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Where does the U.S. stand with e-invoicing?

U.S. and European governments and businesses each process almost 25 billion invoices annually with approximately 72 percent to 75 **percent on paper**. Although similar in volume today, the U.S. is not positioned well to increase adoption relative to Europe and will fall behind quickly in the near future. Converting the remaining invoices to electronic represents a significant opportunity to save billions of dollars in processing costs, reduce payment risks, and have a positive effect on the environment by reducing greenhouse gas emissions and waste production.

E-invoicing is also considered a key contributor to accelerating business-to-business (B2B) electronic payment adoption and achieving straight-through-processing. Given these benefits, why is the U.S. lagging behind Europe in adopting e-invoicing? What can be done to accelerate adoption, and can the U.S. leverage strategies other countries are undertaking to foster electronic invoice adoption?

E-invoicing in America: Searching for its voice

The U.S. market is diverse and complex, resulting in major challenges with exchanging payment information electronically. One of these challenges is the lack of a single, defined electronic invoice standard, which has resulted in a very fragmented approach in the market. E-invoices take on many different forms and formats, including e-mails with pdf attachments, supplier portals where invoices can be retrieved, and machine to machine exchange through EDI or XML. This lack of uniformity and standardization leads to interoperability issues between systems and greater complexity for businesses to integrate with one another and for service providers to support and service their customers.

A key difference between the U.S. and others is many countries have developed broad based approaches to e-invoicing that are driven by government policy or regulation. No public policy currently exists in the U.S. to drive a broad based effort of cooperation to support e-invoicing. Instead, service providers create closed e-invoicing networks that become part of their competitive positioning. Within their network, they enroll suppliers of their customers and also form strategic partnerships and alliances to increase their e-invoicing reach. Using this approach, the service providers, have in effect, created islands of e-invoicing communities, impacting businesses by requiring them to join multiple networks since no one network supports all of their suppliers. This results in an increase in costs and inefficiencies to business.

These barriers lead to inertia by U.S. businesses, where paper invoicing, although inefficient, meets the basic business needs. Even with the many benefits of e-invoicing, the immediate return on investment is not always clear. This is especially true for some small and medium sized businesses where the volume of invoices does not always justify the cost.

The definition mission: Searching for a strong standard

Whether through government regulations or some other driving factor, the common thread to e-invoice adoption is standardization on the definition of an e-invoice, its structure, and exchange protocols.

For example, Europe identified electronic document exchange in procurement as a priority, and has enacted policy by issuing directives mandating e-invoicing in Business to Government (B2G) procurement. This resulted in the development of e-invoicing standards, exchange frameworks, and aligning service providers to support public policy. As a result of this effort, Europe is projected to achieve 95 percent e-invoicing by 2024. Conversely, only **38 percent will be exchanged electronically in the U.S. by 2024.**

The U.S. does have a mandate through the Office of Budget and Management (OMB) in place for B2G e-invoicing by 2018. However, the OMB mandate is limited in scope to only a certain set of federal government agencies subject to the CFO Act of 1990. It also lacks a defined standard, and will require suppliers of the federal government to conform to the capabilities of each system accepting e-invoices. Due to the lack of a standard and integration requirements, it's doubtful this mandate will spur additional adoption of e-invoicing beyond this program.

In 2015, the Federal Reserve identified improving End-to-End efficiencies in the U.S. payment system as a desired outcome in the Strategies to Improve the **U.S. Payment System (SIPS) paper**. In July 2016, it **published a follow up paper** outlining the challenges and opportunities of e-invoicing in the U.S. This paper identified several critical factors missing in the U.S., including a defined set of standards and frameworks to facilitate exchanging e-invoices, and a coordinated effort across the industry to align businesses and service providers to help develop strategies to increase adoption.

Persistence pays: Enter the Business Payment Coalition

To support the desired outcome of increasing B2B payment efficiency, the Federal Reserve recently convened a new work group under the Business Payments Coalition focused on increasing e-invoice adoption. Currently, the work group is creating a catalog of existing e-invoice formats, data elements, standards, and exchange protocols used by U.S. businesses, and will release the catalog through ANSI X9 as a technical report in 2017.

It is doubtful the U.S. will enact policy requiring businesses to exchange e-invoices. Ultimately, to increase adoption in the U.S., the task will continue to remain in the collective hands of the system vendors, payment service providers, banks and corporations. However, the Federal Reserve will continue to play its role as a facilitator and promoter of activities focused on increasing the efficiency of B2B payments in the U.S. payment system.

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