

INTERNATIONAL TRADE LEADERSHIP SERIES

PRIMARY METHODS OF PAYMENT

PRESENTED BY:

**SUSAN E. WILKINSON
HANCOCK/WHITNEY BANKING GROUP
MOBILE, ALABAMA**

**GLENN SIGLER
GLOBAL TRADE FINANCE
REGIONS BANK
MOBILE, AL**

- EXPORT TRADE RISKS
- OBJECTIVES OF BUYER AND SELLER
- FACTORS TO CONSIDER
- PAYMENT METHODS
- SOLUTIONS – TRADE PRODUCTS
- BENEFITS

HOW CAN INTERNATIONAL TRADE PRODUCTS HELP YOUR CUSTOMERS/PROSPECTS?

- ▣ Assists by mitigating international risk
- ▣ Assists by meeting objectives of parties in the transaction – buyer and seller
- ▣ Assists by expanding business between buyer and seller
- ▣ Assists by providing assurances of payment for both buyer and seller
- ▣ Assists by offering extended payment terms

WHAT ARE INTERNATIONAL RISKS?

- **COMMERCIAL RISKS** - risk assumed by a seller when extending credit without any collateral or recourse.
- **POLITICAL RISKS** - risk of loss when investing in a given country caused by changes in a country's political structure or policies, such as tax laws.
- **SOVEREIGN RISK** - risk that a foreign government will default on its loan or fail to honor other business commitments because of a change in national policy.
- **MARKET CONDITIONS** - Characteristic of a market into which a firm is entering or into which a new product will be introduced, such as number of the competitors, level or intensity of competitiveness and market's growth rate.

WHAT ARE OBJECTIVES OF THE BUYER AND SELLER?

**The seller's main
objective is:**

**Assurance of
payment**

**The buyer's main
objectives are:**

Credit Terms

**Assurance that goods
have been shipped
timely and will be
received in quantity
and quality ordered.**

FACTORS THE INTERNATIONAL BUYER AND SELLER MUST EVALUATE

- ▣ **Creditworthiness of buyer and seller**
- ▣ **Dollar amount of transaction and urgency to receive payment of funds.**
- ▣ **Level of personal knowledge or prior experience between buyer and seller**
- ▣ **Accounting, payment and regulatory restrictions between countries**
- ▣ **Location of buyer and seller**
- ▣ **Competition from other sellers**
- ▣ **Number of other buyers**
- ▣ **Reputation of buyer and seller**
- ▣ **Customary practices in specific country or industry**

OPEN ACCOUNT

"An arrangement between the buyer and the seller whereby the goods are manufactured and delivered to the buyer before payment is required."

Commonly used in domestic sales and best suited for trade transactions where there is longevity and trust and where there is little or no concern about the buyer's intent and ability to pay

Disadvantages to Seller:

Increases risk for the seller – a sudden drop in prices could encourage the buyer to break the contract and expose the seller to issues of non-payment, country instability or import regulations.

Advantages to Buyer:

The buyer does not have to pay until the goods are received and inspected.

CASH IN ADVANCE

Buyer places the funds at the disposal of the seller prior to shipment of the goods or provision of services.

Full payment in advance is common when the seller's products are in high demand and the buyer and his country are not a priority for the seller.

Advantages to the seller:

No risk – seller has immediate use of funds.

Disadvantages to the buyer:

Paid in advance, tied up capital prior to receipt of the goods or services.

No assurance that what the buyer contracted for will be supplied or received in a timely fashion and in the quality or quantity ordered.

WHAT ARE INTERNATIONAL TRADE PRODUCT SOLUTIONS?

- ▣ **LETTERS OF CREDIT – Documentary
Import/Export
Bankers Acceptance Financing
Tools**
- ▣ **DOCUMENTARY COLLECTIONS
Import/Export
Sight Drafts vs. Time Drafts**

DOCUMENTARY LETTERS OF **CREDITS**

“An undertaking issued by a bank for the account of the buyer, to pay the beneficiary the value of the draft and/or documents provided that the terms and conditions of the Documentary Credit are complied with.”

