of which electronic invoicing is a conspicuous and effective example. E-invoicing is part of a general move to supply chain automation and this includes in addition: purchase order, logistics data and electronic payments, as well as information and analysis. In most countries invoicing is an important fiscal process especially where VAT and sales taxes are raised. It is essential that e-invoices are securely transmitted and stored and retain their authenticity and integrity.

There are four good reasons for adopting electronic invoicing:

1. It is supportive of public policy priorities for economic growth, productivity, fiscal efficiency and financial transparency.
2. It makes a material contribution to cost reduction and efficiency by both buyers and suppliers
3. It provides major benefits to suppliers by facilitating prompt payment and liquidity generation
4. Its ease of implementation can be demonstrated with reference to many private sector and national public sector experiences, and with reference to the extensive range of existing market solutions and shared service platforms: 'Big bang' IT projects are not required. Transition costs are modest.

### **4. The benefits**

For both corporate and public sector trading parties, the manual processes involved in handling paper invoices are labour-intensive and lead to errors, delays and long payment cycles. Manual approval processes and limited process controls lead to uncorrected billing errors, potential fraud, and difficulties in achieving accurate audits for all parties.

By moving to a process that handles invoices electronically, buyers and suppliers achieve material cost and efficiency gains by removing delivery and print costs, by removing the need to archive paper, and to purchase envelopes, paper and stamps. Even more significant cost savings are obtained through work flow, process improvement and administrative efficiencies at all levels. At a minimum, greater transparency is built into the whole procure-to-pay cycle.

The buyer establishes a more stable and satisfied supply chain, and will see measurable error and fraud reductions. The environmental benefits of electronic invoicing are also significant. Electronic trading systems will allow access to transparency of spend analytics, and simpler financial reporting.

In addition, once the pivotal e-invoice process is created, it is an enabler for the implementation of full end- to-end e-procurement (from e-catalogues to ordering and payment). It is important to make a distinction between the complex internal change management required to adopt full e-procurement with the comparatively straightforward step of adopting electronic invoicing. This modular step then creates the potential for the step by step adoption of e-procurement.

There is a global dimension to electronic invoicing which is an integral component of new global trading practices in the networked economy and is an indispensable part of creating competitiveness. Consequently it is so much more than the modernization of a business process. It takes place at the point of convergence between the physical and financial supply chain where the processes associated with orders, manufacture and delivery meet contractual arrangements, risk analysis, credit, financing and payments. It will almost always stimulate wide-ranging productivity enhancements right along these value-chains.

The business case can be established with reference to the clear benefits arising from the benefits described above. This then needs to be complemented with material on the implementation aspects. It is proposed that the business case can be readily built.

## **5. Business rationale for banks to provide electronic invoicing services**

### **5.1. The opportunity**

Banks can support their customers in managing their invoicing and other supply chain processes by meeting real market needs through provision of the following services:

1. Presentment and delivery of invoices and related data from trading party to trading party as part of end-to-end support for the Financial Supply Chain. This could cover B2B, B2G and B2C. The b2B, B2b, b2G segments are potentially very important (SME=b).
2. E-Invoicing will become compulsory for all public bodies in the EU by 2018 based on an EU Directive and a new standard which must be supported by all public bodies; the banks can help mobilise this huge project, which will have positive benefits or e-invoicing generally. This is an important inflection point for the market.

3. Extension of all these services through the existing asset represented by secure e-banking channels, another leverage point for the installed base of e-banking customers. Provision of wide network reach within the banking sector and with other service providers (four corner model) also plays to banks' strengths in secure interoperability
4. Deployment of tools for content standards and compliance with the legal and fiscal framework. A new EU standard is in preparation and the arrival of an e-invoice standard also plays to banking industry strengths.
5. The offer of additional services such as archiving, format conversion, invoice validation, invoice traceability (status information: accepted, rejected, paid), invoice management (printing, searching, discharging), which can be readily insourced.
6. Integration with payments and cash management and links to supply chain finance services generally.

