

**BUSINESS JUSTIFICATION**  
**FOR THE UPDATE OF THE UNIFI (ISO 20022) FINANCIAL REPOSITORY**

**Name of the request:**

Invoice Financing request

**Submitting organization:**

Associazione per il Corporate Banking Interbancario (ACBI),

Via delle Botteghe Oscure, 46

00186 Rome – Italy

**Scope of the registration request:**

This submission concerns the registration of a set of messages for the “request of invoice financing”. The goal of these messages is to enable banks to offer invoice financing services through information exchange between them and the account owners (e.g. companies).

By using this service, companies will be able to make their internal processes more efficient and increase the level of automation, significantly reducing the amount of “paper based” activities.

The information included into the “invoice financing request” concern primarily invoice ~~header/footer data elements~~ *general information such as:*

- *Customer and supplier information*
- *Invoice payment amount*
- *Payment terms and conditions*

~~(these elements will be hereinafter referred to as “invoice header” in the rest of the document).~~

*Usually this information can be found into invoice header/footer.*

**Purpose of the registration request:**

In a competitive market it is vital that company’s businesses have access to on-going working capital as and when they need it, without the need for constant re-negotiation. Invoice financing service supports optimisation of company treasury *and cash management*, avoiding a debilitating shortage of cash which can eventually lead to the breakdown of profitable trading. *From a wider point of view, this service can support the automation and improve the efficiency of the internal companies processes.*

More in detail, the invoice financing service ~~reduces the delay between issuing invoices to receiving funds since payments are made directly by the creditor’s bank; in addition,~~ gives companies the opportunity to transform invoices into working capital. In fact, it *allows the companies to get the money they need, for example, to pay their suppliers and cover overheads, without having to wait for the invoices to be paid.*

*This service is very used as a kind of banking lending especially by the SMEs, which have often a particular need of working capital in order to finance their investments. For small companies wanting to take control of their cash flow and fund growth, invoice financing service can represent a relevant financing solution.*

*Invoice financing service is not to be intended as “Factoring” service; in fact the latter, provided by specialized service providers (Factors; factoring service is not provided by Banks), consists of assignment of receivables, by which the credit entitlement is transferred from the seller (the assignor) to the Factoring Company (the assignee). Factoring services are typically used by Large Corporate with high volumes of invoices issued while the invoice financing service, due to its nature, is deeply used by SMEs.*

~~Currently, corporate customers and financial institutions alike have to manage a variety of domestic and international invoice content standard (eFaktura, Finvoice, RosettaNet, etc.) and many proprietary solutions.~~

*Currently, the invoice financing service is based on the presentation of paper invoices to banks by corporates; in particular this service is composed by the following principal steps:*

- the seller provides its products and services to the customer, and invoices them accordingly;*
- the seller sends its paper invoices to the bank that offers its invoice finance solution;*
- the bank advances up to a defined percentage of the value of the invoice to the seller.*

*In this process, the credit entitlement is not transferred to the bank but remains to the seller.*

*For the mentioned reason, the invoice financing service is increasingly viewed as an important alternative to bank overdraft funding. It enables corporates, especially SMEs, to maximise cash flow by raising funds against the value of sales invoices.*

*This process can be electronically offered by banks. In consideration of that, a standard message which is suitable and ensures interoperability and acceptance by all the users is the principal requirement to avoid paper documents exchanges and to make the service more efficient.*

*The information exchanged between companies and financial institutions (~~factoring companies, banks, etc.~~) to request invoice financing affect essentially general information on the invoice. These necessary information ~~included~~ usually *can be found into* the invoice header, *whose structure is quite similar among the electronic existing standards.**

~~Usually, also in different invoice standard, the information included into the header is similar, while there are significant industry specific differences in the invoice body.~~

*This characteristic point out the general increasing need for **identification and standardization of the detailed invoice information of invoice header format and a requirement to better structure its information, to which** enable automated **document processing** and interoperable financing services procedures, meeting then corporation’s goals of achieving working capital efficiencies.*

*For example, in an invoice financing context, the use of a “common” invoice header streamline processes would lead to a better cash flow management, significantly enhancing finance available growth in line with sales and same day access to cash related with an invoice issuing.*

More in general, the standardization of *information required invoice header* for invoice financing (*usually included into the invoice header*) ~~can~~ *could* also support the real diffusion of electronic invoicing initiative, which represents one of the *aspects goals* of trade facilitation. The broad diffusion of electronic invoicing would be an enabling factor for supporting automatic reconciliation between financial data (statement of account, remittance information) and administrative-account data, strongly reducing all “human based” activities related to paper invoice management, allowing a better cash flow forecasting by knowing the amounts to be paid ahead of time, improving the flow of payment information and increasing the efficiency of use of available funds.

