

# Factors Contributing To The Use Of Commercial Letter (S) Of Credit On International Business Transaction(S): A Case Of Manufacturing Industries In Kenya

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## Abstract

The use of letters of credit has become a very important aspect of international trade due to the nature of international dealings including factors such as distance, differing laws in each country and difficulty in knowing each party personally. The LC therefore helps both the importers and exporters in the sense that the importer will be waved the liability of incurring bad debts and on the other hand the exporter is saved the fear of losing his money when dealing with the importer directly. It is therefore a hedging and also the most sophisticated payment. This study attempted to establish factors contributing to the use of Letter of credit in international business aspiring to address the objectives which touches on the impact of exporter/importer standing bank credibility and its association to using the LC, explore the extend on the bank inefficiencies and the central bank policies contributing to the LC ,how the bank financing to the company contributes to the application of the LC method and finally ascertain which risks and challenges are a major concern to pushing the use of LC. The study targeted forty Companies from the manufacturing sector in Kenya considering industries on areas of Plastics and Rubber, Chemicals and Allied, Building, Mining and Construction, Food and Beverages and Pharmaceuticals and Medical Equipment's considered to be using LC for its payments. Simple random sampling technique was used in this study to enable equal chances of all the targeted companies being selected. The study also used respondents with expertise in this area of study to answer questions being financial controllers, procurement or logistics manager and directors. The primary data was collected using structured interviews and questionnaires which were then analyzed using statistics, Graphs and pie charts. Summary of the findings was discussed and recommendations made.

**Keywords:** Letters of credit; international trade; contractual agreement; issuing bank; receiving bank.

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## **1.0 Introduction**

### *1.1 Background*

Merchants in the Mediterranean area, particularly in Northern Italy, used a forerunner of the documentary letter of credit, the so-called letter of payment, which was a simplified form of a bill of exchange, from at least the twelfth century on [3]. This “lettera di pagamento” or “lettera di cambio” as it was later referred to. The study by Wiley [22] describes LC to be a four- party undertaking whereby a farmer, agent or business correspondent was ordered to make payment at another place or at a fair to an appointed person in order to settle an exchange between the sender of the “letter” and a person named in it.

In the early seventeenth century, this precursor to the letter of credit was replaced by the three-party bill of exchange, which proved to be more useful because of its negotiability. In 1948 it was noted that a vast majority of today’s commercial letters of credit are issued irrevocably [8]. This is understandable when one considers the security interest of the beneficiary. A documentary credit that can be revoked at any time by the issuer without notice and sufficient reason is of little use to the beneficiary [8]. Furthermore, the beneficiary must give notification of rejection of amendment to the bank that advised the amendment at once [7]. A revocable letter of credit can be amended or cancelled by the issuing bank at any time without the consent of the beneficiary, often at the request and on the instructions of the applicant. There is no security of payment in a revocable letter of credit. The words "this credit is subject to cancellation without notice", "revocable documentary credit" or "revocable credit" are usually indicated in the LC.

If you are exporting, or thinking of exporting, one of the issues that you will need to consider is how to collect payment from your buyer. Several options exist. One is to ask the buyer to prepay for the goods. This option provides you with a relatively high degree of assurance that you will actually receive payment. However, you may find it difficult to find a buyer who will agree to these terms. Another option is to sell on open account that is to send an invoice to the buyer along with the goods which requests payment of the purchase price. This approach will certainly be agreeable to any buyer but it poses other risks as well including not getting goods paid for.

In this sense issues like sale invoices cultural, political and legal uncertainties that may render the realization of the contract problematic, reasonable businessmen seek to protect themselves against these pitfalls of international engagements [23]. In other words risk and particularly the risk of non-performance or non-payment by the other contracting is becoming a factor of increasing significance and concern in international trade [10]. The document by which the world has turned to overcome these risks is the letter of credit because it serves as both a method of payment as well as security for the goods or services sold, the letter of credit takes each party’s interest into account and this considerably facilitates complex international transactions.

Harfield [10] summarizes that a Letter of Credit normally called LC is a contractual agreement between banks on behalf of its customers, it is thus a written obligation to the supplier of the goods or services to pay certain financial amount according to the LC conditions, provided that the recipient of the Letter of Credit shall furnish the documents set forth in the LC conditions.

