outward

INTERNATIONAL ESCROW – A PAYMENT SERVICE THAT PROTECTS

Importer Guide to reducing delivery risk in International Trade

Customer Presentation

Sept-19

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Purpose of this presentation

To assist you to be a successful importer by providing information to help you to ensure you receive the goods you have paid for

Topics covered:

1. Payment and delivery risk
2. ‘Big Picture’ points for consideration
3. Key points to consider before confirming a payment method
4. Methods of payment for cross boarder transactions

If you have any questions please email help@outward.co.nz

Payment and Delivery Risk in International Trade

- International trade brings new opportunities as well as new risks
- Payment and delivery risk refers to the chance that a counterparty may not fulfill its side of the trade agreement by failing to deliver the underlying product or paying for the goods
- The cross boarder nature of global trade increases this risk, as disputes are harder and more costly to resolve
- Other risks include:
  - Quality of goods
  - Fraud
  - FX
  - Sovereign
  - Shipping and Transit
  - Customs and Documentation
  - Product Liability
  - Intellectual Property
- More information on these risks can be found on Outward's website at www.outward.co.nz

Will I get the goods I paid for?

‘BIG PICTURE’ POINTS FOR CONSIDERATION

Keep in Mind:

- If you didn’t receive the goods you have paid for, or the quality is not as expected, what impact would it have on your business?
- What percentage of your balance sheet is at risk?
- Do your purchasing staff understand the risks of different payment methods, with respect to delivery risk?
- Have you negotiated appropriate product specifications, tolerances and dispute processes in your trade agreement?

Seller Product Quality and Delivery Risk – Will the Seller send me the product?

- Who is selling you the product?
- What do you know about them? – Keep re-assessing this risk on a regular basis
    - Ownership structure – public, private, subsidiary?
    - Nature of the business and industry
    - Product delivery history
    - Customer reviews and feedback
    - Financial strength – could they go out of business before shipping the goods?
    - Are they legally allowed to export the goods?

Will I get the goods I paid for?

‘BIG PICTURE’ POINTS FOR CONSIDERATION

Country / Political / Sovereign Risk

- Will a government or civil authority in the exporter’s country restrict shipments out of the country?
  - Perhaps due to political instability, civil unrest or imposing a product export restriction
  - E.g. the selling of antiques from several countries is prohibited as it can be seen as plundering a countries national heritage

- Does the government or civil authority in your country restrict or control imports?
  - Are you legally allowed to import the goods, or could they be confiscated on arrival?
  - There are often a range of outright prohibitions, and restrictions on products or items from particular countries
  - Have you considered biosecurity issues and/or the need for consent to import particular products

- What are the political conditions in the seller’s country?
  - Stability of government
  - Regulations – export license requirements, export tariffs, export quota, etc
  - E.g. in 2010, China reduced export quota by 40% on Rare Earth Elements, as well as Tungsten and Molydenum

- Sources of Information – Government Trade Organisations, Customs Departments, Freight Forwarders, OECD rankings, Rating Agency Reports, IMF Data, Government Economic Agencies

Will I get the goods I paid for?

‘BIG PICTURE’ POINTS FOR CONSIDERATION

Global Sanctions – Are there any that apply?

- The United Nations Security Council sanctions are implemented in many jurisdictions around the world by regulations made under the United Nations Act 1946
- As Outward is a New Zealand based company we must operate within these restrictions
- All persons and entities, trading on the Outward Platform, must comply with regulations implementing Security Council sanctions
- Accordingly it is important to seek independent legal advice before engaging in any actions that may be affected by a sanction regime
- Further information is available at https://www.un.org/securitycouncil/sanctions/information

Key points to consider before confirming a payment method

Who pays for what in the unit price?

- Defined by the International Commercial Terms published by the International Chamber of Commerce (INCOTERMS 2010)
- 11 terms including: Free on Board (FOB), Cost & Freight (CFR) and Cost, Insurance and Freight (CIF)
- Defines the specific responsibilities of the importer and exporter
- For more information on INCOTERMS click on the following link https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-rules-2010/

Have you considered all of the potential costs involved with importing the goods?