In this scenario, the opportunity to access to invoice financing services based on a standard message can also represent a significant opportunities for companies to migrate from paper to electronic invoice.

### **Community of users:**

The new message set is intended to benefit:

- corporate customers. They will be able to:
  - achieve access to more cash, since it will be coming in faster and more regularly;
  - eliminate human based invoice processing expenses (e.g. paper based invoice financing request);
  - take advantage of early payment and volume discounts;
  - improve return on invested capital;
  - increase sales by offering credit terms to customers;
  - reduce offering early payment discounts to clients.
- all banks and other financial institutions. They will be able to:
  - increase product and service levels offered to their clients;
  - improve relationship management and competitive positioning as an innovative e-business;
  - reduce their operating costs and offer more convenient financing rates.
- vendors (ERP and solution providers): they will have opportunities to “upgrade” companies and financial institutions that have accounting systems not e-invoicing enabled with new features both for accessing new services offered by banks and for supporting company reconciliation activities.

### **Timing and development:**

The standards are planned to be submitted for registration in March of 2006.

*Both corporates and Treasury Associations have been involved in service design phase through Italian Banking Association Forum; their feedbacks have been taken into consideration in order to consolidate the service model.*

Representatives of all parties will be involved in the development to ensure collection of all business requirements: corporate, banks, vendors; ACBI *and other industry experts (e.g. Trade Finance, Tax and VAT experts)* will be involved in the standard development, through a team of business analysts and technical experts.

*The standard development process will be based on existing ISO20022 Business Process Catalogue and Data Dictionary, for ensuring alignment with existing ISO20022 infrastructure.*

ACBI is also involved in the UN/CEFACT project “Revision of Recommendation 6” on electronic invoicing, that involves also members of TBG1 Working Group.

The UN/CEFACT Revision has the objective to identify the main data elements to be included into the electronic invoice, ensuring compliance with the “invoice structure” defined by “Cross Industry Invoicing Process” BRS document produced by TBG1.

*In particular, ACBI has carried out a closely analysis of business information included into UN/CEFACT TBG documents (TBG1 Cross Industry Invoice BRS mentioned above, TBG2 UNeDocs Project, TBG5 Finance Domain documents) in order to ensure alignment between the “invoice document” data structure and the data-elements required for invoice financing service.*

*ACBI is also cooperating with UN/CEFACT TBG5 (Finance Domain) in financial business process modelling and core components definition for financial services.*

*Moreover, ACBI has established a collaboration with the EACT and actually they are working together on CAST<sup>1</sup>s Projects about e-invoicing and standardized messages for trade financing.*

During the development of the documentation, the Registration Authority will be asked for feedback on documentation produced and on updates required for aligning the registration request with ISO standard.

*ACBI is available for cooperating with other interested stakeholders for final “Invoice Financing Business Process UML Model” consolidation.*

ACBI is *also* committed to initiate and support the maintenance of the message set proposed and widen its scope with new messages, as need be.

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**Intellectual Property Rights (IPR):**

ACBI confirms its knowledge and acceptance of the UNIFI IPR policy for contributing organizations, as follows.

