

The background of the slide features a light blue world map. Overlaid on the map are the dark silhouettes of two individuals, a man and a woman, dressed in business attire. They are positioned as if they are looking at a large document or tablet together. The overall aesthetic is professional and global.

## Chapter 3:

# METHODS OF PAYMENT



# Objectives

---

1. Define what is meant by international payment;
2. Pragmatically approach international payment;
3. Analyze the procedure, benefits and risks of each method
4. Take application of payment methods into consideration



# Contents

---

- I. Remittance
- II. Open account
- III. Collection
- IV. Letter of Credit



# Methods of international payment

---

## Definition:

Methods of international payment are all conditions and manner recommended for Commercial bank to transfer proceeds between residents and non –residents of one country.

- ❖ Residents
- ❖ Non- residents



# Classification

## In terms of attached docs

### Non-documentary methods:

- Open account
- Remittance
- Clean collection
- Demand guarantee

### Documentary methods:

- Documentary collection
- Documentary L/C
- Authority to Purchase

## In terms of bank's role

### Intermediary of payment:

- Remittance
- Open account
- Collection

### Commitment to pay:

- Demand guarantee
- Standby L/C
- Letter of credit
- Authority to Purchase



# Methods of international payment

Definition: are all conditions and manner recommended for Commercial bank to transfer proceeds between residents and non –residents of one country.



**Figure 1: Payment Risk Ladder**

<b>Exporter:</b>	<b>Least Secure →</b>	<b>Less Secure →</b>	<b>More Secure →</b>	<b>Most Secure</b>
<b>Importer:</b>	<b>Most Secure</b>	<b>← More Secure</b>	<b>← Less Secure</b>	<b>← Least Secure</b>
	Open Account	Collection Clean Collection -> DA -> DP	Documentary Credits	Advance Payment



# I. REMITTANCE/TRANSFER

## *Main contents:*

- ❖ Definition
- ❖ Procedure of remittance
- ❖ Types of remittance (Mail/Telex/Wire/Swift)
- ❖ Some notices of remittance



## 1.1. Definition

**A remittance is:**

- a method of payment by which applicant requires his/her bank to transfer an amount of money to the beneficiary at a certain place.
- a method of payment whereby buyer requires his or her bank to remit/transfer an amount of money to seller at seller's bank.





## 1.1. Definition

### *Parties of remittance:*

- Applicant
- Beneficiary
- Remitting bank
- Intermediary bank
- Paying bank



## 1.2. Types of Remittance:

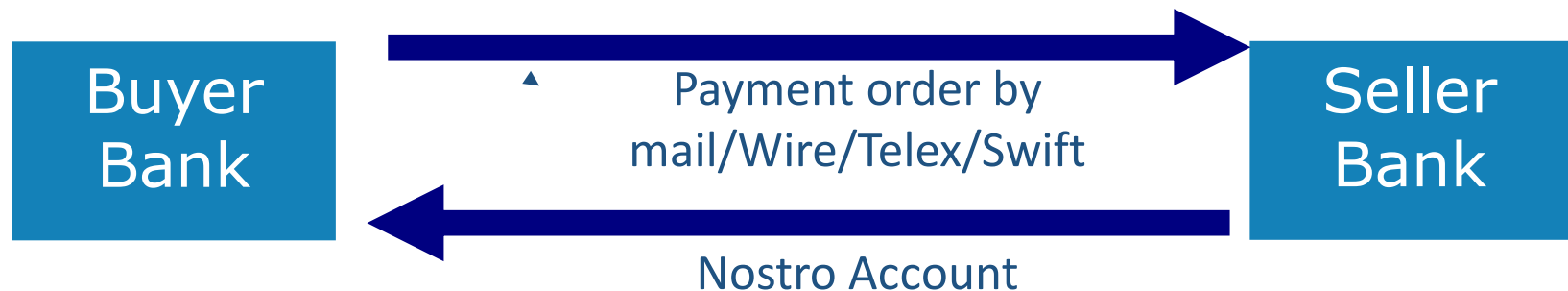
Two types of remittance:

❖ Mail transfer remittance: M/T

- Rarely used nowadays
- Low cost, Low speed
- Risky

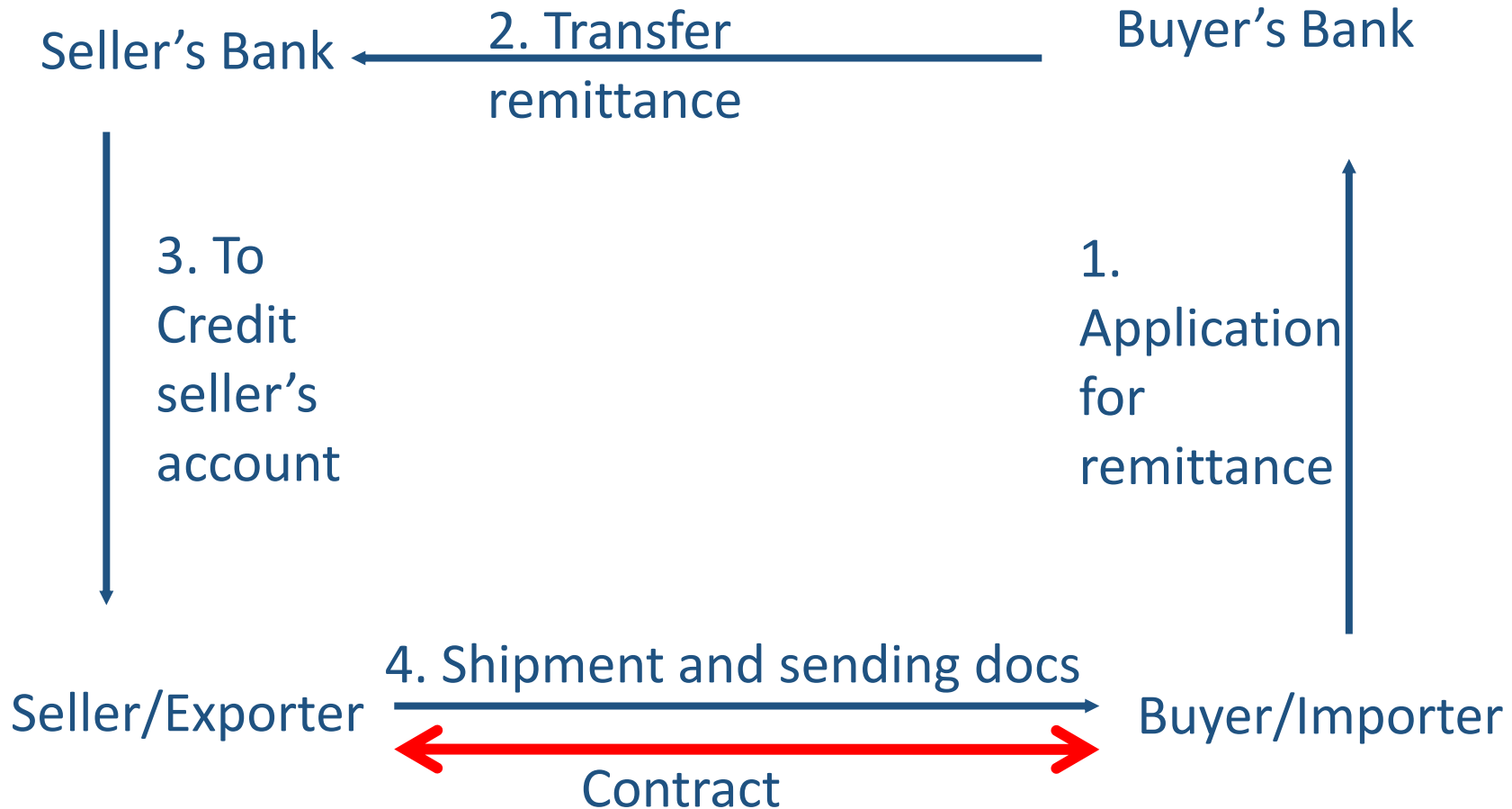
❖ Telegraphic transfer Remittance: T/T (wire/Telex/Swift)

