E-invoicing in Corporate Banking: A European Perspective

Persistently tough business conditions have forced European banks and their clients to find ways to create a more free-flowing, more efficient financial supply chain. We believe that a closely integrated, cloud-powered approach to e-invoicing could be one way to achieve this objective.

Executive Summary

The prolonged economic crisis that has roiled European countries served as a wake-up call for corporate banking decision makers. As competition intensifies throughout Europe and regulatory pressures increase amidst ongoing economic uncertainty, many banks are looking to take out additional costs in order to streamline operations and enhance their competitive stance.

An unrelentingly challenging business environment has also prompted corporate banking clients to take measures to ensure that they have an efficient working-capital ecosystem to support their local treasuries. This trend is also forcing banks to consider new transaction banking models, especially around cost optimization. These circumstances have made e-invoicing an increasingly popular topic of discussion, especially with commercial and corporate banks looking to achieve greater efficiencies across their supply chains.

Simply stated, e-invoicing refers to the digitalization of invoice information in an electronic format that is transmitted over a digital channel (i.e., e-mail). As easy as that might sound, e-invoices play a significant role in streamlining working capital management in a financial supply chain.

E-invoicing has long been recognized by the banking industry for its potential to significantly cut costs for both commercial and corporate institutions. Yet banks have been slow to adopt, in spite of the fact that the volume of e-invoices has grown steadily - doubling in the last three years alone. Nonetheless, the level of penetration is still under 10% throughout most of Europe.

Recent European regulations, such as the Single European Payment Agreement (SEPA), have accelerated programs around digitalization, driven the acceptance of industry standards in e-payments and supported its incorporation into corporate treasuries. These regulations also create the perfect platform for banks and corporates to adopt e-invoicing.

In this paper, we will explore e-invoicing and its impact on corporate banking in Europe. We will
also point to a possible solution: a cloud-powered utility, potentially managed by a trusted third party, that can speed the adoption of e-invoicing and overcome seemingly intractable challenges related to interoperability, cost and scale.

**How E-invoicing Accelerates Financial Procurement**

Corporate banks and their clients increasingly seek to integrate their financial supply chain to make working-capital processes more efficient. This requires a faster, more seamless flow of billing information between business entities (within and outside their four walls). In this context, e-invoicing acts as a catalyst for accelerating and streamlining the financial supply chain.

The adoption of e-invoicing enables institutions to:

- **Optimize costs:** E-invoicing can deliver a reduction of EUR 16–18 per invoice for corporate banks. In fact, e-invoicing helps drive significant cost efficiencies across the entire banking supply chain.

- **Focus on banking transparency:** Recent regulations have required banks to make banking information (products, services, charges) more transparent to their clients. Under such circumstances, e-invoicing mediums such as TWIST’s Bank Services Billing standard helps increase banking transparency and enhance financial reporting to corporate clients.

- **Heighten working capital efficiency:** Among the most sought-after benefits of e-invoicing is the ability to reduce a company’s order-to-cash cycle and improve cash flow. An e-invoice provides a corporate treasurer with an early overview of cash payables/receivables, thereby accelerating decision making in the working-capital supply chain.

- **Simplify reconciling account information:** Banks and corporates are often challenged to quickly reconcile accounts payables/receivables information from a paper invoice. E-invoicing gives institutions the flexibility to automate data feeds into the treasury systems by introducing operational rationalization into the process.

- **Faster, smarter decision making in the finance supply chain:** E-invoicing offers faster access to working-capital information, which provides the level of visibility needed to accelerate decisions related to organizational supply chain finance (SCF).

**Current Challenges and Limitations**

As noted, e-invoicing provides numerous benefits. However, its adoption by European banks and corporates has been sluggish – primarily due to four limitations:

- **Legal and regulatory challenges:** Different taxation and regulatory requirements across European countries impose the challenge of determining the right mix of e-invoicing guidelines. Although the EU has progressed in establishing a common e-invoicing guideline, there is still work to be done before banks and corporates can start implementing e-invoicing.

- **Lack of an industry standard:** Although EDI (electronic data exchange) has existed for decades, the market has no common e-invoicing standard. Standards have varied widely – from country to country, from sector to sector, and from supply chain to supply chain.

- **Poor business appetite:** Although e-invoicing can drive significant cost benefits over the long term, recent surveys among European banks and corporates have shown that the cost of implementing e-invoicing is much higher when compared to the possible savings – an issue that has further slowed the already slow adoption of e-invoicing.

