

Import and Export Bills for Collection

What is a Collection?

Collection is one of the conventional methods of payment in international trade whereby the seller forwards financial and/or commercial documents to the buyer against cash payment or acceptance of a bill of exchange. In collection, banks control the release of documents and payments based on the Uniform Rules for Collection but do not commit to pay the seller, unlike documentary credit operations.

Collection is suitable in circumstances where the buyer's solvency is not in doubt and the seller wants additional security in payment.

Types of Collection

Documentary Collection - refers to the collection of financial and/or commercial documents.

Clean Collection - refers to the collection of financial documents only.

Direct Collection - the seller sends the documents directly to the collecting and/or presenting bank in the importer's country using his own bank's stationery with a reference number generated by his own bank. Other than that, the collection procedures go through the normal flow.

Advantages of Collection

- Collection is a straight forward and less expensive mode of settlement.
- Payment is usually quicker compared to open account.
- Title to the goods can be controlled by the bank until buyer's payment or acceptance of the bill of exchange.
- Collection is operated under guidelines clearly by the Uniform Rules for Collection, ICC Publication No. 522.

Disadvantages of Collection

- Payment is not guaranteed by a bank.
- Payment date cannot be determined.
- Collection does not cover credit, political and transfer risks.
- Additional costs may be incurred to look for alternative buyer or reshipment of goods if the original buyer refuses to pay or accept the documents.

Definition of Common Collection Instructions

Protest Clause

Protest is a legal action to be taken by the Collecting/Presenting Bank on the buyer if he refuses to pay a sight draft, accept a term draft or pay a term draft on maturity. It is normally performed by a notary public making a formal presentation of the bill of exchange for payment or acceptance, and to note or present bills in case of dishonour.

In certain countries, failure to protest within a stipulated time period may cause the seller to lose his legal rights against the buyer. Not all countries have protesting arrangements.

Collect Interest Clause

Interest charge, if any, is normally agreed upon between buyer and seller. It is usually expressed as a certain percentage of the collection amount with an interest start date until the collection bills are paid by the buyer.

Waiver of Charges Clause

The collection instruction may indicate whether bank charges are to be waived or not in the event that buyer refuses to pay such charges. If the collecting bank is authorised to waive bank charges, such charges will be deducted from proceeds that are to be remitted to the seller.

Case of Need Clause

The case of need is a party in the buyer's country appointed by the seller who may assist in payment or acceptance of draft or who may be empowered by the seller to act on his behalf.

Trade Financing on Documentary Collection Bills

For the Seller

After the seller has submitted his documents to the Bank (for the case of sight bill) or obtained acceptance on the bill of exchange by the buyer (for the case of term bill), he may request for financing to obtain working capital prior to getting payment from the buyer. In the event of default in payment by the buyer, the Bank may seek reimbursement from the seller.

In order to apply for financing, the seller must be granted Export Bill Purchased credit facility by the Bank.

For the Buyer

With Import Loan credit facilities granted, buyer may request for Import Loan financing on his import documentary collection bills. Once the Bank approves the Import Loan application, it will remit the proceeds to the seller on the buyer's behalf and seek payment from the buyer on Import Loan due date.

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What is an Aval?

Aval is a joint commitment by the principal debtor and a third party (normally a financial institution) to make payment of an obligation in favour of the beneficiary. The third party commits itself for the full credit amount in the event that the principal debtor does not fulfill his obligation on due date.