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A NOVEL PAYMENT METHOD IN INTERNATIONAL TRADING: BANK PAYMENT OBLIGATION (BPO)

Abstract:

As in all other sectors, there are also a number of risks to be encountered in foreign trade. Firms are to choose reliable financial techniques in order to prevent such risks and to guarantee the cost of their goods. While the firms importing goods wish the goods to be delivered within the period that has been defined in the contract, others exporting goods also want to receive the rate of the goods and/or services sold in a secure way and on time. At this point, economic power of the countries to and from which goods are imported /exported, their geopolitical position, political stability in those countries and defining the payment methods used in foreign trade play an important role.
In our study, after looking through different payment methods used in international trading, it was aimed at giving detailed and comparative information about Bank payment Obligation that is a new and bank-security payment method to ease exporters' expanding on international trade under the leadership of Interbank Financial Telecommunication (SWIFT), a system providing electronic fund transfer among the banks all around the world.

Keywords:

Export, Import, Swift, Bank Order Liability, Foreign Trade, Risk, Payment Methods

INTRODUCTION

The purpose of International Chamber of Commere (ICC) which works to regulate rules of International Trade is to provide that global trade is made an environment which is easier and safer. It made studies for this on the point that payment methods are regulated besides INCOTERMS which we mention it as delivery methods and rules of process are to become monotonous and payment method which is named as Bank Payment Obligation (BPO) revealed as a result of these studies also.

Velocity and facility are necessities especially on payment methods nowadays. People who deal with trade have not got money and time that they would lose them by gross rules and delay. People who deal with trade demand only to trade and to receive their money at the right time and to get benefit from financing opportunities. Advanced Payment, Cash against Goods, Cash against Documents and Documentary Credit which are traditional payment methods do not entirely obviate this necessity. Cash against Goods is easy and quick as advanced payment methods. But it has not got payment guarantee to bank. On the other hand, Documentary Credit has got bank quarantee. But bureaucratic procedures and details which rules get them make difficult life of parties who deal with trade.

While preparation of documentary credit and presentation of them in due of time for party threaten the exporter, delay party would also expose the client to essential risks. BPO has come out in terms of removing these negations. BPO is an exact novel payment method which presents adyantegous sides of traditional payment methods by associating with facility of technology. As ICC thinks that this payment method is very applicable, it wrote new rules and presented it to international voting. New rules which are voted by all countries being member of ICC entered in force as they were published under the name of URBPO (Uniform Rules for Demand Guarantees). . (URBPO, ICC Publ.No:750T, Article3)(Ozelp,2014,p:20).

1. Payment Methods Which Are Used For Foreign Trade

There are four main payment methods which are mainly used in international trade. These are ; cash against goods, advanced payment, cash against documents and documentary credit. There are risk that all payment methods involve within themselves and these risks differ in the client and the supplier.

1.1 Advanced Payment

This payment method is securest payment method for exporter. It removes the payment possibility of importer. It recovers capital of supplier from abiding in long period. It is a payment method which is based on trust. Generally, it is preferred by clients or suppliers that they know eachother or trust is built between them. But all of risk is for importer (client) as their money is paid before goods are sent. These risks are; consignment of goods can limp or can be late due to matters of supplier or country's conditions. In this matter, the client will be deprived of interest income which they would gain as money waits in their hands at least. Goods may not adapt quality, amount and other features which are stated on the contract. (Sahin, 2002, p.5).

1.2.Cash against Payments

Cash against payment method occurs when the importer pays the price after he gets goods. It is securest payment method for the importer. There is a risk as the exporter does not receive the price of good that he sends it. As the payment will be made only when the good comes by the importer, the exporter will give instructions to agents of importer in their countries or to intermediary bank that they deliver them for payment when goods come in. this payment method is a payment system that importers would prefer as it involves risks for exporter. Credit worthiness and importer country's economical and political preferences' stability have importance on usage of this method. (Yetik,2013).