- **Technology interoperability issues:** There are approximately 400 IT solution providers that offer e-invoicing solutions in Europe. This underlines the fragmented nature of the services industry, and implies that different companies are using different products that “speak” different IT languages. Unless there is broad acceptance of a common platform to enable e-invoicing compatibility and interoperability, most companies will refrain from making investments in solutions that offer no guarantee of a robust, scalable offering.

**Enablers for E-invoicing Adoption**

Although the adoption of e-invoicing in Europe has been slow, there are widespread efforts among various government and external standards bodies to support the business case for e-invoicing. We believe the following enablers should encourage and accelerate the adoption of e-invoicing in the European Union:
• **A community cloud-based e-invoicing solution:** Banks and corporates should consider embracing e-invoicing platforms in a community cloud (see Figure 1). A community cloud solution can be shared by various organizations and banks, can potentially be managed by a third party, and can offer every community member e-invoicing uniformity. Such an approach provides numerous advantages:

  » Corporates with multiple banking relationships can leverage one platform for all of their e-invoicing needs; the “community” nature of the solution offers economies of scale, standardized security and compliance protocols, and a choice of the organizations with whom invoicing data can be shared.

  » The “pay-as-use” model fits aptly as the service model of choice — offering the advantages of cheaper maintenance and low-cost integration.

• **A standardized format for the exchange of billing information:** Currently, there is a plethora of e-invoicing formats used in the European market. Such a diverse range of options introduces the issue of interoperability, format compatibility and data integrity. To increase the use of e-invoicing across corporations and banks, a standardized format must be set in place as the medium for exchanging billing information. Currently, EBA and e-TEG are working to establish such a standard. Two standards - PEPPOL and TWIST’s Bank Services Billing (BSB) - are gaining widespread acceptance as the e-invoicing standards of choice among leading European banks and corporates. Going forward, increasing the promotion of BSB and PEPPOL will go a long way in addressing the format interoperability challenge.

• **A trusted partner:** On the journey to implementing e-invoicing solutions, banks and corporates will need to rely on a trusted partner to help them develop, manage and run resilient, future-focused e-invoicing solutions. Corporates and banks will likely be inclined to implement a tri-party model where the management and maintenance of the e-invoicing solution falls under the supervision of a reputable third party. Banks will be increasingly apt to collaborate with platform/service providers that share relationships with their corporate clients in order to achieve the right synergies. Also important to consider here would be governance: Who will manage the solution? Who will control the data? What are the data policies around data control, access and security? Partnering with an experienced service provider can help ensure that both banks and corporates — as well as their customers — benefit over both the short and long term.

**Government Initiatives and policies:** Recent regulations such as SEPA reveal how European governments are working to develop a unified payments area across the EU. This will create
Banks will increasingly collaborate with platform/service providers that share relationships with their corporate clients in order to achieve the right synergies.

- **A common, supportive framework:** Governments must develop a structure that encourages businesses to implement e-invoicing solutions. One possible step would be to make e-invoicing mandatory for businesses and banks within an identified segment (say for banks and corporates with high turnover). Since bigger corporations rely on extensive ERP systems to manage their financial supply chains, implementing e-invoicing offers an attractive proposition in terms of streamlining their working capital. Governments must also prepare a set of legal guidelines, along with a proper governance model, to achieve such an objective, since this offers the best environment for e-invoicing to flourish in Europe.

### The Push for E-invoicing

With rapid advances in technology and new levels of regulations emerging throughout Europe, we believe now is the right time for European businesses and banks to adopt e-invoicing. Our rationale:

- **SEPA:** The Single European Payment Area sets a platform for the adoption of ISO XML standards in payments initiation between corporates and banks. The strong connections between invoices and payments make SEPA an ideal launching pad for interoperable e-invoicing in Europe by driving process integration across the financial supply chain. In turn, mass adoption of e-invoicing could further stimulate migration to SEPA payment instruments.

### Looking Forward

Looking at e-invoicing as a way to accelerate the financial supply chain isn’t new; it has been acknowledged for some time. For reasons identified in this white paper, its adoption rate has been sluggish in Europe. However, with rapid advances in cloud technology, the right regulatory backing and the market’s appetite for standardizing e-invoicing offerings, now is the time for banks and corporate treasury houses to take advantage of this growing practice.

With the right solution and alliances in place, banks and corporates can drive more collaborative and efficient commerce, improve performance and profits, and ultimately strengthen their advantage in the marketplace.

### Footnotes

1. According to research done by Billentis, an e-invoicing solution provider.

2. The TWIST BSB e-invoicing standard has been established to enhance process efficiency and optimize controllership in e-invoicing. It can be used to communicate the type, quantity, price and other information on the bank services used in detail.

3. This is according to the 2012 Global e-invoicing survey done by Basware in association with The Institute of Financial Operations.
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