



**BEST FORMS OF MONEY  
TRANSFER AND  
PAYMENT CONDITIONS**



**BEST FORM FOR  
MONEY TRANSFER**

# FORMS OF MONEY TRANSFER

## ❑ INTRODUCTION:

- ❖ Sending or receiving money for either payment of salaries, settlement of business transactions, payment of school fees, or for family support is common both for businesses and individuals. It requires efficient, reliable and affordable money transfer services whereby money can be deposited in one location and withdrawn in another in both urban and rural areas.
- ❖ One of the major functions of the bank is the transfer of funds both domestically and internationally. This function is practice by banks worldwide. In either case the following methods are used: -

# FORMS OF MONEY TRANSFER

- CHEQUE
- BANK DRAFT AND MONEY ORDER
- MAIL TRANSFER (MT)
- TELEGRAPHIC TRANSFER (TT)
- AN ATM/DEBIT CARD

# FORMS OF MONEY TRANSFER

## 1. CHEQUE:

- Is an unconditional order payable on demand. The customer's own cheque is using in settlement of a debt in International. While this is common for local payments it is not a convenient method on International trade.

## o Risks:

There is no certainty of payment. This means that when the cheque is sent for collection it may not be paid for some technical or regal reasons or simply because of lack of funds.

## o Expense:

Because the cheque will have to be sent through the bank for collection, costs will be involved and the supplier will have to pay them.

# FORMS OF MONEY TRANSFER

## Cheque cont...

### o Time:

The cheque is not likely to be negotiated by the supplier's bank because it is drawn on unknown person. Therefore it will be sent for collection and this will take some days or weeks, even months in some cases before its fate is known.

o A cheque could equally be lost in transit.

# FORMS OF MONEY TRANSFER

## 2. Bank draft and Money Order:

- Drafts and international money orders are like cheques (“checks”) that are payable to a named recipient.
- Unlike personal or business cheques, they are issued on behalf of a sender, by banks and some specialist money transfer service providers and their agents, which include some credit unions and some post offices.
- A draft is in effect a bank cheque, or cashier’s cheque. The sender usually pays for a draft or an international money order with cash or EFT.
- A draft or international money order is a paper document which is usually posted or couriered to a recipient, who usually signs it before lodging it with their bank.
- A draft or international money order must be deposited into the recipient’s bank account, usually. Senders and recipients should check that a draft or international money order from a particular bank

## FORMS OF MONEY TRANSFER

### 2. Bank draft and Money Order: Cont.....

- ❑ Senders and recipients should check that a draft or international money order from a particular bank or other service provider, in a proposed currency, is readily acceptable at the recipient's bank.
- ❑ Here a draft refers to an international draft that is payable "on sight" ("on demand") at a bank, and commonly officially described by banks as a "sight draft" or "demand draft".
- ❑ The other common type of international draft is the "time draft", which is typically used in international trade and is payable when proof is presented to the recipient's bank that something has happened, such as the arrival of goods, and it is not usually used for sending money overseas to relatives, friends, etc.
- ❑ International money orders are sometimes known as international postal orders, and international postal money orders.)



# FORMS OF MONEY TRANSFER

## 2. Bank draft and Money Order: Cont.....

### ❖ Advantages

- ❑ Drafts and international money orders are good, low cost options and is advisable to use if,
  - ❑ the transfer is not urgent,
  - ❑ the recipient has a bank account, and
  - ❑ is readily acceptable at the recipient's bank.
- ❑ International money orders are often cheaper than drafts
- ❑ For the sake of security, the sender should keep a receipt and details of the draft or international money order's number, date of issue, etc

### ❖ Disadvantages:

- ✓ The remitter is debited at the time the draft is issued, but he has to mailing it to the beneficiary and therefore causing a delay before the beneficiary can obtain cleared funds. It is therefore a slower method.
- ✓ If the beneficiary does not bank at the bank on which the draft is drawn, the funds will have to be cashed and sent off to the beneficiary.

# FORMS OF MONEY TRANSFER

## 3. Mail Transfer (MT)

- ✓ A customer instructs his bank by filling in the necessary application forms to remit a payment in foreign currency to a specified beneficiary either to the credit of his account with the bank abroad or with an instruction to a bank to notify and pay the beneficiary. These are payment order in writing, but they have to be authenticated by authorized signatories at the remitting bank.
- ✓ Which instructs the correspondent bank to pay a sum certain of money to the beneficiary.
- The instructions that the remitting bank will require on the application form are:
  - ✓ The name of the beneficiary;
  - ✓ The amount in foreign currency;
  - ✓ Beneficiary's account number, and branch of his bank.
  - ✓ An indication as to who is to pay charges for the transfer i.e is they to

# FORMS OF MONEY TRANSFER

## 3. Mail Transfer (MT) Cont...

- ✓ Usually importer's banks will send an authenticated message of transfer by mail through the post.
  
