

# Payments innovation

## eInvoicing and the New Payments Platform

*Enhancing automated invoice  
processing with real-time payments*



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eInvoicing presents a significant opportunity for the Australian economy and is gaining considerable momentum with the backing of the Commonwealth Government and the active role that the Australian Tax Office is taking in driving the adoption of eInvoicing in the market.

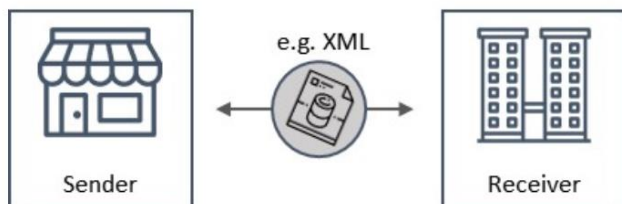
This white paper was developed in partnership between New Payments Platform Australia Limited (NPPA) and INNOPAY consulting. It explores how eInvoicing works, what lessons can be learnt from the experience of other markets and what role the New Payments Platform (NPP) could play in enhancing automated invoice processing in the Australian market.

## What is eInvoicing?

eInvoicing is the electronic exchange of structured invoice-related data between a sender and receiver. By using structured data, the electronic invoice can be accurately interpreted by machines, allowing for automated processing of invoices.

eInvoicing generates considerable efficiency benefits for all parties involved by automating parts of the purchasing process. However, one business alone cannot realise these benefits unless there is a network effect of buyers and suppliers. Efficiently implementing eInvoicing and realising these efficiencies across a broad network of businesses requires interoperability between senders and receivers of invoices.

### How eInvoicing works:



- Invoice is created in Sender's ERP system and exported in a **structured data format** (e.g. XML or JSON)
- Invoice is shared with Receiver via a **digital domain** (e.g. via API or AS2/AS4 exchange protocol)
- Invoice is **automatically interpreted** by Receiver's ERP system, enabling automated approving, booking, archiving and payment scheduling of the invoice

## Adoption of eInvoicing in Australia



eInvoicing presents a significant opportunity for the Australian economy. With a large and vibrant business sector, over one billion invoices are generated every year in the Australian market, approximately 10% to 15% of which are currently produced as electronic invoices<sup>1</sup>. It has been estimated that eInvoicing could result in savings of \$28 billion over ten years across the Australian economy<sup>2</sup>.

In February 2019, the Prime Minister announced that Australia, in collaboration with New Zealand, intended to adopt the PEPPOL framework for the rollout of eInvoicing in the market. With the Australian Tax Office being officially approved as the Australian PEPPOL authority in October 2019, eInvoicing is gaining considerable momentum in the market with certification of local providers underway to prepare for the adoption of PEPPOL. The Commonwealth Government has also announced that commencing 1 January 2020, they will pay eInvoices received from small and medium sized enterprises within 5 days. State governments are also galvanising around eInvoicing with the NSW State Government conducting a comprehensive eInvoicing trial to pay invoices within 5 days.

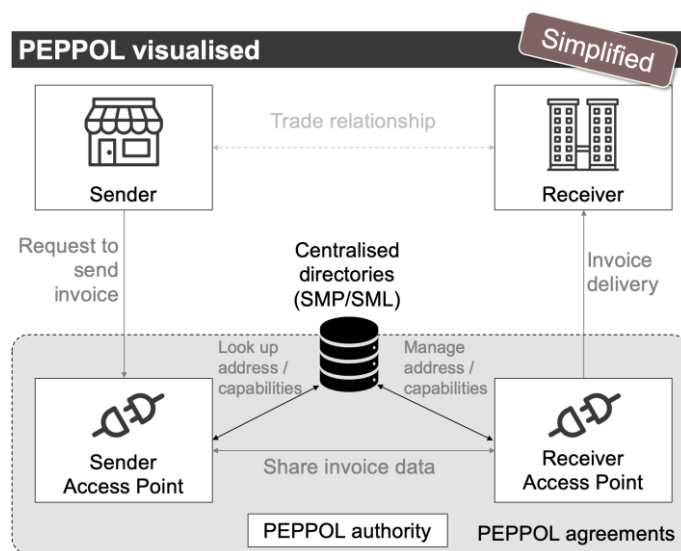
<sup>1</sup> *The eInvoicing journey 2019-2025, Billentis*

<sup>2</sup> *E-Invoicing (16 October 2018), Australian Government - The Treasury*

### PEPPOL framework explained

PEPPOL<sup>3</sup> is a communication framework (used mainly for eInvoicing) that aims to facilitate multilateral interoperability between service providers via a set of common agreements and directories. It enables businesses that have implemented the PEPPOL agreements to communicate electronically during the procurement process, thereby increasing efficiencies and reducing costs.