- Popular
- Costly, Speedy
- Safe



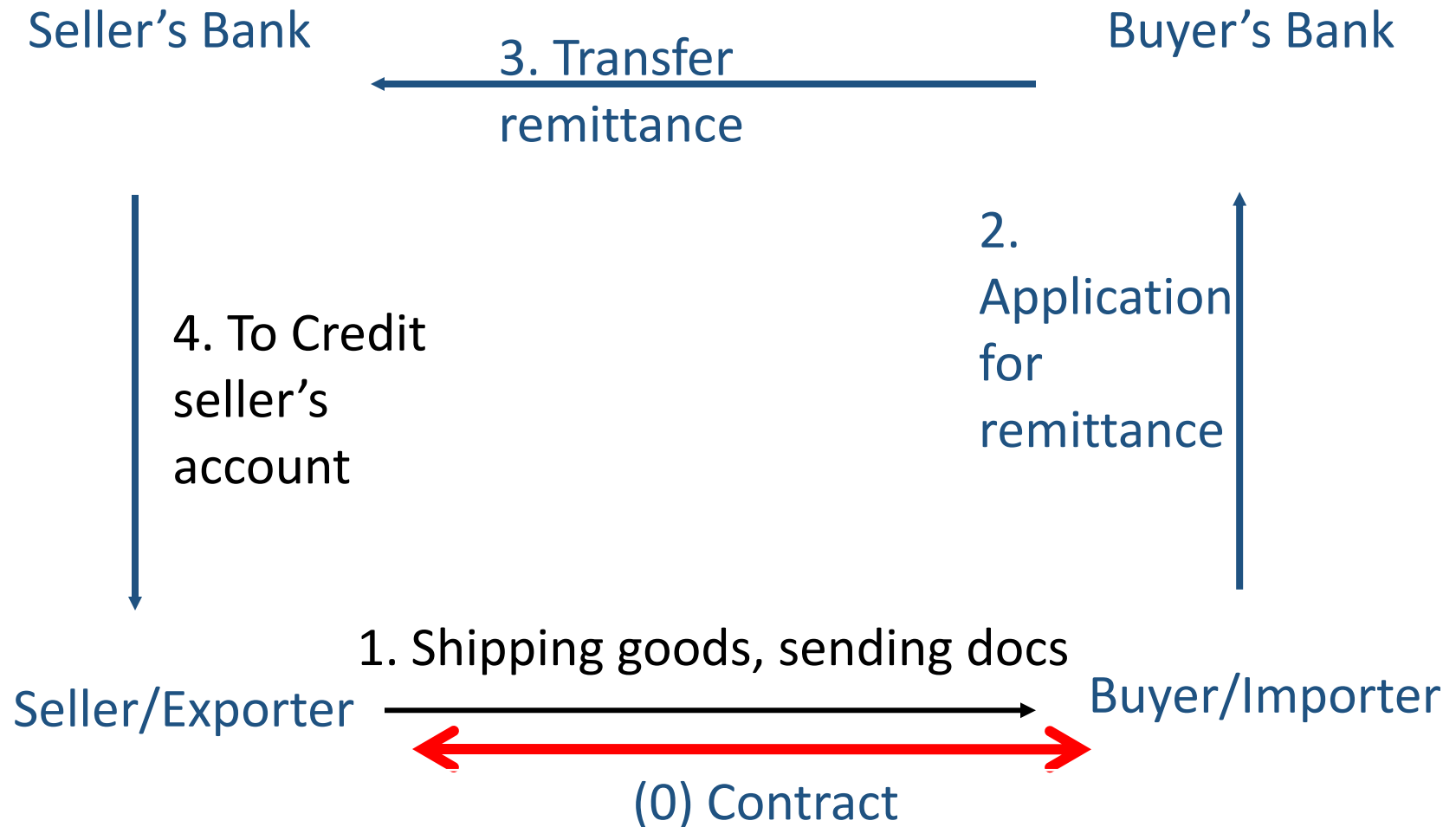


### 1.3. Procedure of Transfer remittance: **a – Remittance before shipping goods**





## 1.3. Procedure of Transfer remittance: **b – Remittance after shipping goods**



# REMITTANCE APPLICATION FORM



Please fill in using **BLOCK LETTERS**

☐ Please "√" where applicable.

\* Indicates mandatory information to be provided



Branch

Date\*  DD MM YYYY

## Applicant's Information (Sender)

Name of Sender\*

Address

Contact Telephone  
Number

Resident ☐ Yes ☐ No

ID/ Passport No.