**Documentary Credits are governed by the
Uniform Rules for Documentary Credits
Publication No. 600. Rev. 2007**

DOCUMENTARY LETTER OF CREDIT **WORKFLOW PROCESS**

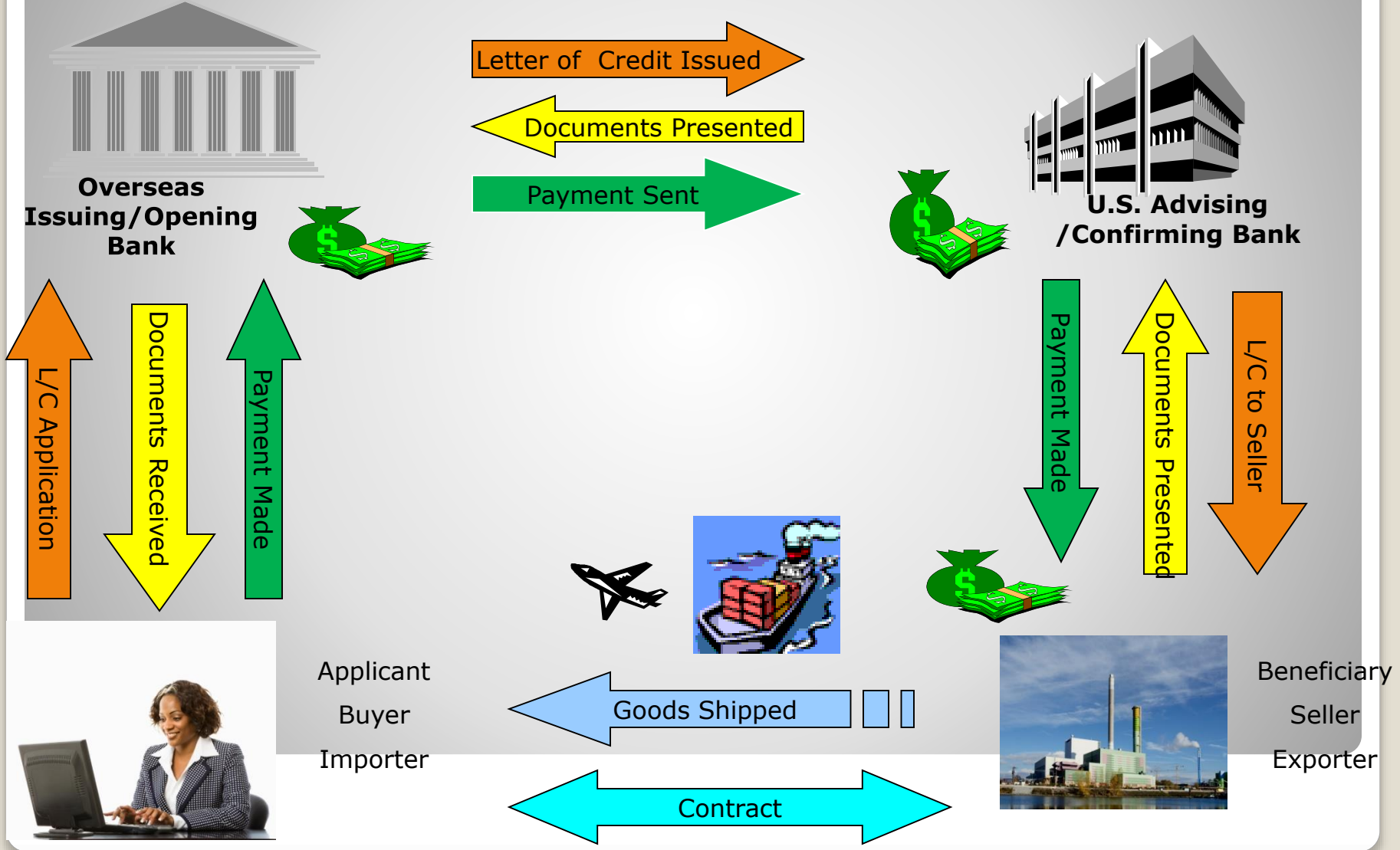
- Buyer and Seller negotiate terms of sale.
- Buyer goes to his bank , prepares an application and request for L/C to be issued in favor of Seller.
- Letter of Credit is issued by the Buyer's bank and is by Swift to the Seller's bank.
- Seller prepares goods for shipment and arranges for shipment through his freight forwarder.