***5.2. Banks need to respond to the opportunity with a clear value proposition based on the following market characteristics:***

1. It is a diverse and heterogeneous landscape. There is a strong streak of complexity which banks can navigate through to craft a winning offer- it is however no more complex than providing current payment or trade services
2. Tax treatment of e-invoices has been clarified in the EU but remains diverse generally. E-invoicing is a public policy priority and working in close harmony with government policy is important
3. A focused approach is key to success, for example, it is likely that banks will focus on the SME and consumer market although some banks will also develop a proposition for top tier corporates, who typically use a range of specialist service providers. Who else could mobilise the SME sector better than banks?
4. Alliance/ partnership strategies with service providers are common, as is the need to develop standards and infrastructure solutions within the banking industry in the collaborative space so as to create the necessary network effects. Banks need to execute well - best on an incremental step by step basis.

**6. Rationale for bank customers to adopt e-invoicing**

***6.1 The key benefits of electronic invoicing for the trading parties who create and receive invoices are as follows:***

1. Substantial cost savings for invoice senders and especially for invoice receivers are obtainable. These are considered to be highly material e.g. 60-70% of current accounts payable processing costs for e-invoice receivers. More efficient physical and financial chain management can better realised on the

basis that end to end dematerialisation of processes takes place progressively across the whole supply chain.

2. It is increasingly a requirement for doing business with larger trading parties including the public sector- “E-invoice or no invoice”- in other words it is a mandatory fact of life.
3. Better and faster reconciliation of bank accounts and payments flows across these accounts can be achieved. There is an improvement in payments STP because re-keying of payment data can be eliminated by the provision by the creditor of precise payment details and identifiers as an in-built part of the process. Improved working capital and cash flow management is supported based on these more predictable payment flows.
4. Customer and supplier relationships can be improved as trading parties become more connected as a “virtual entity”. Improved control and visibility of customer activities and transactions becomes possible leading to the generation of fewer errors, better risk management and useful management information about customer and supplier behaviour. Fewer queries and disputes are generated especially since forward and backward matching with purchase orders, delivery documents and payments can occur on an automated basis. There are new potentialities to take advantage of discounts from early payments and to generally manage credit terms in a more targeted way.
5. Improved productivity of company workforce is realised thus releasing resources for more productive work. Carbon savings will directly arising from savings in paper.
6. As it is a public policy priority, businesses will benefit from the move of the European-wide public sector into e-invoicing. A large number of SMEs have trading activities with both public and private sectors on a cross border basis in Europe and e-invoicing will help to facilitate this business and its growth.

***6.2 Trading parties and particularly SMEs have the following expectations from electronic invoicing:***

1. There must be a demonstrably favourable cost/benefit whilst providing security, confidentiality, reliability and trust
2. Any systems and tools must be easy to use, implement and manage and for micro-SMEs there should be little or no IT skills and resources required. Businesses need access to a competitive market for service provision and the availability of “off the shelf” or “out of the box” solutions
3. There should be maximum automation with a clear reduction in manual work and exception handling. There should be maximum integration with the most

common ERP's used by SMEs. Data requirements and standards should be easy to adopt with the latter already embedded in user solutions.

4. There should be clarity of legal and VAT compliance requirements and preferably service providers prepared to support compliance with these requirements.
5. High service and support levels should be provided. Support is required to provide for secure archiving for regulated periods, during which audits can occur.
6. Documents need to have availability of both structured data transfer and human readable invoice images
7. All trading parties should be reachable without the need for too many connections or interfaces
8. There should be support in terms of sharing best practice and supporting information. Related services e.g. format conversion, scanning, residual paper invoice management and banking/payment services need to be available and convenient.

## **7. Benefits of using a bank as an e-invoicing service provider (recognizing that the bank might outsource elements of its service)**

### ***7.1 Benefits of using a bank for e-invoicing services:***

1. Banks deploy a range of trusted e- channels including e-banking, home and Internet banking with supporting file transfer services and notifications through mobile and email, which can easily support e-invoicing at limited incremental cost. Security, trust and confidentiality lie at the heart of the bank value proposition.
2. Banks are able to integrate e-invoicing with payments in many creative ways. Faster, easier and more accurate payments are delivered-invoices are all about getting paid. Use of common codes and data elements for the payment and the invoice facilitates reconciliation processes and reduced errors.
3. Banks can make availability invoice financing, factoring and credit enhancement facilities.
4. Given the growing habit of electronic banking there is an automatic economy of re-use and repetition (e-banking, file transfer, authentication and call centre etc.).
5. Bank networks naturally create a 4 corner model approach using one entry point to the eco-system (one stop-shop). International and national reach can be provided based on longstanding network effects.
6. The banking channel can meet legal compliance and authenticity/integrity requirements on the basis of an end to end secure channel and other supporting security techniques commonly deployed in the industry. Banks have long experience of deploying and supporting standards at all levels.