## Transfer Instructions

Payment Method ☐ From Account ☐ By Cash ☐ Others (please specify)

Debit A/C No.\*

Charges Debit A/C No.\*

Please enter amount to be remitted or equivalent currency to be converted\*

Remittance of  Currency  Amount

Amount in Words

OR  
Equivalent of  Currency  Amount

32A Value Date  DD MM YYYY

56A Intermediary Bank  
*Optional – for routing payment to Beneficiary Bank*

Name

Address

Country  Swift Code/ Chips ID/ Australia BSB Code/ USA Fed Wire/ USA ABA/ UK Sort Code

57 Beneficiary's Bank

Name\*

Address\*

Country\*  Swift Code/ Chips ID/ Australia BSB Code/ USA Fed Wire/ USA ABA/ UK Sort Code

59	Beneficiary	<b>Name*</b> _____ <b>Address*</b> _____ <b>Country*</b> _____ <b>Account No*/IBAN</b> _____ Resident <input type="checkbox"/> Yes <input type="checkbox"/> No ID/ Passport No. _____	
----	-------------	--	--

70	Details of Payment	_____
----	--------------------	-------

71*	<input type="checkbox"/> All local and overseas charges borne by beneficiary ( <b>BEN</b> ) OR <input type="checkbox"/> All local and overseas charges borne by remitter ( <b>OUR</b> ) OR <input type="checkbox"/> Local charges borne by remitter & overseas charges by beneficiary ( <b>SHA</b> )		
-----	--	--	--

72	Bank to Bank Information	_____
----	--------------------------	-------

Contract Details (As Applicable)	
Forward Contract/ Treasury Deal No:	<input type="text"/> FX rates: <input type="text"/>
Dealer's Name:	<input type="text"/>

Customer's Signature	
I/ We authorise the bank to debit the above monies for the lawful purpose detailed above and agree to abide by the Terms and Conditions printed overleaf.	
<div style="border: 1px solid black; height: 150px; width: 100%;"></div>	
Customer's Signature	<div style="border: 1px solid black; padding: 2px;">SV</div>

For Bank Use Only	
Reference No.	OT _____
<input type="checkbox"/> Signature verified <input type="checkbox"/> Fax indemnity held <input type="checkbox"/> ALM reporting	
<input type="checkbox"/> AML checked <input type="checkbox"/> Fund Sufficiency	
Checks performed by:	<input type="text"/>
Staff ID:	<input type="text"/>
Call back confirmed with:	<input type="text"/>
Time & Date:	<input type="text"/> HH <input type="text"/> MM <input type="text"/> DD <input type="text"/> MM <input type="text"/> YYYY
Processed by:	<input type="text"/>

Purpose of Remittance <input type="checkbox"/> Import of goods <input type="checkbox"/> Others (please specific)	Amount <input type="text"/> Exchange Rate <input type="text"/> Lcy <input type="text"/> Charge <input type="text"/> Commission <input type="text"/> Total Charge <input type="text"/>
---	--

Within 01 week after receiving the seller's notice of shipment, buyer should remit 100% contract value by TT to seller's account at Bank X.

Payment by T/T within 7 days after receiving shipping documents (original) to Kolon company, account No... at Vietcombank, branch HCM.

Payment should be made upon buyer's receiving following shipping docs:

- 3/3 clean Bill of Lading, shipped on board, marked Freight prepaid.
- Commercial invoice: 3 copies
- Packing list: 3 copies
- Certificate of origin issued by Korean Commercial Chamber



## 1.3. Procedure of Transfer remittance

### **c – Mixed Remittance: before and after shipping goods**

Term of payment:

- Make payment by T/T
- Within 01 week after signing contract, buyer should remit in advance 20% contract value.
- 80% remaining value will be transferred to seller upon receiving docs.
- Pay to account:
- A/C name:
- A/C No. (USD):
- Swift code:
- Bank name:
- Bank address:





## 1.4. Applicable situations

- Recommended for trade in service
- Simple but rather risky because of extremeness
- Should combine with other method to prevent risks
- Have no international convention or customs on remittance
- Used separately or as a part of the other methods of payment



## II. OPEN ACCOUNT

Main contents:

- Definition
- Procedures
- Classification
- Cases for application
- Some notices of open account method



## 2.1 Definition

- Is method of payment, by which the seller ships the goods and sends invoice together with the other documents to the buyer, who is invited to pay the agreed amount on the appointed date into the account indicated by the exporter.
- Open **account**: book account opened by seller, not bank account



## 2.2 Features

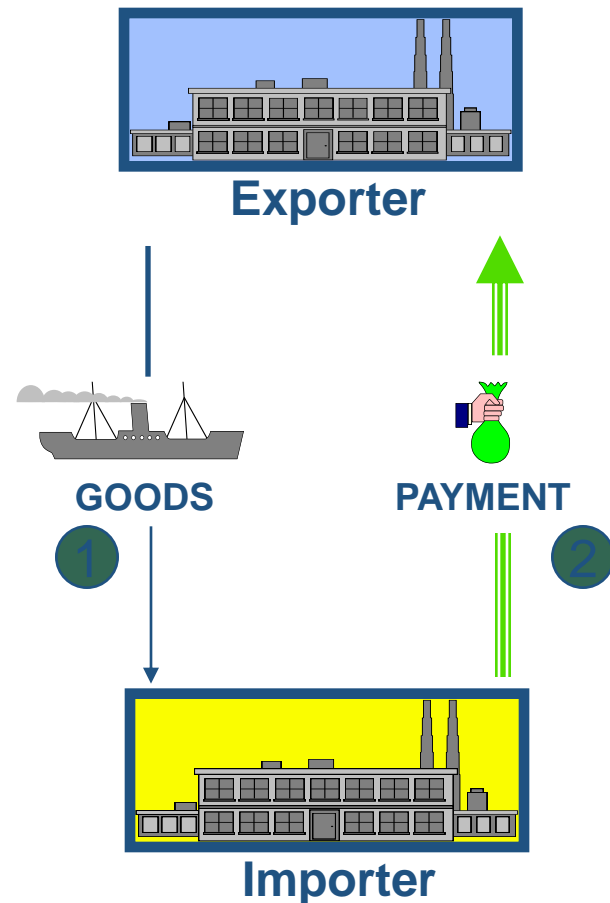
- the least secure method of trading for the seller/exporter, but the most attractive to buyers.
- the **Exporter** sends the goods and commercial docs to **Buyer** without any instant payment.
- no payment protection for the exporter at all.
- Without bank's participation as one party to this method.
- Simple procedure
- Higher price than instant payment
- Most popular in trading in Europe (60%)