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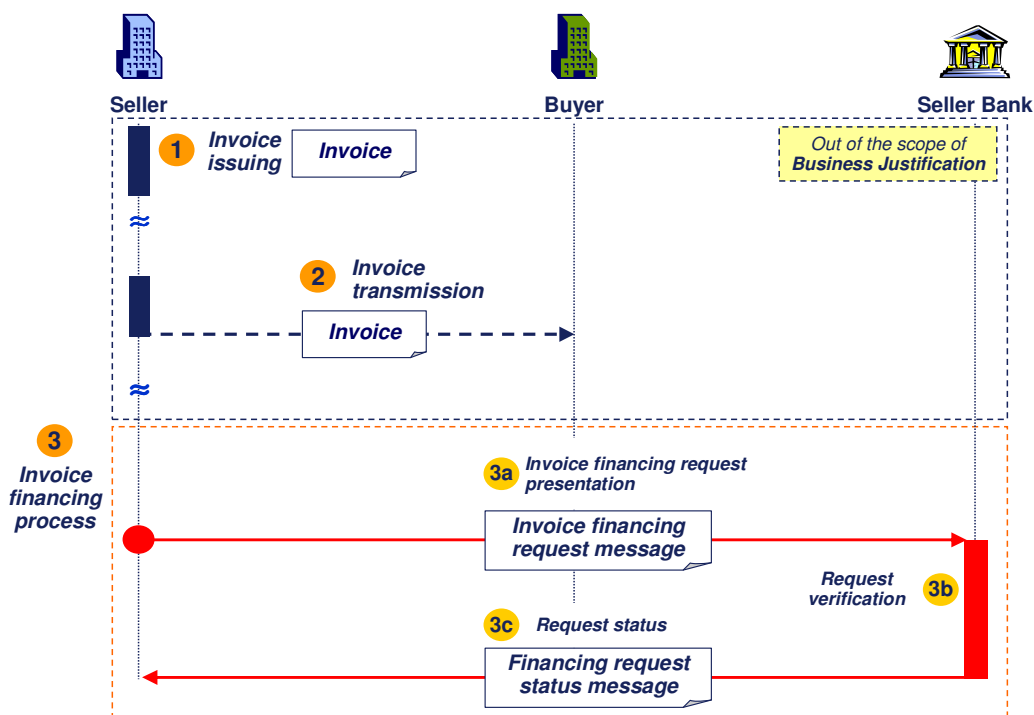
<sup>1</sup> Corporate Action on Standards

*“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.*

## Annex – Invoice financing business scenario

*In order to provide an overview of the reference model adopted for defining of the “invoice financing service”, a complete business scenario has been identified.*

*The scenario identifies three main phases, as illustrated in the picture below.*



**Figure 1: Business scenario**

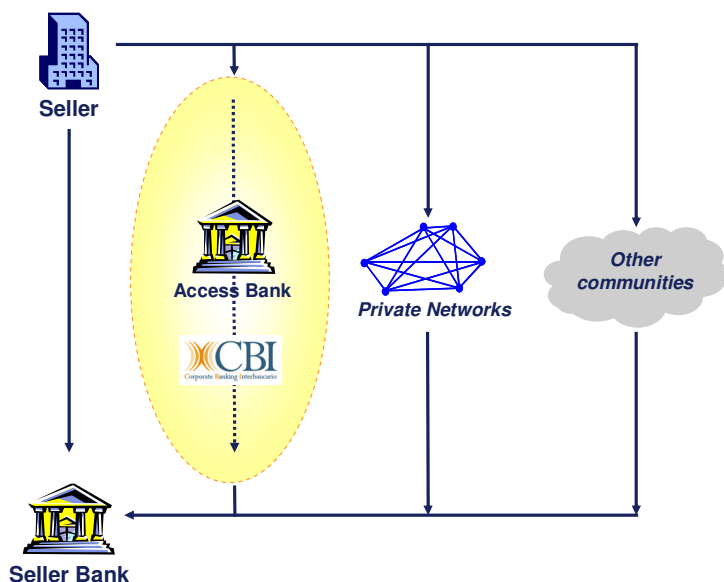
*The first two phases identified are:*

1. Invoice issuing, which includes all procedures executed by the seller to issue the invoice related to a trading transaction with the buyer. The invoice issued can be both electronic and paper based.
2. Invoice transmission, which concerns sending of the invoice from the seller to the buyer. The invoice transmission can be “paper based” (e.g. through postal service) or electronic (e.g. private network, e-mail, etc.); as for the latter method, “Sending of electronic invoices” is one of the new services offered by the ACBI (Interbanking Corporate Banking Association), even though it doesn’t represent the object of this Business Justification.

