

How to - work with Letters of Credit



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Chamber International 'How to Guide'



Do you really need a confirmed credit?

Letters of Credit cause more problems than almost anything else in an export transaction. It should be remembered that a Letter of Credit is a contract, and just as the beneficiary (exporter) expects to receive the full amount of money due, so the Bank and ultimately the customer, expects to receive exactly the documents with the wording specified in the contract. Banks are currently rejecting about 70% of all first presentations.

Like any contract, details of the letter of credit should be negotiated by the sales person and agreed before an application is made. Amendments cost money, take time and can cause ill feelings. A little care taken right from the start can avoid problems later on.

Do you really need a confirmed credit? Confirmation is difficult to obtain and increases costs.

Presentation of correct documents is essential IN EVERY

DETAIL. One mistake can create the risk of delayed payment, or even non payment. "Near enough" is NOT good enough.

Read our top ten tips to help increase your success.

1. Ensure you are aware of all documentary requirements and their costs.

Letters of Credit can cost hundreds or even thousands of pounds. Minimum charges can be high. You should include the costs in your selling price.

2. Ensure that the description of goods in your quotation/proforma is as brief and succinct as possible.

The longer and more detailed the description, the greater the possibility for errors and non payment.

3. Tell your customer what details you want and what documents you will provide. Use UCP600 as a guide.

You know what you can provide. Some documents may cost you a lot

Your freight forwarder is a vital link

of money and take time to obtain. Make sure the terms of the credit are reasonable and are costed.

4. Ask for a faxed copy of the application before your customer submits it to his bank.

You can then have a final check that the terms called for by your customer are acceptable.

5. Immediately on receipt of the credit, take photocopies – for freight forwarder and all in house who created the quote and who will be dealing with any documents.

Your freight forwarder is a vital link. They should check the credit, as well as you, and tell you if they need amendments to fulfil their roles.

6. Ensure all in house agree on the description of the goods for all documents.

All staff who have anything to do with documents must use the same words and terminology. Documents should agree with each other.

7. Create a check list of documents needed as you check the credit.

A list made at first reading will be an

invaluable check-list when collating documents.

8. Ensure you have sufficient time to manufacture and despatch goods, and submit documents after despatch.

Late shipment and/or presentation can risk non payment. Amendments take time and cost money.

9. Ask your customer for any necessary amendments immediately.

If step 4 has been taken, amendments should not be necessary. If they are needed, you must request them immediately and decide who pays for them.

10. Ensure two people check documents in a quiet room before presentation. Use UCP600 as a guide.

The person who has been dealing with the details cannot be expected to check properly. A fresh set of eyes is needed as well. Ideally checking should be done away from phones and other interruptions. UCP 600 must be followed in detail.