

PAYMENT SECURITY OF USANCE DOCUMENTARY CREDIT (DC) FOR BENEFICIARY'S BANK

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ABSTRACT

This research is conducted based on the understanding of that either Sight DC or Usance DC both have the same level of payment security for Beneficiary's Banks. In fact Usance DC is relatively safer than Sight DC for Beneficiary's Bank. In Usance DC payment is not made by the Beneficiary's Bank to the exporter upon receipt of export documents, but rather the payment is made upon receipt of acceptance message from Issuing Bank. Acceptance message contains the capability to pay on a certain date with a certain value from Issuing Bank to the Beneficiary's Bank. In other words, the payment is made by the Issuing Bank as stated in the acceptance message. This shows that Usance DC has a payment security and contains a relatively small risk of being unpaid. This research is made based on this phenomenon using a qualitative descriptive research method.

Keywords: Acceptance Message, Usance DC Mechanism, Sight DC Mechanism

INTRODUCTION

Payment procedure using Documentary Credit (DC) is a relatively safe compared to the one without using DC except 100 percent Advance Payment.

However, in terms of security risk, payment for Beneficiary's Bank is very dependent upon its mechanism. The payment security risk level for Beneficiary's Bank from Issuing Bank, based on the comparison of the Sight DC mechanism and Usance DC, according to UCPDC-ICC Publication No.600 Article 14b, Usance DC payment is deemed to be safer.

This is due to that at Sight DC payment is made by Beneficiary's Bank to the beneficiary (Exporter) upon receipt of export documents that have complied with the DC terms and conditions (Complying Presentation) .

There is still a potential risk of not being paid in Sight DC due to the opportunity of discrepancy / ies that is not found by the Beneficiary's Bank will be found by Issuing Bank.

This discrepancy can be fatal as this may lead to export transactions being unpaid, whilst the Beneficiary's Bank has made payment to exporter worth the presented export documents.

Sight DC that is not properly handled may bear a big risk to the Beneficiary's Bank.

Beneficiary's Bank is, therefore, obliged to properly verify export documents received and ensure that they have complied with DC terms and conditions.

As for Usance DC, payment is made by Beneficiary's Bank upon receipt of acceptance message from the Issuing Bank. The Beneficiary's Bank do not make payment when the exporter presents the export document but rather sends them all to Issuing Bank to obtain acceptance message. Based on the acceptance message, the Beneficiary's Bank will provide 2 (two) alternative payments to the exporter, they are;

- 1) It can be directly paid by discounted, a reduction in draft value that should be paid to the exporter with a deduction factor which is called the discount value.
- 2) It can be paid at the time of maturity.

Payment for either Sight DC or Usance DC is largely determined by complying presentation condition and certainty of payment period which refers to UCPDC ICC Publication 600 Article No.14b Standard for Examination of Documents stating as follows:

A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank shall each have a maximum of five banking days following the day of presentation to determine if a presentation is complying. This period is not curtailed or otherwise affected by the occurrence on or after the date of presentation of any expiry date or last day for presentation.

Pursuant to article 14b, it is expressly stated that the Issuing Bank / Nominated Bank is given a maximum of 5 working days upon receipt of export document to provide information that the documents received have or have not complied with DC terms and conditions.

Article 14b is a benchmark that payment certainty and acceptance message will be received within a period of 5 (five) bank working days.

LITERATURE REVIEW

Documentary Credit Definition

Referring to Uniform Customs and Practice for Documentary Credit (UCPDC) Publication No.600 the Documentary Credit definition or referred to as "Credit" under UCPDC 600 Article 2 states as follows:

Credit means any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour **a Complying Presentation.**

Honour means :

- a. To pay at sight if the credit is available by sight payment
- b. To incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment.
- c. To accept a bill of exchange ("draft") drawn by the beneficiary and pay at maturity if the credit is available by acceptance.

Documentary Credit (DC) is a "conditional" undertaking payment letter issued by the Issuing Bank (Applicant's Bank) upon the request of the Applicant (buyer) to the Beneficiary (the seller) through Correspondent Bank where the payment is made by the Nominated Bank (the Designated Bank) or Negotiating Bank (Beneficiary Bank) to the beneficiary within the agreed period of time, if the Seller (Beneficiary) can present a "Complying Presentation". (Finny, 2016).

The word "conditional" in the above definition means that payment can be made as long as the beneficiary can present a "Complying Presentation". (Finny, 2016).

