



# **BOV** Bills for Collection

## Product Information Guide

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### General Product Information

Nowadays, access to credit ratings allow exporters to gain valuable information on their clients, especially in developed industrial countries, and although it is prudent to avoid risks and insist on payment in advance or by means of secure instruments such as Letters of Credit, a seller may accept other forms of bank payment. If exporters are satisfied with the credit standing of their customers and sovereign risk of the country, they may accept payment by means of a Bill for Collection.

A Bill for Collection usually comprises a set of commercial documents, such as bills of lading, invoices and packing lists which may or may not be accompanied by a financial document such as a bill of exchange or promissory note. The term "collection" applies to the handling (by banks) of documents, be they financial documents or commercial documents, on behalf of their customers. The documents must be handled in accordance with instructions received in order to obtain payment, either at sight or at usance.

Unlike the Letter of Credit, a Bill for Collection is not usually a guaranteed form of payment. In most cases, the exporter ships the goods and then produces all documents requested by the buyer and submits them to his banker with instructions to process same on collection basis through the buyer's bank.

Upon receipt, the buyer is notified and calls on his bank to settle the Bill for Collection. If the bill instructions call for release of documents against payment, the importer pays the agreed amount and the bank releases the documents. The importer's bank then channels payment to the exporter via their corresponding bank's network.

A Bill for Collection may also provide for documents to be released against acceptance of a Bill of Exchange or promissory note drawn on the buyer. Once accepted, it is retained by the buyer's bank until it is paid by the buyer on due date.

#### *Outward Bills for Collection (Bills for Collection Abroad)*

Outward Bills for Collection are also known as Bills for Collection Abroad.

If an exporter is comfortable with the standing and relationship of his client, he may wish to settle orders by means of bills for collection. Initially most exporters would rather insist on either payment in advance or letters of credit, being more secure. However these two options are not very popular with importers since they impose strains on their cash flows.

However an exporter may insist with the buyer to accept settlement by means of a Bill for Collection with extended credit terms only if the buyer's bank guarantees payment of the Bill of Exchange on due date. This is sometimes referred to as 'avalising the bill of exchange'. Although this option is less administratively cumbersome on the importer when compared with a letter of credit and the strict compliance rule, the importer must still procure a credit line from his banker to oblige.

Once agreed and accepted an exporter would be in a very good position to procure post-export finance from his banker at very good rates. The exporter would apply for a Bills Negotiated facility explained overleaf.

Exporters wishing to entrust their bankers with the collection of their export receivables by means of bills for collection will approach Bank of Valletta p.l.c. with a set of commercial documents that the importer requires to claim the merchandise and clear it through customs. The documents are submitted together with instructions on how the documents are to be released and the fulfilment of other conditions.

In a number of cases, it is advisable to rely on a Letter of Credit in order to ensure full and prompt payment for the goods being exported, especially if:

- The exporter is not sure of the importer's trustworthiness;
- The importer has a track record of delayed or dishonoured payments;
  
- The importer is located in a country that is deemed to be high-risk.

Customers wishing to discuss their options are welcome to contact the BOV Trade Finance specialists in order to request an appointment.

#### *Bills Negotiated Facility*

Exporting firms or companies seeking post-export finance against their exports may be offered a Bills Negotiated Facility which consists of bank advances against export collections at a tenor. In view of the risk element involved, usual lending considerations apply when sanctioning such

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facilities. Bank of Valletta relies on the drawees to meet their obligations upon maturity of the bill of exchange so a security margin on the bill's face value is applied.

### *Discounting*

BOV considers providing finance against export collection bills when:

- there is evidence of the movement of the related goods and a high probability that these will be paid, and therefore advances would be self-liquidating;
- BOV is in possession of an updated and acceptable Banker's status report on the credit-worthiness of the importer;
- BOV is immediately informed if the Bill of Exchange is dishonoured and, therefore, advances are being monitored;
- BOV opts to advance against individual export collections since payment or non-payment of collections can be monitored on a transaction-to-transaction basis.