DOCUMENTARY LETTER OF CREDIT **WORKFLOW PROCESS**

- Goods are shipped and shipping documents are submitted to the Seller's bank.
- Shipping documents are examined by Seller's bank and presented to paying/negotiating/confirming bank.
- Based on compliant documents payment is made back to the Seller's bank.

LETTER OF CREDIT PROCESS

Transaction between a buyer and seller whereby a bank serves as a payment intermediary.



BANKERS ACCEPTANCE

EXAMPLE

- Seller receives letter of credit in the amount of USD100,000 with tenor (terms of payment) 90 days sight.
- Bank accepts the draft after documents are found in order with maturity in 90 days.
- If the Seller has negotiated to have the Bankers Acceptance "discounted" he can be paid at sight instead of waiting for the maturity date. The charges associated with this would be negotiated between Buyer/Seller when l/c is issued.

BANKERS ACCEPTANCE EXAMPLE

- 100,000 due 60 days = June 17, 2014
- Discount calculation:
$$\begin{aligned} & \$100,000. \times .025 \times 60 \text{ divided by } 360 \\ = & \\ & \$416.67(\text{discount interest}) \end{aligned}$$

Seller would receive - \$100,000 less
\$416.67
(discount interest) = \$99,583.33

WHAT ARE THE BENEFITS OF USING A TRADE LETTER OF CREDIT?

- **Independent credit backing and a clear cut promise of payment.**
- **Places the bank's credit standing separate from the bank's funds, at the disposal of both parties.**
- **Reduces or eliminates commercial credit risk - payment is assured by the bank which issues an Irrevocable Documentary Credit.**
- **May allow the buyer to obtain a lower purchase price for the goods.**
- **Longer payment terms may be offered than would be offered with open account terms or a collection.**

