

EPC Newsletter

FOCUS: SEPA AND BEYOND

Food for Thought

The EC Expert Group on e-Invoicing Final Report

28.01.10 BY CHARLES BRYANT

After two years work, the European Commission Expert Group has published its final report with six key recommendations on ways to encourage the mass adoption of e-Invoicing. These include meeting the needs of SME's as a priority; regulatory reform; encouragement of interoperability; standardisation; and organising and communicating the benefits. Bankers have played a key role in the work and the findings are sensitive to the potential role of banks and the opportunity represented by e-Invoicing as a new service proposition linked to payments and supply chain finance. Whilst e-Invoicing is outside the scope of the EPC, it is recognised that there is a strong linkage between e-Invoicing and the SEPA initiative. Charles Bryant outlines the main recommendations of the Expert Group and concludes: a bank interested in transforming itself from a classical payments processor into a financial supply chain services provider will need to consider carefully the opportunities now in view.



The objectives of the European Commission Expert Group

At the end of 2009, the European Commission Expert Group on e-invoicing (EG) published its Final Report, which is now available for a **consultation until 26 February 2010** (a link to the Report and the consultation document is set out below). The Report was commissioned by the European Commission, when it established the Group in late 2007: the Group was composed of individuals acting in a personal capacity and drawn from the corporate world, IT service providers, banking, tax authorities, standards bodies and consultancy and from a wide cross-section of EU Member States.

The Group was asked to identify:

Shortcomings in the current regulatory framework

A set of e-Invoicing business requirements to drive further adoption especially by SME's

- Proposals for improved standardisation of data elements and more extended reach and interoperability between market players

And to propose:

- Responsibilities for standards bodies to carry out further work within an achievable timescale.
- A European e-Invoicing Framework (EEIF) designed to establish a common conceptual structure and a range of concrete solutions to support the provision of e-Invoicing services across Europe.

The Expert Group concluded that it made sense to define the EEIF as its final report, containing as it does a set of actionable recommendations and proposals. It is organised as a series of layers, which all interrelate on a coherent basis. It is not itself a formal scheme or contractual framework to which entities or persons are expected to formally adhere such as a payments scheme or framework agreement. The EEIF is however a set of practical

recommendations which are designed to promote the uptake of e-Invoicing and which require a response by identified stakeholders.

Indeed the work of the Group has already made a contribution in terms of stimulating interest and encouraging adoption. As its recommendations are adopted by the Commission and Member States further acceleration of take-up is expected.

Why is it important for banks and their customers?

A key European Union objective is the fostering of intra-community trade for the benefit of all businesses and citizens. This policy has been increasingly successful. European economic integration has become a reality. Many businesses now routinely buy and sell goods and services from and to businesses and citizens in other Member States. For this reason the European Parliament and the European Council are strong supporters of the SEPA and the e-Invoicing initiatives. These programmes help to remove legal and technical barriers and encourage new ways of working for the benefit of the European economy as a whole .

Electronic invoicing is growing fast at around 40 per cent per annum. It has yet to penetrate beyond the range of 5-10 per cent of total invoices, meaning that paper invoices still form the majority by number. Commentators are convinced that e-Invoicing will continue to grow rapidly in view of the very substantial cost savings and other efficiency benefits involved.

Public procurement continues to be a major driver as many public administrations require e-Ordering and e-Invoicing. Many large corporate entities have historically conducted business through Electronic Data Interchange but many more have extended their supply chain management into e-Invoicing.

The invoice represents a summary of a transaction and a demand for payment created by a supplier of goods and services for processing by its customers. Banks should be very interested in the wave of dematerialisation happening so close to the core payments franchise.

There are many opportunities to enter a new services market for delivering and presenting e-invoices, to improve and defend the value and quality of payments, to provide financing facilities based on the invoice information flow, to better understand customer credit risk and to provide ancillary services such as electronic safekeeping.

Banks are well aware that many of their SME customers are engaged in intra-EU trade: e-Invoicing has a key role to play in supporting this trend as well as the efficiency of their domestic business.

As e-Invoicing becomes more widespread banks have strong assets to deploy such as their SME franchise, their on-line banking channels, secure inter-bank networks, deep experience of standards deployment and a track record in alliances with specialist IT providers of various kinds.

In short, a bank interested in transforming itself from a classical payments processor into a financial supply chain services provider will need to consider carefully the opportunities now in view.

The vision and target picture

The Expert Group tried to set out a vision and target picture for e-Invoicing in the years ahead:

- E-Invoicing will become the predominant method of invoicing within 5-8 years with all sectors engaged.
- There will be a harmonised and clear legal and tax environment as opposed to the current unclear situation, especially for cross-border transactions.
- Users will have a wide choice of convenient solutions and services for e-Invoicing, which may be conducted on a bilateral basis or through service providers using three-corner and four-corner models.
- Standards will have been adopted utilising an accepted single data model, based on the UN/CEFACT Cross-Industry invoice. Other standards and formats will be in use and format conversion facilities available as today.