Potential customers intending to make use of this facility will submit details about the importer to enable the Bank of Valletta to obtain a status report from the drawee's bankers.

The Bank may also consider:

- A right of recourse to the exporter;
- A pledge of export collections as a pre-requisite for making advances against the security of collection bills. The Bank may wish to establish an interest in the underlying goods, since the sale proceeds of the goods provide the means to repay the advances.

Finance against collection bills will be more favourably considered when export collection bills:

- are "avalised" or guaranteed by the importer's bank, and
- relate to exports covered by export insurance.

### *Inward Bills for Collection*

The same service is provided for importers, customers of the bank. An importer who opts for bills for collection to settle his imports would have to provide his counterparty with details of his bankers in Malta.

The supplier may or may not use the services of his banker to send the documents on collection basis. He may opt to send the documents directly to us, saving on the charges of his banker. As in outward bills for collection the supplier has to provide clear instructions to the collecting bank to ensure that the payment is collected and relayed within the shortest possible time.

## The Benefits

- Bank of Valletta plc provides a very efficient collection service freeing valuable administrative time for their customers when they handle their bills for collection.
- Bank officials handling bills for collection are highly trained in a Centralised Unit and can advise our clients on the various aspects of a bill for collection.
- The Bank of Valletta plc and its international bank network ensure that collections are handling with the highest level of professionalism and confidentiality.
- An exporter can still exercise a high degree of control over the goods he is exporting through the shipping documents even if the collection remains unpaid.

Importers find that the bank can save them valuable time and effort when settling their dues and more importantly can rely on the integrity and experience of the bank and its correspondents when sorting out problems that come up during their trade cycle.

Bills for Collection provide benefits to both importer and exporter:

### *Benefits of Outward Bills for Collection (Abroad)*

- If the standing of the client is satisfactory, a Bill for Collection is significantly cheaper than a Letter of Credit when used to settle trade transactions;
- Both exporter and importer banks act as agents for the exporter to trace and collect payment from the importer;
- Control of the goods exported is retained by the exporter, even when they are paid by the buyer;

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- Since the bills of exchange can be discounted at very good rates, post-export finance may be obtained by the exporter if the standing and reputation of the buyers is beyond repute;
- Bills of Exchange duly guaranteed by the importer's bank can provide the exporter with very competitive and flexible post shipment finance facilities.

### *Benefits of Inward Bills for Collection (Foreign)*

- Goods are shipped to the importer without pre-payment or guarantee of payment;
- Payment is only effected after satisfactory documentary evidence is provided for shipment of goods;
- Collecting (importer's) banks can effect payment only after settlement by the buyer.

### *Terminology*

- **Clean Bill** - collection containing only a bill of exchange or promissory note.
- **Cheque collection** – cheques which cannot be cleared through normal clearing methods and that are subsequently forwarded for collection.
- **Do not waive local charges** - bank's charges to be paid by the importer. The remitting bank is to receive the full collection amount without any deductions.
- **Do not waive foreign charges** - exporter's bank is claiming its charges from the importer's account.
- **Protest instructions** - in case of non-payment or non-acceptance (as stated in the collection), the bank will organise the protest of collection within 24 hours, and a notary will contact the importer to effect a deed of protest.
- **Pour Aval** - In case of an acceptance bill, the importer's bank is to issue a guarantee of payment on due date by endorsing the accepted bill of exchange. Release of documents is subject to the bank issuing such a guarantee.

### *Definitions*

- **Financial Documents** - bills of exchange, promissory notes, cheques, or other similar instruments used for obtaining the payment of money.
- **Commercial Documents** - documents of commercial value, excluding financial documents, and may include invoices, transport documents, packing lists and certificates of origin, amongst others.
- **Clean Collection** - collection containing exclusively financial documents, which are not accompanied by commercial documents.
- **Principal** - the party who has entrusted the collection to the bank, usually the exporter who is shipping goods to a foreign company.
- **Remitting Bank** - the bank commissioned by the principal to handle the collection. This is usually the exporter's banker.
- **Collecting Bank** - any bank, other than the remitting bank, involved in the processing of the collection.
- **Presenting Bank** - the Bank which effects the presentation of the collection to the drawee, usually the importer, who is the person to whom the presentation is to be made as per collection instructions.

