

Documentary Collections

In this arrangement, the seller effects the shipment and routes all the shipping documents required for the clearance of the goods at the destination through banks for the collection of payment.

Documentary Collections Cycle:

1. Shipment and Document Presentation:

- The seller (PRINCIPAL) ships the goods and presents all original shipping documents to their bank (REMITTING BANK), requesting that these documents be forwarded to the buyer's bank (PRESENTING BANK/ COLLECTING BANK) with authorisation to release the documents to the buyer (DRAWEE) against payment (DP) or acceptance of a bill of exchange (DA).

2. Collection instructions & compliance checks by the Remitting Bank:

- The remitting bank performs compliance checks according to its policies concerning the parties involved, the description and origin of goods, and the routing of the goods. The bank must monitor the transaction to ensure the corresponding payment is received within the time specified by regulations.
- Documents are dispatched to the collecting bank with a cover letter (collection instruction). Collection instruction should contain the following :
 - a. Collection is subject to URC 522
 - b. Name and address of the Principal
 - c. Name and address of the Drawee
 - d. Currency and amount
 - e. List of documents enclosed (originals and copies)
 - f. Terms of delivery of documents (Payment or Acceptance)
 - g. Charges to be collected
 - h. Interest to be collected (if applicable) indicating period, rate of interest and basis of calculation 360 days or 365 days in a year
 - i. Instructions in case of non-payment or non-acceptance regarding Protest or other legal formalities

3. Compliance Checks & presentation of documents by the Collecting Bank:

- The collecting bank performs compliance checks as per its policies concerning the parties involved, the description and origin of goods, and the routing of the goods, vessel name etc.,
- The bank notifies the buyer (DRAWEE) of the arrival of the documents, requesting the collection of documents against payment or acceptance of a bill of exchange as per the collection instructions.

4. Document Collection by Buyer:

- The buyer (DRAWEE) collects the documents upon providing payment authorization or by accepting the bill of exchange.

5. Funds Transfer and Handling of Bill of Exchange by the Collecting Bank:

- In the case of DP, the collecting bank checks whether the debit authorisation is signed by the authorised signatory as per bank records and transfers the funds to the remitting bank for further credit to the seller's account.
- In the case of DA, the collecting bank informs the remitting bank that the documents have been accepted by the drawee.
- The original bill of exchange may be retained by the collecting bank for presentation to the drawee on maturity or returned to the remitting bank as per the collection instructions.
- If the buyer (DRAWEE) refuses to accept the documents, the collecting bank sends an advice of non-payment or non-acceptance to the remitting bank, seeking further instructions for handling the documents.
- The collecting bank may arrange for a PROTEST of documents as per collection instructions at the expense of the remitting bank.
- If the remitting bank fails to provide further instructions within 60 days, the collecting bank may return the documents to the remitting bank without responsibility.

6. Payment or acceptance advice by the remitting bank:

- For DP transactions, the remitting bank credits the export proceeds to the seller's (PRINCIPAL) account after adjusting against their outstanding export proceeds account.
- For DA transactions, the remitting bank advises the seller (Principal) that the documents have been accepted by the buyer (DRAWEE) and that the accepted bill of exchange is retained by the collecting bank for presentation to the drawee on maturity, or releases the accepted bill of exchange to the seller (Principal) for further presentation before maturity.

7. Presentation of Accepted Bill of Exchange:

- The seller (Principal) presents the accepted bill of exchange to the remitting bank with a request to forward it to the collecting bank for collection of the amount due on maturity.

8. Bill of exchange under clean collection:

- The remitting bank forwards the bill of exchange to the collecting bank under clean collection.

9. Presentation of Bill of exchange to the drawee for payment:

- The collecting bank presents the bill of exchange retained by them or received through clean collection to the buyer (DRAWEE) for payment on the maturity date.

10. Payment Authorization by the Drawee:

- The buyer provides payment authorization to the collecting bank against the delivery of the bill of exchange.

11. Transfer of Funds:

- The collecting bank checks whether the debit authorisation is signed by the authorised signatory as per bank records and transfers the funds to the remitting bank for credit to the seller's (Principal's) account.
- If the buyer (Drawee) dishonors the bill of exchange on maturity, the collecting bank informs the remitting bank.
- The collecting bank may arrange for a PROTEST or any other legal formalities as per collection instructions at the expense of the remitting bank.

12. Credit of Export Proceeds:

- The remitting bank credits the export proceeds to the seller's account against their outstanding export proceeds.

Advantages to the buyer	Advantages to the seller
<ul style="list-style-type: none">• No credit risk – payment / acceptance is made against documentary evidence	<ul style="list-style-type: none">• No credit risk - control over good is not lost until payment / acceptance is received

Risks to the buyer	Risks to the seller
<ul style="list-style-type: none">• Seller's non-performance• Buyer is not sure whether goods are shipped as per contractual specifications. However, he may require independent inspection agency certificate to ensure quality of the goods.• Possible delay in receiving documents which may be required to clear the goods that have already arrived.	<ul style="list-style-type: none">• Buyer may refuse to accept documents in case of bad market• Buyer may not honour accepted drafts at maturity.• Country risk