The bank acts on behalf of the buyer (holder of letter of credit) by ensuring that the supplier will not be paid until the bank receives a confirmation that the goods have been shipped [20]. It is often used in international transactions to ensure that payment will be received and that commercial letters of credit come in all shapes and sizes [14]. Some involve multiple banks, numerous documents, and specialized terms that perform such functions as providing financing for the buyer or the seller. Other credits involve only one bank and a few documents. In general [23], expresses that the terms and conditions as well as the cost of a commercial credit vary depending on the value of the underlying transaction, the political and economic risks associated with the transaction, the relative bargaining power of the buyer and the seller among other factors. The letter of credit thus continues to play an indispensable role in the financial and securing of international commercial transactions [9].

Its usefulness and efficacy derives primary from the fact that it is independent from the underlying relationship between the buyer and the seller. Therefore, a Letter of Credit is a payment term generally used for international sales transactions [14]. It is basically a mechanism, which allows importers/buyers to offer secure terms of payment to exporters/sellers in which a bank (or more than one bank) gets involved. The technical term for Letter of credit is 'Documentary Credit' [8]. One must understand that Letters of credit deal in documents, not goods, the idea in an international trade transaction is to shift the risk from the actual buyer to a bank. Clarkson [4] also notes that the parties to an international trade sales contract encounter commercial idiosyncrasies not commonly seen in domestic transactions, often they do not know each other very well and in contrast to many domestic transactions, it is practically impossible for delivery of the goods or services and payment to occur simultaneously. The issuing bank makes the payment upon the successful presentation of the required documents by the seller within the specified time frame. Note that the issuing bank scrutinizes the 'documents' and not the 'goods' for making payment. Thus the process works both in favor of both the buyer and the seller [4].

The seller gets assured that if documents are presented on time and in the way that they have been requested on the LC the payment will be made and buyer on the other hand is assured that the bank will thoroughly examine these presented documents and ensure that they meet the terms and conditions stipulated in the LC. It is therefore noted that Commercial letters of credit have been used for centuries to facilitate payment in international trade. Their use will continue to increase as the global economy evolves [16]. Despite doubts as to the usefulness in times of progressive development of multi-branch and multi-national banks, the letter of credit continues to play a major role in mercantile practice. This evidenced by the rapid and unprecedented expansion in the volume of letter of credit transaction in the recent years.

### *1.2 Statement of the Problem*

In the current world of evolving market trends, constantly changing economy and high standard of living, trust among business parties, risk and challenges faced in transactions not to mention different countries ever changing banking laws and policies governing foreign exchange besides political instability mostly faced in undeveloped countries. There is fear of loss of goods and money initially using invoice or pre-payments for the goods purchased which has become one of the challenging part of an importer and exporter now given the difficulties involved in collecting debts in foreign jurisdictions, any businessman will be advised not to agree to account or any direct cash/invoice method of payment, especially with a buyer with whom you have not done business previously.

Firms are therefore being faced with the need to look for safer payments methods for their international business transactions. Between these extremes of unsafe pre-payment and open account sales has led to the use of letter of credit. The risk responsibilities has been transferred to both issuing and advising bank which enables both parties cover the risk exposure, this is because without proper control and processes, the many collapsing banks and unstable bank laws and other issues like smuggling with some countries among others having difficult forex issues this can lead to great losses.

LC is today being used by many as the preferred method of payment internationally, despite the fact that it is difficult for both bank customers or public to obtain information from banks on ineffectiveness of other forms of payment since banks are selling a product, it is understandable that there is little interest on their part in letting the public know how often the other payment methods does not work thus there is a believe that exporters expecting to be paid under a pre-payment or EFT may be sadly disappointed. This study therefore served to assess the factors contributing to the use of LC in international payment.

### *1.3 Objectives of the Study*

#### *1.3.1 General Objective*

The main objective of this study is to establish factors contributing to the use of Letter of Credit in International Business Transactions.