1.3 Cash against Document

While goods are sent to the importer's country by an appropriate consignment vehicle , documents belonging to good do not sent to the client , they are sent to the client's bank via supplier's bank on this payment method. The client's bank delivers documents belonging to good to the client after it gets the price of good. If the bank does not give any aval or guarantee on this procedure, price of exportation does not make a commitment against exporter for payment. (Sanver,2010,p:10).

1.4. Documentary Credit Payment

Documentary credit is a kind of warrant related to that payment will be made after certain terms are made for payment of good's price which is exported. It can be defined as contingency annuity commitment. It demands that importer (issuing bank) bank opens a documentary credit in favor of exporter (beneficiary) and it is informant via a negotiating bank in exporter's country. If the exporter presents necessary documents as correct, complete, appropriate for rules and within the period of availability of credit, payment is made in that case.

It is mostly used payment method for international trade. Documentary credit is a procedure which protects both exporter and importer. Documentary credit is that the bank which importer works with it makes necessary conditions for a certain amount and a certain terms in accordance with instruction that importer gives it and payment will made in return of presentation of documents related to exportation of goods which are exported by exporter (Yetik,2013).

2. Distribution of Importation in Turkey by Payment Methods

Statistic of TUIK as ‘ Importation by Payment Methods’ is prepared for bill of entry in regard to data which are gotten by customs consultants of importer companies. Payment methods on statistic have been collected under five main titles as to be advanced payment, cash against goods, cash against document , documentary credit and free of charge. According to this, 125.000 billion USA dollar- importation was made by importation’s payment method of Turkey by data that TUIK published them by third quarter of 2015, its 49% was made as advanced payment, its 30% was made as cash against goods, its 12% was made as documentary credit, its 5.6% was made as cash against document and its 3.4% was made as importation without charge. The following statement are seen that importers in Turkey prefer mostly advanced payment, cash against payment is preferred much more than documentary credit payment in consideration of data which were obtained (2015 TUIK Foreign Trade Data).

3. Distribution of Exportation in Turkey by Payment Methods

Exporter companies write whichever payment method they will use for exportation on exportation bills which are stamped by The Ministry of Financing. In the same way, while filling exporation bill of entry , customs consultants write payment methods on relevant section of bill of entry. TUIK makes statistical data in regard to these information also. According to this; when we consider distribution of exportation in Turkey by payment methods in third quarter of 2015, 84.652 billion USA dollars- exportation was made , its 66% was made as cash against payment, its 11% was made as advanced payment, its 14% was made as cash against documents, its 8% was made as documentary credit, its 1% was made as exportation without charge.

In consideration of these data, we can see that exporters in Turkey make exportation mostly by cash against good payment method and this rate is quite high. However, cash against good payment is most risky payment method for exporters. Cash against document, advanced payment and documentary credit payment come respectively.

4. What is BPO (Bank Payment Obligation) ?

BPO (Bank Payment Obligation) (it is translated in Turkish as ‘ Banka Odeme Yukumlulugu’); it is a novel banking product which provides security for bank and wide financing opportunities for payment methods which are not bank guaranteed (cash against good, cash against document etc.). Briefly, BPO brings bank guarantee for payment method on open account (cash against good). It is an alternative that tradesmen who find cash against document as risky, find products such as standby and bank guarantee as complex and expensive and do not use them due to these reasons and only want to utilize bank guarantee would use it. It can be summarized as facilitating trade, making electronics, removing paper, providing assurance and simplicity for BPO’s appearance reason. (Ozalp, 2013).

4.1. Factors Causing That BPO Reveals

BPO is an eletronic method which would make works of companies easy and it is most current sample of globalizing trade. Trade would be easily made by using BPO payment method due to that security on trade for risky regions is needed. Because traditional payment methods are inefficient to provide all features such as speed, simplicity, facility ve guarantee as being together. There is matter of expenditure such as preparation of papers, examination of them, reserve, delay, failure, possibility for deficient or errors and this brings risk and expenditure concomitantly (Dowse, 2013:2).

