

INTERNATIONAL COLLECTIONS

Managing international payments

Documentary collections can provide the exporter and the importer with a compromise between open account trading and documentary credits.

The documentary collection can offer the exporter a degree of security in the transaction. The Bank will have control over the goods through the title documents and can arrange for one of its overseas correspondents to release such documents only against payment or against acceptance of a bill of exchange with payment at a future date.

Please note that banks have no payment obligations in documentary collections.

What are international collections?

International collections are a fast and simple payment method that reduces risks.

Collections are subject to a set of international rules entitled Uniform Rules for Collections (URC), ICC Publication No. 522, published by the International Chamber of Commerce (ICC) in Paris.

The exporter presents documents relating to shipment of goods to his bank, with instructions to

forward documents to the importer's bank. The exporter's instructions will also detail how documents are to be handled by the importer's bank. The documents can be released to the importer only against payment, except in the case of a term bill of exchange. In this case, the instructions usually stipulate that the documents are to be released against acceptance of the bill of exchange with subsequent presentation for payment on the due date.

International collections refer to document handling and are not connected to legal collections.

Documents presented under a documentary collection may include:

- financial documents used to obtain payment, for example bills of exchange or payment orders
- commercial documents issued when the goods have been shipped for example invoices, bills of lading or certificates of origin.

When are international collections used?

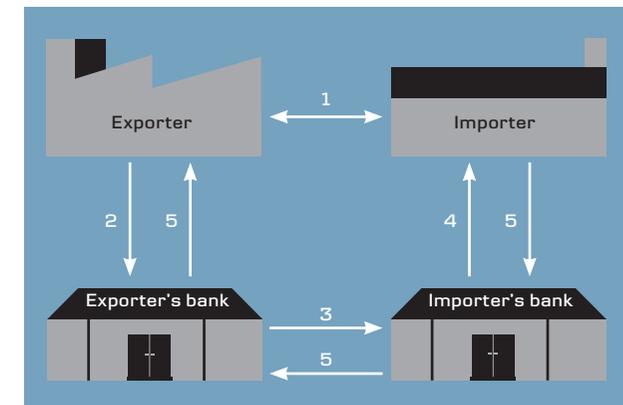
Open account trading does not always provide sufficient security, for instance, if the exporter does not know the importer well enough to hand over the

goods before payment is made. In such cases, the use of international collections can reduce risks.

International collections ensure that the documents are not released to the importer until the importer has authorised payment of the goods or accepted a bill of exchange for payment on a fixed future date.

The collection process

The diagram below shows the process for international collections.



1. The importer and the exporter conclude a sales contract.
2. The exporter sends the required documents to its bank with instructions for delivery.
3. The exporter's bank sends the documents to the importer's bank with instructions to release documents against payment or against acceptance of a bill of exchange for payment on a fixed date.
4. The importer's bank releases to the importer in accordance with the instructions.
5. The importer's bank transfers payment to the exporter's bank for credit to the exporter's account.

Exporters' use of international collections

Using international collections as a payment method provides an exporter with a number of advantages.

1. The importer's bank will only release documents against payment or acceptance of a bill of exchange of payment on a fixed date.
2. The exporter's bank monitors whether the payment is made or accepted.
3. International collections are a more flexible payment method than documentary credits.

Consignment

If the goods are consigned to the importer, the importer will usually be able to take delivery of them without presenting the transport documents, except when goods are being transported by ship. It may therefore be appropriate to consign the goods to a shipping agent or the importer's bank. It is normal practice to obtain prior consent from the third party.

Credit

The export may sometimes agree to give the importer credit. This allows the importer to pay at a future date. The documents are released against acceptance of a bill of exchange for payment on a fixed future date. When accepting a bill of exchange, the importer accepts to pay for the goods on a fixed future date.

The accepted bill of exchange is usually kept with the importer's bank and presented for payment at maturity. The bill of exchange can also be returned to the exporter.

Importers' use of international collections

If an importer buys goods abroad and uses international collections as the payment method, the foreign exporter is responsible for preparing the required documents. A bill of exchange is often enclosed with the documents. The importer must make payment or accept the bill of exchange sent to the importer's bank against release of documents in order for him to taking delivery of goods.

Documentation process

Once the importer and exporter have concluded the sales contract, the exporter should instruct its bank to send the collection directly to the importer's bank.

Once the importer's bank has received the documents, the bank will advise the importer of the collection. The importer can then take delivery of the goods against payment or acceptance of a bill of exchange.

Important aspects

Before taking delivery of the goods and the documents, the importer should make sure that the terms of the documents match the terms agreed on. According to international collection rules, the importer's bank is not responsible for the correctness and authenticity of the documents. This means that the importer's bank has no recourse should there be any objections after payment has been made or a bill of exchange has been accepted.

Costs

International collections are subject to payment of bank costs - in both the exporter's and importer's country. Therefore, it is important that the parties agree on who will be responsible for paying the individual costs.

International collections in Business eBanking

Our direct collection service speeds up the process even more by allowing the exporter to forward the documents and the instruction letter to the importer's bank through Business eBanking on behalf of Danske Bank A/S.

Danske Bank A/S will take care of the rest of the process.

This is particularly beneficial when short shipping journeys are involved and the importer requires documents urgently to clear his goods.

The exporter can view all information about its business' collections on Business eBanking, enabling it to keep up-to-date on the status of collections. For example:

- whether a bill of exchange has been accepted
- details of collections paid by a particular importer
- details of outstanding collections for a particular importer
- collections sorted into a particular currency
- collections sorted into date payment due

Danske Bank A/S Business eBanking enables you to handle international collections easily and efficiently. Read more in our Trade Finance Business eBanking factsheet.

Contact us

If you require advisory services on international collections, go to www.danskebank.ie/tradefinance for contact details.