- **Advantages of MT :**
  - Payment is inter-bank, then secure, the funds cannot be easily stolen.
  - Instruction can be given in most currencies.
  - No limit on the amount.
  - Documents can be attached to the payment.
  
- **Disadvantages MT:**
  - There is always the danger that the instructions itself could be lost in the post
  - It is slow.

# FORMS OF MONEY TRANSFER

## 4. Telegraphic Transfer (T.T) [Wire Transfer]

- ✓ A wire (also known as a “telegraphic transfer”, “TT”, “EuroGiro”, or a “Swift”) is similar to a normal EFT to a recipient’s bank account. Some banks will send wires in cases where the sender and / or the recipient do not hold an account with them; in such cases the recipient usually picks up the cash in person, at an overseas branch of the same bank at which the wire was sent
- ✓ The sender pays a bank, post office, or specialist international money transfers service provider or their agent, to send a wire to the recipient on his or her behalf. The sender usually pays for the wire with cash or via EFT or instructions to debit their account.
- ✓ The sender must provide the transfer service provider with the name of the recipient, the recipient’s account number (usually), the recipient’s bank’s Swift address, or BIC (Bank Identifier Code), or EuroGiro address, and other required recipient account details

# FORMS OF MONEY TRANSFER

## 4. Telegraphic Transfer (T.T) [Wire Transfer]

### ■ Advantages of TT :

- ❖ Payment is quicker/fast.
- ❖ More secured.
- ❖ Reliable/efficient.
- ❖ Convenient.

### ■ Disadvantages of TT :

- ❖ More expensive.

# FORMS OF MONEY TRANSFER

## ▪ SWIFT

- Of recent, messages are being sent through SWIFT (Society Worldwide Interbank Financial Telecommunications).
- ❖ Most important communications network for International transactions between major banks.
- ❖ Owned more than 90000 members (banks).
- ❖ Uses the computer systems of the participating banks.
- ❖ Each user of the SWIFT network has a unique code which provides immediate transmissions in specific message formats between banks.
- ❖ **Advantages of SWIFT :**
- ❖ Secure, safe, and accurate, speedy and minimum errors.
- ❖ Virtually impossible to send fraudulent message.
- ❖ Provide almost unlimited capacity to transmit information i.e foreign exchange transactions, payment confirmations.

## 5. An ATM card/debit card

- **Debit cards are used to send money overseas in the following way: an account, to which a debit card is linked, is credited with funds by a sender in one country, and the card is then used by a recipient in another country to withdraw those funds at an ATM (Automatic Teller Machine), in the local currency. (Also, ATMs exist in some countries which dispense non-local currencies. but this is rare.)**
- **Debit cards are often given other names, e.g. ATM card, cash card, gift card, bank card, or check card, but it is important to note that : Debit cards should not be confused with credit cards, as credit cards are not linked to accounts with funds in them, and credit cards are not normally used to receive money sent from overseas. However credit cards and debit cards are often used by senders when paying to send money abroad.)**

### 5. An ATM card/debit card Cont.....

- A debit card must work with one of two international ATM networks, in order to be used for receiving money sent from overseas. Those networks are (1) Visa / PLUS, and (2) MasterCard / Maestro / Cirrus, with over 800,000 ATM's each in over 120 countries.
- ATMs display logos which indicate the networks to which they are linked.
- Advantages
  - Once set up, receiving money sent from overseas with a debit card can be reasonably quick.
  - With most debit card money transfer options, the recipient does not even need to have a bank account.
  - The exchange rates are usually excellent as Visa and MasterCard use rates based on the interbank rates



# FORMS OF MONEY TRANSFER

## 5. An ATM card/debit card Cont.....

### Tips:

- ❑ ATMs in some countries can only process a PIN (Personal Identification Number) that has four digits (numbers), and do not have alphabetical keypads. So, if you are in any doubt about the characteristics of the ATMs in the country to which the funds will be withdrawn, the PIN should be created in, or altered to, a four digit format. That usually has to be done in the country in which the card was issued.
- ❑ If recipients withdraw the largest amounts possible from ATMs, costs will be kept down as there will be fewer ATM transaction fees.
- ❑ Sometimes a recipient cannot do a debit card account balance enquiry online, or at an overseas ATM. Therefore, when making a withdrawal, the recipient should use the ATM's docket printout option in order to keep track of the account balance.
- ❑ In some cases, the recipient can make account enquiries by phone. Also, in order to assist a recipient keep track of balances, a sender should always inform the recipient about a transfer once it has actually been made, not just that it is going to happen.
- ❑ Some debit cards can be used to make purchases in shops, restaurants, etc., but it is not advisable to use them that way if you want to keep an exact track of the account balance, and avoid possible penalty charges due to negative balances. That is because purchase transaction processing is sometimes delayed, thus giving a false balance on the card account until the purchase is debited.