### *1.3.2 Specific Objectives*

The specific objectives of this study are:

- To find out how the impact of Exporter/ Importer standing bank credibility is associated with using letters of credit.
- To determine how the bank financing or credit facilities to the company contributes to the application of the LC.
- To explore to what extent does the bank inefficiency and the Central Bank policies in different countries contributes to use of LC.
- To ascertain which risks and challenges are major concern to pushing the use of LC in international transactions.

## **2.0 Literature Review**

### *2.1 Theoretical Framework*

#### *2.1.1 Theory on the Legal Basis of the Payment Obligation of Issuing Bank*

This theory is based on the fact that, to a businessman nothing is simpler than an irrevocable letter of credit transaction, he or she never thinks about the nature of the obligation incurred by the issuing bank. However, significant uncertainty, ambiguity as to the nature of the obligation arises when lawyers, judges or legal scholars start to think about the legal basis of the bank's commitment [8]. To a lawyer, judge or legal expert every commitment or obligation must be based on certain legal principle or legal theory [8]. From the beginning of the nineteenth century, various legal theories have been advanced to explain, to define or to justify the legal basis of the obligation. Majority of these theories have been based on the traditional legal principles such as law of contracts, law of negotiable instruments. In many cases judges justify the obligation simply assuming that the obligation has come out of contractual relationship between the parties.

#### *2.1.2 Theories Based on Law of Contract*

This theory is based on a legal enforceable agreement entered into by two or more different persons with legal capacity [15]. The law of contract involves the offeror, the offer and offeree. The parties should have serious intention to create legally binding obligations, their agreement needs to be within parties' contractual capacity and parties should communicate such intention without vagueness each to the other and being of the same mind to the subject matter. This theory explains the LC as a contractual agreement between the buyer and the seller or importer and exporter, with the mandate to buy/sell while the other party agrees to pay.

#### *2.1.3 Theories Based on Law of Negotiability*

This theory is based on the terms of its transferability of LC from one party to the other. Letters of credit are usually negotiable [1]. The issuing bank is obligated to pay not only the beneficiary, but also any bank nominated by the beneficiary. Negotiable instruments are passed freely from one party to another almost in the same way as money. To be negotiable, the letter of credit must include an unconditional promise to pay, on demand or at a definite time. The nominated bank becomes a holder in due course. The transaction is considered a straight negotiation if the issuing bank's payment obligation extends only to the beneficiary of the credit [12]. If a letter of credit is a straight negotiation it is referenced on its face by "we engage with you" or "available with ourselves". Under these conditions the promise does not pass to a purchaser of the draft as a holder in due course. The following procedures

include a flow of events that follow the decision to use a Commercial Letter of Credit.

### 2.1.4 Letter of Credit Cycle

there has to be an agreement between the seller and the buyer to do business [12]. The seller wants a letter of credit to guarantee payment, the buyer applies to his bank for a letter of credit in favor of the seller and the bank approves the credit risk of the buyer, it then issues and forwards the credit to its correspondent bank (advising or confirming). Advising bank will authenticate the credit and forward the original credit to the seller (beneficiary) who ships the goods, then verifies and develops the documentary requirements to support the letter of credit [20]. Seller presents the required documents to the advising or confirming bank to be processed for payment.

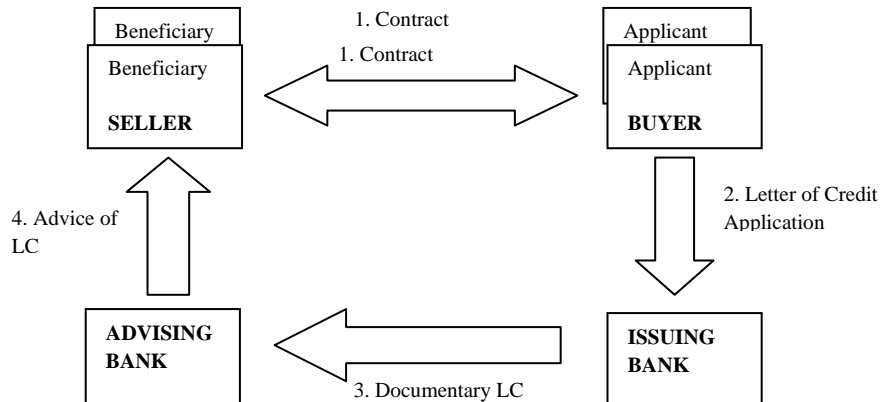


Fig. 1: Letter of Credit Cycle

Advising or confirming bank examines the documents for compliance with the terms and conditions of the letter of credit. If the documents are correct, the advising or confirming bank will claim the funds by debiting the account of the issuing bank while waiting until the issuing bank remits after receiving the documents. Advising or confirming bank will forward the documents to the issuing bank which will examine the documents for compliance. If they are in order, the issuing bank will debit the buyer's account which later forwards the documents to the buyer [20].