In other words, Complying Presentation is a requirement of the payment procedure to be paid by the Bank using a Documentary Credit so that Beneficiary is obliged to present a 'Complying Presentation'.

Complying Presentation

Based on Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication No.600 ("UCP") the meaning of Complying Presentation contained in article 2, states as follows:

Complying Presentation means a presentation that is in accordance with the terms and conditions of the credit, the applicable provisions of these rules and International Standard Banking Practice.

Complying Presentation is the presentation / submission of trade document by the seller (beneficiary) to the Nominated Bank and or Negotiating Bank or Beneficiary's Bank are complied with the terms and conditions of the Documentary Credit and conform to the International Standard Banking Practice /ISBP) (Finny, March 2017)

Sight DC and Usance DC

The type of DC based on the payment terms is divided into 2 (two), they are:

- a) Sight DC, this is a DC which payment is made by a bank (Nominated Bank and Issuing Bank) when the "complying presentation" documents have been received or sighted in time as stated in the DC.

In other words, Sight DC is a DC which payment is made when the draft and other required documents sighted have complied with the DC terms and conditions (Complying Presentation). (Finny, 2016)

- b) Usance DC is known as a DC term, it is a DC where payment is made by the bank (Nominated Bank and Issuing Bank) at maturity or upon receipt of acceptance message (Finny, 2016).

Beneficiary's bank

The Beneficiary's Bank is a bank where exporter opens the account and enjoys export facilities. It can act as a Negotiating Bank or Nominated Bank.

Documents Discrepancy/ies

Documents discrepancy (ies) is the documents condition that have not complied with the terms and conditions of Documentary Credit (DC) or are not complying presentation. It can be divided into 2 (two) types, they are:

- 1) Minor Discrepancy, it is a correctable discrepancy
- 2) Major Discrepancy, it is a discrepancy that cannot be corrected.

Discrepancy (ies) is a factor that makes the presented document being unpaid by the seller (beneficiary) to the Negotiating Bank / Nominated Bank due to non-compliance of documents with the terms and conditions of the DC (Finny, 2012)

Acceptance Message

Acceptance message is a message received from Issuing Bank by Beneficiary's Bank regarding the ability to pay a sum of money at a specific time. This message is only found in Usance DC types.

