

## Electronic Invoice Presentment and Payment: Not Just Plain Vanilla Anymore by Maria Mandler

**DESPITE SLOWER THAN EXPECTED ADOPTION** rates, Electronic Invoice Presentment and Payment (EIPP) applications are gaining momentum with companies around the globe and are becoming more innovative. New solutions use the EIPP platform as an engine from which to deliver increased trade and cash capabilities – and even more compelling value propositions – to clients. In addition, a new multiple seller/buyer EIPP model, an industry vertical exchange, has emerged. Although EIPP applications are becoming more sophisticated, clients are still dealing with paper invoices and check payments. Both "plain vanilla" EIPP and emerging applications offer a way for clients to accommodate existing paper-based processes until they can transition to fully electronic solutions.

### EIPP with Invoice Discounting and Financing

In Eastern Europe, companies use the EIPP platform with invoice discounting and financing to radically accelerate collections and/or extend payment terms to buyers. Citibank issues a "closed loop" credit card to suppliers and buyers, linking various trade instruments and credit lines (that are specific to that particular supplier/buyer relationship) to the card. Buyers then use this credit card to pay invoices issued by the supplier on the EIPP system.

Let's take an example where the standard payment terms between Supplier A and Buyer A are 30 days. Supplier A has cash flow issues and wants to receive accounts payables within 20 days. The Bank accelerates the supplier's cash flow by discounting the invoices and providing funds early - on day 1 or day 10, for example, and then on day 30 or later, collects from the buyer.

The value proposition of EIPP with invoice discounting and financing allows treasurers to accelerate collections – shortening the cycle from 30 days to 1 day – while extending buyer payment terms. This solution streamlines a typically paper-intensive trade process and offers improved reporting, making it easier to track invoices. Suppliers and buyers also benefit from using standard EIPP capabilities such as the

ability to resolve disputes more quickly online, thereby decreasing operational costs.

### EIPP with Netting

In Western Europe, EIPP with netting provides a powerful global solution to a multinational organization seeking to present a single invoice for payment in a single currency to customers. Typically these customers would submit multiple payments in different currencies from multiple subsidiaries in a region.

Citibank sets up a central collection facility to pool invoices from the company's local subsidiaries and route them to their customers' local subsidiaries for approval. All of the subsidiaries approve invoices using the EIPP system or resolve disputes online before approval. When the subsidiaries select "payment," the Bank runs the netting cycle and calculates how much each buyer owes the seller from a global point of view. The EIPP system then presents a consolidated invoice in a single currency to the buyer's regional headquarters for payment.

The regional headquarters gain central control with the ability to see both the total and details for local subsidiaries while local subsidiaries retain the ability to receive and pay invoices domestically, as separate legal entities, in compliance with local legal and regulatory requirements. EIPP with netting allows subsidiaries to maintain their autonomy while benefiting from the netting cycle, which streamlines the payment process and eliminates FX risk.

EIPP with netting reduces the number of payments that must be made. And, like standard EIPP, provides flexible payment methods that accommodate local requirements – for example, the ability for a customer in Europe to pay via direct debit, and a customer in Japan to pay by cash.

Many companies have subsidiaries that buy and sell to one another and generate a high number of invoices in a mixture of currencies across a broad geographic spread. EIPP with netting enables subsidiaries to send and receive invoices to each other and take advantage of online dispute resolution capabilities to resolve issues. When invoices are approved, the system

runs the netting cycle and every subsidiary gets a net balance of what they owe each other. Companies that use netting for intercompany settlement eliminate inefficiencies caused by handling paper invoices and achieve significant cost savings.

### The Industry Vertical Exchange: A New Model

In the U.S. an entirely new EIPP model has recently emerged. In the classic seller-centric model, a single supplier invoices multiple buyers. In the new multiple seller/multiple buyer EIPP model, virtually all the billers in one industry invoice all the buyers through one EIPP system. With the Citibank EIPP-hosted exchange for Cargo Network Services (a clearinghouse owned by major airlines for billing freight forwarders and cargo agents), 75 airlines invoice 1500 cargo agents. Cargo Network Services' EIPP exchange consolidates invoices from multiple airlines into one invoice for presentment to each cargo agent, radically reducing the number of invoices and payments required. The airlines benefit from faster funds availability, enhanced credit monitoring and the elimination of mail costs, while the cargo agents benefit from operational efficiencies resulting from processing one rather than many invoices – electronically. The airline industry's striking 95 per cent adoption rate of the Cargo Network Services EIPP exchange on day 1 suggests industry exchanges are the way of the future.

### Accommodating Paper Processes

Although EIPP solutions are becoming more sophisticated, corporations around the globe must still handle paper invoice and check payment processes. Many banks can handle invoice rendition and management of both paper and electronic invoices. Citigroup's EIPP platform can present invoices online and yet accommodate clients paying by check until they are ready to switch to an electronic payment capability.

For example, in the CNS EIPP exchange, after the buyer reviews the invoices online, makes any

required adjustments, and selects the invoices or items on invoices to be paid, the EIPP system creates a remittance stub with a unique reference number. The buyer then sends the check and remittance stub to the lockbox. Upon receipt, the lockbox team enters the deposit amount and unique reference number to create a file that updates the status of all invoices associated with that payment in the EIPP system. The EIPP process increases the quality and visibility of the remittance information. Invoices can be reconciled and marked as paid more quickly and easily, and a file of the paid items can be sent to the supplier to automatically update their accounts receivables system.

Through this electronic remittance creation process, reconciliation, which is normally exception prone, becomes automated. The result is tremendous operational saves not only for the supplier, but also the buyer who no longer has to provide information to the supplier (on what's been paid for) during investigation of exceptions.

### The Future of EIPP

Even as corporations continue to accommodate paper-based processes, the emerging generation of EIPP solutions holds great

promise for the future. Already, EIPP with invoice discounting and financing offers the possibility of reducing DSO from 30 days to 1 day for sellers, and of extending payment terms for buyers. With netting, EIPP becomes a powerful global liquidity management tool. These solutions, which leverage the EIPP platform to deliver increased capabilities to corporations, will continue to evolve over time, and new solutions will emerge. Clients should embrace EIPP not only for the efficiencies they can gain today, but also for the broad-ranging benefits EIPP will bring them in the future.

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