- Customs duties and levies, goods and services taxes, transport and insurance, custom broker and freight forwarder costs, etc

Control of the goods

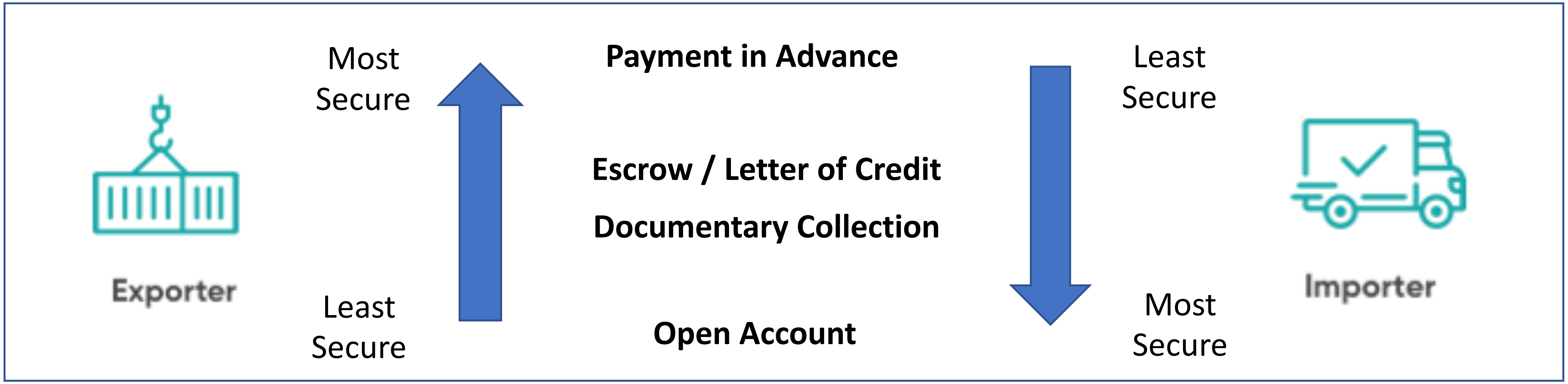
- When do you take control of the goods?
- When do title documents (e.g. original bills of lading) get released to you?

Control of the money

- When does the exporter receive the funds?

Always consider when do you gain control of the goods in relation to when you lose control of the money?

Methods of Payment



- This diagram illustrates the levels of risk for both the importer and exporter, with regards to the different payment methods
- Payment can occur at any time of the trade cycle. You will need to factor what impact the timing of the payment will have on the pricing of the goods, and the risks you face around product delivery, in your trade agreement.
- The risk of loss of control of the money, before taking control of the goods, is diminished depending on the payment method chosen
- New relationships need higher levels of risk mitigation

Payment in Advance – Pros and Cons

PAYMENT EFFECTED BY THE BUYER PRIOR TO SHIPMENT OF THE GOODS

Importer

Advantages:
- Discounts for early payment
- Cheaper in terms of fees

Disadvantages:
- Loss of control of funds
- Exporter may not ship
- No control over the goods

Exporter

Advantages:
- Goods shipped when convenient
- Use of importers funds

Disadvantages:
- Minimal
- Outlay for inputs prior to receiving payment and importer subsequently fails to pay (however, goods could be resold)

Always think
- **When do we lose control of the money?**
- **When do we control the goods?**

Open Account – Pros and Cons

PAYMENT EFFECTED BY THE BUYER IN THE MANNER SPECIFIED IN THE INVOICE. GENERALLY AFTER THE RECEIPT OF THE MERCHANDISE OR TITLE DOCUMENTS

Importer

Advantages:

- Pay when convenient
- Control over goods before payment
- Check quality of goods prior to making payment

Disadvantages:

- None

Exporter

Advantages:

- Able to complete a sale if no other payment terms available

Disadvantages:

- Importer may refuse to pay
- Loss of control of the goods before payment
- Country / Political / Sovereign risk

Always think

- **When do we lose control of the money?**
- **When do we control the goods?**

What is a Letter of Credit?

A BANK GUARANTEE OF PAYMENT SHOULD ALL DOCUMENTARY CONDITIONS BE COMPLIED WITH

A written understanding by a bank (a ‘Credit’) given to the exporter at the importers request to effect payment up to a stated amount, within a stated time, against presentation of specific documents which comply with the terms of the Credit

