

Documentary Collection

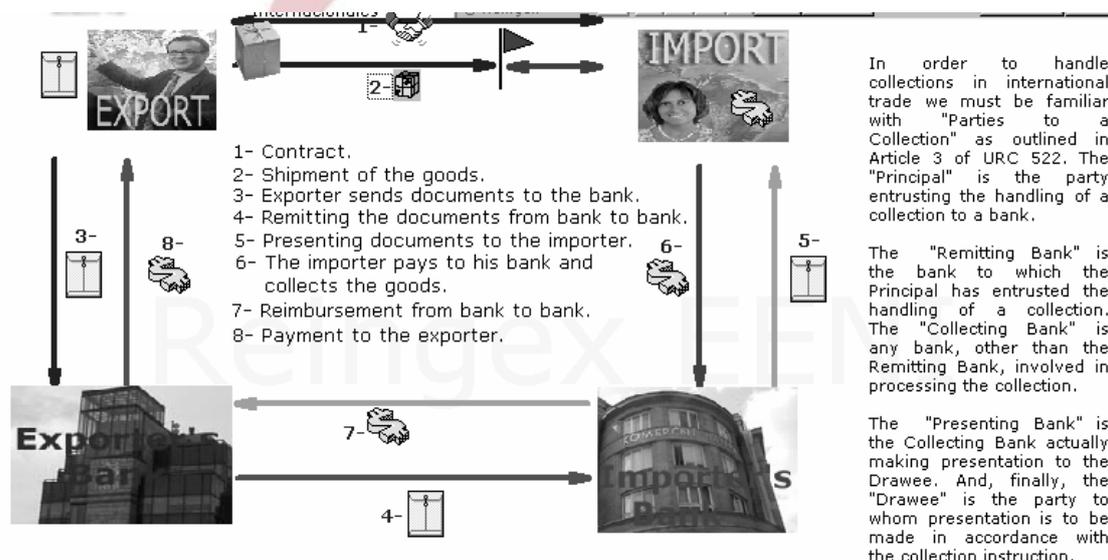
A **Documentary Collection** (Contents: Documentary Collection. Clean Collection. Bill of Exchange. Managing Collections. Doc. Collection Simulation.) is a method of payment whereby the exporter initiates, through the banking system, the collection of money due to him from the importer. Payment will be made against a Bill of Exchange and documents of title. Documents can be released against acceptance of the Bill of Exchange or against payment at sight. This course will give you a practical understanding of this popular method of payment.

The Uniform Rules for Collections, 1995 Revision, ICC publication No. 522, shall apply to all collections where such rules are incorporated into the text of the "collection instruction". In the course of this unit we will provide practical examples of the application of URC 522. All serious international trade specialists should obtain a copy of this ICC Publication.

Learn the differences between clean and documentary collections and analyse the advantages and disadvantages for the importer and for the exporter. Learn how to complete a Bank Documentary Collection order and how to manage export collections at the bank. Understand the difference between documents against acceptance and documents against payment. Bills of Exchange and the Documentary Collection Cycle.

Collections are a service provided by banks to their export and import customers with the objective of payment collection under the structure and security of an internationally accepted body of rules known as **URC 522** of the International Chamber of Commerce, Paris, France.

By means of collections, banks facilitate the settlement of payment between international buyers and sellers. Collections offer a greater degree of security to the exporter than open account transactions.



Collection Instructions

URC 522 Article 4.B sets out clearly what items of information should be included in a collection instruction. A collection instruction should contain the following items of information, as appropriate:

i. Details of the bank from which the collection was received including full name, postal and SWIFT addresses, telex, telephone, facsimile numbers and reference.

ii. Details of the Principal including full name, postal address, and if applicable telex, telephone and facsimile numbers.

iii. Details of the Drawee including full name, postal address, or the domicile at which presentation is to be made and if applicable telex, telephone and facsimile numbers.

iv. Details of the Presenting Bank, if any, including full name, postal address, and if applicable telex, telephone and facsimile numbers.

v. Amount(s) and currency(ies) to be collected.

vi. List of documents enclosed and the numerical count of each document.

vii. a. Terms and conditions upon which payment and/or acceptance is to be obtained.

b. Terms of delivery of documents: Documents against:

1) **payment and/or acceptance**

2) other terms and conditions, if any.

Clean collections involve sending financial documents such as **bills of exchange** or **promissory notes** through the banking system in order to collect payment from the importer. These documents are not accompanied by commercial documents

such as invoices or shipping documents. The goods and documents of title to the goods are sent directly to the importer.

This method of payment is only used when there is a certain level of **trust** between the exporter and the importer, because the exporter loses documentary and physical control over the goods before receiving payment.

The exporter must bear in mind the following:

- 1) The security of payment related to the solvency of the importer who accepts the bill of exchange.
- 2) The exporter loses control over the goods.
- 3) There is a risk that the importer will not fulfil his undertaking to pay.

Ways to effect payment:

- **Payment.** The exporter's bank will not pay the value of the clean collection until it receives reimbursement or settlement of the clean collection from the importer's bank.
- **Discount.** If the exporter needs funds before the maturity date of the draft, he can request his bank to discount the draft or bill of exchange.

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