## 2.3. Procedure of Open account

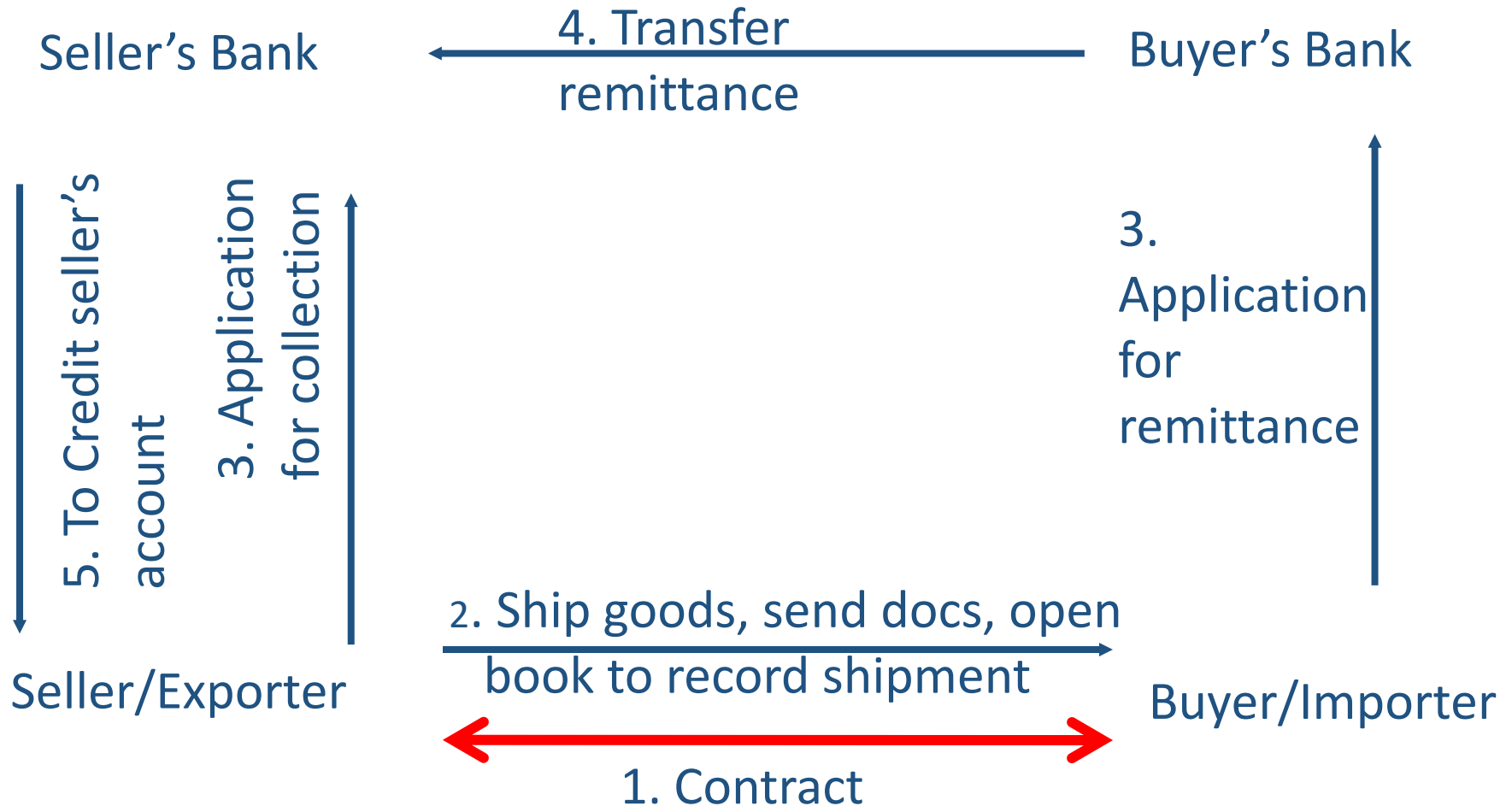
*Mechanics: How does an Open Account transaction work?*

**OPEN ACCOUNT:** The Exporter ships goods and documents directly to the Importer and waits for the Importer to send payment.





## 2.3. Procedure of Open account





## 2.4. Classification

### **a. In terms of security of payment**

- open account to be secured: can be subjected to bank guarantee requested by buyer (L/G, standby L/C, performance bond)
- open account to be naked: without any protection

### **b. In terms of receiving payment**

- Open account by Collection
- Open account by Remittance



## 2.5. Applications

- Risky for exporters, safe for importer
- Limited to transactions involving small amounts
- or to situations where the exporter **has no doubts** about the credit worthiness and/or the willingness of his buyer to pay.
- It assumes that the parties are well known to each other and this mode of payment is then very efficient.

**=> Trust each other**

- Used for consignment, the parent company-subsidary company





### III. COLLECTION

---

#### Main contents:

- Definition
- Applicable rules
- Parties to Collection procedure
- Contents of Collection instruction
- Classification and procedure of Collection
- Case study



## 3.1 Definition

---

The URC 522 are the Uniform Rules for Collections:

Sub- Article 2(a): Collection means the handling by banks of documents as defined in Sub-Article 2(b) in accordance with instructions received, in order to:

- Obtain payment and/or acceptance
- (or) Deliver documents against payment and/or against acceptance
- (or) Deliver documents on other terms and conditions.



## 3.1 Definition

---

### Sub- Article 2(b):

"Documents" means financial documents and/or commercial documents:

1 "Financial documents" means bills of exchange, promissory notes, cheques, or other similar instruments used for obtaining the payment of money;

2 "Commercial documents" means invoices, transport documents, documents of title or other similar documents, or any other documents whatsoever, not being financial documents



## 3.2 Applicable Rules

---

- The URC 522 are the Uniform Rules for Collections. URC 522 came into effect on 01 January 1996.
- The ICC URC were first published by the ICC in 1956. Revised versions were issued in 1967 and 1978.
- This present revision was adopted by the Council of the ICC in June 1995, for issue as ICC Publication N°522.
- Please note that the title or classification on the heading of each Article is for reference as to intent and purpose. It is not to be construed as being other than solely for benefit or guidance and there should be no legal imputation.



## 3.3 Parties to a collection

---

1. **Principal:** party entrusting the handling of a collection to a bank;
2. **Remitting bank:** the bank to which the principal has entrusted the handling of a collection;
3. **Collecting bank:** which is any bank, other than the remitting bank, involved in processing the collection.
4. **Presenting bank:** which is the collecting bank making presentation to the drawee.
5. **Drawee:** is the one to whom presentation is to be made in accordance with the collection instruction



## 3.3 Parties to a collection

---

### **Bank's obligations:**

1. Banks are only permitted to act upon the instructions given in such collection instruction, and in accordance with these Rules.
2. Banks will not examine documents in order to obtain instructions.
3. Unless otherwise authorised in the collection instruction, banks will disregard any instructions from any party/bank other than the party/bank from whom they received the collection.



## 3.3 Parties to a collection

---

### **Bank's obligations:**

- The remitting bank will utilise the bank nominated by the principal as the collecting bank.
- In the absence of such nomination, the remitting bank will utilise any bank of its own, or another bank's choice in the country of payment or acceptance or in the country where other terms and conditions have to be complied with.
- Documents and collection instruction may be sent directly by the remitting bank to the collecting bank or through another bank as intermediary.
- If the remitting bank does not nominate a specific presenting bank, the collecting bank may utilise a presenting bank of its choice.



