Putting paid to paper

GRAHAM BUCK LOOKS AT THE SEEMINGLY UNSTOPPABLE MIGRATION TO WEB-BASED INVOICING AND ELECTRONIC PAYMENTS.

Whether the economic climate proves fair or foul, nothing looks capable of halting the advance of web invoicing and electronic payments over the coming decade. When the economic boom was still in full swing, technology research and consulting firms confidently predicted that new invoice networks, developed through sophisticated internet tools and best-of-breed systems, were about to radically transform the invoicing and payables landscape. More recent reports since the start of the downturn suggest that "doing more with less" has become the new corporate mantra, with the recession challenging companies to maintain their operations with fewer employees and more limited resources. The treasury impact has been felt particularly keenly by accounts payable staff, who have had to process more invoices and pay them faster and have by no means escaped the HR cutbacks. The elimination of paper-based invoices and people-based processes in favour of an all-electronic system still appears to be some way off, but the cost savings offered by web invoicing and electronic payments have become even more attractive in the current environment.

LACK OF VISIBILITY Manual, paper-based processes are hampered by a lack of visibility and control over financial transactions, the unavailability of timely information and high processing costs. As researcher PayStream Advisors notes, paper-based systems result in a lengthy invoice receipt-to-pay cycle. This cycle can become even more protracted if there is missing or incorrect information, because that pushes up the costs of processing each invoice even further. Extra time and effort has to be spent finding or correcting the data, and the delay may also result in the company missing out on early payment discounts offered by suppliers. The more remittance information that can be supplied to accompany a payment, the better.

So the case for cutting down on paper is clear-cut. Less paper enables accounts payable teams to receive and process invoices more quickly and efficiently, while faster approval times give companies greater opportunity to benefit from existing discounts and to create new ones.

Many suppliers offer sizeable discounts for early payment, but too many companies are unable to take advantage of such discounts as they lack the systems necessary to process payments in time. Accounts payable automation may even provide scope for creating new discounts. It also offers benefits beyond cost containment, such as reduced working capital requirements and process cycle times, making it an integral part of the financial supply chain strategy.

SEPARATE COMPONENTS There are six separate and specific components of web invoicing according to PayStream, which defines them as follows:

- **Supplier recruitment and enrolment** The company reviews its roster of suppliers and decides which of them to target first for automation.
- **Invoice generation and delivery** This stage includes all the steps that a supplier must complete to produce and

deliver an invoice to the buyer, including devising a common invoice format for invoices submitted electronically or as paper.

- **Exception handling** This process deals with any errors or omissions in submitted invoices so that they can be corrected, allowing the accounts payable team to view clean invoices only.
- **Workflow and dispute management** The process that enables buyers to sort, route, review, approve or dispute invoices for payment. The systems enable buyers and suppliers to investigate and collaboratively resolve disputes and exceptions.
- **Payment processing** The steps in initiating and executing payments include payment preparation, processing and submission to their financial institutions. Web invoicing typically offers multiple payment options.
- **Reporting and analytics** This should provide full visibility across transactions to both buyers and suppliers, and the ability to generate queries and reports. The procure-to-pay process will generate considerable information, used both to comply with regulatory requirements and to provide valuable business intelligence.

Accounts payable automation initially focused on invoice and payment management and the operational benefits achievable through technology, but PayStream suggests that the potential bottom-line improvements are also now being recognised. These include improved monitoring and management of company spending, strengthening of the working capital position and better trading relationships.

FILLING IN INFORMATION GAPS There is encouraging news on potential relief for one of treasurers' main bugbears over electronic payments, which is the frequent absence of attaching information to identify what a payment relates to.

While reconciliation should not be too problematic if the payment tallies exactly with the figure on a specific invoice, the task is more complicated when a payment covers several invoices, or a discount or other deduction has been applied to the amount paid.

As Gianfranco Tabasso, chairman of the European Association of Corporate Treasurers' (EACT) payments commission observes, the remittance advice is a key document that closes the financial value chain by enabling a creditor to reconcile an incoming payment with account receivables. It contains the information necessary to close open items, such as the invoice number, the date and the amount. It can also be sent separately from the payment or through the bank.

The ISO 20022 XML standard, in its payment order and interbank messages, specifies unlimited space – both structured and unstructured – for remittance information. However, SEPA (Single Euro Payments Area), which is a subset of ISO 20022, allows no more than 140 characters, either structured or unstructured.

This restriction presents a problem for companies in a number of industry sectors – for example, retail chains, which typically pay a supplier numerous invoices at the same time and require more than 140 characters.

MANUAL, PAPER-BASED PROCESSES ARE HAMPERED BY A LACK OF VISIBILITY AND CONTROL OVER FINANCIAL TRANSACTIONS, THE UNAVAILABILITY OF TIMELY INFORMATION AND HIGH PROCESSING COSTS.

Because the ISO XML syntax imposes a maximum of 140 characters, it permits no more than two or three invoices to be detailed. This hampers the development of SEPA, with many companies continuing to ask for and process remittance advices separate from payments, linking them via a cross-reference.

Tabasso says that EACT and a number of banks took up the issue with the European Payments Council (EPC) and requested that the restriction of the remittance information field to 140 characters be removed. The EPC declined on the basis of technical limitations in automated clearing house and bank information systems.

However, three years ago the EPC invited EACT to define an optimal non-ISO XML structure that could carry more information in SEPA's 140 characters. "We came up with a human-readable syntax, similar to the one in SWIFT MT messages, which is much less verbose than XML," says Tabasso. "We decided to use these formatting rules in the unstructured field of SEPA, leaving anyone free to use the structured option if they wanted to use the ISO syntax."

This solution did not gain official acknowledgement from the EPC, though and, as EACT is not itself a standards body, has never actually been launched. Meanwhile, a new ISO standard has been developed, with the impetus largely coming from Nordic banks. Known as Creditor Reference (CRF), it consists of 25 characters for use in the structured field of ISO and SEPA to indicate the payer and the document to which payment relates.

There have, more recently, been signs of progress in Europe, with eight European organisations in the EPC's customer stakeholder forum setting up the SEPA End User Coordination Committee (EUC). This body has lent its support to EACT's solution and a meeting in early February between EACT and the EPC – also attended by proponents of CRF and full ISO and ERP vendors – set the stage for EACT's proposed structure being published and promoted to a wider market in March on the websites of both organisations.

Tabasso says that EACT now plans to enrol major enterprise resource planning (ERP) professionals, so that they can provide their systems with the capability to populate SEPA unstructured remittances within its formatting rules and extract information from bank statements or credit advice at the payee's end for automatic reconciliation.

Graham Buck is a reporter on The Treasurer.
editor@treasurers.org