E-invoicing: Now is the time to act*

Transaction Banking Compass
E-invoicing offers many potential benefits to users and the economy at large, but adoption in Europe has been generally slow owing to a variety of technical and behavioural obstacles. However, a growing range of initiatives are underway to break down those barriers and encourage the e-invoicing market to develop. Banks are uniquely placed to shape and profit from the development of e-invoicing, but they need to avoid being left behind by competitors and new entrants. Now is the time for the business bankers inside banks to act, to make the case and to achieve change.

Despite the attractions of e-invoicing, adoption in Europe has been slow so far

Even among an informed banking audience, any mention of e-invoicing is likely to prompt some questions. What exactly does ‘e-invoicing’ actually mean? Can it be anything more than a niche service? Why should the wider banking industry care? To answer these questions, it is helpful to begin with a review of e-invoicing development in Europe to date.

As IT adoption has spread and internet usage has proliferated in recent years, European consumer and enterprise behaviour has changed rapidly. One key feature has been the ability of even small businesses to develop customer relationships over greater distances and across international borders. Another is that products and services are increasingly delivered in real time and with less reliance on manual processes.

In this environment, it is not surprising that businesses are constantly seeking to improve their efficiency, and the European Association of Corporate Treasurers (EACT) has been stressing the potential benefits of e-invoicing for several years. In simple terms, e-invoicing represents the replacement of manual paper-based billing processes with electronic ones. Because invoices are a crucial link between the physical and financial aspects of business, and must meet both operational and legal requirements, e-invoicing adoption can also be an important step towards the development of entirely virtual supply chains.

In 2001 the European Commission issued a Directive in response to this demand. This aimed to kick-start the development of a European market for e-invoicing and took account of VAT requirements in particular. The driver for this effort was an expectation that wider e-invoicing adoption would generate a number of important benefits including:

- more integrated supply chains;
- more efficient use of working capital;
- fewer failed transactions;
- more rapid trade flows;
- improved customer care;
- better risk management; and
- more effective cross-selling.

Overall, it was hoped that the adoption of e-invoicing would achieve billions of Euros in efficiency gains. The quantum of potential savings is a matter of debate, but a recent report from the Euro Banking Association (EBA) and Innopay reports estimates ranging from €135bn (from a University of Hanover study) to €243bn (from the EACT) per annum across the EU.¹

Whatever the expected benefits, the 2001 Directive proved to be something of a false start. European e-invoicing adoption levels remain low; according to the EBA’s estimates, only 2.2% of European invoices were genuinely dematerialised in 2007. What’s more, this figure hides some wide variations. While the Nordic states and Switzerland are believed to be among the leading adopters of e-invoicing, in the more populous states e-invoicing platforms are more fragmented and adoption is consequently lower (see Figure 1).

¹ ‘E-Invoicing 2008’, EBA and Innopay – 02.08
There also tends to be greater adoption among large companies than among small and medium-sized enterprises (SMEs), as demonstrated by data from Switzerland analysed by the EBA and Innopay (see Figure 2).

The hesitant start reflects a combination of technical and behavioural obstacles

So what have been the barriers to e-invoicing adoption so far? If the service genuinely offers so many potential benefits, why has it not been a greater success? The answers to these questions can be grouped under the headings of technical obstacles and behavioural resistance. Together, they have stood in the way of a critical mass of initial e-invoicing take-up.

Technical obstacles to e-invoicing adoption in Europe are due in large part to differing practices among EU member states. The most notable involve lack of cross-border agreement on VAT rules, uncertainty about the legal validity of electronic documents, differing standards for the recognition of electronic signatures, the variety of Electronic Data Interchange (EDI) standards in use, and the lack of standardised invoice formats.

Archiving is another tricky area; some states require hard copies of invoices to be maintained for years, even if the original was electronic. Until recently, many European SMEs were also relatively poorly served by IT infrastructure and did not have access to broadband. In short, many potential users are unsure about the validity, security or practicality of e-invoicing, and country-specific practices are restricting the development of cross-border activity.

There has also been behavioural resistance to e-invoicing. This is less about legal or technological barriers and more about sentiment. Wider adoption of e-invoicing among SMEs will require financial investment, management impetus and open thinking by suppliers and customers alike. This level of confidence naturally takes time to build, especially when potential users are a large and fragmented group, technology is unfamiliar and there is a proliferation of service platforms.

Large private sector companies are currently making good use of B2C e-invoicing, especially for bill presentment. However, the companies best placed to build confidence in e-invoicing – the banks themselves – have often hesitated to make what look like risky, unilateral investments, given the need for multilateral action to break down barriers to e-invoicing adoption.

The link between risk and reward has also sometimes been less than clear. However, this has now changed. Put into the context of a transaction banking business which is able to link cash management, technology and infrastructure more easily and effectively than before, a clear business case begins to emerge.

Efforts to overcome e-invoicing barriers are becoming more forceful

Considering the factors that have held back e-invoicing to date, is there any real prospect of the concept taking off in the near future? In fact, there are several initiatives underway at European level to break down technical obstacles and drive adoption forward.

- One European body focused on e-invoicing adoption is the European Committee for Standardisation (CEN). CEN is responsible for the development of technical standards which promote free trade and interoperability, and has set up a series of workshops to identify the biggest barriers to e-invoicing adoption, such as the proliferation of standards in European member states.

- To address the obstacles identified by CEN and other bodies, the European Commission has set up an Expert Group on e-invoicing. The Group is tasked with establishing a European e-invoicing Framework (EEIF) by the end of 2009. The Framework is intended as a conceptual structure that will support the development of e-invoicing, and thus form a basis for legislative and procedural change.

