

## **Letter of Credit Checklist and Guide for Export Sales Executives**

### **Introduction**

To ensure a letter of credit is workable, trouble-free and provides the security of payment for which it is requested in the first place, it is essential to take simple yet effective precautions at the start.

This checklist will help you establish a credit with your customer that is clearly understood, whether it be obligatory under local regulations or is the only means of payment acceptable to the exporting company.

It also refers to other, less secure, methods of payment and recognises the executive's "eyes and ears" role for the company when away from base.

The travelling executive is more than a direct representative of the sales and marketing function. He or she is also the arm's length intelligence source for finance, credit management, legal/secretarial, production, supply, distribution and, where applicable, after-sales service. This Checklist will assist in some of these functions.

It should be routine for all your company's related departments to have an advance list of planned overseas trips. Individual departments should provide a short brief on what they want to learn about the customer's current business, local economy, competition or other aspects of the market. Overseas, the trade representatives in the United Kingdom's diplomatic posts around the world are invaluable for updated on-the-spot advice. However they are very busy and cannot react effectively, if at all, to "cold-calling". Advise them as far in advance as possible of an expected visit date and include any other relevant information. This can either be done directly or through the country desk at the DTI. Speak to the UK Trade and Investment help desk for the country concerned by calling 020 7215 8000.

### **Before Leaving**

The following points are worth checking to see if they are applicable to a forthcoming visit, bearing in mind that sales are of little value to the company unless they yield budgeted profit and are paid for on time.

### **Financial and credit management**

- Individual customer credit limits, both "in house" and credit insurer if applicable. (Use of credit insurance should never be revealed to customers);
- Efficiency of local banking system and customers' situations;
- Methods of payment and terms if other than letters of credit allowed; (for letters of credit see next section)
- Acceptable currencies of sale;
- Exchange control regulations and delays in transfers;
- Import licence procedures.

### **Legal/Secretarial**

- Terms and conditions of sale;
- Agency or distribution arrangements;
- Retention of title;

- Protest re unaccepted/unpaid bills of exchange;
- Usefulness of appointing a "Case of need";
- Consignment stock -restrictions on repatriating unused stock;
- Product liability insurance;
- Situation re counterfeit supplies;
- Settlement of disputes (national law, arbitration).

**Production**

- Delivery periods on standard items;
- Delays in particular items;
- Customer preference for "non-standard" quantity packing;
- Special requirements such as pre-shipment fumigation;
- Outside suppliers.

**Shipping**

- Methods of transport available: direct or indirect;
- Frequency of departures;
- Approximate costs of alternative methods/routes;
- Type of packing;
- Correct Incoterm 2000 according to contract/transport mode;
- Optimum delivery point;
- Normal documentation;
- Goods insurance;
- Special documentation requirement such as:
  - Shipped on board or flight date;
  - Shipment "on deck";
  - "Claused" transport documents, and which clauses;
  - Delays for consular work or inspection formalities.

**After-sales service**

- Complaints re previous shipments;
- Suitability of product for market;
- Local technical ability;
- Spare part stocks;

**Letters of Credit**

Where local regulations require or the company insists on a letter of credit, the following points should be discussed:

- The credit - normally irrevocable - may need to be confirmed by a major bank in the UK if political and/or economic conditions are considered a risk;
- Currency;
- If unconfirmed, which local banks are acceptable as openers, bearing in mind a customer will wish to use his own bank;
- Where payable, and whether paid immediately or after an agreed period. Clearly payment in the UK 'at sight' is best, but the customer may want time to pay. Avoid credits payable outside the UK and requiring drafts drawn on the applicant;
- Who pays bank charges abroad and in the UK. This point is often overlooked;
- Expiry date must allow time for production, shipment and presentation of documents to the banks;
- Period for presentation of documents to bank following shipment. UCP 500 permits a maximum of 21 calendar days unless stipulated otherwise in the credit. The customer may prefer less, you may require more, but it must be made clear in the credit.

**Special circumstances to be covered**

- Transshipment - prohibition of transshipment is unsuitable for container shipments, or for air cargo;
- "Claused" transport document;
- On deck stowage - may be unavoidable with some types of goods, but banks will reject unless specifically permitted in the credit;
- Electronic pre-advise required? Credit to be advised electronically or by mail? The former will enable any amendments to be requested without delay.

**When Negotiating the Order or Contract with the Customer****Do you need a letter of credit?**

- For some new customers, as security for unusually large amounts, or in developing countries where it may be essential to obtain an import licence and allocation of foreign exchange.