Sight DC Mechanism

PAYMENT FROM BENEFICIARY'S BANK TO EXPORTER
In Sight DC Mechanism

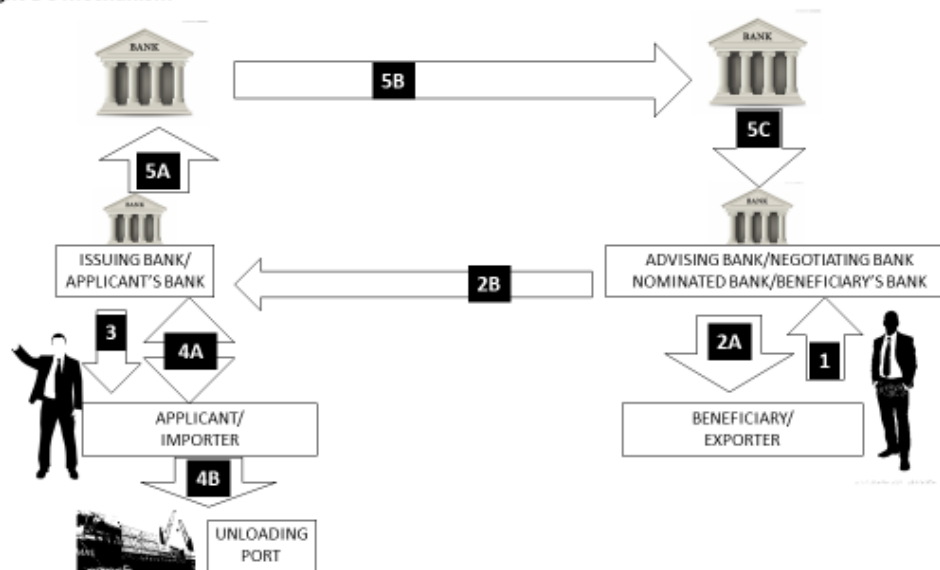


Figure 1 : Payment from Beneficiary’s Bank to Exporter In Sight DC Mechanism

No.	Caption :
1	Presenting export documents from exporter to Beneficiary’s Bank
2A	Should the export conditions be complied with the terms and conditions of DC, the Beneficiary’s Bank will then settle the payment to exporter.
2B	All original export documents are sent to Issuing Bank including reimbursement claim as stated in the schedule of remittance.
3	Inform the Importer that the documents have been received by the Issuing Bank from the Beneficiary’s Bank and have complied with DC terms and conditions and request the importer to complete all of its obligations
4A	Importer completes all obligations to Issuing Bank and then original export documents are submitted to the Importer.
4B	Based on the original export document, the importer takes the goods in the loading port.
5A	Issuing Bank instructs its Depository Correspondent to settle payment at maturity to the Correspondent Depository of the Beneficiary's Bank.
5B	Depository correspondent Issuing Bank debits the Issuing Bank account and credits the Correspondent Beneficiary's Bank depository account in the origin country of the currency through a clearing process at the local Central Bank.
5C	Beneficiary's Bank accepts reimbursement from Issuing Bank

Usance DC Mechanism

PAYMENT FROM BENEFICIARY'S BANK TO EXPORTER
In Usance DC Mechanism

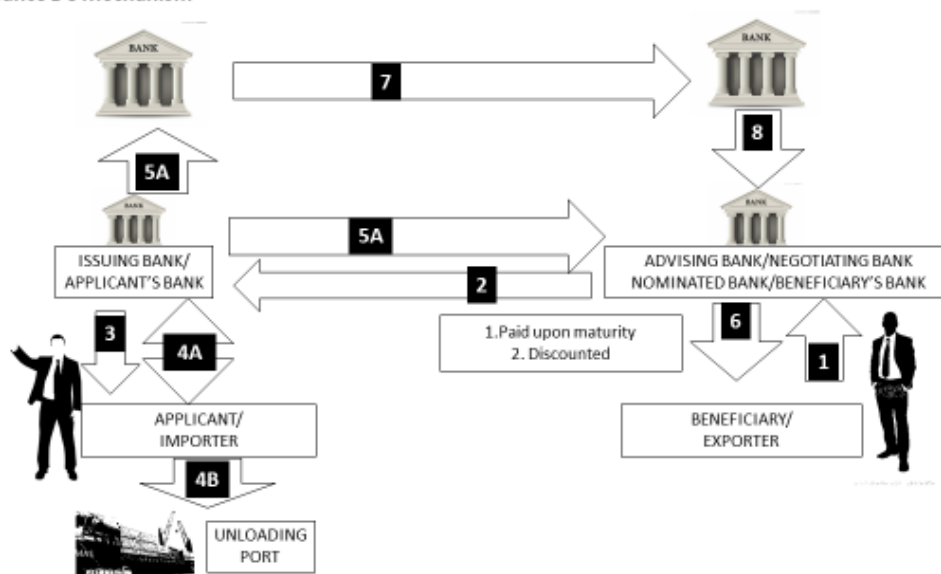


Figure 2 : Payment from Beneficiary’s Bank to Exporter In Usance DC Mechanism

No.	Caption :
1	Presenting export documents from exporter to Beneficiary’s Bank.
2	Export documents received by Beneficiary’s Bank, verified and sent to the Issuing Bank for acceptance.
3	Inform the Importer that the document has been received by the Issuing Bank from the Beneficiary’s and that have complied with DC terms and conditions and request the importer to complete all of its obligations
4A	Importer completes all obligations to Issuing Bank and then the original export documents are submitted to the Importer.
4B	Based on the original export document, the importer takes the goods in the loading port.
5A	Issuing Bank instructs its Depository Correspondent to settle payment at maturity to the Issuing Correspondent Depository of the Beneficiary's Bank.
5A	At the same time Issuing Bank sent acceptance message to the Beneficiary’s Bank.
6	Based on the acceptance message from the Issuing Bank, the Beneficiary’s Bank informs the exporter that acceptances message has been received and offers 2 (two) alternative payment options, namely: a. Payments will be made by the Beneficiary’s Bank to exporters at maturity. b. Payments will be made by the Beneficiary’s Bank to the exporter without having to wait for the due date, and made by discounted.
	At maturity, the Depository Correspondent Issuing Bank will debit the Issuing Bank account and credit the Correspondent Beneficiary's Bank depository account in the origin country of the currency through a clearing process at the local Central Bank
8	Beneficiary’s Bank receives payment from Issuing Bank at maturity.