## 3.4 Collection instructions

---

1. Details of the bank from which the collection was received
2. Details of the principal
3. Details of the drawee
4. Details of the presenting bank
5. Amount(s) and currency(ies) to be collected.
6. List of documents enclosed (and the numerical count)
7. Terms and conditions upon which payment and/or acceptance is to be obtained.
8. Charges to be collected, indicating waived or not.
9. Interest to be collected, if applicable, indicating whether it may be waived or not.
10. Method of payment and form of payment advice.
11. Instructions in case of non-payment, non-acceptance and/or noncompliance with other instructions





## 3.5 Types of collection

---

### Sub- Article 2(c):

"**Clean collection**" means collection of financial documents not accompanied by commercial documents.

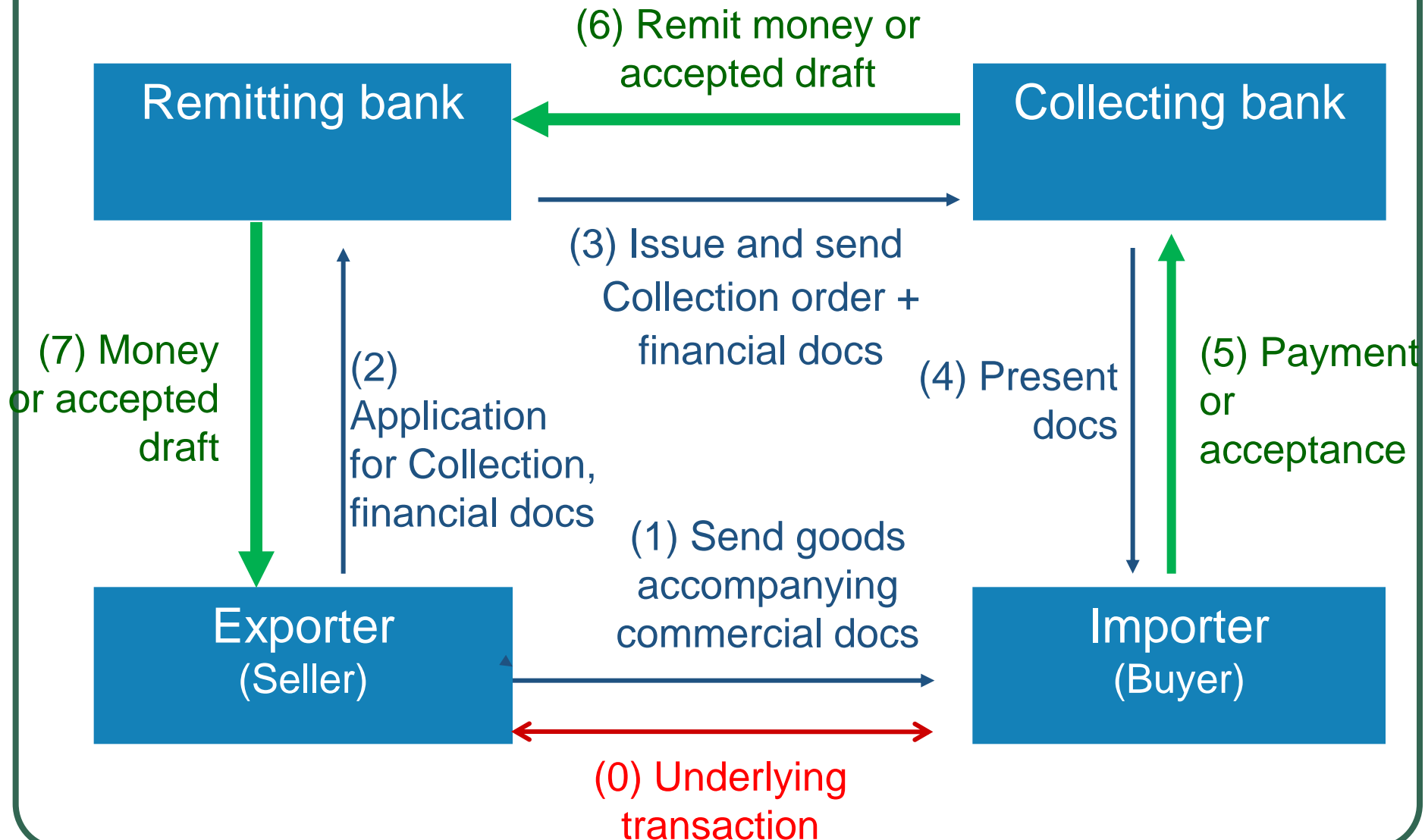
### Sub- Article 2(d):

"**Documentary collection**" means collection of:

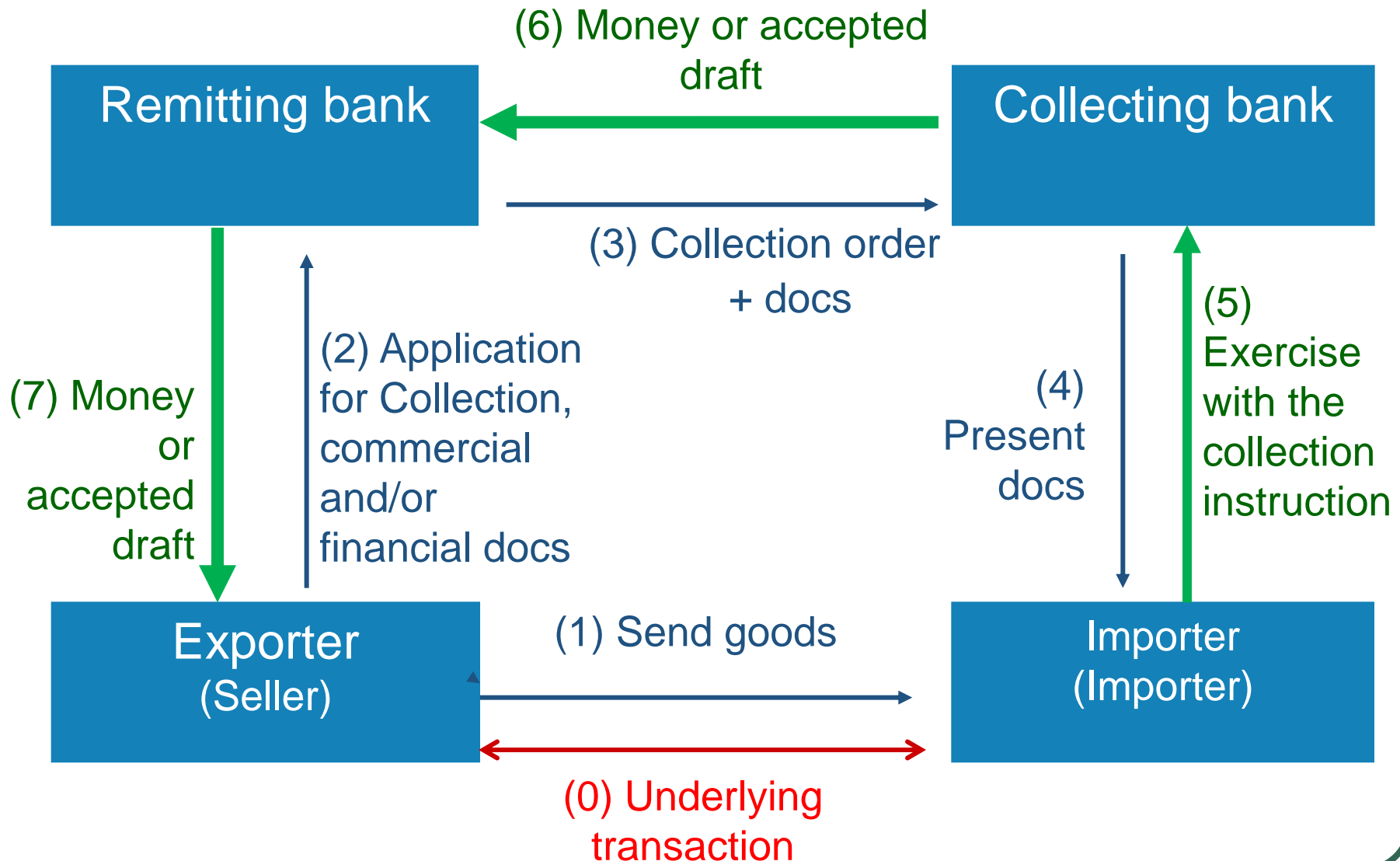
- (1) Financial documents accompanied by commercial documents;
- (2) Commercial documents not accompanied by financial documents.



