

# Chapter 1 - Payment Methods In Export Import

There are 3 standard ways of payment methods in the export import trade international trade market:

- Clean Payment
- Collection of Bills
- Letters of Credit L/c

## 1. Clean Payments

In clean payment method, all shipping documents, including title documents are handled directly between the trading partners. The role of banks is limited to clearing amounts as required. Clean payment method offers a relatively cheap and uncomplicated method of payment for both importers and exporters.

There are basically two type of clean payments:

### Advance Payment

In advance payment method the exporter is trusted to ship the goods after receiving payment from the importer.

### Open Account

In open account method the importer is trusted to pay the exporter after receipt of goods.

The main drawback of open account method is that exporter assumes all the risks while the importer get the advantage over the delay use of company's cash resources and is also not responsible for the risk associated with goods.

## 2. Payment Collection of Bills in International Trade

The Payment Collection of Bills also called "Uniform Rules for Collections" is published by International Chamber of Commerce (ICC) under the document number 522 (URC522) and is followed by more than 90% of the world's banks.

In this method of payment in international trade the exporter entrusts the handling of commercial and often financial documents to banks and gives the banks necessary instructions concerning the release of these documents to the Importer. It is considered to be one of the cost effective methods of evidencing a transaction for buyers, where documents are manipulated via the banking system.

There are two methods of collections of bill :

### Documents Against Payment D/P

In this case documents are released to the importer only when the payment has been done.

### Documents Against Acceptance D/A

In this case documents are released to the importer only against acceptance of a draft.

## 3. Letter of Credit L/c

Letter of Credit also known as Documentary Credit is a written undertaking by the importers bank known as the issuing bank on behalf of its customer, the importer (applicant), promising to effect payment in favor of the exporter (beneficiary) up to a stated sum of money, within a prescribed time limit and against stipulated documents. It is published by the International Chamber of Commerce under the provision of Uniform Custom and Practices (UCP) brochure number 500.

Various types of L/Cs are :

### Revocable & Irrevocable Letter of Credit (L/c)

A Revocable Letter of Credit can be cancelled without the consent of the exporter.

An Irrevocable Letter of Credit cannot be cancelled or amended without the consent of all parties including the exporter.

### Sight & Time Letter of Credit

If payment is to be made at the time of presenting the document then it is referred as the Sight Letter of Credit. In this case banks are allowed to take the necessary time required to check the documents.

If payment is to be made after the lapse of a particular time period as stated in the draft then it is referred as the Term Letter of Credit.

Confirmed Letter of Credit (L/c)

Under a Confirmed Letter of Credit, a bank, called the Confirming Bank, adds its commitment to that of the issuing bank. By adding its commitment, the Confirming Bank takes the responsibility of claim under the letter of credit, assuming all terms and conditions of the letter of credit are met.