**PAYMENT CONDITIONS**

## **PAYMENT CONDITIONS**

**TRADE INVOLVES BUYERS AND SELLERS  
SEEKING TO EXCHANGE GOODS AND/OR  
SERVICES DESPITE THEIR DIFFERENCES  
IN LANGUAGE, NATIONAL CUSTOM, CREDIT**

# **PAYMENT CONDITIONS**

**PAYMENT CONDITIONS REFERS TO THE WAY WITH WHICH THE SELLER WILL BE PAID BY BUYER AND REFLECTS THE EXTENT TO WHICH THE SELLER REQUIRES A GURANTEE OF PAYMENT BEFORE HE LOSES CONTROL OF THE GOODS.**

# **PAYMENT CONDITIONS**

**THERE ARE FOUR TERMS OF PAYMENT THAT ARE USED UNDER INTERNATIONAL TRADE**

- **OPEN ACCOUNT**
- **ADVANCE PAYMENT**
- **DOCUMENTARY COLLECTIONS**
- **LETTERS OF CREDIT**

# PAYMENT CONDITIONS

## 1. OPEN ACCOUNT

Here the seller dispatches the goods and trusts that the buyer will pay as per agreed terms perhaps immediately or after sometimes from shipment date

- **Risks:**

- ❖ Buyer may delay payments
- ❖ Buyer may run into financial difficulties and will be unable to pay
- ❖ Country risk (may have limited access to FX due to local conditions)

- **Advantages to the buyer:**

- ❖ The buyer pays for the goods or services only when they are received and/or inspected.

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# PAYMENT CONDITIONS

## 2. ADVANCE PAYMENT

- Advance payments is the opposite of Open account trading the buyer must pay first and then the seller ships the goods
- **Risks:**
  - The seller may ship the the goods late
  - Seller may supply inferior goods
  - The seller may decide not to ship at all
- **Applicable where:**
  - The buyer can not supply evidence of creditworthiness
  - It is a new business
  - The buyer country is not considered creditworthy



# PAYMENT CONDITIONS

## 3. DOCUMENTARY COLLECTIONS

- An arrangement whereby the goods are shipped and the relevant bill of exchange (draft) is drawn by the seller on the buyer, and/or document(s) is sent to the seller's bank with clear instructions for collection through one of its correspondent bank located in the domicile of the buyer.
- In documentary collections the banking system acts on behalf of the exporter. The whole process can be summarized as:
  1. The exporter having received and agreed to the order made by the buyer ships the goods.
  2. Then commercial documents (including shipping documents) are sent via exporter's bank to a bank in importer's country