# Procedures of Clean Collection



# Procedures of Documentary Collection





# Types of Documentary Collection

---

- ❖ **D/P at sight** - Documents against at sight payment
- ❖ **D/P at X days after sight**: Release documents against x days after sight
- ❖ **D/A** - Documents against Acceptance
- ❖ **D/OTC** (or **D/OT**, **D/TC**) - Documents against/upon other Terms and Conditions



## D/P vs D/P x days

---

- ❖ D/P: In collection instruction is stated clause “Release Documents against payment
- ❖ D/P x days after sight of documents. To be applicable in following cases:
  - Commercial docs arrived before goods
  - Importer need to arrange financial aids/ payment
  - Goods specifications are so complicated and numerous



# Documents on other terms and conditions

---

- ❖ The other Terms and Conditions could be:
  - Partial payment
  - Documents against Promissory Notes
  - Documents against Letters of undertaking to pay
  - Documents against a signed trust receipt
  - Documents against a Bank undertaking



## IV. DOCUMENTARY CREDIT

---

### Main contents:

1. Definition of Documentary Credit (DC)
2. Applicable rules
3. Parties to Documentary Credit
4. Procedure of Documentary Credit
5. Applicable situation of Documentary Credit method



# 1. Definition of Letter of Credit

---

❖ **Letter of credit** – L/C or Documentary Credit – D/C  
is a commitment of bank for exporter if he provides the documentary fully according to terms and conditions of L/C

❖ **UCP 600 – ICC 2007:**

Credit means any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation.





## 4.1. Definition

---

### *Article 2, UCP 600, 2007, ICC*

Credit means any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation.

Honour means:

- ❖ to pay at sight if the credit is available by sight payment
- ❖ to incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment.
- ❖ To accept a bill of exchange (draft) drawn by the beneficiary and pay at maturity if the credit is available by acceptance.



# Letter of Credit

---

- ❖ Conditional, legal obligation of bank to pay to beneficiary
- ❖ Bank places its internationally accepted credit rating to customer's credit (payment)
- ❖ Eliminates commercial risk



## 4.2.Applicable rules

---

**WHAT?**

THE **U**NIFORM **C**USTOMS  
AND **P**RACTICE FOR  
DOCUMENTARY CREDITS

**UCP**

**WHO?**

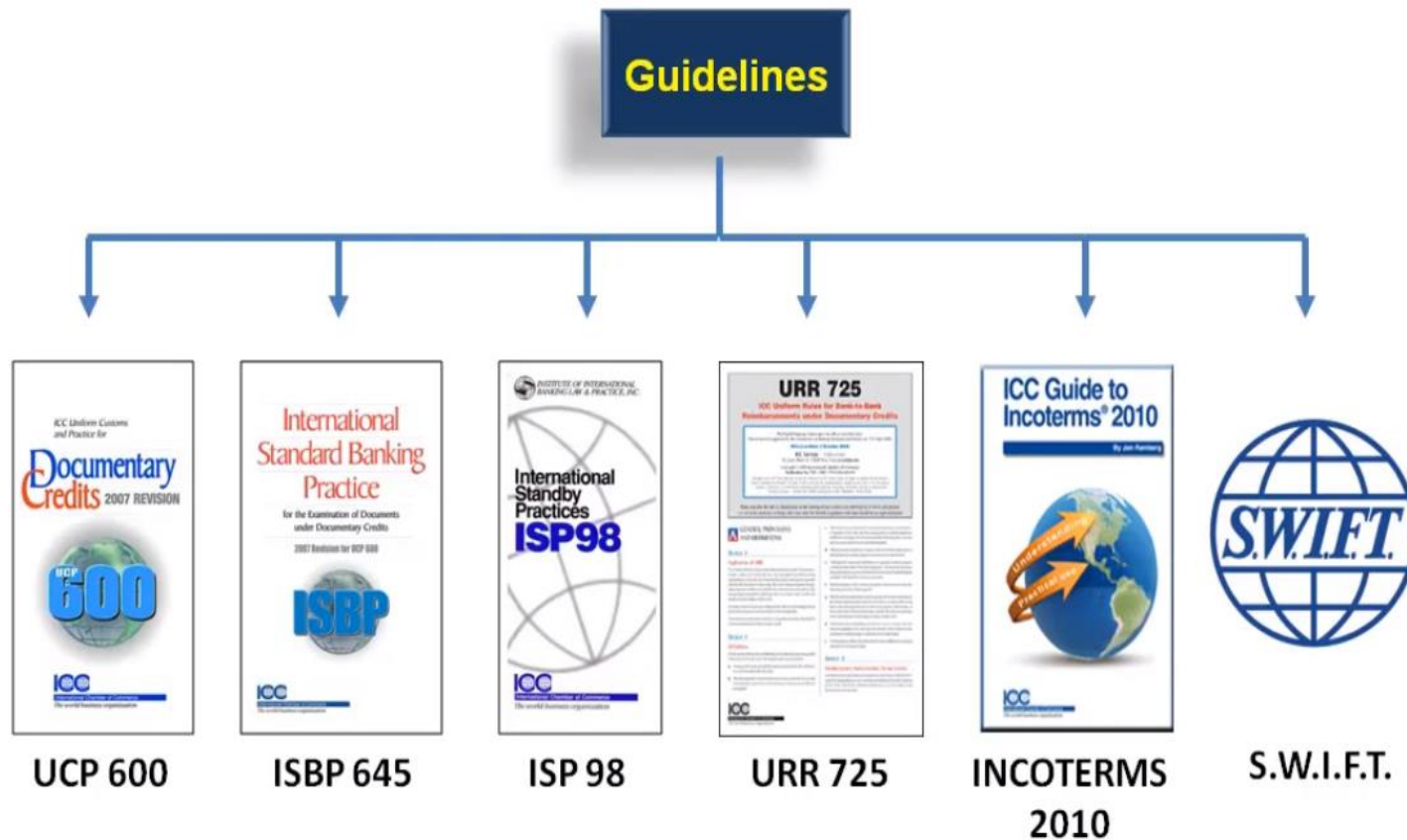
INTERNATIONAL  
CHAMBER OF  
COMMERCE (ICC)

