International Payment Alternatives to Traditional Letters of Credit

Getting paid more quickly while lessoning risk remains a perpetual interest for the international trade finance professional. Letters of credit still remain the dominant instrument for payment where cross-border credit and sales occur, especially when if it involves a seller from the United States, and that isn't likely to change anytime soon as they've been widely accepted for a long time. And, despite complaints about cost or speed, the use of LCs has increased since the global downturn of the 2000s.

Still, there are alternatives, though not every option is a universal match for the credit department and type of business in question. Virtually no payment alternative comes without one or two cons, and buyers or even upper management in your own company may need some education in order to understand the benefits. Still, the following seven methods are interesting alternative financing options when dealing internationally:

- **Bank Payment Obligation (BPO).** BPO guarantees payment for the exchange of goods based on electronic presentation of compliant data. The automated process often allows for cheaper, more flexible and quicker transactions. Of note is the required matching of invoice date that could trigger risk for the buyer.
- **Escrow through Trustee.** When a customer doesn't want to tie up their credit, they can use liquidity. Cash is held by an intermediary trustee until the delivery of underlying goods. However, requiring cash up front can alienate a buyer.
- **Standby LCs.** These can be a type of non-cash security deposit, basically an open account backed up by the standby. Of course, if you get a customer that starts paying erratically, you could get hit on the working capital side, which could encourage you to go back to a less flexible method.
- **Documentation Collections.** Suggested for more stable export markets, these are considered more convenient and cheaper than LCs for an importer, though the exporter takes on a little more risk. Banks often assist in obtaining payment. However, banks don't guarantee payment or verify accuracy of documents.
- **Clean Collections.** This is a documentary collection in which the financial document is sent through the banks without a bill of lading or other shipping document. This fosters lower bank costs and reduced collection time between the remitting and collecting bank. Granted, a lot of manual intervention can be necessary, and there is a heightened risk of document fraud.
- **Consignment.** Here, payment isn't required until the good have been sold to an end user. This instrument is helpful in competitive new markets. However, the contracts need to be well worded and it, as well as business partners, has to be well vetted.
- **Export Factoring.** It provides the opportunity to sell your accounts receivable to a third party, a factoring house, to obtain cash more quickly. It eliminates risks and maximizes cash flow, though often at a high cost. It can also become labor intensive.

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