## Frequently Asked Questions

The following questions and answers are frequently asked of our Trade Finance specialists. We hope that you will find them helpful and informative; if you don't find the answer to your question, please feel free to call our BOV Trade Finance Centre on telephone number 2275 5267.

### *Outward Bills for Collection (Abroad)*

#### *The Collection has been paid via alternative channels. May I collect my documents?*

Documents cannot be collected if the alleged method of payment does not comply with the collection terms. It is only after authorisation from the remitting bank, that documents can be delivered free of payment.

#### *What happens if I don't pay the Bill immediately?*

Bank of Valletta is required to keep overdue bills for 60 days beyond due date. If the bill remains unpaid, then BOV will return the documents to their origin to the Bank of Valletta's complete discharge.

#### *I have received defective goods. Can I refuse payment?*

The Bank deals in documents only, not goods. Any differences between drawers and drawees are to be settled directly between the parties concerned. Bank of Valletta will continue to expect payment, unless it is instructed otherwise by the remitting bank.

### *Inward Bills for Collection (Foreign)*

#### *Can I request a deduction from the collection amount?*

You would first need to state the reason for this deduction. If you are in possession of a credit note, or have received defective or missing goods, or you agreed on a discount with your supplier which is not mentioned in the collection document, you will need to present evidence to support your request, for example, the original credit note. You will also need to request that your suppliers inform their bankers in order to expedite matters. The BOV Trade Finance Centre will, in turn, contact the remitting bank for verification.

Exceptionally, the BOV Finance Centre may authorise deductions prior to receipt of instructions from the remitting banks, in which case the Bank is covered through an indemnity for the deducted amount, which you will sign. No indemnity is required should the remitting bank have already provided amended instructions covering the deduction.

#### *I am receiving reminders for Bills that I have already paid. What do I do?*

If you have requested the release of documents free of payment, and BOV is still awaiting reply from the remitting bank, then the Bank's automated system will flag the bill as unsettled and continue to generate automatic reminders.

You can urge your suppliers to inform their bankers accordingly, so that BOV will receive their authorisation to release documents free of payment as quickly as possible.

If the collection has been paid by other means, such as a SWIFT payment or through another financial institution, you will need to provide evidence of payment. Please be aware that you may still be liable to pay collection charges as per Bank's official tariff, should BOV be unable to collect the said charges from the remitting Bank.

It is recommended that the method of payment be agreed upon when contracting the transaction. If the parties concerned agree to settle their trade exchange on a collection basis, then they are not expected to pay direct on "open account" terms.

#### *The Payment has been effected via alternative channels. May I collect my documents?*

Payment outside collection terms is inadvisable. However, when this is absolutely necessary, you will need to provide the Bank with evidence of the payment. BOV will, in turn, quote these details when requesting release of documents free of payment from the remitting bank.

You will also need to urge your suppliers to inform their bankers accordingly. However, please be aware that should BOV be unable to recover its charges from the remitting bank, these will be charged to your account.

Once authorisation to release documents has been received, you may take collection of the documents.

## Your Checklist

A Bill for Collection goes through various stages:

### *The process*

- 1) Both importer and exporter agree that payment covering their business deal will be effected through a Bill for Collection.
- 2) The importer informs the exporter about details of his bankers, and they determine the terms of the collection.
- 3) The exporter ships the goods and obtains the necessary agreed documents from the shipper, insurance company, Chamber of Commerce, etc.
- 4) The exporter hands over the documents and instructions to his bankers.
- 5) The exporter's bank receives instructions from the exporter, checks that the documents are in order and sends them by mail or courier to the importer's bankers.
- 6) The importer is advised of receipt of the documents by his bankers.
- 7) In the case of a sight bill, the importer pays for the goods upon receipt of documents, which his bankers deliver upon payment.
- 8) In case of an acceptance bill, the importer receives the documents after signing a bill of exchange or a promissory note, which is to be paid on due date.
- 9) Upon payment of the collection, the importer's bank transfers funds via SWIFT to the exporter's bank.