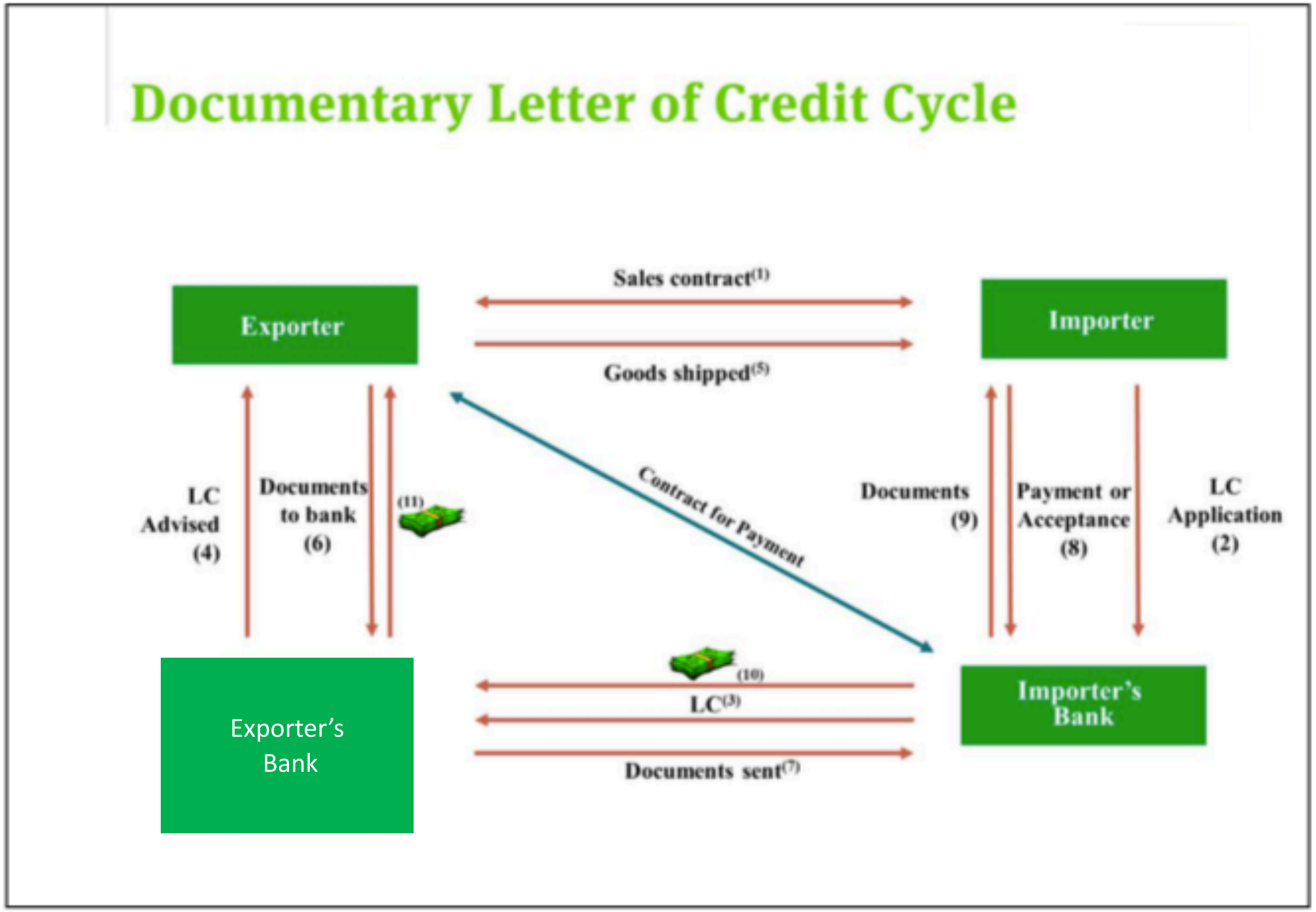
Credit risk moves from buyer to buyers Bank (issuing bank)

Payment is only made on confirmation of trade documents, including the Bill of Lading, providing comfort to the importer the goods have been shipped

Good protection is available

- However, there is no certainty goods when they arrive will meet agreed specifications
- Document discrepancies can hold up bank approval to make payment and release trade documents to importer
- Document discrepancies could also add costs to release documents
- Delays in obtaining trade documents from the bank, can add storage costs at port if goods arrive before documents released

How does a Letter of Credit work?