### 2.2 Conceptual Framework

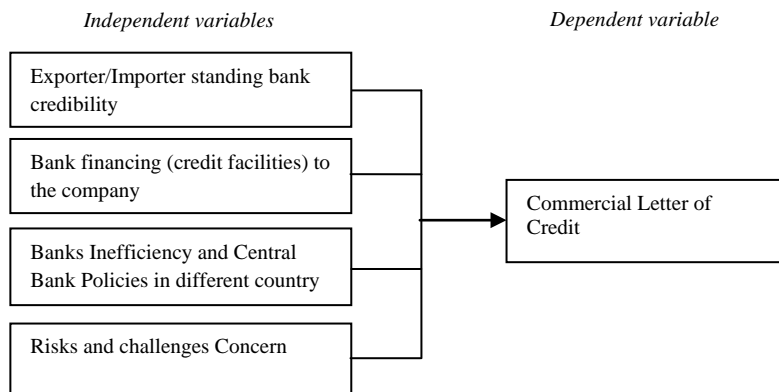


Fig. 2: Conceptual Framework

The conceptual framework is made of independent variables and the dependent variable as shown in Fig. 2.

### *2.3 Critique of Existing Literature*

Careful study of the theories on legal basis reveals that all these theories have come out of the misperception and misunderstanding of the nature and function of letters of credit. Some of these theories have advanced by ignoring the fundamental purpose of letters of credit [2]. These theories, eventually, may create many problems to the smooth functioning of the successful instrument rather than to solve the puzzle of legal basis. The obligation neither based on the law of contract nor based on the law of negotiable instruments, the obligation is of unique nature and based on the repetitive and continuous practices of trade usage.

However, there is no option to think that the practice has no legal sanction. The practice, on passing the difficult tests of reasonableness, certainty, continuity, and binding effect, has become an enforceable usage [12]. Judicial notice or judicial recognition of the enforceable usage has conferred upon it with the authority of law. Thus the issuing bank is legally binding to honor the draft of the beneficiary. Other research has also seen aimed at keeping procedures and options of LC out of question such as irrevocable confirmed LC. However, such a narrow focus of only irrevocable LC may not fully explain the effectiveness because such a letter which can never be confirmed and irrevocable can lead to payment even when the receiver of goods is not sure of the availability of goods or if the person being paid is in actual sense the true owner.

Understanding its options enables greater knowledge of the best alternative possible and negotiation of better terms. Therefore, instead of intentionally avoiding the aspects of options available, they should be explored wholly. Other studies has focused in stand by letter of credit which means the buyer is supposed to owner the terms by paying immediately when due but does not focus on the issues concerning the buyer when his cash flow does not allow him to pay immediately.

### *2.4 Summary*

In summary, this chapter presents the literature review in context of letters of credit usage among parties, the documentary credit is a payment and security instrument, which is independent from the underlying transaction and is documentary in nature that is documents are used to represent goods or services. Its major concentration is the payment of the goods or services even if there is no satisfaction of the other party. The study contacted by Harfield [11] says that traditionally, the documentary credit has been used as a payment mechanism in conjunction with the sale of goods contracted between geographically distant parties. In such a transaction, the buyer of the goods or services, the applicant, requests the issuer in most cases a bank, to open a documentary credit for the foreign vendor of the goods or services, the beneficiary.

In accordance with the buyer's instructions, the issuing bank promises the vendor to pay a specified amount of money should certain documents as required by the credit be presented to the bank and conform to the stipulations of the letter [12]. These documents usually include commercial invoices, bills of lading or other transport documents, warehouse receipts, insurance documents and customs and inspection certificates. They serve to verify both the agreed upon quality and quantity of the purchased goods, as well as the fact that they have been delivered. If the documents tendered by the vendor conform with the documentary credit, the vendor is then paid by the issuing bank. Credit Research Foundation [6] denotes that Letter of credit can be irrevocable or revocable.

