Cash Against Documents (CAD): Secure payment transactions in international procurement

Cash Against Documents (CAD) is a payment and security instrument in foreign trade in which payment to the supplier is tied to the presentation of defined trade documents. The buyer only receives the documents needed to take over the goods once they have paid the purchase price or submitted an accepted draft. For technical buyers, CAD is a middle position between open supplier credit terms and an expensive, formally strict letter of credit.

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Key facts at a glance

01 CAD ties the release of trade documents (e.g. bill of lading, commercial invoice, certificate of origin) to the buyer's payment.

02 The process typically runs via the banks involved, but compared with a letter of credit it involves less formal strictness and lower fees.

03 Under CAD, the seller bears the risk that the buyer will not take up the documents; the goods are then often already at their destination or at sea.

04 CAD is frequently used with established supplier relationships, for medium order values, or as an interim solution between prepayment and open payment terms.

05 Precisely agreed document lists and deadlines in the framework agreement or its annex are decisive for smooth processing.

06 CAD must be distinguished from Documents Against Acceptance (D/A) and Documentary Collection under the URC 725 rules.

Definition: Cash Against Documents (CAD)

Cash Against Documents (CAD) refers to a payment method in which a bank only hands over the transport and trade documents to the buyer once the invoice amount has been paid. Only with the documents can the buyer generally dispose of the goods, for example by presenting the bill of lading at

the port. CAD is thus a documentary collection with immediate payment upon handover of the documents.

Distinction from letter of credit and open payment terms

Under a letter of credit, a bank commits to payment provided the documents are formally correct; the bank's payment risk is therefore central. Under open payment terms, the buyer only pays after an agreed period and without documentary security. CAD lies in between: it secures access to the documents against immediate payment, but checks neither the buyer's creditworthiness nor the quality of the goods.

Related methods: D/A and Documentary Collection

Besides CAD, there is Documents Against Acceptance (D/A), in which the buyer receives the documents against acceptance of a bill of exchange and pays at a later date. Both variants fall under documentary collection under the Uniform Rules for Collections (URC 725). In practice, buyers and sellers sometimes use CAD inconsistently; the exact terms should always be fixed in writing, for example in a framework agreement annex.

Methods and procedure for CAD in the procurement process

The process follows a standardised sequence via seller, banks and buyer. For technical procurement, what matters most is the clean specification of the documents and the interfaces to logistics and the finance department.

Process of a CAD transaction

The seller ships the goods and submits the agreed documents to their bank. This forwards them to the buyer's bank, which requests payment from the buyer. After payment has been received or a bill of exchange accepted, the buyer receives the documents and can collect or import the goods. The process corresponds structurally to documentary collection; the detailed agreements on document types and deadlines are already settled in contract negotiations.

- Shipment by the seller in accordance with the agreed Incoterms, frequently Incoterms FCA at the place of dispatch
- Submission of the document list to the seller's bank
- Forwarding via the buyer's bank and request for payment
- Release of the documents against payment and takeover of the goods

Documents and customary paperwork

Typical documents are the commercial invoice, packing list, bill of lading or air waybill, certificate of origin, insurance certificate and, depending on the product category, declarations of conformity, such as the PPWR declaration of conformity for packaging. The document list must be agreed clearly and completely, since deviating or missing papers block release. For supplied parts subject to inspection, it

is also advisable to contractually stipulate that inspection documents for spot checks be enclosed.

Integration into procurement strategy and contracts

CAD typically suits individual larger orders or call-offs from a framework agreement when neither prepayment nor open payment terms are appropriate. Payment modalities form part of the supplier strategy and risk diversification: by operating several suppliers with different payment and security models, liquidity and default risks are spread. The risk register or a Risk Heatmap should assess documentary payment forms as a risk field.

Key KPIs and metrics for CAD processes

CAD affects cash flow, turnaround times and process quality. The following metrics are suitable for steering and monitoring.

Turnaround time and document quality

Central is the time from document submission to release to the buyer; in practice, documentary collections typically take between a few days and two weeks. The first-time-right quote for documents, i.e. the proportion of discrepancy-free submissions, should exceed 95 per cent in well-established processes. Discrepancies cost time and can lead to warehousing and demurrage costs.

Liquidity and delivery effects

Since CAD requires payment before or upon goods availability, it ties up capital; relevant metrics include Cash Conversion Cycle and Working Capital. At delivery level, classic metrics such as Fill Rate and Expedite Rate remain equally applicable. Subsequent performance via the returns process is difficult to secure under CAD, which is why quality assurance must act in advance using metrics such as Quality (PPM).

Risks and controls in the CAD payment method

CAD significantly reduces the seller's risk, but shifts substantial risks to the buyer and harbours process pitfalls. Controls on the buying side are therefore indispensable.

Buyer risks: goods, quality and payment obligation

The banks only check documents formally, not substantively; whether the goods are contract-compliant only becomes clear to the buyer after payment. If the goods have already been shipped, the buyer may come under pressure to pay even in the event of defects. This is where pre-agreed inspections help, such as a spot check before shipment or on receipt, clear quality criteria in the framework agreement annex and, where necessary, a bank guarantee/suretyship as a recourse instrument for warranty cases.

