INTERNATIONAL METHODS OF PAYMENT

Among the most prominent concerns for new to export companies is the increased exposure to risk of payment default. Naturally, your buyer wants the most advantageous terms and your company seeks to limit cash flow constraints and unpaid accounts receivable. A successful export transaction starts with the negotiation of a sales contract and ends with a timely payment. The buyer/importer gets the product they want and pays the seller/exporter a profitable amount as soon as possible. Depending on the parties' comfort with the degree of risk, there are four primarily used international methods of payment.

CASH IN ADVANCE (CIA)

With CIA, the buyer pays the exporter before the shipment/export is made. This method benefits the seller, provided all costs were taken into consideration and calculated correctly. Ignoring actual cash, there are three forms of payment that qualify as CIA - wire transfer (best method), check (payment could be delayed) and credit card (for low dollar amounts). CIA payment terms may be considered the most "credit-risky" for the importer/buyer, however the terms may allow for a "savings" to the importer if offered with a discount. Another option, depending on a product's lead time and the investment required to produce goods for a specific buyer, CIA terms by "progress payments" can be an attractive payment method.

LETTERS OF CREDIT / DOCUMENTARY CREDITS

Letters of Credit (L/C) are often called Documentary Credits by some banks to avoid confusion with "Stand-by" L/C, which are used as a "back up" when services are not provided per a sales agreement. L/Cs help to remind the parties involved that banks deal strictly in documents; they do not see or handle the actual goods, so attention to detail on the shipping documents is a must. This method of payment involves strict adherence to bank instructions on the types of documents, terms, conditions, and specific wording required.

DOCUMENTARY COLLECTIONS

A documentary collection is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter's bank), which sends documents to a collecting bank (importer's bank), along with instructions for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. Documentary collections involve the use of a draft that requires the importer to pay the face amount either on sight (document against payment—D/P) or on a specified date in the future (document against acceptance—D/A).

OPEN ACCOUNT

Open account means the exporter is extending credit to the buyer as a contractual relationship. The importer agrees to pay at a later time. Terms offered by the exporter may be 30/60/90 and sometimes 120 days after the date of the Commercial Invoice or Bill of Lading. Open Account payment terms may be considered the most "credit-risky" for the exporter and should not be offered until they have determined that the importer has a good reputation for making payments.

For more details and expert advice, it is recommended that you work with a bank that provides global trade services. If your bank does not, it may have a relationship with an 'upstream' bank that does.

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