**WHEN?**

**1933**

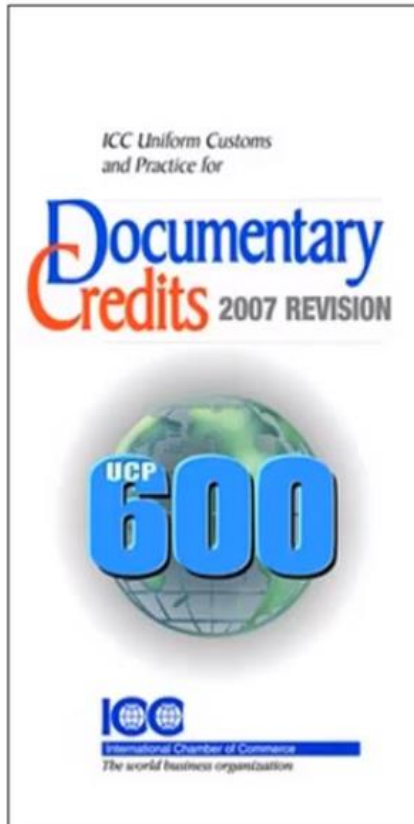


# GUIDELINES





# UCP 600, 2007, ICC

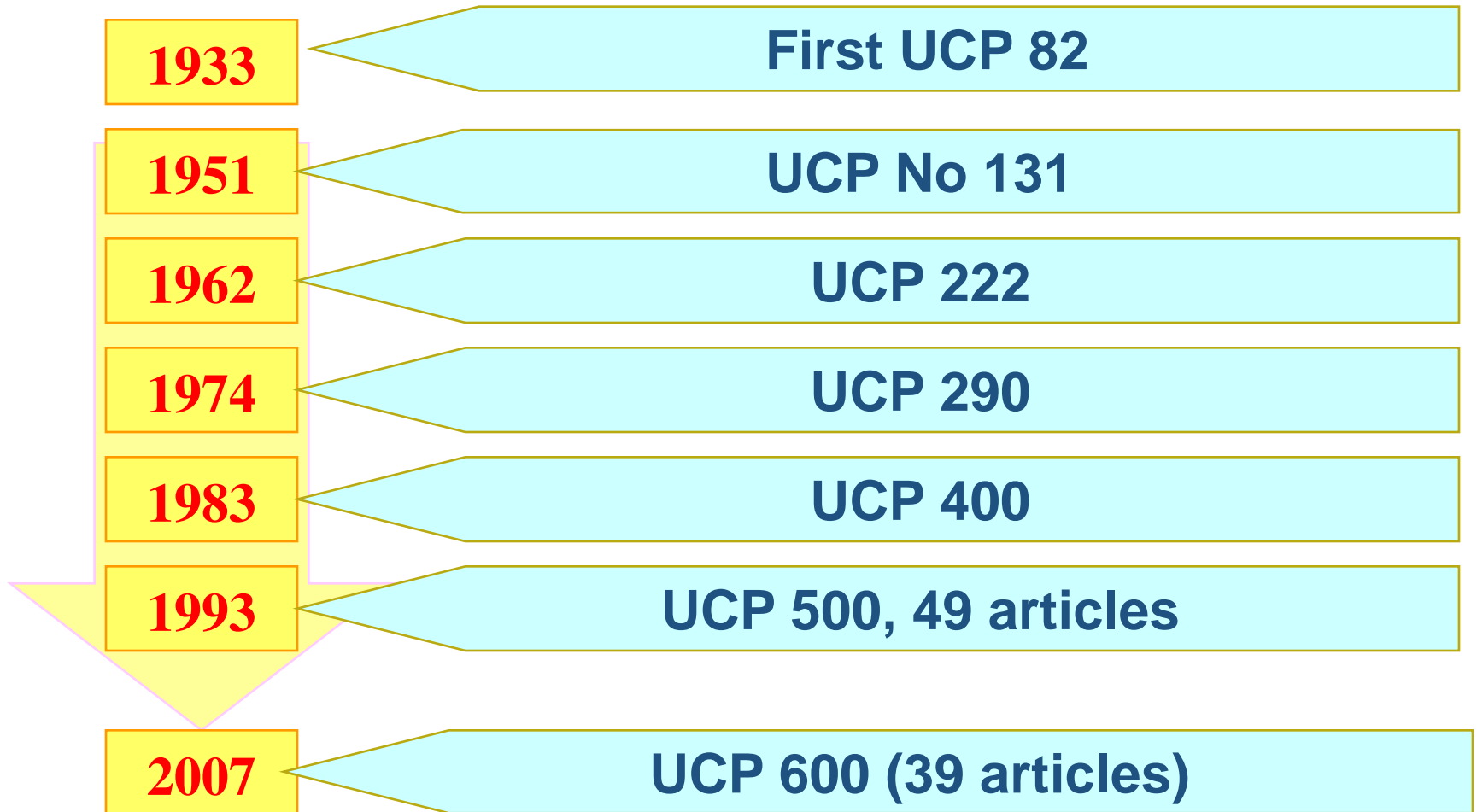


Credit means any arrangement, however named or described, that is **irrevocable** and thereby constitutes a **definite undertaking** of the **issuing bank** to honour a **complying presentation**.