The LC usually indicates whether it is an irrevocable or revocable letter of credit. In the absence of such indication, the LC is deemed to be irrevocable. An irrevocable LC cannot be amended or cancelled without the consent of the issuing bank, the confirming bank, if any, and the beneficiary. The payment is guaranteed by the bank if the credit terms and conditions are fully met by the beneficiary. The words "irrevocable documentary credit" or "irrevocable credit" may be indicated in the LC. In some cases, an irrevocable LC received by the beneficiary may become invalid without the amendment or cancellation of such LC, for example, when the trade between importing and exporting countries is suspended such as in a trade sanction, or when the issuing bank has ceased operation [7].

### 3.0 Methodology

#### 3.1 Research Design

A research design encompasses the methodology and procedures employed to conduct scientific research. It is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to purpose with the economy in procedure [19]. This study used descriptive research design which is a research for which the purpose is to produce an accurate representation of persons, events or situation [21]. The main aim of using the descriptive research design was to give descriptively a clear investigation on the areas of contribution on the LC payment method.

#### 3.2 Target Population

Population refers to an entire group of individuals, events or objects having a common characteristic that can be observed and measured [19]. This study focused on manufacturing industries in Kenya a list which was obtained from KAM directory and any other data source available. It comprised the manufacturing companies in categories of Plastics and Rubber, Building, Mining and Construction, Chemicals and Allied, Food and Beverages, Pharmaceuticals and Medical Equipments. It was fundamentally important to target this group because the LC is said to be internationally used and manufacturing sector being the biggest sector in Kenya either importing raw materials for their production , importing trading products or exporting already produced finished goods the study felt this sector provided enough information and data to analyze the use of letters of credit.

#### 3.3 Sample Frame

A sampling frame as a list or other device used to define a researcher's population of interest [19]. It defines a set of elements from which a researcher can select a sample of the target population. The sample frame of this study consisted of Manufacturing industries which forms the biggest sector in Kenya which constitutes five areas of manufacturing including Building, Mining and construction, Plastics and rubber, Chemicals and Allied, Pharmaceuticals and Medical Equipment, Food and Beverages which forms a total of 48.03% share of membership as noted from KAM directory and believed to be using LC.

Table 1: Sample on Industries

Industry	No of Industries to be Sampled	Respondents	Total Sample
Building Mining & Construction	6	6	6
Chemical & Allied	10	10	10
Plastics & Rubber	5	5	5
Food & Beverages	12	12	12
Pharmaceuticals & Medical Equipment	2	2	2
Other	5	5	5
<b>Total</b>	<b>40</b>	<b>40</b>	<b>40</b>

#### 3.4 Sample and Sampling Technique

A representative sample is one that is at least 10% of the total population [19]. This sample of 30% was used because it is more representative than the 10%. With a large sample the researcher is confident that if another sample of the same size were to be selected, findings from the two samples would be similar to a higher degree [19]. This study therefore used 30% of the total population. The study also adopted simple random sampling which covered the Manufacturing companies in Kenya.

Table 2: A list of KAM Sector Members

<b>Industry</b>	<b>No of Companies</b>	<b>Percentage</b>
Service and Consultancy	75	10.2%
Building Mining & Construction	23	3.12%
Chemical & Allied	70	9.52%
Energy Electrical & Electronics	39	5.33%
Food & Beverages	172	23.43%
Leather and Footwear	10	1.36%
Metal & Allied	71	9.65%
Motor Vehicle & Accessories	40	5.44%
Paper & Board	64	8.70%
Pharmaceuticals & medical Equip.	24	3.26%
Plastics & Rubber	64	8.70%
Fresh Produce	2	0.27%
Textiles & Apparels	60	8.16%
Timber, Wood & furniture	17	2.31%
<b>Total</b>	<b>735</b>	<b>100%</b>

Source: Kenya Association of Manufactures Directory, 2013

Table 3: Sample Size on Industries

<b>Industry</b>	<b>No of Industries to be Sampled</b>	<b>Percentage</b>	<b>Total Sample</b>
Building Mining & Construction	6	30%	1.8
Chemical & Allied	10	30%	3.0
Plastics & Rubber	5	30%	1.5
Food & Beverages	12	30%	3.6
Pharmaceuticals& Medical Equipment	2	30%	0.6
Other	5	30%	1.5
<b>Total</b>	<b>40</b>	<b>30%</b>	<b>12</b>

Table 3 shows the sample size used for the study.