1. Sales contract agreed
2. Importer applies for LOC
3. LOC issued to Exporter Bank
4. Copy of LOC provided to Exporter
5. Goods shipped
6. Exporter submits Trade Documents
7. Bank submits Trade Documents to Importers Bank
8. Importers Bank reviews trade documents, if approved takes money from Importers account
9. Importers bank releases trade documents to importer
10. Importer bank makes payment to Exporters bank
11. Exporter receives payment

Letter of Credit – Pros and Cons

PAYMENT EFFECTED BY THE BUYERS BANK ON RECEIPT OF TRADE DOCUMENTS

Importer

Advantages:

- No payment until documentary evidence that goods have been shipped
- Exporter must comply with Letter of Credit terms

Disadvantages:

- Time taken and cost to establish
- Exporter may refuse to ship
- Uses bank credit lines / need bank credit facility
- Need to provide security to underwrite credit risk

Exporter

Advantages:

- Bank guarantee of payment if terms and conditions complied with

Disadvantages:

- Compliance with terms
- Credit risk of Issuing Bank
- Country / Political / Sovereign Risk

Always think

- **When do we lose control of the money?**
- **When do we control the goods?**

What is a Documentary Collection?

A PAYMENT METHOD WHEREBY AN EXPORTER USES THE SERVICES OF A BANK TO OBTAIN PAYMENT FROM AN IMPORTER

A documentary collection is not a Bank guarantee of payment, however it brings the Banks into the payment equation

It is a process by which an exporters bank collects funds from the importers bank in exchange for the trade documents, which on payment are sent to the importer. The exporters bank acts as a collection agent.

- Trade documents sent to bank
- Collecting Bank only releases documents on payment
- Can be used to mediate the exchange of control of goods and payment
- Payment still requires authorisation by the importer, and the importer can choose not to pay after goods have been shipped

With a sight collection you gain control the goods, once payment is made, with bank acting as intermediary

Documentary Collection – Pros and Cons

PAYMENT EFFECTED BY THE BUYER PRIOR TO BANK RELEASING TRADE DOCUMENTS

Importer

Advantages:
- Can reject goods / Not make payment

Disadvantages:
- No control in quality of goods
- Exporter may refuse to ship

Exporter

Advantages:
- Goods shipped when convenient
- Bank controls goods with original bills of lading and sight payment

Disadvantages:
- Non-acceptance of goods / non-payment post shipment
- Re-negotiation of price
- Storage/Demurrage
- Country / Political / Sovereign Risk
- Local Bill of Exchange Laws

Always think
- **When do we lose control of the money?**
- **When do we control the goods?**

What is Escrow?

A PAYMENT METHOD WHERE AN ESCROW AGENT HOLDS IMPORTERS FUNDS UNTIL GOODS HAVE BEEN SHIPPED

Escrow is a process where a third party acts as an intermediary to ensure both participants to a transaction deliver on their obligations

From an exporters perspective: that the importer has deposited the funds for the trade into the escrow agents account, and are now available to pay for the goods once the trade documents have been delivered and the goods shipped

From an importers perspective: that the goods have been shipped and required trade documentation delivered to the importer before the escrow payment is released to the exporter

If the goods are not shipped the money is returned to the importer

Escrow – Pros and Cons

PAYMENT EFFECTED BY THE BUYER PRIOR TO SHIPMENT BUT HELD IN ESCROW UNTIL GOODS SHIPPED

Importer

Advantages:
- Exporter does not receive payment until goods shipped
- Exporter must comply with Escrow terms
- Cheaper than a Letter of Credit
- More control over terms of escrow release

Disadvantages:
- Payment required to escrow agent before goods shipped
- Exporter may not ship – however funds released back to importer if this occurs
- No control in quality of the goods – unless pre-inspection included in escrow release terms

Exporter

Advantages:
- Escrow Agent holding importer funds – securing payment
- Trade documentation can be approved pre-shipment / unlike Letter of Credit
- Potential to reduce sovereign risk