- In its turn, the European Commission is considering potential revisions to the 2001 Directive, which are expected to incorporate the Expert Group’s proposals to simplify legal, tax and regulatory frameworks in the EU.
As well as acting as a facilitator, the European Commission has taken a direct role in pushing forward e-invoicing adoption, via its own pilot project for e-invoicing and e-procurement. It is also overseeing a large-scale pilot project which interconnects several member states’ e-procurement systems. These pilots are intended not only to broaden e-invoicing adoption, but also to raise awareness among potential users.

There are also other changes afoot in the European payments environment which should help to overcome behavioural resistance by stimulating demand for e-invoicing.

• Most notable is the introduction of the Single Euro Payment Area (SEPA) and the prospect of a common set of payment instruments across the Eurozone. Facilitating e-invoicing was one of the key rationales for SEPA, and a much broader adoption of the virtual supply chain would be an encouraging sign that national payments infrastructures were finally being displaced by pan-European ones.

• Initiatives from various associations of European banks aimed at improving the speed and ease of use of electronic payments – such as Faster Payments in the UK – should also stimulate long-term demand for e-invoicing.

• Further stimulus is likely to come from simple environmental factors, such as the ever-increasing spread of broadband and adoption of online banking among European consumers and businesses.

Opportunity knocks for the banks

Whatever the public sector impetus, broadening e-invoicing adoption in Europe will require serious effort from the private sector. Banks have a vital role to play, and there are unprecedented opportunities to seize. Of all private sector institutions, they are probably the best placed to shape the development of e-invoicing, and consequently to profit from it.

Banks’ larger and blue chip corporate customers present an immediate opportunity. Many already use e-invoicing, either ‘biller direct’ as practised by many public utility companies, or ‘buyer direct’ as when retail groups require suppliers to deliver e-invoices on their own systems. Large companies with retail customer bases that have not yet adopted e-invoicing might welcome a single bank service that could integrate e-invoicing with cash management and treasury services.

The relatively low adoption of e-invoicing by SMEs represents a larger but less easily accessible opportunity. Banks naturally have close financial connections with large numbers of businesses and consumers, especially in concentrated banking markets such as the UK or the Netherlands. Consequently, they are well placed to reach out to potential new adopters.

In the SME market banks could act as invoicing consolidators, connecting and distributing e-invoices on behalf of a range of billers and buyers. The banks would no doubt face competition from IT providers and others, but their ability to integrate e-invoicing with payments and cash management should give them a golden opportunity to build large proprietary platforms.

Crucial to the success of any such scheme is interoperability. A degree of interoperability has already been achieved by various banks and bank collective schemes, but this varies between countries and is often limited to providing interfaces between relatively small numbers of platforms. Nonetheless, banks’ customer relationships, capital resources and experience of payment networks should leave them well placed to achieve true interoperability. This could take place via proprietary systems that connect closed-end e-invoicing networks, or by communicating with other consolidating hubs in ‘clearing house’ or ‘roaming’ mechanisms.

Now is the time to act

E-invoicing in Europe has developed slowly so far, and barriers to wider adoption remain real. Nonetheless, there is growing public sector impetus behind e-invoicing and clear scope for the private sector – and banks in particular – to benefit from its future development.

Conversely, banks distracted by higher priority or ‘mandatory’ tasks run the risk of missing out on future revenue streams and losing out to close competitors, to new entrants such as Payment Institutions or to different sectors.

Since many banks are likely to be compelled to invest in meeting new technical standards, they should at least consider how to turn the investment to their advantage. Many may wish to consider what they can do to capture a scale position in the nascent e-invoicing market, instead of risk being left behind by early adopters, or leapfrogged by other service providers such as retail payment networks or telecommunications companies.

Every bank should formulate a deliberate strategy for the e-invoicing market. Even if the choice is to wait it out for now, this should be a conscious decision reached after full consideration of the potential risks and benefits. As in other areas of transaction banking, a coherent strategy will require clear vision, financial investment and support at the highest level.

Informed consideration and a clear decision are needed.
Contacts

To discuss any of the issues raised in more detail, please speak to your usual PricewaterhouseCoopers contact, the authors of this article or one of the people listed below:

**Transaction Banking**
- **Practice Lead (Europe)**
  - Julian Wakeham
  - +44 20 7804 5717
  - julian.m.wakeham@uk.pwc.com
- **Practice Lead (US)**
  - Patrick Giacomini
  - +1 646 471 4399
  - patrick.a.giacomini@us.pwc.com

**Cards**
- Jonathan Turner
  - +44 20 7213 5565
  - jonathan.v.turner@uk.pwc.com

**Payments**
- Mark Hale
  - +44 20 7804 2958
  - mark.j.hale@uk.pwc.com

**Securities**
- James Chrispin
  - +44 20 7804 2327
  - james.chrispin@uk.pwc.com

**Trade Services**
- Peter Simon
  - +44 20 7213 5359
  - peter.m.simon@uk.pwc.com
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For information on the PricewaterhouseCoopers Global Financial Services Transaction Banking Programme please contact Áine Bryn, Marketing Director, Global Financial Services, PricewaterhouseCoopers (UK) on 44 20 7212 8839 or at aine.bryn@uk.pwc.com

For additional copies please contact Russell Bishop at PricewaterhouseCoopers (UK) at russell.p.bishop@uk.pwc.com

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