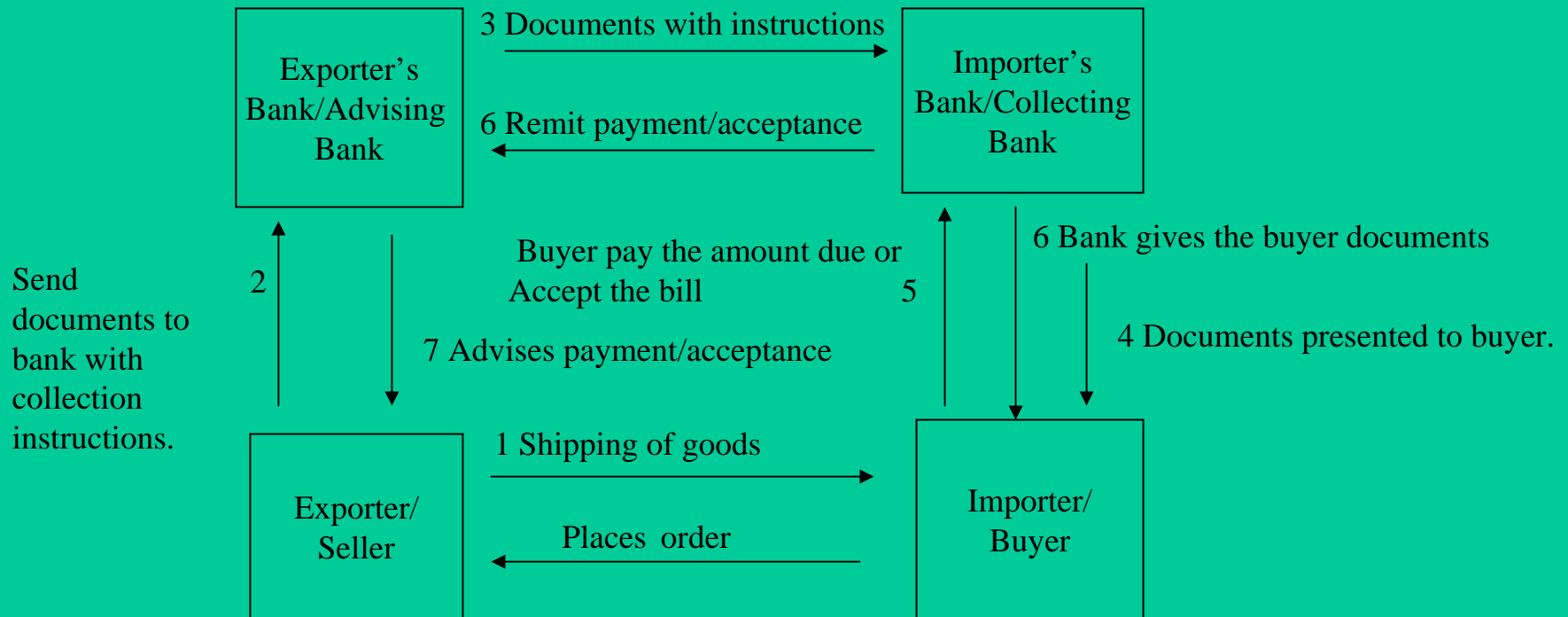
## **PAYMENT CONDITIONS**

- 3. A bank in the importer's country present documents to importer**
- 4. The buyer pays the amount due.**
- 5. The bank gives the buyer the documents**

**This can be illustrate as follows:**

# PAYMENT CONDITIONS

## Documentary Collection cont...



# PAYMENT CONDITIONS

- **Documentary Collections cont...**

- **Risk:-**

<b>To buyer</b>	<b>To seller</b>
➤ <b>Inferior goods</b>	> <b>Buyer refuses to collect docs</b> > <b>Country risk</b> > <b>Insolvent buyer</b>

# PAYMENT CONDITIONS

## 4. LETTER OF CREDIT.

- **Definition:**
- A Letter of credit or documentary credit is an undertaking issued by a Bank by order of Applicant or its own account, to pay the Beneficiary the value of the draft and/or documents provided that the terms and the conditions of the letter of credit are complied.
- Letter of credit substitutes the bank's creditworthiness for that of the Applicant.
- In broad sense, a Letter of Credit is simply a letter of instruction issued to a beneficiary (Seller) by a Bank at the request of its customer (Buyer).

# PAYMENT CONDITIONS

## Open account cont..

- **Is applicable where.**
  - ❖ Buyer can show creditworthiness, or
  - ❖ There is existing successful credit relationship, and
  - ❖ Buyer's country is creditworthy

If the event of the buyer not paying according to the sales contract. The seller's only option is to take the buyer to the court, is a slow expensive and and uncertain process, and no use at all if the buyer has no money.

# **PAYMENT CONDITIONS**

- **In narrow sense, it is a specialized, technical instrument used to pay for a shipment of goods or services from one party to another.**

# PAYMENT CONDITIONS

- **LETTER OF CREDIT**

- **Why go for letters of Credit?:**

- Advantages to Buyer

- i. The Buyer is assured that its bank will refuse payment to seller unless the seller's documents comply with the terms and conditions of the letter of credit.
- ii. If the seller is willing to grant extended terms to the buyer, the buyer may arrange for letter of credit which is payable at future date ( I.e. 60 or 90 days after presentation of documents).
- iii. Through the use of Banker's Acceptance, a buyer who has purchased goods under Letter of credit may finance the goods until they are marketed.
- iv. Thru' the documents called for, the buyer can seek to minimize the risks in not receiving the goods ordered. The Buyer may also impose conditions on the manner and dates in which the goods are to be shipped.



# PAYMENT CONDITIONS

- **LETTER OF CREDIT**

- **Risk to buyer:**

In letters of Credit, banks deal only with documents and not goods. The merchandise might not be as it is represented in the documents.