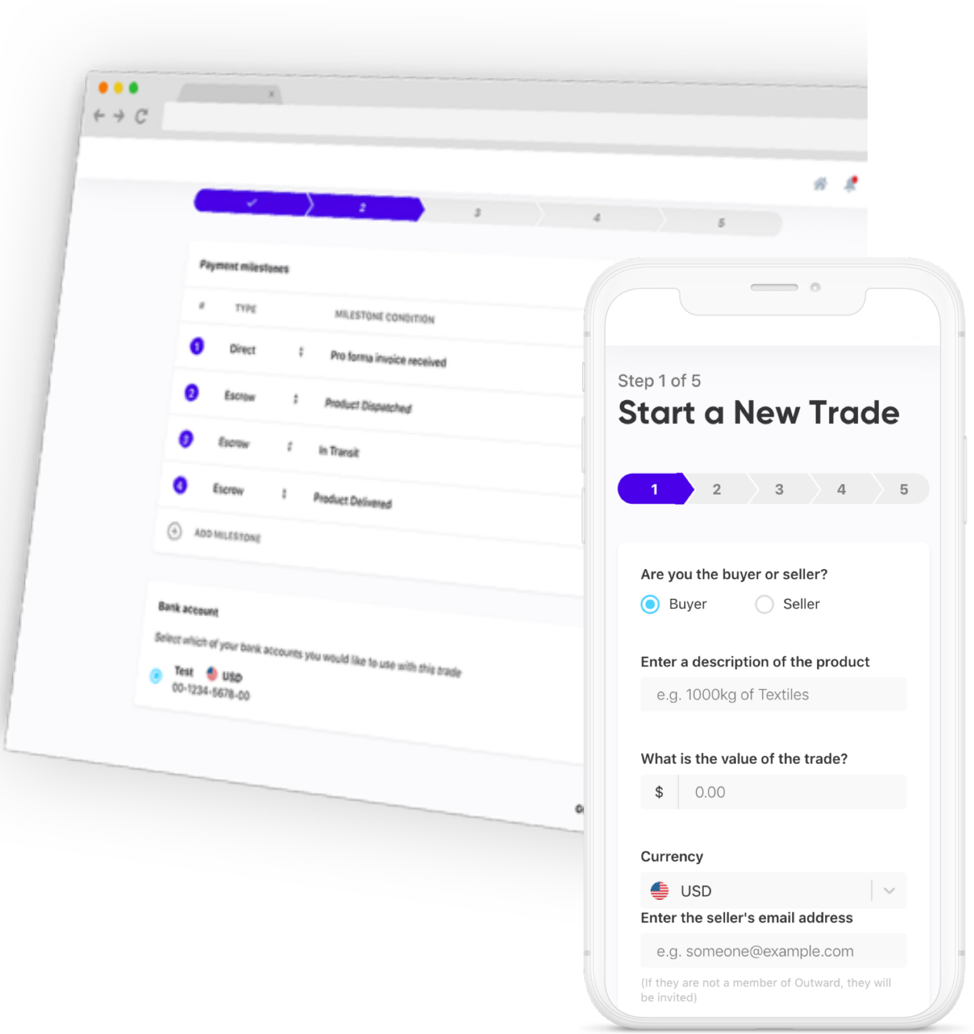
Disadvantages:
- Compliance with escrow terms
- Comfort with credibility of escrow agent

Always think
- **When do we lose control of the money?**
- **When do we control the goods?**

Conclusion

A PURCHASE IS NOT A PURCHASE UNTIL THE GOODS ARRIVE

- A variety of risks need to be kept in mind when assessing delivery risk and selecting a payment method
- A number of payment methods are available to support your trades
- Outward provides an online trade management and escrow platform – an effective alternative to a Letter of Credit
- Some of the key advantages of Outward's escrow service for importers are:
    1. Provides access to a counterparty risk solution without needing a bank credit facility
    2. Trade can be created in less than 5 minutes
    3. Costs less than a Letter of Credit
    4. Product inspection reports can be included as a release condition to help protect against quality issues
    5. Trade documents can be approved prior to shipment
- Check out our platform at (www.outward.co.nz)



How does Outward's escrow service work?