DOCUMENTARY COLLECTIONS

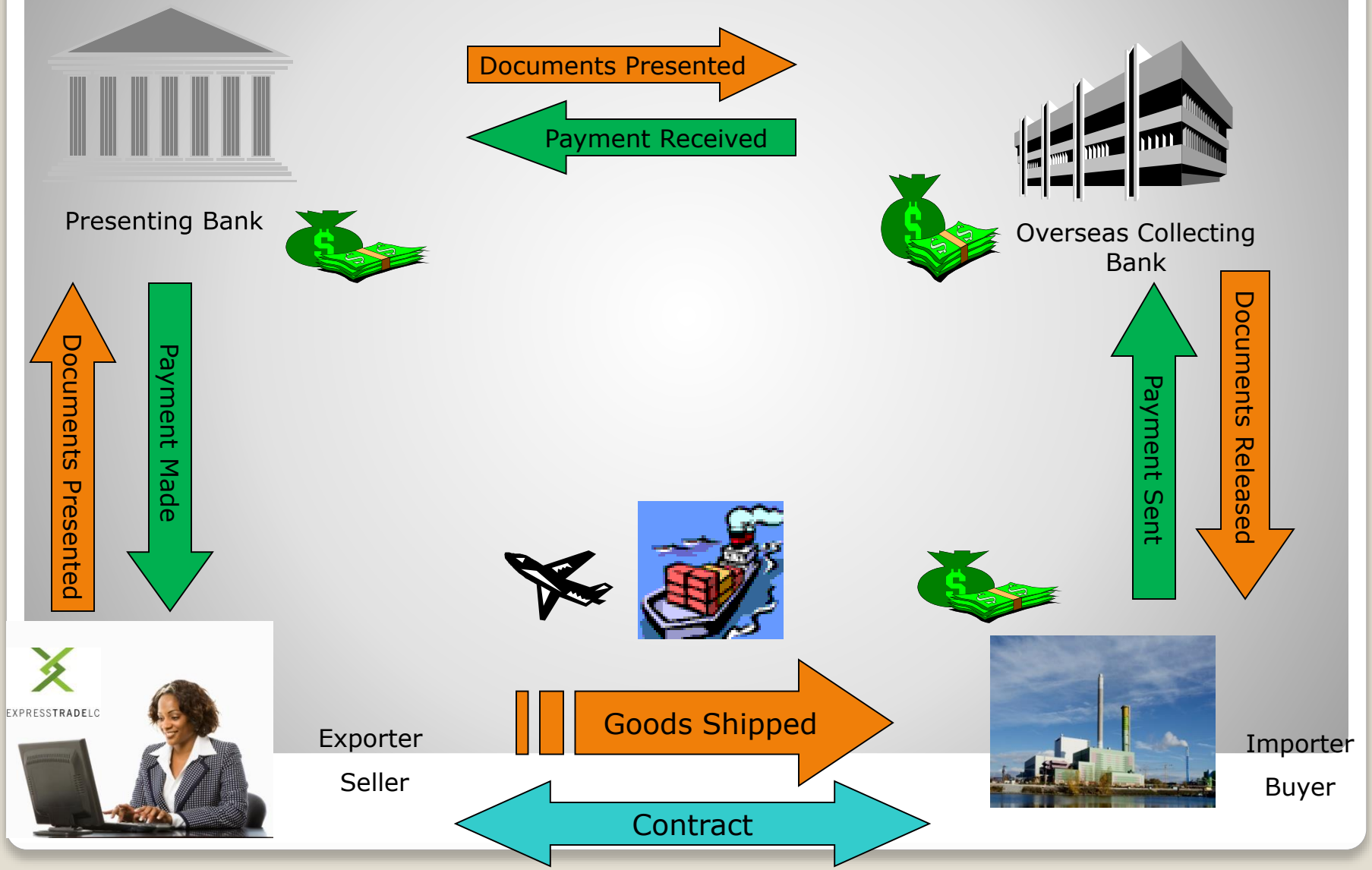
Shipping documents are presented to the foreign buyer's bank without any prior conditional bank guarantee of payment.

Governed by Uniform Rules for Collections, Publ. No. 522

- **Sight terms – Buyer must pay for documents prior to documents being released**
OR
- **Time – future dated payment terms - Buyer accepts draft prior to documents being released with future dated maturity date.**

DOCUMENTARY COLLECTION PROCESS

Transaction between Buyer and Seller whereby documents are forwarded through banking channels for payment and/or acceptance.



INTERNATIONAL TRADE METHODS OF PAYMENT MATRIX

METHODS OF PAYMENT	SELLER	BUYER
Open Account	NO	YES
Cash in Advance	YES	NO
Letters of Credit	YES	YES
Documentary Collections	YES	YES

INTERNATIONAL TRADE LEADERSHIP SERIES INTERNATIONAL FINANCING

FOR ADDITIONAL INFORMATION CONTACT:

**SUSAN E. WILKINSON
HANCOCK/WHITNEY BANKING GROUP
(251) 662-1025
susan.wilkerson@whitneybank.com
MOBILE, ALABAMA**

**GLENN SIGLER
REGIONS BANK
GLOBAL TRADE FINANCE
(251) 690-1187
glenn.sigler@regions.com
MOBILE, AL**