Chapter 2 - Payment Collection Against Bills

Introduction

Payment Collection Against Bills also known documentary collection as is a payment method used in international trade all over the world by the exporter for the handling of documents to the buyer's bank and also gives the banks necessary instructions indicating when and on what conditions these documents can be released to the importer.

Collection Against Bills is published by International Chambers of Commerce (ICC), Paris, France. The last updated issue of its rule was published on January 1, 1966 and is know as the URC 522.

It is different from the letters of credit, in the sense that the bank only acts as a medium for the transfer of documents but does not make any payment guarantee. However, collection of documents are subjected to the Uniform Rules for Collections published by the International Chamber of Commerce (ICC).

Role of Various Parties

Exporter

The seller ships the goods and then hands over the document related to the goods to their banks with the instruction on how and when the buyer would pay.

Exporter's Bank

The exporter's bank is known as the remitting bank , and they remit the bill for collection with proper instructions. The role of the remitting bank is to :

- Check that the documents for consistency.
- Send the documents to a bank in the buyer's country with instructions on collecting payment.
- Pay the exporter when it receives payments from the collecting bank.

Buyer/Importer

The buyer / importer is the drawee of the Bill.
The role of the importer is to :

- Pay the bill as mention in the agreement (or promise to pay later).
- Take the shipping documents (unless it is a clean bill) and clear the goods.

Importer's Bank

This is a bank in the importer's country : usually a branch or correspondent bank of the remitting bank but any other bank can also be used on the request of exporter.

The collecting bank act as the remitting bank's agent and clearly follows the instructions on the remitting bank's covering schedule. However the collecting bank does not guarantee payment of the bills except in very unusual circumstance for undoubted customer , which is called availing.

Importer's bank is known as the collecting / presenting bank. The role of the collecting banks is to :

- Act as the remitting bank's agent
- Present the bill to the buyer for payment or acceptance.
- Release the documents to the buyer when the exporter's instructions have been followed.
- Remit the proceeds of the bill according to the Remitting Bank's schedule instructions.

If the bill is unpaid / unaccepted, the collecting bank :

- May arrange storage and insurance for the goods as per remitting bank instructions on the schedule.
- Protests on behalf of the remitting bank (if the Remitting Bank's schedule states Protest)
- Requests further instruction from the remitting bank, if there is a problem that is not covered by the instructions in the schedule.
- Once payment is received from the importer, the collecting bank remits the proceeds promptly to the remitting bank less its charges.

Documents Against Payments (D/P)

This is sometimes also referred as Cash against Documents/Cash on Delivery. In effect D/P means payable at sight (on demand). The collecting bank hands over the shipping documents including the document of title (bill of lading) only when the importer has paid the bill. The drawee is usually expected to pay within 3 working days of presentation. The attached instructions to the shipping documents would show "Release Documents Against Payment"

Risks :

Under D/P terms the exporter keeps control of the goods (through the banks) until the importer pays. If the importer refuses to pay, the exporter can:

- Protest the bill and take him to court (may be expensive and difficult to control from another country).
- Find another buyer or arrange a sale by an auction.

With the last two choices, the price obtained may be lower but probably still better than shipping the goods back, sometimes, the exporter will have a contact or agent in the importer's country that can help with any arrangements. In such a situation, an agent is often referred to as a CaseofNeed, means someone who can be contacted in case of need by the collecting bank.

If the importers refuses to pay, the collecting bank can act on the exporter's instructions shown in the Remitting Bank schedule. These instructions may include:

- Removal of the goods from the port to a warehouse and insure them.
- Contact the case of need who may negotiate with the importer.
- Protesting the bill through the bank's lawyer.

Docuemts Against Aceptance (D/A)

Under Documents Against Acceptance, the Exporter allows credit to Importer, the period of credit is referred to as Usance, The importer/ drawee is required to accept the bill to make a signed promise to pay the bill at a set date in the future. When he has signed the bill in acceptance, he can take the documents and clear his goods.

The payment date is calculated from the term of the bill, which is usually a multiple of 30 days and start either from sight or form the date of shipment, whichever is stated on the bill of exchange. The attached instruction would show "Release Documents Against Acceptance".

Risk

Under D/A terms the importer can inspect the documents and , if he is satisfied, accept the bill for payment o the due date, take the documents and clear the goods; the exporter loses control of them. The exporter runs various risk. The importer might refuse to pay on the due date because :

- He finds that the goods are not what he ordered.
- He has not been able to sell the goods.
- He is prepared to cheat the exporter (In cases the exporter can protest the bill and take the importer to court but this can be expensive).
- The importer might have gone bankrupt, in which case the exporter will probably never get his money.

Usance D/P Bills

A Usance D/P Bill is an agreement where the buyer accepts the bill payable at a specified date in future but does not receive the documents until he has actually paid for them. The reason is that airmailed documents may arrive much earlier than the goods shipped by sea.

The buyer is not responsible to pay the bill before its due date, but he may want to do so, if the ship arrives before that date. This mode of payments is less usual, but offers more settlement possibility.

These are still D/P terms so there is no extra risk to the exporter or his bank. As an alternative the covering scheduled may simply allow acceptance or payments to be deferred awaiting arrival of carrying vessel.

There are different types of usance D/P bills, some of which do not require acceptance specially those drawn payable at a fix period after date or drawn payable at a fixed date.
Bills requiring acceptance are those drawn at a fix period after sight, which is necessary to establish the maturity date. If there are problems regarding storage of goods under a usance D/P bill, the collecting bank should notify the remitting bank without delay for instructions.

However, it should be noted that it is not necessary for the collecting bank to follow each and every instructions given by the Remitting Banks.