PEPPOL is widely used in Europe and is expanding its footprint globally. It is becoming the de facto way for organisations to exchange business documents as part of the buying and selling process. Essentially the PEPPOL framework describes the “how” and “what” for the electronic exchange of business documents such as invoices.



### So how does it work?

The PEPPOL framework describes a four-corner model which ensures the end-to-end connection between the sender and the receiver of the invoice. The framework provides, among others, standardised data formats and a data exchange protocol. Centralised directories (Service Metadata Publisher/Locator or SMP/SML) provide addressing data and capabilities data for all participants in the PEPPOL network, thereby enabling efficient routing of data among participants in the network.

Parties can fulfil one or more of four roles in the scheme:

1. Access Point for sending and receiving invoices
2. PEPPOL authority which oversees governance of the framework within a ‘community’ (in Australia, the ATO is assuming this role)
3. SMP directory providing local participant data (SML is operated globally by PEPPOL itself), or
4. End user

Sending and receiving Access Points (e.g. ERP systems or accounting software) implement the agreements. This ensures interoperability by enabling the Access Points to share invoice data on behalf of their End users with all other Access Points in the PEPPOL network.

### Learnings from overseas

A number of markets around the world have rolled out eInvoicing and it could be useful to learn from their experiences when considering the adoption of eInvoicing in Australia. An analysis of these markets indicates five key learnings:



1. The scope often starts within a closed domain, limiting the number/types of participants involved in the eInvoicing initiative, before moving towards broader participation (e.g. entire sectors or cross-border)
  - o E.g. business to government (as seen in Australia, although not mandated)
  - o E.g. business to business (e.g. Finland with the Finvoice standard and Simplerinvoicing in The Netherlands)

<sup>3</sup> PEPPOL stands for Pan-European Public Procurement On-Line



2. The Tax Authority acts as an important driver for adoption in the market as eInvoicing can significantly reduce the effort involved in business tax reporting processes as well as reduce fraud
- o E.g. Mexico has been hugely successful in this area, with countries across the globe now following the Mexican eInvoicing model whereby the VAT loop is closed via eInvoicing



3. Banks are often involved in the early stages of adoption and play an important role by providing a linkage between eInvoicing and payments
- o Banks are trusted, regulated entities with strong KYC processes and controls
  - o Banks can reach many potential customers given their existing customer base



4. Usability and a simple user experience are important for adoption by the large numbers of small and medium sized enterprises
- o Relatively low invoice volume lowers willingness of Service Providers, such as accounting software providers to implement new functionality in the business software typically used by small and medium sized enterprises
  - o eInvoicing processes typically compete with 'attaching a PDF to an e-mail' alternatives which are perceived as low effort by businesses, while in practice retyping or copying the pdf from the email often occurs. Given this, the customer experience for eInvoicing needs to be simple

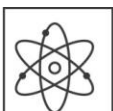


5. Service Providers typically need incentives to collaborate on open standards
- o The main benefits of eInvoicing are experienced by End users, while complex open standards impose significant effort on Service Providers from an implementation perspective, the costs of which may not be able to be recouped initially from their customers, when volumes are still low but growing.
  - o Service Providers are typically providing invoicing services today. Moving towards eInvoicing may impact on their current business and associated revenue streams

## eInvoicing and the New Payments Platform

Whilst invoicing and payments processing typically occur in separate domains, there are benefits in being able to link the two together for more seamless processing of invoices and related payments. The New Payments Platform (NPP) could play an important role in supporting and enhancing eInvoicing in the Australian market.

The NPP is designed to support a modern, digital economy by providing a fast, flexible and data-rich payments system that enables Australian consumers, businesses and government agencies to make real-time data rich payments between accounts at participating Australian financial institutions, 24 hours a day, 7 days a week, 365 days of the year:



### Speed

Real-time movement of funds and immediate funds availability



### Always on

Always available, processing payments 24 hours a day, seven days a week, 365 days a year with no cut off times



### Data enriched

Extensive data capabilities with the ability to carry additional data with the payment using the ISO 20022 message structure.



