

INTERNATIONAL COLLECTIONS

- international collections as a payment method

By using international collections as a payment method, a business can obtain security when trading internationally without losing the necessary flexibility.

What are international collections?

International collections are a fast and simple payment method that reduces risks.

Collections abroad are carried out in accordance with international collection rules adopted by a large number of international banks.

International collections refer to document handling and have nothing to do with legal collections. International collections - or just collections - mean that a bank handles documents according to the instructions given by the exporter.

The bank assumes no payment obligation.

The documents include

- financial documents used to obtain payment, for instance, bills of exchange or payment orders
- commercial documents issued when the goods are sent, for instance, shipping documents, invoices or certificates

When are international collections used?

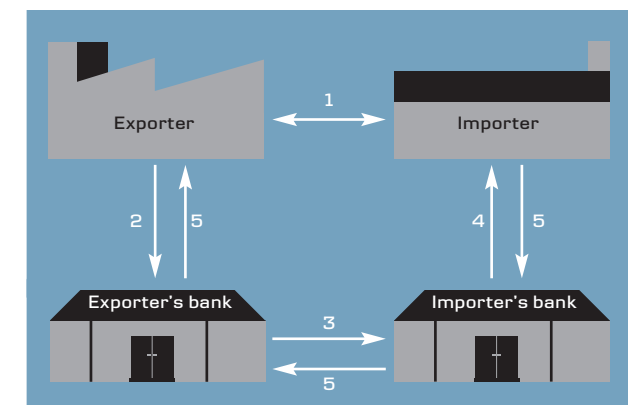
Open account trading does not always provide sufficient security, for instance, if the exporter does not know the importer well enough to hand over the goods before payment is made. In such cases, the use of international collections can reduce risks.

International collections ensure that the documents are not handed over until the importer has paid for the goods or accepted a bill of exchange, that is, a guarantee for payment on a fixed future date.

The collection process

The figure to the right shows the process for international collections.

1. The importer and the exporter conclude a sales contract.
2. The exporter sends the required documents to its bank with instructions for delivery.
3. The exporter's bank sends the documents to the importer's bank with instructions that the documents can be handed over against payment or acceptance of a bill of exchange.
4. The importer's bank hands over the documents to the importer once the terms of the instructions have been met.
5. The exporter receives payment.



Exporters' use of international collections

Using international collections as a payment method provides an exporter with a number of advantages.

1. The importer has paid for the goods or accepted a bill of exchange before the documents are handed over.
2. The exporter's bank takes the necessary steps if the importer fails to make payment or accept a bill of exchange and sends reminders.
3. International collections are a more flexible payment method than documentary credits.

Consignment

Consignment is important in connection with international collections.

If the goods are consigned to the importer, the importer will usually be able to take delivery of them without presenting the transport documents, except in case of consignment by ship. It may therefore be a good idea to consign the goods to a shipping agent or the importer's bank. Doing so requires the consent of the third party.

Credit

If the exporter and the importer agree on a period of credit, the documents – and thus the goods – will be handed over once the importer has accepted a bill of exchange maturing on the expiry date of the credit period. When accepting a bill of exchange, the importer accepts to pay for the goods on a fixed future date against taking delivery of the goods.

The accepted bill of exchange is usually kept with the importer's bank and presented for payment at maturity. The bill of exchange can also be returned to the exporter.

Importers' use of international collections

If an importer buys goods abroad and uses international collections as the payment method, the foreign exporter is responsible for preparing the required documents. A bill of exchange from the exporter's bank for collection by the importer's bank is often enclosed with the documents. The importer must make payment or accept the bill of exchange sent to the importer's bank against taking delivery of the goods.

Documentation process

Once the importer and exporter have concluded the sales contract, the exporter should instruct its bank to send the collection directly to the importer's bank.

Once the importer's bank has received the documents, the bank will advise the importer of the collection. The importer can now take delivery of the goods against payment or acceptance of a bill of exchange.

When Danske Bank acts as the importer's bank, the documents will be handled quickly. This saves time and costs for, for instance, unnecessary storing.

Important aspects

Before taking delivery of the goods and the documents, the importer should make sure that the terms of the documents match the terms agreed on. According to international collection rules, the importer's bank is not responsible for the correctness and authenticity of the documents. This means that the bank cannot pay back the collection

amount in case objections are submitted after payment has been made or a bill of exchange has been accepted.

Costs

International collections entail costs – both in Denmark and abroad. Therefore, it is important that the parties agree on who will be responsible for paying the individual costs.

International collections in Business Online

Direct Collection in Business Online is suitable in case of transactions requiring a high degree of swiftness and flexibility. With Direct Collection, you can avoid that the goods reach the importer before the documents because of, for instance, short transportation time. You yourself are responsible for sending the documents and an instruction letter to the importer's bank on behalf of Danske Bank through Business Online. Danske Bank will take care of the rest of the process.

Export documents for international collection through Business Online (Direct Collection)

By using Direct Collection in Business Online, you can make sure that the foreign bank receives all the necessary information so that payment can be made in due time. Instruction letters to the foreign bank are generated by and printed from Business Online, so you do not need to enclose any cover letters with the documents.

The subsequent communication with Danske Bank takes place through Business Online. This means that a large number of hard-copy letters and a great deal of document handling can be avoided – also internally in your business.

You can view all information about your business' collections in Business Online, and this enables you to keep up-to-date on the status of the collections. You can also create an overview of all your business' collections and retrieve information about, for instance,

- whether a bill of exchange has been accepted
- which collections the other party in question has paid
- which collection transactions your business has entered into with the other party
- the number of collections in, for instance, EUR and the collection amounts
- which collections that include bills of exchange payable in a specific period
- when Danske Bank has sent the documents relating to a specific collection

If you already use Business Online, we can offer you Direct Collection at a lower price.

Danske Bank's Business Online system enables you to handle international collections easily and efficiently. Read more in our Trade Finance – Business Online factsheet.

Contact us

If you require advisory services on international collections, please contact us.

Our contact information is available at www.danskebank.com/tradefinance.