As we explained by above numeric data, 66% of our exportation are made in a way as cash against good . It is clear that cash against good method has great risks for exporter. Although documnetary credit payment method is known as reliable payment method, its share is only 12%. Because share of documentary credit has unfortunately remained low in payment methods due to reasons such as being expensive, prolongation og period, mass of bureaucracy although documentary credit is preferred on the point of trustworthiness for exporter and importer who do not know eachother.

BPO has been developed as a new solution to compound documentary credit guarantee and facility of cash against goods. Because BPO and banks take part in cash against good payments. BPO replies all of them by technological aid and it removes problems as specific to paper-documents. As it is a payment method which is designed to complete deficients of these solutions but not to take part of current commercial financing solutions, at the same time it is a technique that assures and provides financing opportunities. (Golec, 2014, p:108). This technique was presented as ready package which is body of rules (URBPO) that it became standard by ICC. BPO is easier and more practical than documentary credit. While documentary credit provides a payment obligation to the supplier after presentation of documents which are physically appropriate is made to a bank physically , BPO provides a similar obligation only in regard that data as appropriate for electronics is presented.

A procedure which is based on BPO on the application works as the factor interacts consistently. First one is message sets which are structured to provide information transfer by conditions defined previously, second one is a platform to provide that data interacts as appropriate for work-flow defined previously and third one is rule set to provide monotony on the applicaation. (Ozalp, 2014, p:20). As it is seen, payment methods are processes that provide change of goods and services among economical units and make them easy. BPO has revealed in terms of making affairs practical on a safer place as transforming the physical supply chain process based on paper to collaborative supply chain financing based on electronics. (Meijer vd. 2012, p 242) . As it is seen, BPO fills the gap between cash against goods and documentary credit. Simplicity and facility of cash against goods merge with guarantee of documentary credit on BPO. Risks and difficulties which source from examination of documentary credit's original documents removes.

4.2. Relevant Important Issues Which Are Required to Be Known by BPO

The client and supplier requires to collaborate with BPO, obligor bank and recipient bank which will be chosen. Collaborative Space and Competitive Space which obligor bank and recipient bank will work on a BPO process require to be defined. It is to make a BPO which is subject to match –up with data factors (terms) which are defined by collaborative space and a single TMA (Transaction Matching Application) which is intended. These data factors (terms) are also defined as database (established baseline) which is made by information that come from obligor and recipient bank. (Ozalp, 2014, p:77).

Moreover, the thing that is indicated by competitive space is to determine service level about reducing risk , financing, payment guarantee, efficiency of procedure, price etc. for the client of obligor bank and recipient bank. There are not any rule or force standards on the space. It is liberated that banks make terms by synallagmatic contracts with their clients at will. BPO data spaces are normally efficient for a standard procedure, regulatory area is not too much, additional terms (constituted database) would be put by necessities of parties.

Moreover, a bank requires to buy TSU ((Trade Services Utility) that SWIFT has especially developed for commercial affairs or buy a similar system and develop it in order to attend in BPO. This system is necessary for working of BPO, it is briefly named as TMA (Transaction Matching Application). It will make electronics data match and will produce report. It will make reports by using TSMT (Trade Service Management) which is subject to ISO 2002. It is also another requirement.

4.3. BPO's Parties

4.3.1 The Client Company

It is the party which buy the good. It makes emptiovenditio with the supplier, It demands from Obligor Bank, guarantees and gives intructions in order that BPO procedure starts,

4.3.2.The Client's Bank

It means bank of the client. Bank of the client can be a obligor bank also.

4.3.3. The Supplier Company

It is the party which is supplier of good. It is obliged to prepare good within the period as appropriate for contract terms. Goods which are prepared at the right time are undertaken / it incites them and it sends data that it coolects from bill of lading as relying on procedure to Recipient Bank. After data which is sent to TMA by Recipient bank is found as appropriate, it gets the cost which is paid by obligor bank via Recipient bank. (Ozalp, 2014, p .38) .

