

Documentary collection

Parties and how it works

Documentary collection helps secure payment and performance in foreign trade.

It exists in a wide variety of forms; the most common is "Documents against payment." In this form of collection, the buyer only receives the performance to be provided upon presentation of documents. These are defined in advance and issued step by step.

Documentary collection is simpler and more cost-effective than documentary credits; however, it covers significantly fewer risks. At the same time, it offers distinctly more security than an open account transaction. Documentary collection is therefore primarily used when the conditions in the importing country are stable and there is mutual trust between the buyer and seller.

Parties

Usually four parties are involved in a documentary collection:



Seller/exporter

The seller exports its products or services and wants to be paid for them. It orders the documentary collection and thus ensures that the buyer cannot gain access to the product or service until after payment.



Buyer/importer

As the drawee of the collection, the buyer must pay when the collection documents are presented to it, and the buyer cannot gain access to the product or service until after payment. Documentary collection ensures that the buyer receives the goods after payment.



Seller's bank

It forwards the remitted documents in accordance with the conditions of the collection order, and is therefore also known as the "remitting bank."



Buyer's bank

It receives from the seller via the seller's bank the order to execute the collection from the buyer and is therefore also known as the "presenting" or "collecting bank".

How it works

1. Signing of contract

The buyer and seller enter into a sales agreement – for example, for special plastic components that are to be delivered by ship. As a payment condition, the parties agree to documentary collection in which the documents are issued against payment.

2. Delivery of goods

The seller ships the goods to the destination – not directly to the buyer but to a bonded warehouse, for example, in the buyer's country.

3. Documents and collection instruction

The seller compiles the documents required by the buyer – for example, transport documents, customs invoices, certificate of origin, insurance certificate. It also ensures that the documents comply with the regulations of the importing country. It then submits the documents and the collection instruction to its bank.

4. Examination of documents

The "remitting bank" examines the documents to determine whether they are consistent with the contents of the collection order and whether the figures tally; it does not have any further obligations.

5. Forwarding of collection instruction

It then forwards the documents and the collection instruction to the buyer's bank – along with the instruction that the papers are only to be handed over to the buyer against payment. The seller receives a confirmation of execution.

6. Advising the collection

On receipt of the documents, the buyer's bank advises to its client and presents the collection instruction for immediate payment to the latter.

7. Payment authorization

If the buyer is willing to redeem the documents, it issues a payment authorization to its bank.

8. Debiting of buyer's account and delivery of documents

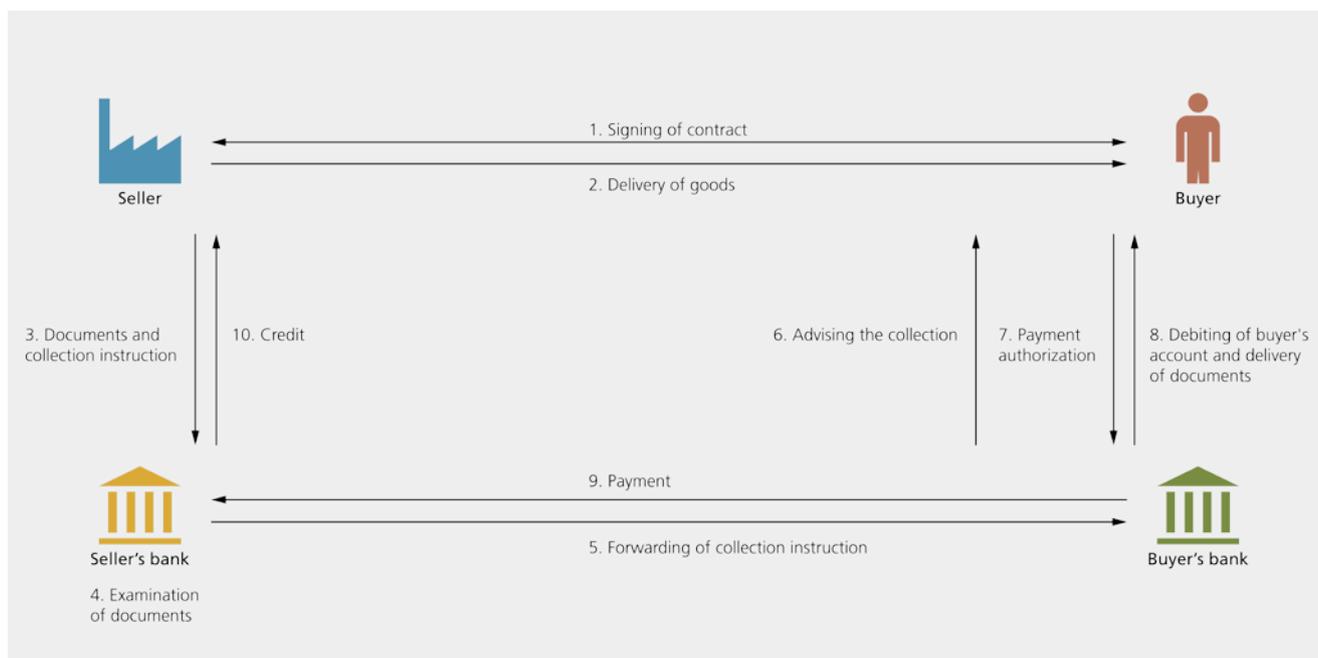
The bank debits the buyer's account by the nominal value of the documents plus any collection fees and issues the documents to the buyer – the buyer can now arrange customs clearance of the plastic parts and import them.

9. Payment

It also transfers the collection amount to the seller's bank ...

10. Crediting of seller's account

... whereupon the latter credits the amount less any collection fees to its client.



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