Chapter 2
Cash-in-Advance

With the cash-in-advance payment method, the exporter can avoid credit risk or the risk of non-payment since payment is received prior to the transfer of ownership of the goods. Wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. However, requiring payment in advance is the least attractive option for the buyer, because it tends to create cash-flow problems, and it often is not a competitive option for the exporter especially when the buyer has other vendors to choose from. In addition, foreign buyers are often concerned that the goods may not be sent if payment is made in advance. Exporters who insist on cash-in-advance as their sole method of doing business may lose out to competitors who are willing to offer more attractive payment terms.

Key Points

- Full or significant partial payment is required, usually through a credit card or a bank or wire transfer, before the ownership of the goods is transferred.
- Cash-in-advance, especially a wire transfer, is the most secure and favorable method of international trading for exporters and, consequently, the least secure and attractive method for importers. However, both the credit risk and the competitive landscape must be considered.
- Insisting on cash-in-advance could, ultimately, cause exporters to lose customers to competitors who are willing to offer more favorable payment terms to foreign buyers.
- Creditworthy foreign buyers, who prefer greater security and better cash utilization, may find cash-in-advance unacceptable and simply walk away from the deal.

CHARACTERISTICS OF CASH-IN-ADVANCE

Applicability

Recommended for use in high-risk trade relationships or export markets, and ideal for Internet-based businesses.

Risk

Exporter is exposed to virtually no risk as the burden of risk is placed nearly completely on the importer.

Pros

- Payment before shipment
- Eliminates risk of non-payment

Cons

- May lose customers to competitors over payment terms
- No additional earnings through financing operations

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 Banking Association) number, as well as the seller's name and address, bank account title, and account number. This option is more costly to the importer than other cash-in-advance options as the fee for an international wire transfer is usually paid by the sender.

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 consumer goods or small 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 endure the fees charged by credit card companies and take the risk of unfounded disputes, credit cards may help business grow because of their convenience.

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

Advance payment using an international check may 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 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.

When to Use Cash-in-Advance Terms

- 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.
- The exporter operates an Internet-based business where the acceptance of credit card payments is a must to remain competitive.