## Advantages to Seller:-

- i. The seller may rely on a bank's creditworthiness rather than the buyer's. The seller is confident when there is a bank's commitment to pay upon presentation of complying documents.
- ii. The seller can reduce the risk that payment for the goods will be delayed or otherwise jeopardized by political or foreign exchange problems in the buyer's country.

# PAYMENT CONDITIONS

- **LETTER OF CREDIT.**
  - iii. The seller may be able to obtain financing for the purchase or manufacture of goods that will be shipped under the letter of credit.
  - iv. Under banker's acceptance financing, the seller may receive funds shortly after shipment despite having granted credit terms to buyer, or the seller may receive funds prior to export.

## Risk to Seller

- i. The seller's documents must comply strictly with the terms and conditions of the Letter of credit to entitle the seller to payment
- ii. The seller is exposed to commercial risk that the bank providing its undertaking is willing but unable to perform

# PAYMENT CONDITIONS

The seller assumes any political and foreign exchange risk affecting the issuing bank's obligation.

## Contracts involved

- Sales Contract: A contract between a buyer and seller
- Application and agreement for Letter of Credit: a contract between the applicant (buyer) and its bank
- Letter of Credit: a specialized form of undertaking from the bank to beneficiary (seller)

## Letter of Credit is not however,

- Unconditional guarantee of payment to anyone
- It is not a promise that the goods described in in the presentation documents have, in fact, been delivered. Banks deal with documents not goods

# PAYMENT CONDITIONS

- **Basic Information from Applicant.**

- ✉ Name of the Applicant, beneficiary & advising thru', or Negotiating bank (if any) with their respective addresses.
- ✉ Amount (specific or about)
- ✉ Expiry date and Latest shipment date
- ✉ Payment conditions. (Sight, Usance, Differed)
- ✉ Brief description of the merchandise
- ✉ Required documentation
- ✉ Presentation period.
- ✉ Shipment terms (incorterms -FOB, CFR, CIF, etc)
- ✉ Confirmation Instructions.
- ✉ Additional Details (if any).
- ✉ Parties responsible for Applicable charges

# PAYMENT CONDITIONS

- **LETTER OF CREDIT.**

## TYPES

All letters of Credit are issued in either a “ Revocable” or “Irrevocable” form and are either “Unconfirmed” or “Confirmed”, payable at “Sight” or “Usance”

### **Revocable Letter of Credit:**

Revocable Letter of credit may be canceled or amended by Issuing Bank any time with or without prior Notice to, or agreement of, the beneficiary.

### **Irrevocable Letter of Credit**

An Irrevocable Letter of Credit cannot be amended or Canceled without the agreement of the Issuing Bank, the confirming Bank (if the letter of credit is confirmed), and the Beneficiary

# PAYMENT CONDITIONS

## TYPES

### **Unconfirmed Letter of Credit**

Is a Letter of Credit which the Advising Bank merely Advises beneficiary the undertaking from Issuing Bank without any engagement. Beneficiary will rely on the commercial stability of the issuing Bank and the Political and foreign exchange stability of an Issuing Bank particular when the bank is in another country.

### **Confirmed Letter of Credit:**

Is the Letter of Credit which a Bank other than issuing bank (usually) in the beneficiary country gives its own payment undertaking in addition to that given by the Issuing Bank (Such undertaking protect beneficiary against country risk).

# PAYMENT CONDITIONS

- TYPES

## **Sight payment:**

This is when a letter of credit calls for the presentation of sight draft under which the beneficiary drawer/ (Exporter) is entitled to receive payment at once i.e on presentation of the draft accompanying with shipping Documents strictly in conformity with the LC terms.

## **Acceptance Payment.**

This is when the sellers have allowed a period of credit to the buyers. Usually this will call for the beneficiary/ seller a bill of exchange drawn at specified tenor (30 days ,60 days,120 days etc.) and drawn on a named party. Normally the draft is drawn on the confirming bank that has the liability to pay. In one way it is a way of offering credit to the buyer / applicant.

# TYPES

## **Differed payment:**

Not all credits which provide for payment other than sight call for presentation of a bill of exchange. In some Countries there are heavy stamp duty applied to bills, this may be dispensed by replacement with an undertaking to pay after expiry of a certain period. i.e the beneficiary will submit documents to his bank and payment will be done at some specified future date.

## **Special Types**

- i. Revolving Letters of Credit.
- ii. Standby Letter of Credit (SBLC)
- iii. Red Clause Letters of Credit
- iv. Transferable Letter of Credit
- v. Back-to-back Letters of Credit



- Thank you AND

THANK YOU