### *3.5 Data Collection Procedures*

Primary data is defined as data collected specifically for the research project being undertaken [21]. The researcher used primary data for this research which was collected through administering questionnaires to the targeted



respondent's. The secondary data was used in analysis which entailed studying and analyzing books, and past research studies. The researcher also used coding of the collected data which Cronbach [7] defines as an interpretive technique that seeks to both organize the data and provide a means to introduce the interpretations of it into certain quantitative methods. The researcher prepared reports from the open end questionnaire then finally summarized it showing the relationship between the use of LC which was plotted in form of graphs and charts. For collection of data purposes the questionnaires were dropped personally or emailed by the researcher to the offices of selected companies' head of departments and official respondents who were given a brief introduction of the research study and later the questionnaire were picked the same day or at a later date.

### *3.6 Data Processing and Analysis*

The data collected was checked for completeness, coded and tabulated for validity and reliability of the research findings. It was then analyzed using descriptive statistics which enabled the researcher to draw conclusions. The analysis was performed using descriptive statistics especially frequencies, percentages and mean score. The results were then presented in form of tables, graphs and charts for ease of understanding.

### *3.7 Pilot Test*

To ensure validity and reliability of the research findings the researcher pre- tested the questionnaire upon completion in alignment with its objectives, to ascertain if it met the need. A validity and reliability test was also done for the sample in order to access the reliability of the questionnaires precisely. Mugenda [19] notes that this pre-testing allows a researcher to make meaningful observations and corrections.

## **4. 0 Research Results and Discussion**

### *4.1 Servicing of Banks on LC*

Since banks are only offering services they also have to make sure that all risk factors are covered. In this case sometimes the banks need the assurance of the availability of funds by their client. In matters where the client liquidity position is in question they will ask the party to make sure they have enough funds in the bank to cater for those transactions. Most respondents felt that in most cases cash flow due to security and safety purposes is the key factor to the banks asking for servicing which scored aggregate of 57% because some banks do not release the documents until paid. While most respondents do not service their LC due to the relationship they have with the bankers the study found out that the requirements by the CBK was the reason which scored 43%. These results on emphasis of servicing LC are presented on the Fig. 4 below.

Table 4: Emphasis on Servicing LC

<b>Emphasis on LC Servicing</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Security	10	32%
Safety	9	25%
Requirements by CBK	6	43%
<b>Total</b>	<b>28</b>	<b>100%</b>

### *4.2 Discussion*

From the study it was confirmed that Letter of Credit has been very much appreciated by most of the exporter /importer companies despite few drawbacks. Its fundamental benefits are said to be way beyond the drawbacks of the process. 64% of the respondents on the company experience using LC felt that despite everything LC has proved to be more viable and reliable in areas of country risk when the country of origin is questionable especially industries whose production of raw materials comes from areas of questionable validity of the exporter. An average

of 57% is always using the LC internationally with major areas of trade being from Asian companies. The study found out that China for example has been much preferred export area and India with their Central bank laws much similar to Kenya and not tedious in matters of payment and currency issues.

From the study the general overview of factors contributing to the use of LC came up to be security as a major considering factor especially when dealing with the supplier for the first time. Most respondents felt that most of the company's selling or buying do not exist and the LC helps them by dealing with the bank directly to ensure the payment goes to the bank including the document before any goods are released. The financial part was also felt by respondents by those stable banks having slightly higher charges than the other and some of them also insist on using the confirmed irrevocable letter of credit which they charge commission for confirming the same.

