

Mohamed Khaider University, Biskra

Faculty of Economics, Commerce and Management Sciences

Commerce Department



Module: English

Branch: Finance and International Trade

Level: Second year Master

Lecture 06: Cash-in-Advance Forms

1- The Forms:

A-Credit Card: A Viable Cash-in-Advance Method

Exporters who sell directly to foreign buyers may select credit cards as a viable cash-in-advance option, especially for small consumer goods transactions. Exporters should check with their credit card companies for specific rules on international use of credit cards. The rules governing international credit card transactions differ from those for domestic use. Because international credit card transactions are typically placed using the Web, telephone, or fax, which facilitate fraudulent transactions, proper precautions should be taken to determine the validity of transactions before the goods are shipped. Although exporters must tolerate the fees charged by credit card companies and assume the risk of unfounded disputes, credit cards may help the business grow because of their convenience and wide acceptance.

B- Escrow Service: A Mutually Beneficial Cash-in-Advance Method

Exporters may select escrow services as a mutually beneficial cash-in-advance option for small transactions with importers who demand assurance that the goods will be sent in exchange for advance payment. Escrow in international trade is a service that allows both exporter and importer to protect a transaction by placing the funds in the hands of a trusted third party until a specified set of conditions are met. Here's how it works: the importer sends the agreed amount to the escrow service. After payment is verified, the exporter is instructed to ship the goods. Upon delivery, the importer has a pre-determined amount of time to inspect and accept the goods. Once accepted, the funds are released by the escrow service to the exporter. The escrow fee can either be paid in full by one party or split evenly between the exporter and the importer. Cross-border escrow services are offered by international banks and firms that specialize in escrow and other deposit and custody services.

C-Payment by Check: A Less-Attractive Cash-in-Advance Method

Advance payment using a check drawn on the importer's account and mailed to the exporter will result in a lengthy collection delay of several weeks to months. Therefore, this method may defeat the original intention of receiving payment before shipment. If the check is in U.S. dollars and drawn on a U.S. bank, the collection process is the same as it would be for any U.S. check. However, funds deposited by non-local checks, especially those totaling more than \$5,000 on any one day, may not become available for withdrawal for up to 10 business days due to Regulation CC of the Federal Reserve (§ 229.13 (ii)). In addition, if the check is in a foreign currency or drawn on a foreign bank, the collection process can become more complicated and can significantly delay the availability of funds. Moreover, if shipment is made before the check is collected, there is a risk that the check may be returned due to insufficient funds in the buyer's account or even because of a stop-payment order.

D-Wire Transfer: Most Secure and Preferred Cash-in-Advance Method

An international wire transfer is commonly used and is almost immediate. Exporters should provide clear routing instructions to the importer when using this method, including the receiving bank's name and address, SWIFT (Society for Worldwide Interbank Financial Telecommunication) address, and ABA (American Bankers Association) number, as well as the seller's name and address, bank account title, and account number. The fee for an international wire transfer can be paid by the sender (importer) or it can be deducted from the receiver's (exporter's) account.

2-When to Use Cash-in-Advance Terms

- The exporter operates an Internet-based business where the acceptance of credit card payments is a must to remain competitive.
- The importer is a new customer and/or has a less-established operating history.
- The importer's creditworthiness is doubtful, unsatisfactory, or unverifiable.
- The political and commercial risks of the importer's home country are very high.
- The exporter's product is unique, not available elsewhere, or in heavy demand.