*The analysis of these phases is out of the scope of this Business Justification.*

*The third phase, shown in outlined red line, describes the invoice financing process:*

- 3a. The seller sends an invoice financing request message to his bank (Seller Bank). The request can be submitted through several channels (CBI network, e-mail, private networks, etc.), as described in picture below.



**Figure 2: Financing request delivery channel**

*3b. After presentation of the invoice financing request, the Seller Bank completes verification on the financing request message (e.g. message syntax verification)*

*3c. According to the results of the verification completed the Seller Bank sends a “Financing request status messages” (e.g. financing request received by Seller Bank, financing request rejected by Seller Bank).*

*The “Invoice Financing Business Process UML Model” being completed by ACBI includes the complete set of messages for “Invoice financing service” execution.*

*As illustrated by the business scenario, the “invoice financing service” does not require the electronic invoice document (the invoice document can be, for example, “paper based” – view phase 2); furthermore, “invoice financing request” message is not to be intended as “invoice document”.*

## **Comments received from RMG members and disposition of comments proposed by the submitting organization**

This business justification has been submitted to the RMG for comments on February the 1st 2006 with a response deadline on February the 28th 2006. South Africa, Finland, Sweden, Netherlands, Austria and United Kingdom sent comments which are reproduced and addressed below. As a result of below disposition of comment, the text of this Business Justification has been updated using red italic characters and it has been inserted an annex describing the invoice financing business process scenario.

### **Comments from South Africa**

Here are comments in support for this business justification.

- 1) This request covers an area presently not covered by electronic messaging standards as far as I know.
- 2) It is pleasing to note that the submitting organization is aware of developments in this area in UN/CEFACT TBG1
- 3) However there is clearly likely to be a linkage with the SWIFT TSU development
- 4) Approval of this request will lead to a Trade Finance and Services SEG being established much sooner than was previously envisaged.

### Disposition on South African comment

The set of messages for “Invoice financing service” has been developed based on existing ISO20022 and SWIFT Data Dictionary and Business Process Catalogue; this ensure alignment with SWIFT TSU initiative.

The business justification has been updated to reflect the formal engagement Trade Finance experts in the standard development process.

### **Comments from Finland**

Finnish Banking Community favours this proposal and highlights the need for widest possible cooperation with other similar initiatives. We also propose an invitation to be sent to other industry initiatives to participate in joint development of this global standard.

In practical terms this would mean sending formal invitations to at least the following organizations:

- UN/CEFACT International Trade and Business Processes Group TBG1, acquired also from CEN (European Committee for Standardization)
- From Industry Initiatives
- RosettaNet
- papiNet
- Elemica
- TWIST, where some of related standards are currently under construction



- EACT
- SWIFT's TSU initiative.

Information and coordination with European commission, see SEPA Incentives -Paper, February 13

In relation to this EPC and its subgroups.

We acknowledge that the list is not complete, but tries to identify some of the key players around the Italian initiative.

Finnish Banking Community would naturally provide the current and related documentation on Financial Invoice, Finvoice for this joint effort. Participation from the Finnish Banking Community to the development will be based on project scope and definitions.

We see this being closely tied to Referencing for full four corner STP as already defined in the C2B Payment initiation. Therefore as Invoice finally turns to a payment that debtor, Creditor references are proposed for the market with the necessary check digit for validity control.

#### Disposition on Finland comment

The business justification has been updated to reflect the ACBI availability for cooperation with other interested stakeholder in the final “Invoice financing Business Process UML Model” development.

#### **Comments from Sweden**

Sweden rejects the Italian submission for the invoice with the following comments:

We find the BJ unclear in several points especially the scope. We need more information and clarifications on the following items:

Which invoice is in scope? Sweden would appreciate the possibility to review those messages which are to be voted upon, in the UNIFI/RMG process.

Is this an invoice for B2B purposes?

Is it correct that the main focus is to find a standard for factoring?

Is it correct that the aim is to standardize the header and not the whole content?

#### Disposition on Swedish comment

As mentioned in the scope, the Business Justification is finalized in enabling Financial Institutions offering new and innovative financial services to their corporate clients (corporate-to-bank interaction).

Electronic invoicing initiatives, that define business-to-business process specification and engage business collaboration processes, are out of the scope of our business justification (corporate-to-corporate interaction).

