

# A Guide to COD and Shipper's Disbursements



Cash on Delivery (COD) is still a common means of collecting payment for goods. It is used most often for movements by air and for short-haul road services where more traditional means of payment, involving negotiation of documents through banks, simply take too long.

In asking you to undertake a COD collection, your customer is implicitly saying that they do not trust their customer; but that they are trusting you not to deliver the goods without obtaining payment in the agreed form. Failing that trust may cost you dear and you could be liable for the full sales price of the goods.

While some insurance products for freight forwarders and non-vessel-operating carriers will indemnify them for failures to collect COD payments, you will be required to - and in any case should - have in place an adequate system of control to try to ensure that such losses do not happen.

You should decide whether, as a matter of policy, your company wishes to undertake COD business. Obviously you must weigh the potential business gained against the possible risks and you must recognise that customers would be treating you as a substitute for the banking system. You should make a charge for the service.

You and your correspondents (agents or partner companies) must have agreed documented systems in place to control the release of COD shipments. Rules for despatch and receipt should be reciprocal.

Bank cheques come in many forms. Bank practice differs from country to country, as do the name(s) by which documents are known. Agree with your correspondents exactly which documents are referred to, and insist on the use of these standard phrases in documents such as pre-advices, manifests, waybills, etc. A bank draft is issued and signed on behalf of a bank. Payment is normally guaranteed by the bank and cannot be stopped. A cheque is drawn by the account holder and carries no guarantee that funds are available. Payment can be stopped. Do not use phrases such as 'international bank cheque' which are meaningless.

## Despatch

- 1 If your customer wants you to collect COD, obtain precise instructions, in writing, as to the document to be collected, the amount (and currency), the name of the payee, contact names, telephone and other contact information (email, fax).
- 2 Do check that foreign exchange regulations in the destination country permit the transfer of funds abroad.
- 3 Point out to your customer that delays may be incurred in collecting the money. Costs may arise for rent or demurrage. What is to happen to cargo if payment is not made? Do not accept COD instructions for perishable cargo or personal effects - it could affect the protection you may have under insurance.
- 4 Check that the amount of the COD is covered by the commercial invoices.
- 5 Give your correspondent ample warning that a COD consignment is to be despatched. This gives them time to contact the buyer and organise payment. You should ask them to confirm to you, prior to your despatch of the cargo, whether they are able to arrange collection of the COD amount.
- 6 Do not make out freight documents (consignment notes, 'straight' bills of lading, air waybills or house waybills) direct to the buyer. In many instances the actual carrier, not your correspondent, may have to release such consignments to the consignee on simple request. Always address COD shipments to your correspondent's office, which can control release.
- 7 Ensure you monitor receipt of payment from your correspondent.

## Receipt

- 1** Appoint a senior manager who alone is responsible for authorising release of all COD shipments. Make sure there is a recognised deputy available to cover for absences.
- 2** All files relating to COD shipments should be clearly marked.
- 3** Staff must be trained in the handling of such shipments and have easy access to the managers responsible for authorising release. They must understand the reasons for the company policy and the consequences of ignoring the rules.
- 4** Insist your agent sends pre-advices of COD collections to enable you to confirm the consignee's acceptance.
- 5** Do not let staff be threatened by consignees demanding goods. Any such attempts should be dealt with by senior managers as there may be legal issues involved.
- 6** Do not ask delivery drivers to collect COD payments, and never release goods against a promise to pay. You should have confirmed payment before authorising the release of goods.
- 7** If the seller does not trust the buyer, why should you? Ensure that you collect all freight charges and disbursements (duty, taxes, etc.) before releasing the goods.
- 8** Ensure that the form of payment and any condition(s) from the buyer meet the requirements of the seller in every particular (for example: date, amount, currency, drawn on, signed).
- 9** In case of doubt, make sure you have agreement in writing from the appropriate party, before releasing the goods.
- 10** If things go wrong, contact your correspondent at point of origin and your insurers, as appropriate, promptly, and take advice. People who have obtained cargo fraudulently may disappear quickly. Urgent action is necessary.

**Cash Against Documents (CAD) is not the same as COD. CAD is a banking term. Its forwarding equivalent is: release only against banker's proof of payment of... the amount and currency must be clearly specified. The bank's proof must be in writing (original document) and clearly come directly from them.**

## General

Most often COD collections are called for by an EXW (Ex-works) or FOB (Free on Board)/FCA (Free Carrier) supplier. In the case of the former and possibly the latter, by agreeing to collect such charges you are assuming a contractual responsibility for someone with whom you have no contract. If so, ensure

you reach appropriate terms with them including the BIFA Standard Trading Conditions before concluding the contract which is done once you have an offer, acceptance and charge agreed. If goods arrive at destination and the consignee refuses to pay the COD amount, a conflict of interest may

arise. You may not be able to withhold delivery from your principal against payment. The shipper should be made aware of this situation, and in particular their attention should be drawn to BIFA's Standard Trading Conditions 2017, Clause 26. If in doubt be sure to consult a suitably experienced solicitor.