## **5.0 Conclusion and Recommendations**

### *5.1 Conclusion*

The finding of this study indicated that quite a number of factors contributing to the use of LC. Some had much impact than the others depending on the type of the company. Clients should understand that in working with LC's, it is most important to get good advice from the outset, to learn the rules of the products, and to proceed with great care. Once mistakes have been made, too often they are irreparable and costly. The issues of security, safety, distance bank policies and laws, the bank financing and risk and challenges had contribution on Utilization of LC which out of that were most concerned about the parties involved the seller and buyer while the rest of the factors had impact on the country Central banking policies and regulation including the currency which brought the factors of exchange rates while only one factor had to do with the distance or country differences.

The credit department should be familiar with types of letters of credit available. Upon receipt of the letter of credit, the credit department should review all items carefully to insure that what is expected of the seller is fully understood and that he can comply with all the terms and conditions. When compliance is in question, the buyer should be requested to amend the LC. In the context of banking the bank should allow their customers to understand the repercussions in the transactions this is because the client relies on the bank to safeguard its money the CBK should also protect the banks through regulations when dealing with the banks internationally.

### *5.2 Recommendations*

#### *5.2.1 Knowing the Rules*

To maximize the chance for payment under an LC, a seller must know the rules of the LC. One of the major purposes is to protect the banks from liability in LC transactions. The banks are providing a service of financing the transaction and they expect to be protected from getting involved in disputes between the parties as to the terms of the contract of sale. For this reason "the independence principle" is a very important concept in LC transactions. This means that the LC, and the documents required under the LC for payment, are completely independent from the underlying transaction between buyer and seller.

The bank is not concerned with whether the contract between buyer and seller is being performed according to its terms. The bank's only concern is whether the documents presented by the seller conform to the documents required under the LC, and whether the documents are presented within the required time periods. The bank employees who examine documents presented under the LC are essentially clerks. Their job is simply to see if the documents presented by the seller/beneficiary comply strictly with the documents required by the LC. It is therefore very important in understanding the rules, because a lack of knowledge will only work to their disadvantage.

#### *5.2.2 Controlling the Process: Choosing the Issuing Bank*

When negotiating with the buyer, the seller should try to get the buyer to use a bank of the seller's choice to issue the

LC. He should find out from its own bank, preferably a bank with a substantial international presence, what corresponding bank it uses in the country of the buyer. If the buyer can have the LC issued by that correspondent bank, the process can proceed more swiftly. At the very least, the seller should insist that the buyer use a bank that is well-known and highly regarded by the banking community. This information can be provided by the seller's own bank on the financial status and reputation of the foreign bank. Since a major purpose served by an LC is that the issuing bank assumes the risk of the buyer's insolvency, if the bank itself is financially weak, the LC may not serve its purpose.

### *5.2.3 Keeping Documents Simple*

The seller should negotiate with the buyer prior to the issuance of the LC exactly what documents must be presented to the bank for payment under the LC. The most important thing from the seller's point of view is to have as few documents as possible, to have as simple a description as possible, and to be sure that all documents called for by the LC can be produced. In many cases, even if the documents do not comply exactly, the buyer will agree to waive any discrepancies in the documents, and, if the bank agrees, the payment will occur. In this case documents must be accurate, if there is a mistake or a problem with the documents which the LC requires to be presented, the seller should not ship goods until the LC has been amended.

On the other hand to keep goods out of the buyer's possession, the seller should be sure to have the marine bill of lading consigned to order of the bank. Since the marine bill of lading is a title document, a consignment to order of the bank gives the bank title to the goods until they have been paid for by the buyer. Assuming proper payment, the bank transfers title to the buyer, who can then take the bill of lading and go pick up the goods. If payment is not made, the bank has an obligation to hold the documents for the seller, or return them to the seller if instructed to do so by the seller. The buyer should not be able to get the goods without the title document.

### *5.2.4 Meeting the Deadlines*

Every LC has three important dates and a seller should make sure that each of these dates can be met, and should allow a large margin for error. After the LC has been issued, if the seller learns that the date for shipping goods cannot be met, he should not ship any goods until he obtains an amendment to the LC permitting later shipment. The exporter should make sure that the expiry date of the LC permits sufficient time to permit correction, if possible, of any mistakes in the documents. The Clients banks should offer enough information or guidance on matters arising when using this document and what to expect.

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