A few Italian banks have already activated an “electronic version” of this service, by using custom messages; the shortage of existing standards and the lack of standardization for this service is resulted in significant impact both for Financial Institutions to offer the service and for corporate users to access it.

Due to the lack of existing standards for this service, ACBI has submitted to ISO RA/RMG the business justification for insertion into ISO 20022 Repository of the “invoice financing request” set of messages.

The information included into the messages (e.g. the financing request) has been identified by analyzing the most common “general information” included into an invoice document (usually identified as “invoice header/footer”), that include:

- Customer and supplier information
- Invoice payment amount
- Payment terms and conditions

These information enable banks in analyzing the financing request and evaluating whether to grant or not the loan to the requesting corporate clients; for facilitating corporate clients in using this financial service we have also analyzed existing standards for electronic invoicing (e.g. Finvoice, Visa, EDI/EDIFACT, etc.), identifying “common actors and information” to be used in the creation of the “invoice financing request” (corporate clients don’t need the electronic invoice for using the service).

To achieve alignment with existing ISO 20022 structure, we have developed an “Invoice Financing Business Process” (complete UML model, including Business Components and definitions of messages structure) using SWIFT Data Dictionary (Business Components, Data Types etc.), already aligned with ISO 20022 Data Dictionary.

Both banking and industry community can achieve significant benefits from this service, such as:

- reduction of paper based activity
- cash management procedures optimization
- improved governance and accountability

The set of message for the service have been defined by analyzing significant industry/banking initiatives (Finvoice, Visa, RosettaNet, TWIST etc.) for identifying “common” information to be included into the “invoice financing request message”.

The business justification has been updated to better explain these aspects; an annex scenario has been added to illustrate the business scenario used for “Invoice financing service” design.

### **Comments from Netherlands**

We do support the business justification on invoicing data, however we also strongly advice that we first need to leverage the different initiatives in this area. As mentioned in the last RMG meeting, there are many initiatives working on standardization of invoice related data - RosettaNet, UN/CEFACT and CSTP are just a few of them.

We suggest discussing the request with the other parties like CSTP and UN/CEFACT TBG5, and see if we can align these initiatives in the near future. We are especially interested in harmonising the relevant invoice components which accompanies the payment.

### Disposition on Netherlands comment

As for the Finland comment, the business justification has been updated to reflect the ACBI availability for cooperation with other interested stakeholder in the final “Invoice financing Business Process UML Model” development.

### **Comments from Austria**

The Italian project should consider and take into account already existing initiatives and projects on e-invoice as well as legal experts (e.g. for VAT reasons) and corporates.

#### Disposition on Austria comment

Tax Information for invoice financing has been identified by analyzing VAT/Tax Information actually already used on commercial documents (e.g. invoice).

The business justification has been updated to reflect the formal engagement Tax and VAT industry experts in the standard development process.

As already mentioned, the ACBI is involved in different international initiatives about the e-invoicing. ACBI is participating to the UN/CEFACT project “Revision of Recommendation 6”, that involves as well a project consultant and member of TBG1. ACBI has launched collaboration with the EACT for working together on the CASTs Projects. ACBI is also involved in the consultation promoted by the European Commission through the “Consultative paper on SEPA Incentives” (February, the 13<sup>th</sup> 2006).

### **Comments from United Kingdom**

It is heavily reliant on data elements and structures which need to be defined by non-bank trade domain experts which we feel are not in the core scope of 20022. We believe a new SEG will be required with the right mix of banking and trade domain experts.

This BJ will bring to the fore the divergence between the two standards methodologies of UN/CEFACT and TC68, due to the clear cross-over of this work between banking and trade. A suitable tactical plan will need to be implemented by the RMG in order to minimise any divergence between the ISO20022 Invoice header and the UN/CEFACT invoice, which will essentially include the same pieces of data and structures.

#### Disposition on United Kingdom comment

For the definition of the service set of messages, also UN/CEFACT Cross Industry Invoice BRS document (by TBG1 working group) has been deeply analyzed, in order to minimize differences both with existing Business Components/Elements and with the new ones being submitted for registration.

Data Elements and Business Components definition have been based on existing ISO20022 Data Dictionary and Business Process Catalogue, in order to minimize divergences with existing ISO20022 infrastructure.

The business justification has been updated in order to make evident this feature.