**For open account.**

- Due date of payment is when funds are to be in the exporter's designated bank account, not payment locally;
- Documents by courier instead of airmail?
- Avoid additional payment delays due to banking weekends - such as with the Middle East.

**For documentary collections**

- All documents to be sent to the customer's bank, i.e. not direct?
- Local interpretation of "sight", e.g. after vessel's arrival?

- For term payments, bills of exchange to be accepted promptly? Protest action considered?
- Use of local Case of Need?

### **For Letters of Credit**

Complete customer's bank application form with him/her to represent the sales contract properly, watching for points in the following list. Take a copy to check against the credit when your company eventually receives it.

#### **General**

- All name and address details complete and correct;
- Instructions given for confirmation where required;
- Instructions as to preferred advising bank in the UK - this may however be determined by correspondent bank relationships, despite any exporter preference;
- Presentation of documents in UK unless otherwise arranged, and correct indication whether credit specifies payment, deferred payment, acceptance or negotiation.

#### **Price**

- Delivery Terms (e.g. Ex Works -Incoterms 2000; CFR Mombasa - Incoterms 2000);
- Currency and tenor (period for payment, e.g. 'sight', 60 days from date of transport document);
- Extra costs to be added to basic price such as freight, insurance, inspection, consular formalities, certificates of origin etc;
- Final value in selected currency including any costs as above;
- Variations for value or quantities, e.g. "maximum £XXX", "10% more or less" etc;
- Allocation of bank charges both in customer's country and elsewhere. If the credit is in the currency other than sterling, check the customer understands about reimbursing bank's charges.

#### **Production and Despatch Schedules**

- Latest shipment date and then credit expiry date, allowing for:
- Production and packing;
- Inspection if required and then:
- Shipment against availability of transport;
- Chamber of Commerce and/or consular work;
- Documentation including obtaining shipping documents and any inspection certificate or clean report of findings;

- More than maximum UCP 500 allowance of 21 days for presentation of documents after date of transport document, due to particular requirements?
- Partial shipments involved?
- Presenting documents to the bank -UK or abroad. Bearing in mind that with presentation abroad, the exporter carries risk of loss/delay in post and has less time for correction of discrepant documents;
- If the credit/import licence expiry dates are already determined by import regulations, can the above be completed on time?

### **Delivery to Customer**

- What type of transport will be used? Match the type of transport documents to the method and delivery, particularly where container or groupage services are to be used
- For containerised goods:
- Agree places of despatch and delivery (ignoring ports);
- Avoid the terms "shipped" and "marine/ocean bill of lading" (especially "marine" or "ocean" for container or through transport documents). Call instead for a multimodal transport document. See UCP 500 article 26;
- For all methods allow the use where necessary of transshipment, "on-deck" shipment and "claused" transport documents (agree "clauses")
- For all methods, allow documents issued by a freight forwarder, but be clear on terms. See UCP 500 article 30.

### **Detail - But Important**

Ensure these detailed but vital points are settled before concluding discussions -you can save problems with discrepancies later.

- Agree what documents the credit should call for;
- Avoid negotiable transport document (documents of title) if possible. Sea waybills, for example, can be issued much more quickly. Also since goods are delivered at destination to named consignee, hold up of goods for arrival of documents is avoided;
- Ensure documents relate clearly to supply of the goods ordered - if no-charge goods or samples are to be sent at the same time, it must be stated in the credit;
- Keep documents and the numbers of each to a minimum, otherwise time and trouble are increased for all concerned, with a greatly increased risk of mistakes, rejection of the documents by the bank and consequent delay in payment and delay in the customer receiving documents to clear the goods;
- Be sure the company can supply the documents and comply with the terms proposed by the customer, exactly as specified in the credit;

- Check when completing the bank's application form with the customer (or make sure he will do so later) that any unnecessary instructions pre-printed on the form are deleted, such as:
- "Documents produced by reprographic means not permitted";
- "Short form bills of lading prohibited";
- "Partial shipments prohibited";
- "Transshipment prohibited"
- "Bills of lading indicating goods may/will be carried on deck prohibited";
- "Shipped on board/marine ocean bills of lading" (necessary for port-to-port shipments, but restrictive)
- Exchange the names, full titles, full addresses, telephone and fax numbers, and email addresses of the people in the customer's company, and your own, who are in charge of letter of credit shipments. Where you are not completing the form with him, make certain the customer has the full and exact spelling of your company name and address for the credit, and the correct description of the goods without unnecessary detail.

If in doubt it is important to refer back to your company before making any letter of credit commitment. Ensure before leaving that you have noted the international direct dialling code, the time zone for each company you will be visiting for timing your calls, and important telephone and fax numbers, and email addresses, with individual home numbers as necessary.