### Simpler addressing

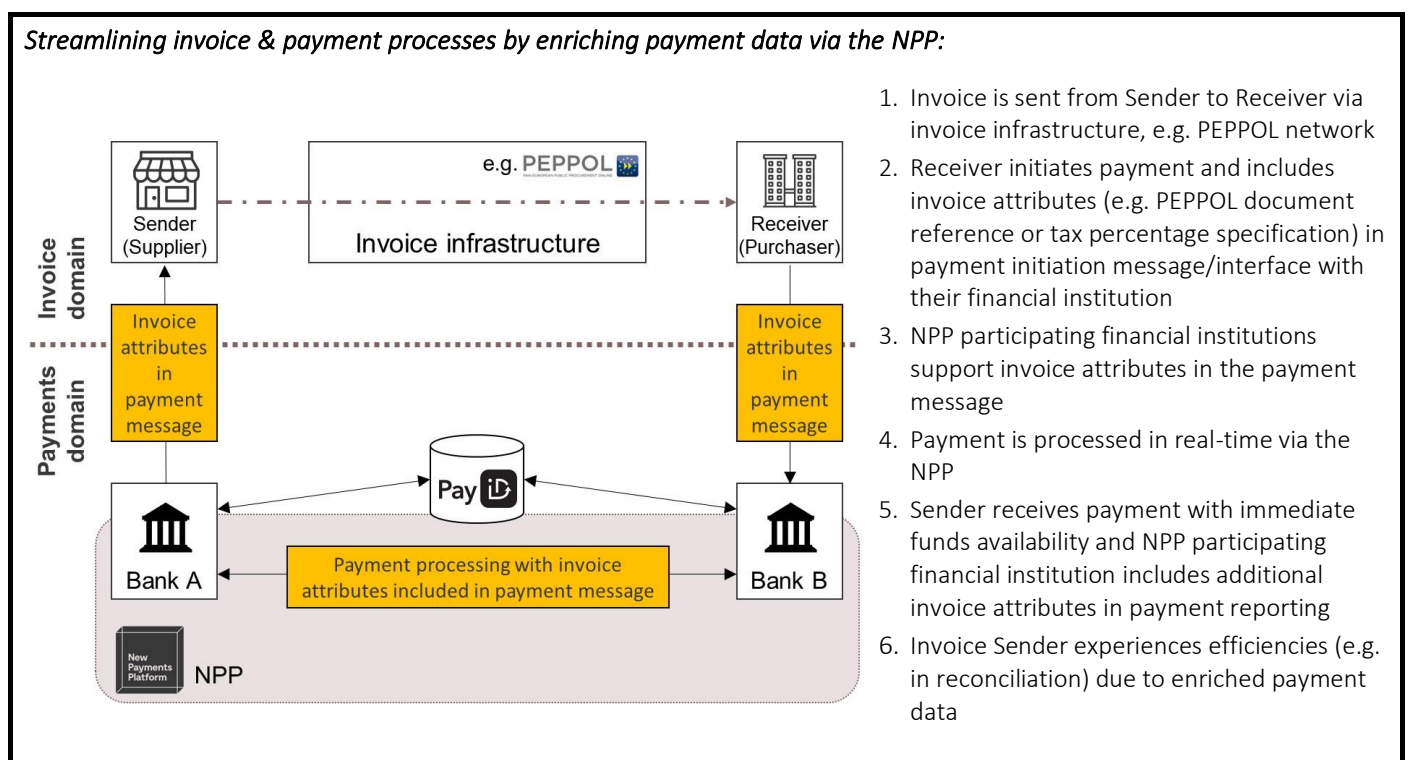
Simple addressing through an easy-to-remember identifier (a PayID) which has been linked to an underlying bank account.

This whitepaper explores two ways the NPP could bring together invoicing and payments by utilising NPP functionality in combination with structured invoice-related data:

- 1) Enriching the payment message with invoice-related data
- 2) Automated processing of payments via pre-authorised payment arrangements or 'mandates'

## 1) Enriching the payment message with invoice-related data

The data capabilities of the NPP can be leveraged to support eInvoicing by incorporating additional invoice related data elements into the NPP payment message, thereby enhancing the reconciliation process for the invoice sender and further streamlining the entire procurement process.