4.3.4. Seller's Bank

It means the bank of supplier. The bank of supplier is a bank which is object of obligor bank on BPO procedure. Obligor bank sends messages to this bank, makes the payment to this bank.

4.3.5. Bank Party

It means the bank of supplier or ‘ Recipient bank (depending on the role in any certain time), the bank of client, obligor bank or ‘Submitting Bank’.

4.3.6. Recipient Bank

It means the bank which is recipient of a BPO. ‘Recipient Bank’ is always the bank of supplier.

4.3.7. Obligator Bank

It means the bank which regulates a BPO. It is the bank which is committed on a BPO procedure as irreversible.

4.3.8. Presenter Bank

It is bank party that its only duty is to present one or more than one Data Set as necessity of ‘ Established Baseline’.

4.4. The Process of BPO

1- The client sends an order to the supplier.

2- The client sends minimum order information and BPO terms to obligator bank.

3- The supplier confirms order information and BPO terms to recipient bank.

Information which is sent by the client and is confirmed by the supplier is compared on TMA. If information corresponds each other, namely, it matches with each other, established baseline occurs.

4- The supplier consigns and sends goods to the place of arrival.

5- The supplier delivers way-bill and bill information to the bank, its bank sends information to TMA as to match.

6- The client gets a matching report from its own bank , it is invited in order that it accepts sections which do not match if it is available.

7- The bank of supplier sends information to the supplier about successful matching.

8- The supplier sends paper documents directly to the client in order that it gets the good.

9- The bank of client charges the account of client in the term; it sends money to the bank of supplier and the bank of supplier credits the account of supplier, namely, it makes payment to the supplier. (Figure :1).

Payment methods which are used on foreign trade are important as well as foreign trade at least. Thus payment is the form which a good ' s going out is eventuated and directly connects companies. Payment methods are generally determined during the contract and they are put into the contract. After or before sending good and receiving good occur, foreign trade procedures have become as eventuated by payment. (Ozalp,2014,p.108).

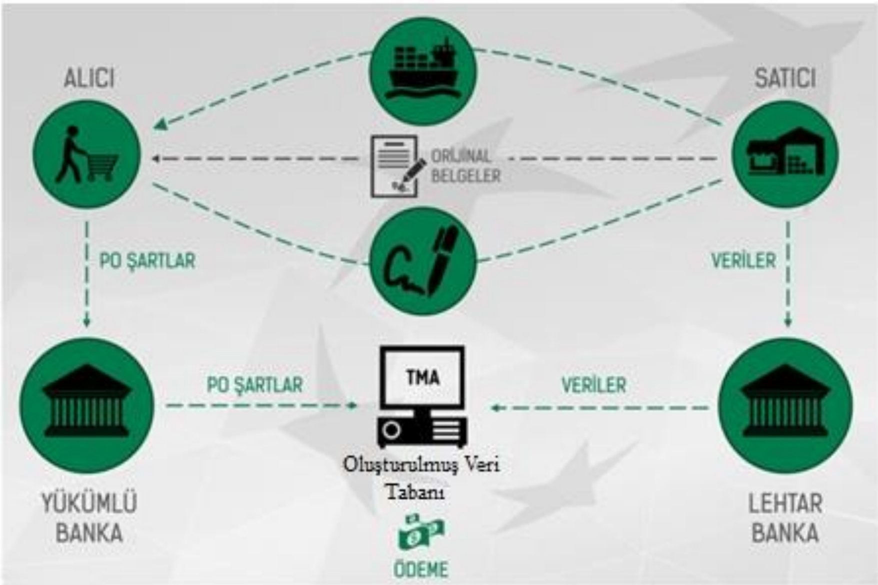

Figure 1. Bank Payment Obligation http://www.tim.org.tr/

4.5. Priorities of BPO and Advantages That It Provides to Parties

- It is a vehicle that SWIFT and ICC developed jointly.

- It is automatical and safety, it does not deal with physical documents. People do not examine physical paper and documents and TMA compares data automatically. (International Finance Union 2013) .