- Substantial further investments will have been made in the necessary ERP and supply chain systems but there will also be a range of low cost and user friendly solutions in wide use. The absence of IT skills and resources will not be a roadblock for SMEs.
- E-Invoicing will have acted as a spur to the full dematerialisation of other processes.

Key recommendations

The Expert Group makes a series of main recommendations accompanied by a number of detailed sub-recommendations grouped within a logical structure of topic chapters and related annexes.

SME as a priority

Recommendation 1: The Expert Group recommends meeting the needs of SMEs as a priority focus, by concentrating on a number of specific business requirements, principally the need for a common standard, savings in time and money, legal and fiscal clarity, communication of good practices and a trusted market place for services and solutions. (The potential role of banks is implied if not formally suggested here).

Legal proposals

Recommendation 2: The EG recommends the harmonisation of and the provision of clarity for the legal and VAT framework across the EU on the basis of equal treatment between paper and e-invoices and supported by a Code of Practice prepared by the Expert Group and attached as an annex to the report. Equal treatment means that no further legal prescriptions are applied to e-Invoicing as would apply to paper invoicing. Parties are free to use the technical solutions that best meets their needs. The EG supports the current proposals of the European Commission's Directorate-General Taxation and Customs Union (DG TAXUD) to simplify and clarify the legal rules for e-invoicing

Guidance recommendations for interoperability

Recommendation 3: The EG recommends the creation of an e-Invoicing eco-system that will provide maximum interoperability, and reach. In this area the EG has recommended the use of recognised technical standards and good practice guidelines, the need to support various business models and the importance of addressing and routing, all based on an appropriate mixture of collaboration and competition. The findings here will be very familiar to the banking industry.

Standards

Recommendation 4: The EG recommends that all actors within both the private and public sector adopt a common invoice content standard and semantic data model - the UN/CEFACT Cross-Industry Invoice (CII) v.2 (http://www.unece.org/press/pr2009/09trade_p08e.htm). The EG has recommended, among others, continued collaboration between ISO and UN/CEFACT and the preparation of Implementation Guidelines for the UN/CEFACT standard.

Organising for implementation and communication

Recommendation 5: The EG recommends the establishment of an organisational process for implementation of the EEIF at Member State and EU level. Member State bodies for advocacy and development at Member State level are recommended with a European-level stakeholder forum. CEN is positioned to play a key role in the standards area, in addition to the bodies already mentioned above.

Recommendation 6: The EG recommends the wide communication of the key messages of this report. SME guidelines are provided as an outline for a communications plan.

The linkage of e-Invoicing to the SEPA initiative

Throughout the SEPA programme, the Commission has always proposed that e-Invoicing is a logical next step

towards reaping the real efficiency and productivity benefits of greater financial integration. For good reasons the SEPA and e-Invoicing initiatives are separately managed and there are no essential mutual dependencies in a project sense. Nevertheless there are ways in which the two developments bring benefits to each other. European e-Invoicing will benefit from the availability of standardised electronic payment instruments. The banking industry may respond to the growth of e-Invoicing by offering services and building added value onto the SEPA services. In this connection for example, the EBA Association is conducting an initiative to explore the benefits of a pan-European e-Invoicing approach in particular with regard to the e-Invoicing services banks could deliver to SMEs (see also the article "Great Expectations. E-Invoicing: time to seize the opportunity"; a link to this article is included below).

Conclusion and way forward

It is important for all trading parties to recognise that e-Invoicing is already working and is legally accepted today based on many solutions and services. However, there are a number of hurdles, which need addressing.

It should be noted that the recommendations of the Expert Group are clearly compatible with the efforts of banks at national and pan-European level to develop value propositions and services for e-Invoicing. Not all transaction bankers yet feel that the opportunity is mature enough to warrant pro-active engagement, but this report and other similar initiatives are providing considerable food for thought.

The Expert Group has now concluded its work and a period of consultation is being undertaken by the Commission. A major conference is planned for April 2010 as part of a process of communicating the findings. The Commission is expected to progress the recommendations summarised above as a matter of priority during 2010 and continue to monitor progress.

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Related links:

http://ec.europa.eu/enterprise/newsroom/cf/itemshortdetail.cfm?item_id=3875=en

http://ec.europa.eu/internal_market/consultations/2009/e-invoicing_en.htm

<http://www.abe-eba.eu>

Related articles in this issue:

[Everybody loves E! The role of EPC in creating e-SEPA.](#)

[The big Picture. Dematerialisation of business processes - in payments and beyond.](#)

Related article in previous issue of the EPC Newsletter::

[Great Expectations. E-invoicing: time to seize the opportunity \(EPC Newsletter, Issue 2, April 2009\).](#)

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