A SIMPLE FIVE STEP PROCESS

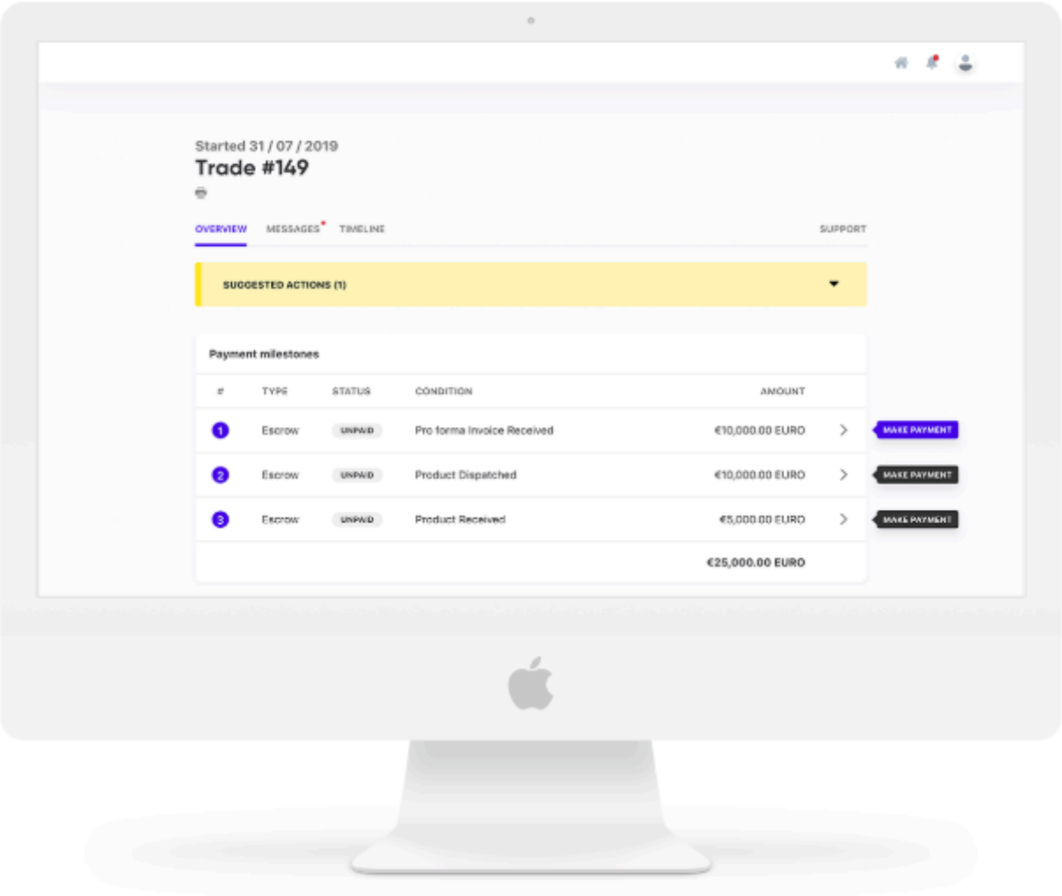
Step 1: Create a trade

Step 2: Importer makes escrow payment

Step 3: Funds held by Escrow Services Trust

Step 4: Trade documents agreed and goods shipped

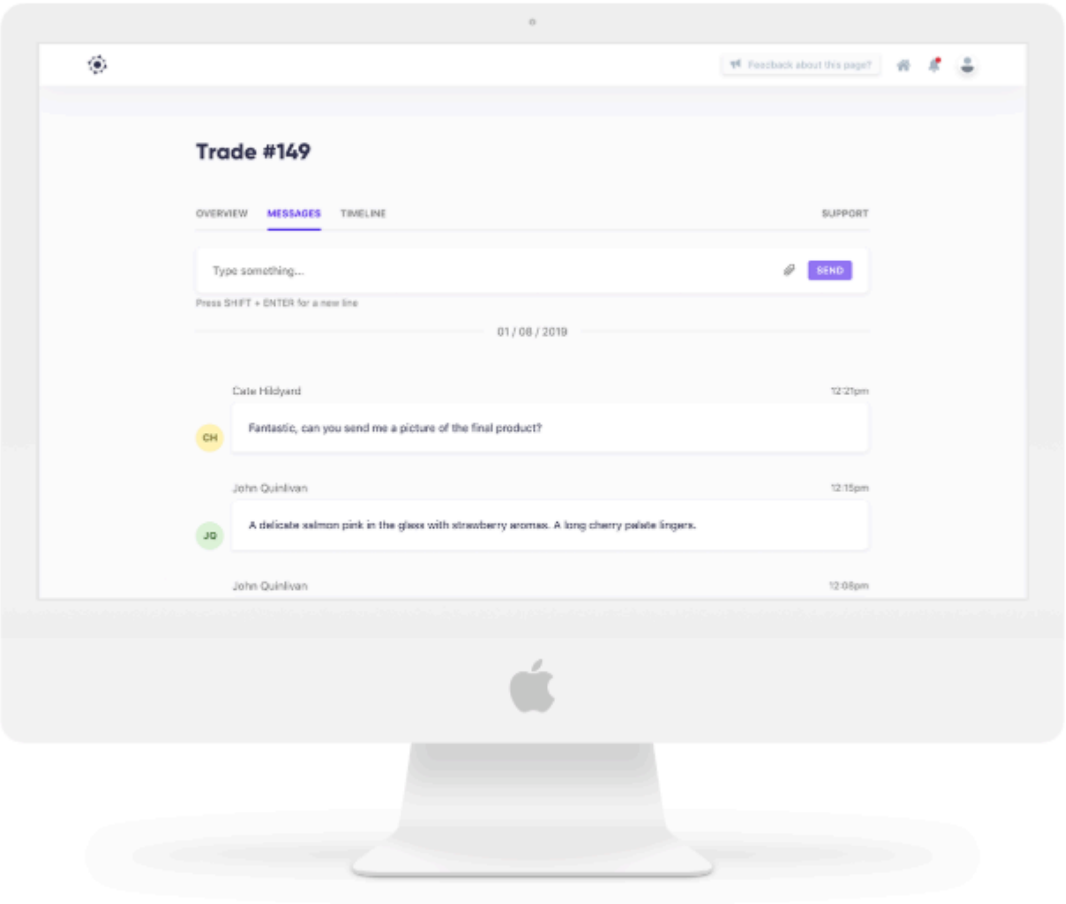