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10) Upon receipt of the SWIFT advice from the importer's bank, the exporter's bank credits the exporter's account.

### *Urgent Bills*

First contact your BOV branch and advise your Relationship Officer of the urgency of the situation with the following details:

#### *Bills Payable at Sight*

A debit authority for the Collection and details of the person collecting the documents on behalf of the company, including name and ID card number.

### *Documents to be Released against Acceptance*

- Details of who will collect the documents, including name and ID card number, and specify whether the said person is authorised to sign on behalf of the company and/or whether the said signatory is authorised to sign as a sole signatory for the company.
- If the collector is not a signatory, release of documents, including the bill of exchange to the collector will be at the discretion of Bank of Valletta p.l.c. The bill of exchange will then be signed by an authorised company official and returned to the branch.
- Upon signature of the bill of exchange, Trade Finance will fax the bill of exchange for authentication of the signature.

### *Protest Instructions*

Protest instructions need to be registered within 24 hours of a bill falling due.

### *The process*

- 1) The Bank is obliged to carry out protest instructions as instructed by the remitting bank.
- 2) The Bank commissions a Notary Public to affect the protest.
- 3) The notary collects the bill of exchange.
- 4) The notary calls on the drawee, requesting payment or reasons for non-payment/acceptance.
- 5) The notary returns the bill of exchange to the Bank, together with the protest deed.
- 6) The Bank recovers all charges related to the protest deed.

### *Pour Aval*

A Pour Aval applies only to collections sent on acceptance terms.

### *The process*

- The Bank issues a guarantee of payment on due date by endorsing the accepted bill of exchange. Release of documents is subject to the Bank issuing such a guarantee.
- Prior permission should be sought before the Bank receives a collection on such terms.
- Once the drawee signs the bill of exchange, the Bank issues the guarantee. ▪ Adequate security on the collection amount is to be taken.
- An avalised bill constitutes a liability to the Bank, and is to be paid irrespective of whether the drawee has sufficient funds or not.

## Your Next Step...

For more information or to request any Trade Finance service, please feel free to call our BOV Trade Finance Centre on telephone number 2275 5267.

## Important Information

Bank of Valletta p.l.c., (Bank or BOV) is committed to providing you with sufficient information that helps you to make informed decisions in relation to the acquisition of BOV products and services. We strongly recommend that you read this Product Information Guide carefully, and that you keep a copy of it for your reference.

## BOV Bills for Collection

If you would like to have anything in this Guide clarified, please feel free to contact us by e-mail to [customercare@bov.com](mailto:customercare@bov.com), or by calling our BOV Customer Service Centre on 2131 2020.

Throughout this Guide: the terms '**we**', '**us**' or '**our**' refer to BOV and each of our subsidiaries and associated companies, the issuer of the product or service; when we use the term '**you**' we mean you as the user of BOV products or services; when we refer to '**customer(s)**' we mean you or other user(s) of BOV products or services as applicable.

The Bank's Base Rate (BBR) means the basis, established by the Bank from time to time, on which the rate of interest payable generally on all Bank lending is determined. The current Bank Base Rate can be obtained either by visiting any BOV branch, or by calling our Customer Service Centre on 2131 2020 or through our website – [www.bov.com](http://www.bov.com).

Information contained in this Guide is subject to change from time to time and is up to date as at the stated Issue Date. BOV has no obligation to update, modify or amend this Guide or otherwise notify you of any change or revision.

The information provided in this Guide is general in nature and does not take into account your financial situation or investment requirements. Nothing in this Guide should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment, product or service or to engage in any other transaction, or to provide any investment advice or service. Nothing contained in this Guide constitutes investment, legal, tax or other advice and is not to be relied on in making an investment or other decision. You should obtain relevant and specific professional advice before making any investment decision.

