International
Winning strategies for the payments world Payments

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Extending payments to the full cycle

With the arrival of the single euro payments area (Sepa), many banks feel that they have waved goodbye to their payments profits. But as **Ifor Williams** argues, embracing new technologies could help banks deliver new, high-value services

Investment

Sepa involves a significant technology investment on the part of financial institutions at the same time as they are having to reduce the charges they have imposed on cross-border payments. Clearly, financial institutions need to find a means of leveraging this investment in technology with new revenue opportunities.

The arrival of Sepa has also had an impact on corporates. Many see it as an opportunity to streamline their cash management and payments processes and are looking for ways to eliminate inefficiencies from these processes. Many larger corporates are setting up shared service centres to take advantage of the consolidation offered by Sepa and want to incorporate billing services into the mix. Electronic invoicing provides a key opportunity for companies seeking to reduce the time and cost involved in generating, presenting and processing invoices. Much of the cost involved in billing is related to manual processes – and corporates are looking for an automated alternative. Creating the complex trading networks required to operate such a system can be difficult for corporates. Organisations really need a way to take advantage of an existing ubiquitous network that allows them to link their invoicing processes to the eventual transactions, for an end to end solution.

Banks are in a unique position to help them do this, and as a result, they are beginning to take an interest in providing electronic invoicing services. By combining billing services, specifically EIPP, with their existing transaction services banks can deliver a unique and valuable end to end commercial service. This provides a great opportunity for banks to extend their corporate services beyond the actual processing of payments.

Now is the time for banks to take advantage of electronic invoicing technology. Whereas previously barriers to entry were high, Sepa means that even smaller financial institutions can think about delivering such services to their client base.

An automated opportunity

According to a report produced by the Euro Banking Association and Innopay, electronic invoicing has the potential to deliver: "Annual corporate and public savings of up to €243 billion... across Europe as a whole."

But what exactly is electronic invoicing? For some, it is simply an online invoice. For others, it revolves around either their accounts payable or accounts receivable departments. But, for those willing to take maximum advantage of the opportunity, it is a platform that delivers end to end automation of the invoice lifecycle. EIPP does more than just deliver invoices. It also captures and stores all the documents and information flows that form a billing transaction, including purchase orders, acknowledgements, delivery notes, credit and debit notes, statements and terms and conditions. As well as tracking each document from creation to fulfilment, EIPP keeps a complete record of the relevant data. Documents are saved in a variety of formats that can then be imported into the company's finance and ERP systems for rapid reconciliation. This eliminates the need for manual intervention or time-consuming data entry and immediately flags any missing information or invoicing anomalies. As well as saving cost and effort, electronic invoicing speeds up the invoicing process. Debtors are more likely to pay more quickly if the request for payment is presented electronically, helping companies receive their money on time.

Electronic invoicing is becoming increasingly popular. In 2006, 490 million electronic invoices were distributed. By 2007, this number had increased by 45 per cent to 710 million. The reasons for this sudden popularity are evident. Electronic invoicing reduces costs, with companies saving up to 82 per cent on accounts receivable and up to 52 per cent on processing accounts payable. It helps corporates track, verify and reconcile invoices, reducing the number of costly disputes. And, with so many companies becoming conscious of the need for environmental efficiency, the 'green' benefits of paperless processes are becoming a key driver.

For corporates, the benefits of electronic invoicing are tangible. But why is it of interest to banks?

A sticky situation

For many banks, Sepa is a costly thorn in the side of profitability. The price of corporate payments has been driven down and is rapidly becoming a commoditised activity. The only solution is to develop high-value, payment-related services. Many banks have caught on to this idea and are now beginning to seek out opportunities. And EIPP is among the most exciting.

With today's banks becoming more service-oriented overall, it makes sense for them to get involved

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with business transactions as early as possible. At the moment, banks only have visibility of payments made and received. Delivering EIPP services will give them greater visibility of the client's finances, deepening the bank-corporate relationship and making it easier for the bank to provide additional services. For example, a bank can use information about a customer's accounts payable to extend inventory financing services. Equally, it could deliver dynamic invoice factoring services based on in-depth knowledge of the customer's accounts receivable.

This will take banks beyond their traditional involvement in the payments lifecycle and help them to become fully embedded into the customer's internal processes. In turn, this can help banks understand their customer's profile and add value to their services at every stage of the supply chain.

EIPP is ideal for banks because it complements a wide range of existing services. And given the current credit climate, many banks are looking for new services that do not necessarily involve lending money. Electronic invoicing not only fits this criteria, it also deepens the bank's visibility of client finances, making it easier to calculate risk.

A route to ROI

The complexity corporates face when deploying electronic invoicing solutions in-house has been crucial in creating an opportunity for banks. A corporate implementing a direct electronic invoicing system would need to create a trading network to connect all its suppliers and customers on to the system. By outsourcing this service to a bank, they can take advantage of an existing infrastructure and trading network. Any customer or supplier connected to the Accountis solution, for example, is part of a global directory and can exchange business documents with any other company in the directory. Corporates that subscribe to a bank's electronic invoicing services have immediate access to all other businesses using the solution.

There are many options for financial institutions that want to develop EIPP services. Regardless of size, banks need to make sure that the solution they offer delivers end to end EIPP services, not just a single part of the overall invoicing chain. With more services provided, banks are in a better position to reap greater returns on their investment.

Banks must also consider that most electronic invoicing solutions have been developed for deployment by corporates or outsourcers, and must therefore choose a technology partner with a deep understanding of both corporates and financial institutions. Integrating EIPP services with the rest of the bank's services will be the most important aspect in providing the benefits that a truly end to end service can deliver.

Revenue generation

The delivery of EIPP to corporates is a win-win situation for banks. Customers get the transparent, real-time liquidity management services they want. They also benefit from an outsourced service that covers everything, from purchase order initiation through to tailored financing based on the company's accounts receivable. And, ultimately, they receive rapid, accurate payment for their goods and services, while lowering their operating costs.

From the bank's perspective, services of this kind work because they create a 'stickier' relationship that is mutually beneficial. Not only does the bank have a greater opportunity for cross-selling its products and services, it can also deliver a tailored lending portfolio while minimising risk. Additionally, banks have a unique advantage over in-house systems and business process outsourcers because they can combine electronic invoicing services with existing payment transactions.

Although electronic invoicing is favoured by larger corporates typically serviced by the largest banks, there is no reason why smaller banks with small and medium sized enterprise customers cannot deliver similar services. Cost and complexity are key issues and smaller financial institutions must consider whether they have sufficient resources, for example IT support and infrastructure, to support an EIPP solution themselves or whether they can buy these services from a larger partner or provider. They may also need to be more creative about the nature of services they offer, perhaps concentrating on delivering a few core services to their small and medium sized business clients.

Why now?

With Sepa just at the start of a long road, why should banks and corporates think about EIPP now? The case is compelling. The very fact that banks are taking an interest in electronic invoicing is proof that the industry is maturing. And banks have never been in a better position to deliver electronic invoicing services. Large banks, in particular, already have the extensive trading networks and corporate banking presence required to make a success of these services.

Another reason to enter the market now is the rate of growth. The electronic invoicing industry is growing exponentially. It has almost doubled in the past 12 months. Banks that wait will miss out on the first mover advantage and ultimately vital market share. Meanwhile, competitors that take immediate steps to launch EIPP services will not only gain rapid access to a new revenue stream, but will also be in a better position to catch customers before they turn elsewhere. The delivery of new, cutting edge services will strengthen bank's reputation for innovation.**IP**

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