NPPA is currently developing NPP message usage guidelines for enriching the NPP payment message with PEPPOL invoice data. By mapping PEPPOL invoice attributes to the NPP payment message, synergies between eInvoicing based on PEPPOL and related payments via the NPP can be realised.

These NPP message guidelines specify what data elements should be included in the NPP payment message, effectively standardising how these payments will pass across the platform and ensuring consistency and interoperability with the PEPPOL framework. Examples of invoice-related data are PEPPOL document references, tax category percentages and even url-references to an invoice file (hosted either externally or by a party within the payments domain). These guidelines ensure a consistent approach to the treatment of that data for payments processing and the consistent end-to-end transmission of data from the organisation making the payment through to the organisation receiving it. Market participants involved in eInvoicing, such as software companies and service providers, can incorporate these NPP message guidelines into their product and service offerings to send eInvoicing payments via the NPP.

As part of the NPP capability roadmap published in October 2019, NPP participating financial institutions are obliged to be able to **receive** NPP messages with additional defined data elements for eInvoicing payments by December 2020<sup>4</sup>. This will

<sup>4</sup> See [NPP roadmap published on 28 October 2019](#)

create the requisite network effect by ensuring all NPP enabled accounts (which currently stands at more than 66 million) will be reachable for receiving payment messages enriched with invoice-related data. NPP participating financial institutions will be able to choose whether or not to support sending these payment message types according to the needs of their customer base and their individual commercial offerings.

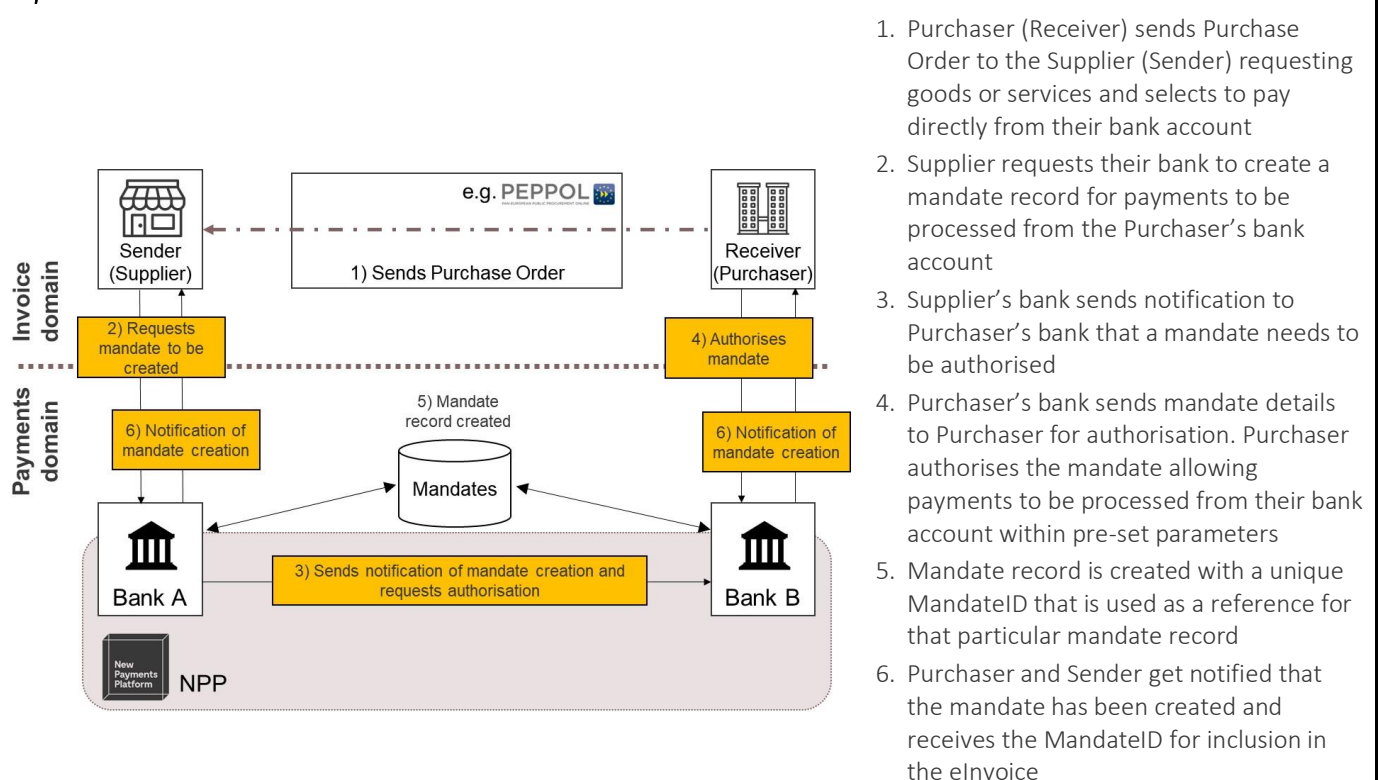
These initial NPP message usage guidelines could be extended over time to include additional remittance information that would further aid the reconciliation process and enable more automation of the end to end 'Procure to Pay' process.

