Payreq Submission to Treasury – January 2021

Options for mandatory adoption of electronic invoicing by businesses

Payreq Australia is a locally established specialist in digital invoicing. We are an Australian-owned company, applying technology developed in Sydney. See more here: www.payreq.com.au

We have operated in Australia and Canada for more than 5 years. Payreq already has processed millions of invoices for integrated digital delivery and receipt across the public and private sector in Australia influencing more efficient processing, reduced risk and faster payment.

Our services improve payment times for Billers, provide convenience and data entry efficiencies for receivers of invoices and security for all parties.

We use a range of alternative protocols and frameworks for data format and counterparty authentication across G2G, B2G, G2B, B2B, G2C and B2C use cases.

Peppol-based E-Invoicing

We welcome the focus being shown by Australian state and federal governments, the work being done by the ATO to educate local governments, and the initiatives in the NZ government sector as part of the trans-Tasman Peppol e-Invoicing initiative gathering momentum in recent years.

Informed by our experience, we are pleased to make a few comments in relation to points made in the recent e-Invoicing Discussion Paper.

The paper describes a range of benefits to participants in invoice delivery, receipt, processing and payment which accurately reflect the experiences of Payreq and our customers.

Barriers to Adoption

In our experience, barriers on both the send and receive side of e-Invoicing adoption fall into 6 main categories:

Awareness - Most consumers and business managers are unaware of the concept of data delivery as an alternative to delivery of a picture of a bill (on paper or a pdf attached to an email).

Confidence in Network Critical Mass – For a sender or receiver to invest in the introduction of a new business process to exchange invoice data in digital rather than analog (a picture) form, they need to be convinced that enough of their customers or suppliers can or will soon also adopt the practise. The evidence that adoption will grow to justify adoption for a meaningful share of incoming or outgoing traffic for any individual or business is increasing, but it is still not compelling for the majority who consider it.

Accountants and Bookkeepers are Risk Averse – Many of the decision-makers for smaller business across the economy who need to change practise to adopt e-Invoicing between enterprises or sending from enterprises to consumers are accountants and bookkeepers. We all expect these professionals to be prudent, applying predictable, proven and accepted business, compliance and management processes. They are measured on reliability and consistency, not necessarily innovation. Some of their fees may be based on data entry which would be minimised with Peppol.

Mail House inertia - Most invoices in the Australian economy are composed and delivered by a modest number of traditional print and mail houses who undertake the invoice layout and preparation on an outsourced basis, traditionally for print and posting. Most can now also email these invoices as a pdf attachment. These mail houses are usually built around a capital investment in printing infrastructure, so have been slow to cannibalise this paper-based revenue stream by promoting digital invoicing as an alternative.

Peppol current weaknesses – Beyond the actual delivery of a Peppol invoice, there are issues arising from early adoptors that are adding friction to the take up such as:

- The lack of standard methods to convey purchasers' invoice requirements such as mandatory fields above the Peppol mandatory fields such as, for example, having to have a PO number and valid item number. This problem needs to be solved for both the receiver of the invoice and communicated back to the sender.
- There is a KYC obligation on the Access Point. The smaller the business is, the more challenging this becomes to implement. For example, most cloud based accounting systems like Xero and MYOB do not know nor have a way to verify the legal entity of their customer.

Fraud – currently, there is little fraud resistance, detection, reporting and enforcement within Peppol operations. As more businesses start sending and receiving, fraud will occur. The very nature of Peppol is to have straight through processing which means more likely fraudulent invoices will be received and processed by businesses.

Costs and Benefits

Most businesses use some sort of ERP for accounts receivables and payables, and many micro businesses do not. Business are reliant on their vendors or integrated third-parties to provide Peppol capabilities. Common ERP platforms with many integrated third-party providers are more likely to have cost effective solutions. However, many businesses use niche ERP systems, and in some cases, are on older versions that are possibly unsupported. It may be challenging for every business to get a Peppol solution, let alone a cost effective one.

Besides implementation costs, there are ongoing transactional costs.

Most businesses use email to send invoices. The only benefit to a business to move from email to Peppol is if the purchaser insists on it or the purchaser has favourable payment terms if the invoice is received via Peppol. There is little practical benefit to the sender if Peppol is mandated as the costs above will be forced on the business, but still with no direct benefit.

The main benefit for a business to receive Peppol is to save data entry costs. Each business will decide if the business case stacks up for implementation of Peppol. Mandating that businesses implement Peppol receiving capability is basically telling a business to implement something that should be good for them (The parent telling their child to eat their vegetables).

The same arguments apply for other efficiency measures for business payments processing and, indeed, other digital invoice sending and receiving models and networks, some of which are already in use in Australia.

How to Move Forwards

Payreq believes the best way forward is for Government to mandate that Government entities (Federal, State, Local) implement both send and receive Peppol capabilities, <u>not just receive</u>. Government wears the cost of implementation and can be the driver for solving the missing weaknesses in Peppol. Government should also impose mandatory payment terms on Government purchasers with mandatory interest paid on overdue invoices if the invoice is received via Peppol.

Payreq is a supplier to a range of jurisdictions and seeks to apply our technology and expertise to provide sustainable value and to help meet compliance and commercial objectives of our customers.

Payreq will support whatever compliance outcomes necessary in the Australian economy.

When choosing to mandate requirements in the private sector, we see a number of considerations for regulators to balance:

- Sender versus receiver efficiencies
    - The benefits to one side of the network may not be balanced by benefits to the other
    - How to compensate for unbalanced cost/benefits?

- Consideration of how mandating Peppol will impact niche ERP vendors and business using their accounting software

- Regulation of contractual payment terms in the private sector
    - Invoice processing times and payment terms are not fully correlated. eInvoicing could be an enabler, but there is no linked cause and effect.
    - If the public policy objective is universally faster payment, then eInvoicing is beneficial but not sufficient to drive this outcome

- KYC challenges in a 4 corner model

- Communicating invoice data issues from the purchaser back to the supplier

- Implement and enforce clear Peppol fraud detection, responsibilities, monitoring, reporting and penalties

- The lowest common denominator consequence of a “one-size-fits-all” standard invoice format
    - There are more sophisticated einvoicing models than Peppol already in operation in local and global markets. A mandate to comply with a less functional digital invoicing model may actually be a catalyst to degrade the benefits already in place in some parts of the economy.