This Guide is designed for use in Malta and is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this Guide or such distribution or use would be contrary to local law or regulation. If you choose to use this Guide, it is your responsibility to comply with the applicable local, national or international laws and any use of this Guide outside Malta is entirely at your own risk. For guidance relating to your specific situation, please contact your legal adviser.

Use of BOV Products and Services is governed by the terms and conditions applicable once you sign the relevant application form and conditions.

Any complaints regarding the product or service should ideally be first discussed with an official of the Unit where the transaction took place or where the account is domiciled. If the response is not satisfactory, one may:

- contact the Bank's Customer Service Centre on 2131 2020; or
- write to The Manager, Customer Issues, Bank of Valletta p.l.c. 4<sup>th</sup> Floor, 45 Triq ir-Repubblika, Il-Belt Valletta, VLT 1113 - Malta; or
- complete a Bank's complaint form available in electronic format on our website – [www.bov.com](http://www.bov.com) via 'Get in Touch'.

In the event that you are still not satisfied with the Bank's reply or no agreement was reached with the Bank, you may refer the matter in writing to the Office of the Arbitrator for Financial Services, as per the contact details provided below:

The Office of the Arbitrator for Financial Services, First Floor, Pjazza San Kalcidonju, Floriana FRN 1530, Malta.

Further information may be obtained through the official website: [www.financialarbitrator.org.mt](http://www.financialarbitrator.org.mt); Freephone (local calls): 8007 2366 and Telephone: 2124 9245.

## Our Interest Rates

Interest Rates on peripheral products affiliated with this service may incur their own rates. Please refer to our BOV Website for updated information, or contact any BOV Branch or our BOV Customer Service Centre on 2131 2020 for additional information.

## Our Fees and Charges

Fees and charges may change after this product has been acquired and peripheral products may incur their own costs. Such costs are to be charged as per the Tariff of charges issued by the Bank from time to time in relation to its products and services and which is available at the branches of the Bank, on the website [www.bov.com](http://www.bov.com) or by calling the Bank's Customer Service Centre on 2131 2020.

## Important Information relating to the issuance of Bills for Collection

Bank of Valletta p.l.c., observes the ICC Uniform Rules for Collections 522 published by the International Chamber of Commerce when processing Bills for Collection. Please read the following related information:

### *Foreign deductions*

URC 522 states that: "In respect of documentary collections, partial payments will only be accepted if specifically authorised in the collection instruction. However, unless otherwise instructed, the presenting bank will release the documents to the drawee only after full payment has been received, and the presenting bank will not be responsible for any consequences arising out of any delay in the delivery of documents".

### *Partial Payments*

ICC Uniform Rules for Collections 522 – Article 19 states "In respect of clean collections, partial payments may be accepted if and to the extent to which and on the conditions on which partial payments are authorised by the law in force in the place of payments. The financial documents(s) will be released to the drawee only when full payment thereof has been received".

"In respect of documentary collections, partial payments will only be accepted if specifically authorised in the collection instruction.

However, unless otherwise instructed, the presenting bank will release the documents to the drawee only after full payment has been received, and the presenting bank will not be responsible for any consequences arising out of any delay in the delivery of documents".

### *Deductions from the collection amounts*

The right of recourse to the exporter is stated in the Bank's standard terms and conditions (Form LEG 17) which are signed by the export customer and include a pledge clause whereby the exporter undertakes to pledge all bills and documents to the Bank.

### **CBM Directive No. 14 – Central Credit Register**

In line with Directive No. 14 issued by the Central Bank of Malta relating to the establishment of a new Central Credit Register, information related to all your credit facilities in excess of €5,000 (if any) will be made available to the Central Bank for inclusion in this Register. In terms of this Directive, all banks in Malta are legally obliged to provide to the Central Bank all the necessary information on a monthly basis.

The credit facilities reportable for the purposes of this Register include loans, overdrafts, commitments, credit cards and other credit lines which are deemed to represent a credit exposure.

Access to the Register, which will be operated through a fully auditable system on the CBM portal, will be strictly limited to banks in Malta, whilst customers themselves, or their lawful representatives, may also request to exercise the right to have an extract of the information held on them on the Register.