Step 5: Funds released to seller



A TRADE CAN BE CREATED IN LESS THAN 5 MINUTES

Outward provides a secure messaging service

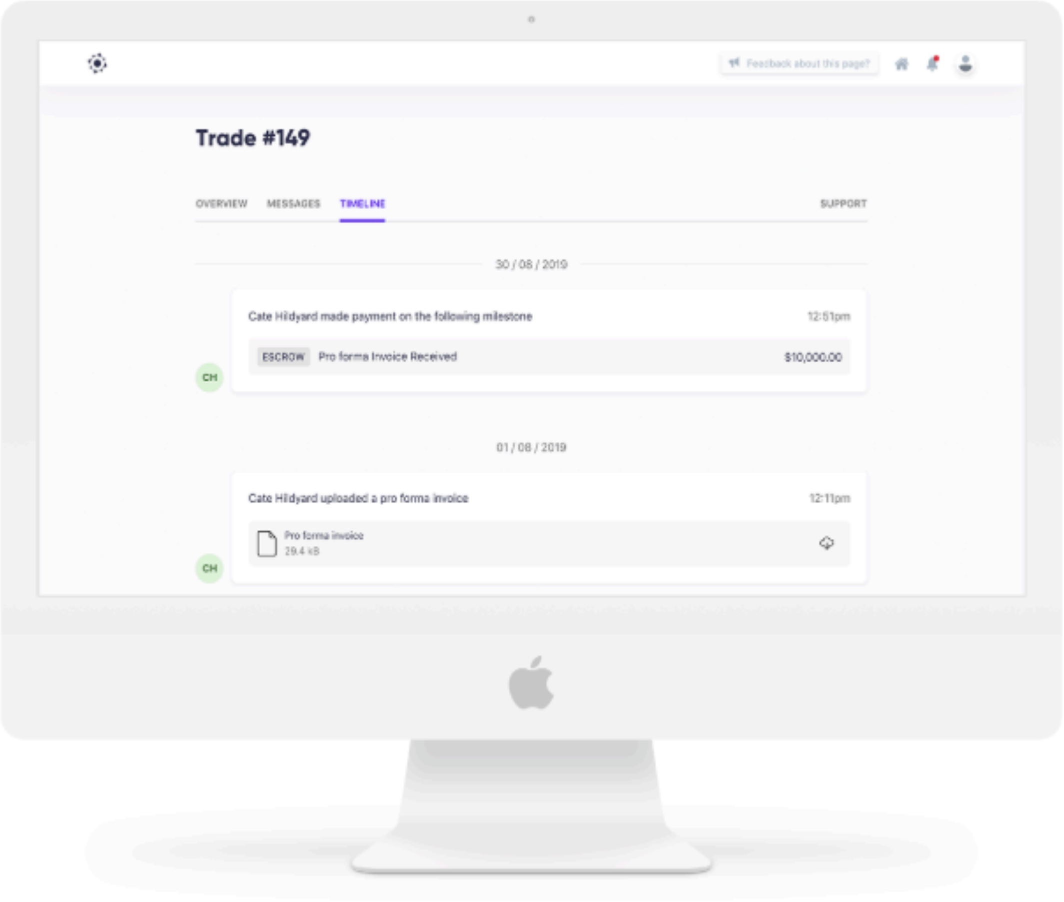
- Keep messages in a secure platform linked to the trade
- Add and share documents
- Viewable by all your company’s Outward users



