



SUBMISSION PAPER:

Options for mandatory e-Invoicing adoption by businesses

January 2021

This Submission Paper was prepared by FinTech Australia working with and on behalf of its Members; over 300 FinTech Startups, VCs, Accelerators and Incubators across Australia.



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About this Submission

This document was created by FinTech Australia in consultation with its e-Invoicing members. In particular, the submission has been compiled with the support of our e-Invoicing co-leads:

- Rebecca Schot-Guppy, FinTech Australia; and
- Robin Sands, Link4.

Submission Process

In developing this submission, we collected feedback from our e-Invoicing members in relation to key issues relating to this consultation.



Introduction

We would like to thank Treasury for allowing us the opportunity to respond to the e-Invoicing issues paper. In drafting the below submission, we consulted extensively with our e-Invoicing members, who provided feedback that we hope you find valuable. We look forward to the final report.

Barriers to Adopting e-Invoicing

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

Awareness

Most business people in Australia are unaware of the concept of data delivery as an alternative to delivery of an invoice which is typically a picture of a invoice, either on paper or as a pdf attached to an email.

One opinion is to keep e-Invoicing Access Points responsible for educating the market about e-Invoicing. This approach, however, is problematic as e-invoicing providers that approach Australian businesses with a new concept are generally viewed cautiously and as sales organisations. Education on this topic would be best coming from an entity like ASIC or the ATO. If every business was sent a letter about the benefits of e-Invoicing and where a list of approved providers could be found, it would carry a lot more value. Importantly, educating them on the benefits and safety of e-Invoicing would be of most value.

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 form, they need to be convinced that a significant proportion of their customers or suppliers are enabled and ready to also adopt the practise. The evidence that adoption will grow organically and that businesses will adopt the network due to critical mass is still not compelling for the majority who consider it.

For those who have been exposed to e-Invoicing, they have been reluctant to join e-Invoicing as they lack the confidence required in the network. Businesses know that the network of businesses using e-Invoicing is currently not large enough for them to benefit. For example,



FinTech Australia could sign up to use e-Invoicing today, and it would be unlikely to be able to connect to any suppliers on the e-Invoicing network. But, if most of FinTech Australia's suppliers were on the network then it would be an easy decision to participate in the network. Mandating e-Invoicing for all businesses is the only option that will allow the network to grow to the size to provide benefits.

Take for example Singapore, they created an e-Invoicing network but businesses did not join it. It was not until they offered all businesses \$200 SGD each, to register for e-Invoicing did they get any significant traction. Mandating it for all businesses would solve the challenge of the network not having critical mass.

Accountants and Bookkeepers are Risk Averse

Many of the decision-makers for smaller businesses across the economy are accountants and bookkeeper, they will need to change practices to adopt e-Invoicing. These professionals are expected by the market 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 disrupted 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 mail houses 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, and thus creating a barrier themselves.

Practical Usability

Beyond the actual delivery of a Peppol invoice, there are issues arising from early adopters that are adding friction to uptake, such as:

- The lack of standard methods to convey a purchaser's invoice requirements including other fields above the Peppol mandatory fields such as, for example, 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 also 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 can lead to fraudulent invoices being received and processed by businesses.

One of our members feels that it may be challenging for all businesses to adopt Peppol, noting that most businesses use some sort of ERP for accounts receivables and payables, and many micro businesses do not. Businesses 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.

Government Only is Limiting

The Australian Government's current rollout plans allow the Federal Government to receive e-Invoices, not send e-Invoices, which will severely limit the adoption of e-Invoicing. Some of our members feel that mandating all Federal Government agencies (or even local or state governments) to have e-Invoicing in place by July 1, 2022 will delay takeup by the business community.

The Government is a major source of invoices, so not mandating Government entities to be able to send e-Invoices will be a significant barrier to broad adoption. Being able to receive an e-Invoice from the Government greatly increases the awareness of e-Invoicing and allows benefits to be experienced and enjoyed by all businesses, big or small.



The ability for businesses to receive payment from the Federal Government within 5 days will not be enough to promote uptake of e-Invoicing. Some of our members believe that this is due to a lack of incentivisation for businesses to pivot to an e-Invoicing platform.