- It is independent and irreversible. BPO is an legal obligation and can not be changed after TMA matching .

- It is a commitment which is given to another bank by a bank, it is made after payment data is matched.

- It has got URBPO. It work about established baseline. Its acceptors are banks, rules are implemented on relation between banks.

- Rules are not implemented on relation between the client and the supplier or between bank and client / supplier. (Ozalp, 2014, p106).

- It has not got delay costs such as tax, penalty, nationalisation.

- It has not got price and exchange risk due to delay.

- It can be added to supply chain process at will and amount.

- Its control is easy as procedures are made on electronic environment.

- BPO makes commercial procedures easy and increases negotiations. It has been standardised by rules of ICC and messages of ISO 20022 under the leadership of Swift. (Golec, N.2015, p 113) .

Advantages for banks (Celik, 2015):

- Low risk, economical capital use , stable commission and income source are automatical solutions and low operational costs in terms of business.

- It increases and secures new financing opportunities and relations, it corresponds market needs for risk and client much more in terms of market needs.

Advantages for suppliers (Özalp, 2013, p:54).

These are to make optimization of cash flow, to get payment at will, to receive assets early, to eliminate payment risk, to remove risk of reserve, to regulate cash suggestions, to make e-bill integration easy, to find pre-financing and post-financing opportunities, alternative for factoring, to reduce interest expenses.

Advantages for clients :

These are optimization of cash flow, to keep payment time under control, optimization of credit use, to pay suppliers in time, to reduce administrative expenses, research and reduce discussions, to extend opportunity of foreign source use , payment period , to discuss commercial terms and to recude supply risk.

Most clear advantage of BPO is that it supports many financing vehicle. After data is matched on each stage of BPO, there are opportunities of decreasing risk and financing that bank parties become a part. Especially, this gains importance also for situations that trade is made by credit account. Another advantage of BPO is to provide opportunities of financing to the client, the supplier and vendors. These are financing before loading, financing after loading, entrepot financing, financing based on buying assets , flexible term financing. (Ozalp, 2014, p.7).

4.6. Weaknesses of BPO

We can say that BPO has got weaknesses besides its strengthens, as we said earlier, BPO is not an alternative but it is a novel payment method. Total 152 bank belonging to 83 banking group in 47 countries on world use BPO. Although it has proceeded too much in short time, it has not still gained currency. Thus it requires to promote BPO , to increase efforts related to it on exportation markets in order to increase acceptance and trading size and to promote them. As it is a new product, that limited process registry is to be on market makes disadvantage for companies to pass to BPO. Banks require to buy a system named as TMA in order that BPO works and clients require to pass a new integration system. (Golec, N.2015, p.114).

5. CONCLUSION

BPO is a method which is developed in order to make world trade easy , to trade by giving guarantee on risky regions , remove risk of traditional payment methods and to turn into advantage. BPO is new alternative for commercial life. It has been designed to complete current commercial financing solutions but not to take their parts. It is fully a new financial solution vehicle as specific to itself.

Even if BPO is supplementary for other payment methods , it closes the gas mainly between cash against goods and documentary credit. It provides bank guarantee to method of cash against good. A bank enters into an irreversible commitment for supplier against bank of supplier very simply for the client on a BPO process. Terms are stated as depending on the contract between parties and it is loader on a machine between two banks. After loading and delivery are made as appropriate for contract terms and within the right time, the supplier gives information about documents representing the good to the bank and its bank sends the information to the machine as presentation also. The machine between two banks (TMA) compares information which are presented to themselves by terms that are loaded on electronics environment previously. If the report which occurs as a result of comparison is positive, payment is made from the client ' s bank to the supplier ' s bank. It is not necessary that the supplier gets away with the client. The supplier has not got risk of client ' s bank. As it is seen, a BPO compounds guarantee of a documentary credit with facility of cash against good. (ICC Turkey International Chamber of Conmerce, 2014).

Even if BPO is especially accepted as relying on international trade, it is possible that it is used within the county also.

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