7. Banks have experience in mobilising market intelligence, product guides and support services to customers and there is an ability to mobilise ancillary services either directly or from partners.

**7.2 Provided that the bank can:**

1. Create and deliver a solid value proposition to customers
2. Integrate e-invoicing in a user friendly way in its e-banking channels either directly or through seamless linkages to partner-provided services
3. Train and provide continuing support its front-end sales and support staff
4. Provide the necessary enrolment and on-boarding tools and make connections to the necessary networks and hubs so as to provide the widest possible reach
5. Ensure legal, regulatory and standards compliance on a continuous basis

**8. Benefits to the bank in providing e-invoicing services**

1. There is a need for each individual bank to create its own business case and value proposition in a competitive market- it is not a commodity service as only part of the value proposition is mutualised in a cooperative infrastructure
2. Banks can create a new source of “top line” revenue growth to enhance (commoditizing) payment revenues- in fact a stable source of new “annuity” income. E-invoicing and supply chain services represents an obvious way to enrich the e-banking offering
3. Cross-selling opportunities arise at all stages through expansion into the customer value chain. Banks can offer new bundles of packaged services under combinations such as “Collection Services” and “Accounts Payable Services” in which established traditional and new e-invoicing services are deployed together. Factoring and financing solutions contribute revenues from lending
4. Banks can build on their SEPA investments to deliver value rather than just a new standard for existing services. Enhanced integrated payment services can be designed with richer and timely information flows to support cash management, financing, data mining and reconciliation services. It is entirely possible re-use existing platforms, standards capabilities and network reach
5. With e-invoicing there is a trend towards making single rather than bundled payments, thus increasing the total volume of payments
6. Some have discussed the part-replacement of direct debit with e-invoice plus credit transfer, although the impact on payments depends on existing community habits and usage patterns and the propensity to accept change by users and providers.
7. The visibility and flow of current trading information leads to improved credit and risk assessment and the offering creates greater customer intimacy/stability (and retention through a deeper “partnership” relationship and consequent higher switching costs)
8. There are benefits in defending existing franchise revenue and indeed the reverse is true-not participating could put existing core earnings at risk if competitors become active. For banks e-invoicing can be part of a counter-attack on intruding non-bank payment providers.



9. There are intangible benefits to the banking industry in terms of improved image and green and social benefits (“doing something for society at large”)
10. It can be a material part of the attack on paper generally by promoting electronic channels for example in removing residual cheque volume as payers are less likely to pay an e-invoice with a non-automated or semi-automated payment instrument
11. E-invoicing will help to protect and grow the important SME franchise. There are also major impacts for the consumer banking business through the promotion of e-billing to major billers such as utilities and the presentation/payment of e-invoices in the consumer home banking channel. This is often the starting point for e-invoicing (EIPP) which is then extended to B2B services.
12. There is a natural fit between the side of the market generally served by specialist e-invoicing service providers- large invoicing entities- and the mass-market of consumers and SMEs, which can be accessed through banks.

An alternative scenario for banks unconvinced of the business case for e-invoice processing would be to align with an e-invoicing service or platform provider and to provide invoice finance using e-invoices as transaction trigger, collateral and audit trail. The encouragement of e-invoicing by clients is also a sound business strategy because it can enhance customer liquidity and credit strength. It also creates an enlarged ‘window of opportunity’ and tenor for invoice finance because e-invoices tend to be approved more quickly thus creating a longer financing period.

## 9. Generic template for assessing potential income streams

The following potential income opportunities need to be assessed by individual banks. The Working Group is not able to discuss pricing or any issues in the competitive space- the categories below are derived from general market information.