NO MORE LOSING, OR TIME SPENT SEARCHING, FOR EMAILS

Timeline ensures all actions on the platform are auditable

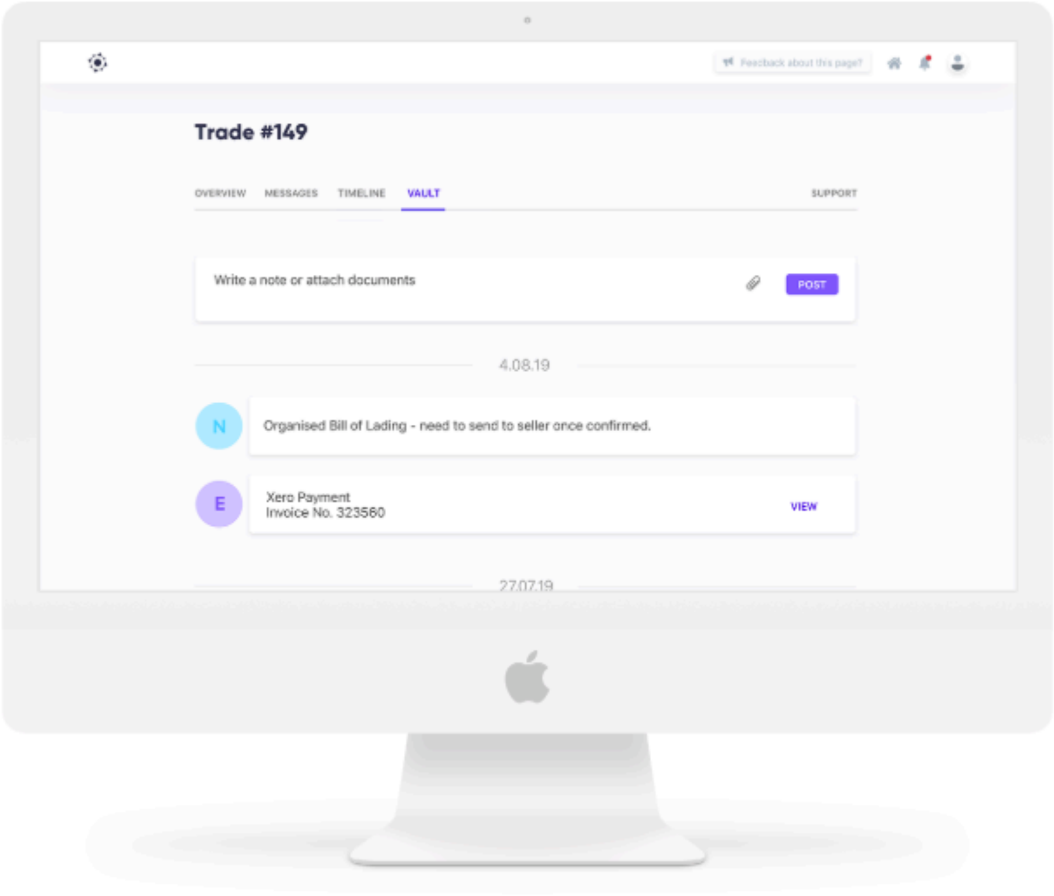
- A complete record of all activity within a trade
- Agreed terms of trade and amendments
- Track payments, document changes and approvals



SUPPORTING YOU IF THERE IS A TRADE DISPUTE – WHO DID WHAT WHEN?

Vault stores all your private documents and emails related to the trade

- A secure and private document repository
- Store pre-trade product and pricing files
- Save emails relating to the trade



MAKES FINDING AND SEARCHING FOR PAST DOCUMENTS EASY

Key differences between a LOC and Outward's Escrow Service

ESCROW IS FASTER, CHEAPER, AND DOES NOT REQUIRE A CREDIT LINE

Topic	Letter of Credit	Outward's Escrow Service
Time to issue	• New facility: 2-4 weeks • Existed facility: 5+ days	• New importer: 1-3 days • Existing Customer: 5 minutes
Requirements	• AML • Credit assessment to establish facility • Security	• AML of importer
Costs	• Non-transparent multi-layered fee structure • Typically 1.5-2.5% transaction value (importer + exporter costs) • High administration costs / time	• Transparent up front fee structure • ~0.75% - target < 50% of LOC
Release conditions and risks	• Physical trade documents • Couriered between stakeholders / banks • Reviewed and approved post shipment • Unenforceable if any discrepancies • Document management a key risk • Sovereign risk remains	• Electronic trade documents • Shared online or couriered from exporter to importer • Most documents approved pre-shipment • Only Bill of Lading post shipment • Discrepancies allowable by importer • Potential to reduce Sovereign risk
Payment received by exporter	• Between 10-30 days post shipment	• < 5 days post shipment