One member firmly believes that all businesses registered for GST should be mandated to do e-Invoicing from July 1, 2022. If mandated to do so, businesses can easily adopt e-Invoicing solutions. An SME with a cloud accounting system can be active on the system in about two minutes, with low cost or free solutions. Large departments can be live within four weeks. The largest barrier to adoption is a business' lack of motivation to adopt e-Invoicing solutions; a mandate would solve this problem.

Faster Digital Adoption

COVID-19 has encouraged many businesses to adopt digital solutions, with the pandemic compressing years of technical adoption into months. e-Invoicing is another aspect that will receive widespread adoption as we continue towards a digital economy, to progress this transition a mandate is necessary.

The costs and benefits of mandating Peppol e-invoicing

SMEs will experience the greatest benefits from e-Invoicing. SMEs cannot afford simple solutions to automate the data entry for received paper or PDF invoices therefore invoice processing is often poor. As such SMEs will experience the greatest benefit from adopting e-Invoicing, however, this will only occur once the network is active with enterprise organisations being able to send and receive e-Invoices.

As SMEs access the network through available free and paid tools, cost savings will spread across the market, benefitting other SMEs, trading partners and enterprises. SMEs gain a direct



benefit from e-Invoicing as their invoices will be paid earlier, as data entry and digitisation of paper forms streamlines processes. Currently there are thousands of small businesses that are able to receive (and send) Peppol e-Invoices, which will bring many benefits. However, our members note that the benefits are limited, as there are so few trading partners on the e-Invoicing network.

Most enterprises and local and state Government organisations have already spent time and money improving their invoice receiving processes, so they are reluctant to spend additional capital. These organisations are already seeing some benefits, as such they don't feel the need to change or have an urgency to switch to e-Invoicing.

Email Interception Threats

Email intercept schemes are becoming more prolific in Australia. Emails are intercepted, invoice details are changed and the customer pays to the wrong account.

Invoice scams were the most common scams affecting Australians in the past year. E-Invoicing can help mitigate that risk and protect Australian businesses by enabling them to move away from sending PDF invoices via email; thus removing an attack vector for malicious actors.

PDF Invoices Cost More

Not only are PDF invoices more dangerous, but they also cost more to handle. It is more efficient to be receiving e-Invoices. Kate Carnell, of the Australian Small Business and Family Enterprise Ombudsman, notes that *“[r]esearch shows it costs \$30.87 to process a paper invoice, \$27.97 per PDF invoice and only \$9.18 per e-invoice; a significant saving.”*¹

¹ Australian Small Business and Family Enterprise Ombudsman, “Ombudsman: e-invoicing will improve small business cash flow” (18 October 2018, <https://www.asbfeo.gov.au/news/news-articles/ombudsman-e-invoicing-will-improve-small-business-cash-flow>).



Mandate All Businesses

Some of our members strongly support the Government mandating e-Invoicing so all businesses are able to send and receive Peppol e-Invoices.

Any business that is registered for GST should be able to adopt e-Invoicing. While some of our members are suggesting all businesses over \$10 million turnover be mandated, others feel it is possible (and wise) to extend the mandate to all GST registered businesses. As small businesses will benefit greatly from it, we suggest that all businesses are considered to be included in the July 1, 2022 mandate.

However, some members think the Government should first mandate that all Government entities (Federal, State, and Local) should be able to both send and receive e-Invoices, before considering expanding the mandate to non-Government entities. This will allow a number of the current issues and considerations with Peppol to be worked out first before imposing it on the broader community. The Government being able to send e-Invoices will increase the adoption by all businesses naturally.

Small businesses can adopt e-Invoicing very quickly if they use common cloud accounting systems. The cloud accounting firms have been aware of the e-Invoicing push in Australia since 2016, so they have projects in place to support SMEs already. They are making further improvements to make it easier for end users.

There is no need to delay the adoption of e-Invoicing.

Payment Times

It has long been recognised that payment terms in Australia are an issue. Traditionally there may have been a need to delay paying for goods and services, but that need has lessened in modern times.

BOC Australia has been using e-Invoicing in recent years (3 corner model) and found a 50% improvement in on-time/early payments from its customers. The SMEs that paid their invoices faster were independently surveyed, and 82% were happy because e-Invoicing was more convenient, saved them time and was much more effective.