Supplier risks and unclaimed documents

For the seller, there is the risk that the buyer will not take up the documents; the goods then sit at the destination port and incur storage costs. In practice, suppliers respond with advance payment shares, a bank guarantee/suretyship from the buyer, or by falling back on a letter of credit. In contract negotiations, alternative disposal of the goods, cost allocation and deadlines should be regulated.

Organisational controls

All CAD agreements belong in the Contract Repository so that payment terms, document lists and deadlines are audit-proof and retrievable. In the small order process, CAD is generally uneconomical due to the administrative effort; open terms or payment services remain more usual here. Fraud prevention includes checking bank details and four-eyes approval before every payment release.

Current developments around CAD

Digitalisation, regulatory requirements and alternative payment models are noticeably changing the practice of documentary payment methods.

Digitalisation of document exchange

Electronic trade documents, including eBL approaches for the bill of lading, shorten turnaround times and reduce discrepancies. Interfaces to procurement planning and to systems such as Punchout or electronic integration via the Global Location Number (GLN) improve data quality along the chain. Integration into Request for Quote (RFQ) processes remains unusual, yet payment modalities are increasingly being queried already in tenders.

Regulation and sustainability

Evidence and documentation obligations are increasing, for example regarding the EU Taxonomy in supplier evaluation or packaging requirements via the PPWR declaration of conformity. Such evidence can become part of the customary documents. Buyers should therefore regularly adapt document lists to regulatory changes.

Alternatives and hybrid models

In practice, supply chain financing, export credit insurance and payment platforms are gaining importance, distributing risks differently from CAD. Many buyers use CAD selectively, for example for initial deliveries from new markets, and later switch to open payment terms. The choice should form part of a methodical approach to supplier strategy and the continuous updating of the risk register.

Typical metrics

Metric	Typical value

Document discrepancy rate	< 5% *Proportion of resubmissions requiring correction; target in well-established processes*
Document turnaround time	3–14 days *From submission to release; dependent on banks and transport route*
Cash Conversion Cycle	individual *CAD ties up capital before goods availability; monitor with the finance department*
Quality (PPM)	< 500 PPM *Industry-standard benchmark for supplier part quality, mitigating CAD risks*

Practical example

A medium-sized machinery manufacturer sources castings for the first time from a supplier in a non-European country. The supplier does not accept open payment terms, and the buyer is reluctant to bear the cost of a letter of credit. The parties agree CAD via their respective house banks.

- Fixing the complete document list, including quality certificates and the PPWR declaration of conformity, in the framework agreement annex
- Agreeing Incoterms FCA at the place of dispatch with a clear allocation of responsibility for freight and insurance
- Spot checks by an independent inspection body before shipment as a condition of payment, documented in the accompanying inspection report
- Recording all agreements in the Contract Repository and assessing the residual risk in the risk register

Conclusion

Cash Against Documents is a proven instrument for limiting payment risks in international procurement without the complexity of a letter of credit. It protects the seller regarding document access, but shifts quality and acceptance risks to the buyer. What matters are precise document lists, clear Incoterms, mutually agreed inspections and clean documentation. Buyers should use CAD selectively and on a risk basis, in line with the supplier strategy and the risk register. Those who systematically set up the process, metrics and controls achieve a solid balance between security, cost and liquidity.

Frequently asked questions

? What does Cash Against Documents (CAD) mean?

CAD (Cash Against Documents) is a payment method in which the buyer receives trade documents

such as the commercial invoice and bill of lading only against immediate payment. Without payment, there are no documents and, as a rule, no access to the goods. The process is typically handled via the banks involved.

? What is the difference between CAD and a letter of credit?

Under a letter of credit, a bank pays against formally compliant documents and thus takes on the payment obligation. Under CAD, the buyer pays themselves; the bank merely releases the documents. CAD is generally cheaper and faster, but offers the seller less payment security.

? What risks does the buyer face under CAD?

The buyer pays before having inspected the goods; banks only check documents formally. In the event of defects, recourse is difficult, especially for goods in transit. Preventive measures include pre-shipment inspections, clear quality agreements and, where necessary, a bank guarantee/suretyship.

? When is CAD useful in procurement?

CAD is suitable for medium order values, initial business with new suppliers, or markets in which open payment terms are not accepted. For small orders, the administrative effort is usually disproportionate. The decision should form part of the procurement strategy and the risk register.

? How does a CAD transaction work in practice?

The seller ships the goods and submits the agreed documents to their bank. The bank forwards them to the buyer's bank, which collects the amount against release of the documents. Only after payment does the buyer receive the documents and can take over the goods.

? Which documents are customary under CAD?

Typical documents are the commercial invoice, packing list, transport document (e.g. bill of lading or air waybill), certificate of origin and insurance certificate. Depending on the industry, declarations of conformity, certificates or inspection documents are added. The exact list must be clearly agreed contractually.

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