METHODOLOGY

This study is a qualitative descriptive study with data collection using literature studies about Documentary Credit. The study was conducted to prove that the security of payment for Beneficiary's Bank of an export transaction using Usance DC is relatively safer than using Sight DC. Therefore, the comparison of the two payment mechanisms are carried out, they are the DC Mechanism Sight and Usance DC Mechanism while still referring to the UCPDC-ICC Publication No.600 Article 14b. From the results of these comparisons, there are several benefits obtained for the Beneficiary's Bank, they are: 1. There is a certainty of payment for the Beneficiary's Bank by receiving acceptance message; 2. Payments to exporter can be made upon receipt of the acceptance message; and 3. Payments to exporter by bank beneficiary can be made either a) at maturity or b) by discounted.

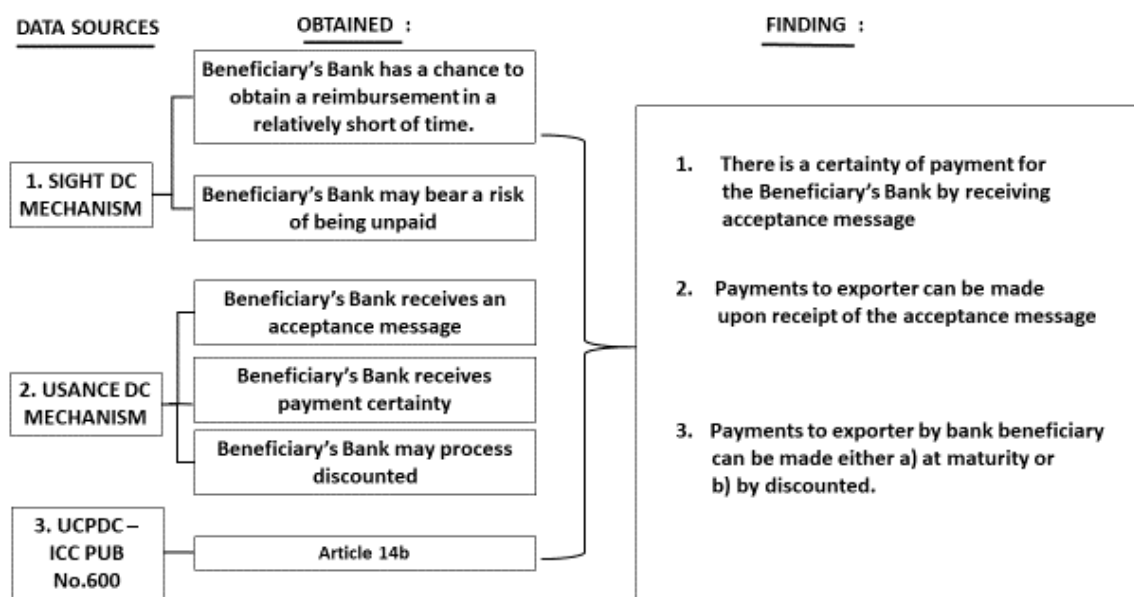


Figure 1. Payment Security of Usance DC for Beneficiary's Bank framework

FINDINGS

1. Sight DC Mechanism is the mechanism of foreign trade payment traffic using Sight DC where exporter will receive payment upon documents submission that have complied with DC terms and conditions (Complying Presentation) .
2. Usance DC Mechanism is the mechanism of foreign trade payment traffic using Usance DC where exporter will receive payment after the Beneficiary's Bank receives the acceptance message from the Issuing Bank. Payment to exporter can be made by discounted or paid at maturity.
3. In terms of security, payment using Usance DC for Beneficiary's Bank / Nominated Bank is relatively safer compared to Sight DC.
4. Beneficiary's Banks can request rediscounted to Bank Indonesia, if they are constrained by liquidity problems.
5. Acceptance message is the message sent by Issuing Bank to the Beneficiary's Bank containing the ability to pay of certain amounts at maturity.

CONCLUTIONS

For Beneficiary's Bank Usance DC is a type of DC that is very safe when compared to Sight DC because the Beneficiary's Bank does not make payment to exporter when he submits export documents (that have complied with DC terms and conditions), but it will only be effected upon receipt of acceptance message from Issuing Bank. Such payments can also be made directly upon receipt of acceptance message by discounted or when they are due.

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