We welcome the Government's recent enactment of the *Payment Times Reporting Act 2020* (Cth).² However, while we think the Act is a positive step in the right direction, we do not consider that naming and shaming will improve payment times. A mandate for e-Invoicing and faster payment times is the only way to ensure that payments times are reduced.

Businesses will naturally pay faster because e-Invoicing makes it easier to do so. E-Invoicing allows businesses to load invoices into their accounting system which reduces the friction and pain points, such as where invoices are lost in the communication chain.

Enterprises on the other hand, have internal mandates to delay payments for as long as they are allowed to. E-Invoicing will make it easier for them to pay their invoices faster, but they will not pay unless payment times are reported or they are mandated to do so.

The goal for payment times should be 0-5 days. Enough technology and services exist to support that already. Payment times of longer than 20 days cause hardship on SMEs and should not exist.

One enterprise organisation in Australia sends 2 million invoices a year. Most are to SMEs and have 21 days payment terms. That same enterprise pays its supplier invoices on terms of "end of month plus 30 days". This is a very unbalanced approach considering both sides of the trading relationships.

Mandating e-Invoicing and making 20 day payment terms compulsory would solve several issues at once. It will allow SMEs to survive, thrive and employ more people, while injecting cash into the business cycle and economy.

20 Days

Mandating Peppol adoption on its own would not change payment terms in industry. e-Invoicing will support better payment terms, but we firmly believe additional action needs to be taken on this issue.

Some of our members strongly feel that the Government should mandate payment times to a maximum of 20 days. This payment times mandate will also force adoption of e-Invoicing among enterprises. There is no need for longer payment terms than 20 days - if reasons for longer

² <https://www.legislation.gov.au/Details/C2020A00091>



payment terms exist then they can apply for an exemption, rather than it be the other way around.

Options

Most of our members support Option 1 - Mandating e-Invoicing for all businesses and some support Option 3 not mandating for all business (yet) until the Government is able to send and receive first.

July 1, 2022 Mandate

A stated goal is to have most of the Federal Government receiving e-Invoices by July 1, 2021 (80%). The rest will be live by July 1, 2022. All businesses should also be mandated to be live with e-Invoicing by July 2022. It won't work if only the government is active at that time. Sure, To get results from e-Invoicing, all businesses need to be mandated by July 1, 2022.

Other governments have mandated e-Invoicing. The number of countries putting mandates in place continues to grow. Australia needs to follow suit.

Sending and Receiving

In this submission we refer to e-Invoicing as being both sending and receiving, as our members consider that e-Invoicing should never be restricted to one or the other. We recommend that the Federal Government be mandated to send and receive e-Invoices. SMEs benefit greatly from being able to receive invoices directly into their accounting system.



Additional Thoughts

In addition to the above, it is important that the Government allocates a budget for early marketing to promote adoption and educate industry stakeholders.

Many enterprise organisations and government agencies pay multinationals for software solutions. It is easy to adopt e-invoicing from an international company. But we strongly ask that Australian e-Invoicing providers are considered in the review process, as they can be better, more robust and cheaper than the internationals. A consideration of Australian providers will support local jobs and provide our e-Invoicing providers with international exposure.

Conclusion

Our members fully support mandating both the sending and receiving of e-Invoices for all levels of government. Additionally, our members agree that businesses of all sizes will benefit from e-Invoicing when the network is large enough. Some of our members think that this should happen as soon as possible, through a general business mandate, while others see it growing organically over time.

Our members have varying opinions about which presented option is best with most favouring Option 1 and another choosing Option 3.



About FinTech Australia

FinTech Australia is the peak industry body for the Australian fintech Industry, representing over 300 fintech Startups, Hubs, Accelerators and Venture Capital Funds across the nation.

Our vision is to make Australia one of the world's leading markets for fintech innovation and investment. This submission has been compiled by FinTech Australia and its members in an effort to drive cultural, policy and regulatory change toward realising this vision.

FinTech Australia would like to recognise the support of our Policy Partners, who provide guidance and advice to the association and its members in the development of our submissions:

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