### 9.1 Potential revenue clusters

- Enrolment
- Regular service and maintenance
- Creation of e-invoices in the e-banking channel (web or file transfer) based on size and data characteristics
- Validation of invoice formats
- Sending or making available domestic e-invoices
- Sending or making available cross-border e-invoices
- Receiving, presenting and downloading e-invoices in the e-banking channel
- Processing paper invoices including those extracted from e-invoice data
- Storage of customer information in a database by customer, product, and invoice
- Receivables monitoring and incoming payment reporting
- Providing a range of integrated payment services with easy to use references for reconciliation.
- Providing enhanced account and statement information

- Format conversion and translation services
- Printing and scanning services
- Email or SMS notifications for received e-invoices
- The handling of attachments and images related to the invoice
- Archiving of sent and received e-invoices
- Processing of other related documents (e-orders, e-offers, appendices etc.)
- Provision of reporting tools (e.g. for tax authorities)
- E-invoice solution customization
- Communication customization between customer ERP and bank e-invoicing solution
- Generation of files of invoice payments
- Generation of files with invoice information for financing/factoring
- Electronic signing e-invoices if required including:
  - 1 Signing process (several signature formats)
  - 2 Signing with a proprietary certificate
  - 3 Time stamping
  - 4 Certificate revocation status verification
  - 5 Validation of e-invoice signatures
- Financing/Factoring of seller invoices (accounts receivable)
- Financing/Reverse Factoring of buyer invoices (accounts payable)

### **9.2 Aggregation of data**

Such potential revenue clusters can be aggregated and analysed on the basis of:

1. Number of target clients
2. Segmental analysis (large, medium, small/micro)
3. Invoice volumes & values ( e-invoice and paper)
4. Mix of national and cross-border traffic (based on an assessment of volumes of domestic and cross-border payments, and an estimate of the numbers of invoice senders and receivers involved in cross-border trade)
5. Projected archiving volumes
6. Invoice attachments/annexes- volumes and values
7. Number of e-invoice solution customisations

### **9.3 Structuring the cost base**

Moving to the cost and execution side of service provision, the following analytical template is commonly used in the industry:

1. Up front investments (“change the bank”) including IT development, project management, product design and management

2. Operating expenses (“run the bank”) including IT, e-banking, network, customer support, processing, solution deployment, compliance, reporting, marketing, training, call centre, databases/archives,
3. Infrastructure and messaging costs (charges by external platforms)
4. Third party service provider costs

Within the cost analysis will be the classic “make/buy” decision. A large proportion of these services can be acquired from service and solution providers with banks focusing on branding, marketing, control, integration of related services and compliance/reporting.

Banks may choose to fully integrate e-invoicing in the e-banking channel or provide it through a separate portal making the necessary linkages to support payment and financing flows.

Revenues and costs need to be subjected to variability and sensitivity analysis. There also needs to be an assessment of the negative impact of not acting in the e-invoicing market especially if bank or non-bank competitors become active. The potential for the disintermediation of core service income in the payment service is a present one.

## 10. Summary of previous work on e-invoicing by EBA

Over several years EBA has researched and monitored the development of e-invoicing through its E-Invoicing Working Group and more recently the Supply Chain Working Group. The following are the key achievements:

- Publication of Market Guides to e-invoicing in 2008 and 2010.
- The creation of a possible Rulebook for interoperability between e-invoice service providers and banks
- The publication of a White Paper including the Rulebook and also a Business case
- Participation and editorial contributions to European Commission Expert Group and to CEN Workshops on e-invoicing
- Participation and contributions to European Multi-Stakeholder Forum on e-Invoicing
- Informal support for the creation of EESPA, the European e-Invoicing Service Providers Association
- Speaking and participating in conferences, roadshows and country level events
- A full programme of working group activities, including frequent guest speakers.
- Monitoring many examples of banking industry engagement
- Articles including a series of pieces for the European Payments Council Newsletter and many other publications to promote ‘thought leadership’.

The EBA SCWG sees e-invoicing as an integral part of its agenda to monitor supply chain developments and sees supply chain automation as a key enabler for better

financial supply chain management with benefits in terms of cost reduction, information management and liquidity generation.