## 2) Automated processing of payments via pre-authorised payment arrangements or 'mandates'

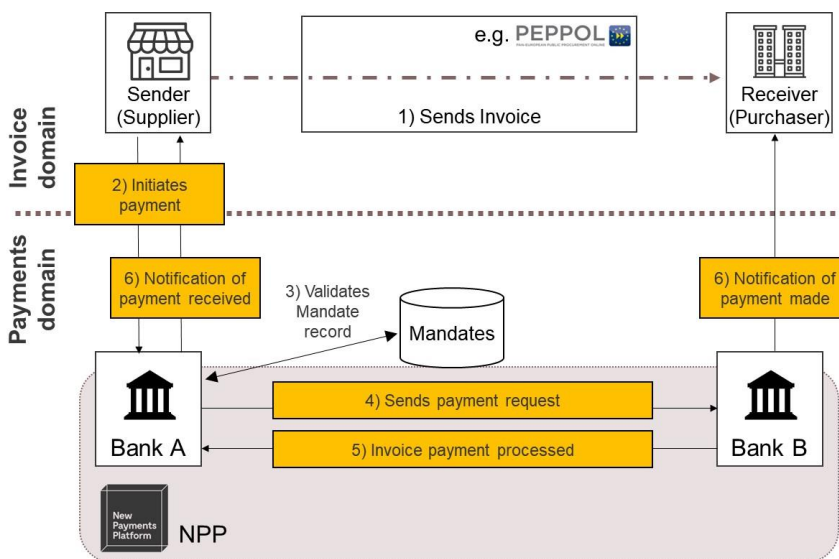
Longer term, there is an opportunity to deliver automated payments processing for eInvoice payments whereby Receivers have provided their authorisation (within certain pre-set parameters) for eInvoice payments to be automatically processed.

NPPA is currently developing capability, referred to as the 'Mandated Payments Service', which will enable third party payment initiation on the NPP, governed by a rules framework, whereby the bank account holder authorises payments to be initiated on their bank account with the creation of a digital payment arrangement or a 'mandate' in advance of those payments being processed.

### Step 1: Purchase Order and Mandate creation



## Step 2: Invoice and payment processing



1. Once goods or services have been delivered, Supplier sends invoice to Purchaser with a Mandate ID included in the invoice
2. Payment is automatically initiated by the Supplier (with the Mandate ID included as a reference)
3. Supplier's bank uses the Mandate ID to validate the mandate record and that the payment is within the terms of the mandate that has been authorised by the customer
4. Request for payment is sent by the Supplier's bank to the Purchaser's bank for processing
5. Purchaser's bank automatically processes the payment
6. Once payment is processed, Supplier receives notification that the payment has been received and Purchaser that the payment has been made

The Mandated Payments Service capability is scheduled to be delivered in December 2021<sup>5</sup>. This capability combined with the PEPPOL invoicing capability that is being rolled out in the market could transform the current invoicing and reconciliation process.

## Closing remarks

In closing, with the government pushing for efficiencies through eInvoicing in Australia, the timing is right to consider business opportunities in this domain. Further integration between payments and eInvoicing could further enhance benefits for Senders and Receivers, and the capabilities and modern architecture of the NPP could make this possible.

For further information on the NPP, please visit <https://www.auspayplus.com.au/brands/npp>.

INNOPY consulting specialises in digital transactions such as ePayments, Digital Identity, eInvoicing and Data sharing. For further information, please visit [www.innopay.com](http://www.innopay.com) or email Lex Franken at [Lex.Franken@innopay.com](mailto:Lex.Franken@innopay.com).

<sup>5</sup> See page 11 of the [NPP roadmap published on 28 October 2019](#)

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