*Article 2, UCP 600*



## 4.2. Applicable rules





## 4.3. Parties to documentary credit

1. **Applicant** means the party on whose request the credit is issued
2. **Advising bank:** that advises the credit at the request of the issuing bank.
3. **Beneficiary** means the party in whose favour a credit is issued.
4. **Issuing bank** means the bank that issues a credit at the request of an applicant or on its own behalf.
5. **Confirming bank** means the bank that adds its confirmation to a credit upon the issuing bank' s authorization or request.
6. **Nominated bank** means the bank with which the credit is available
7. **Presenter** means a beneficiary, bank or other party that makes a presentation



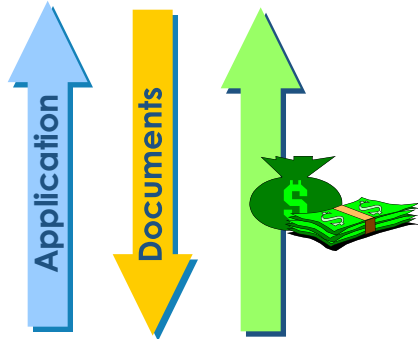
## 4.4 Procedure of Documentary Credit

Issuing / Opening Bank



Letter of credit (sight/time)

Documents



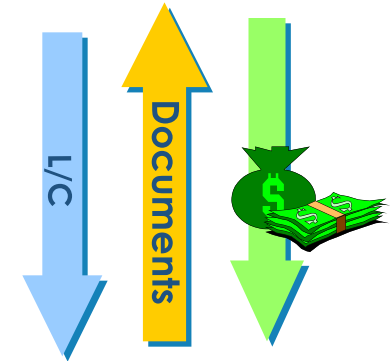
Applicant / Buyer  
Importer

Advising Bank



L/C

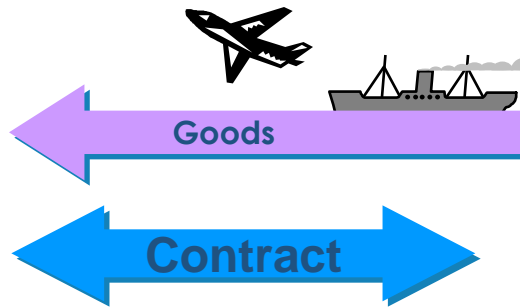
Documents



Beneficiary  
Seller  
Exporter

Goods

Contract







# Availability

---

## UCP 600 - Article 6

1. A credit must state the bank with which it is available or whether it is available with any bank.
2. A credit available with a nominated bank is also available with the issuing bank.
3. A credit must state whether it is available by sight payment, deferred payment, acceptance or negotiation.
4. A credit must not be issued available by a draft drawn on the applicant.

## 4.5. An introduction to letter of credit

### Features of Letter of Credit

1. L/C is to be independent of underlying transaction or contract;
2. Banks deal with documents and not with goods, services or performance to which the documents may relate;
3. L/C is to be required strict compliance of documents with terms and conditions of L/C;
4. L/C is tool of payment and thereby to avoid the risks in international trading; however it could be used for suspension, postponement or refusal of payment and even for fraud

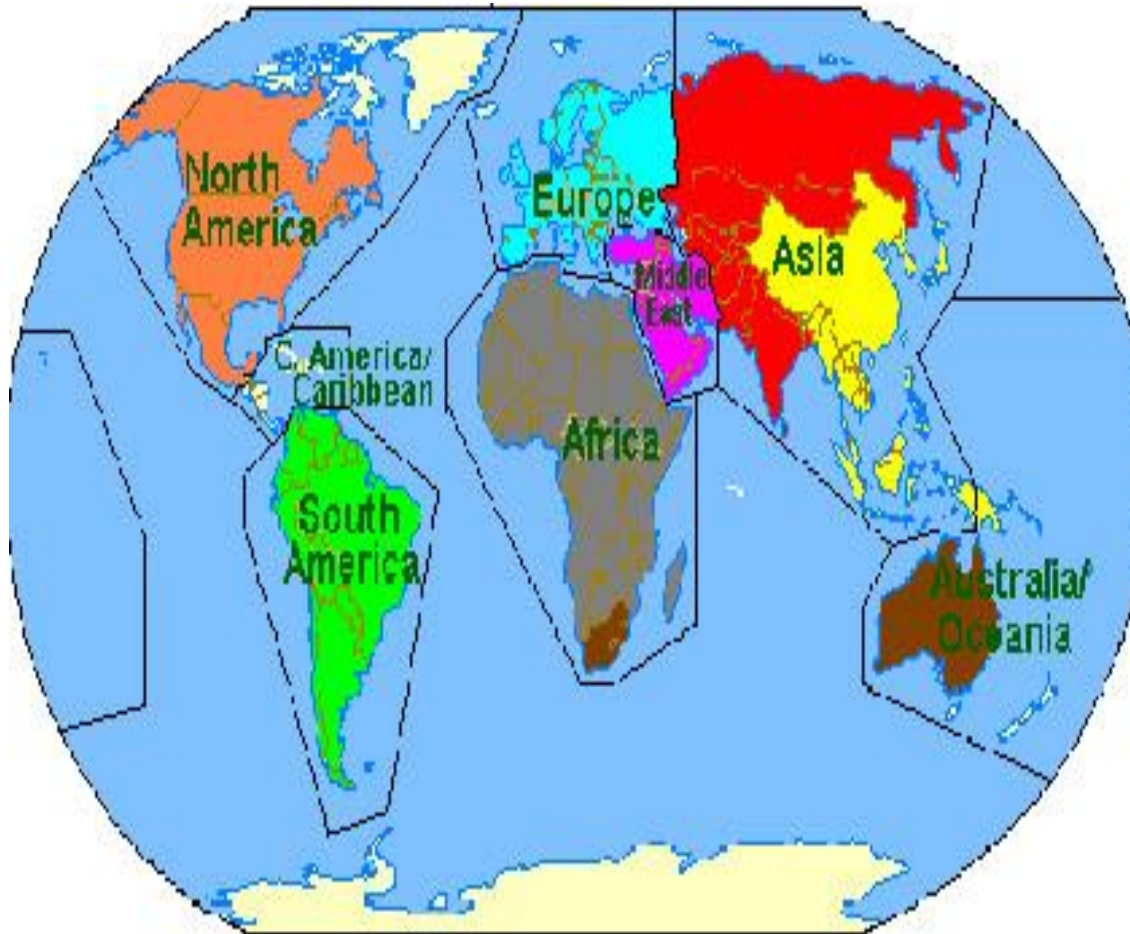


## 4.6. Applicable situation of Documentary Credit method

---

- In trading with new partner
- Big amount of contract value
- Required by legal regulations or customs in trade or payment
- Required by credit insurer
- Required by foreign exchange regulation

# THE VOLUME OF L/C USE BY GEOGRAPHIC REGION



- EU: 9%
- Rest of Europe: 20%
- North America: 11%
- Latin America: 27%
- Middle East: 52%
- Asia Pacific: 43%
- Africa: 49%
- Asia: 46%
- Aust.& New Zealand: 17%