

THE STRATEGY IMPLEMENTED BY PT BANK RAKYAT INDONESIA (PERSERO) PATTIMURA SEMARANG BRANCH TO ANTICIPATE FRAUD RELATED TO LETTER OF CREDIT (L/C)

Mukofidhotun Umaroh,
Paniya

Jurusan Administrasi Niaga, Politeknik Negeri Semarang
Jl. Prof.H.Sudarto, SH, Tembalang, Kotak Pos 6199/SMS Semarang 50061

ABSTRACT

This article is a study of the Strategy Implemented by PT Bank Rakyat Indonesia (Persero) Pattimura Semarang Branch to Anticipate Fraud Related to Letter of Credit. The data used in this article are obtained through an interview with letter of Credit (L/C) department staff of PT Bank Rakyat Indonesia (Persero) Pattimura Semarang Branch. The interviews were held 6 (six) times and each interview took two hours. As a paying or negotiating bank commonly honors drafts or makes payment to beneficiary (exporter) based only on documents, the bank may bear risks of financial loss. The potential financial loss by a bank is due to the custom and practice of documentary credit among the parties involved in an L/C transaction, which are based on documents, not on goods. A bank commonly honors draft presented by a beneficiary since the required documents presented to the bank are in compliance with terms and conditions stipulated in the L/C to prevent potential financial loss, the bank applies a certain strategy of carefulness.

Key words: letter of credit, fraud, financial loss.

INTRODUCTION

Background

The rapid economic development encourages countries in the world to do international trades. They mutually make transactions, in which a seller wants a payment and buyer wants services or commodities. One of the purposes of international trade is to increase country's foreign exchange.

The activity of international trade which includes export and import transaction or

services can run well when the payment receipt can be organized fluently and safely. One of the most important things in international trade transaction is payment method which involves a bank or banks. To do a transaction an exporter and an importer usually make an agreement on the payment method in order to minimize the risk. Therefore, to avoid frauds in case of payment, an exporter chooses a safe and low risk payment method.

There are some payment methods used in export and import activity i.e advance account, open account, collection (inkaso), consignment and letter of credit. Common payment method used in international trade is Letter of Credit (L/C), because it provides several advantages to an exporter and an importer and also there is certainty that a payment will be done by an importer if the requirements of L/C have been met by an exporter. Letter of Credit is a letter which is issued by an issuing bank at an importer request in the importer's country. It is also addressed to foreign exporter as business partner of the importer.

PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch gives service as an advising bank, negotiating bank to help exporter or importer to receive his right. In dealing shipping document related to Letter of Credit, the bank uses Uniform Customs and Practice for Documentary credits (UCPDC 600). UCPDC is international standard banking provision used in banking practice in relation to documentary credit.

In increasing good service to beneficiary, PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch has a procedure in handling

a Letter of Credit including advising L/C, documents checking, beneficiary checking, negotiating, and doing a payment. During the L/C checking procedure, there may be a discrepancy in documents. Those procedures have been done by PT Bank Rakyat Indonesia to anticipate fraud related to Letter of Credit. Customers and investors should be assured that a bank will not experience loss due to fraud related to a Letter of Credit (L/C).

Scope of Discussion

In this article, PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch is observed as advising bank, negotiating bank, paying bank, and accepting bank. Besides aiming at explore how to anticipate fraud related to Letter of Credit at PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch. This study also explores document checking, procedures of negotiating Letter of Credit, implementation of UCPDC (Uniform Customs and Practice for Documentary Credits) No 600 and how the bank handles distrustful cases.

Purpose of the Study

This study has several purposes to achieve, namely:

- a. to describe the negotiation process of documents required by a Letter of Credit (L/C) and the obligation of PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch as advising bank, negotiating bank, paying bank, and accepting bank.
- b. to know the strategy implemented by PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch to anticipate fraud related to Letter of Credit (L/C).
- c. to find out how far the application of UCPDC No 600 is by PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch.

LITERATURE STUDY

According to Barnas, Carolina and Lasambaw (1996:25) “*Perdagangan*

International adalah suatu proses transaksi perdagangan antara penjual dan pembeli, yaitu masing-masing berada di Negara yang berlainan”. International trade is a trade transaction process between a seller and a buyer, each located in different countries. From the explanation, it can be concluded that International trade is an activity of selling and buying which is done by a person or a company in a country with someone or with a company in different country.

Before the discussion in anticipating fraud related to Letter of credit (L/C) is done, it could be better to discuss the definition of export and import trade first. According to Djauhari Ahsjar and Amirullah (2002:1):

Ekspor adalah perdagangan dengan cara mengeluarkan barang dari dalam keluar wilayah Pabean suatu negara dengan memenuhi ketentuan yang berlaku. Impor adalah suatu kegiatan dalam perdagangan dengan cara membeli/mendatangkan barang dari luar negeri untuk dimasukkan ke dalam negeri.

It means all international trades could be identified as export or import, because according to the above definitions, export is sending goods to earn a profit as a business through custom areas outside the exporting country.

According to Kuncoro (2006:1) “*Strategi adalah penentuan tujuan dan sasaran jangka panjang perusahaan, diterapkannya aksi dan alokasi sumber daya yang dibutuhkan untuk mencapai tujuan yang telah ditetapkan*”. Strategy is the determination of long term goals and objectives of the company, the implementation of the action and the allocation of resources needed to reach intended purpose. From the explanation, it can be concluded that strategy is the process of determining a plan that focuses on long-term goals of the organization or company, along with the preparation of a way or the achievement of intended purpose.

In relation to payment of exported goods, Hutabarat (1994:10-11) defines that in an international trade there are kinds of payment methods which are used by trader, namely:

- a. Advance Payment, by which a buyer pays in advance to the seller before the goods are shipped by the seller. In practice, a buyer transfer some amount of money before receiving the ordered goods.
- b. Open Account, by which a buyer pays for the goods after those goods are received by the buyer. This is the common payment done within certain period of time, for example wirthin 30 days after shipment date.
- c. Consignment, by which a shipment of goods to importer in foreign country is done, while the payment is made by the buyer after the goods are sold out. In other words, the buyer will transfer some amount of money to the seller's bank account after those goods are sold.
- d. Collection Draft, by which payment is collected by an exporter by presenting shipping documents through a bank which will collect payment through its corresponding bank in foreign country either using draft or promissory notes. Collection draft takes two kinds, i.e Documents against Payment and Documents against Acceptance.
- e. Letter of Credit (L/C), a kind of payment guaranteed by an issuing bank if terms and conditions stipulated in an L/C are met by a beneficiary. It is also addressed to foreign exporter as business relation of an importer.

It seems that Letter of Credit is just a kind of letter about credit. The definition is not so. According to Amir MS (1996:37):
Letter of Credit adalah suatu surat yang dikeluarkan oleh suatu Bank

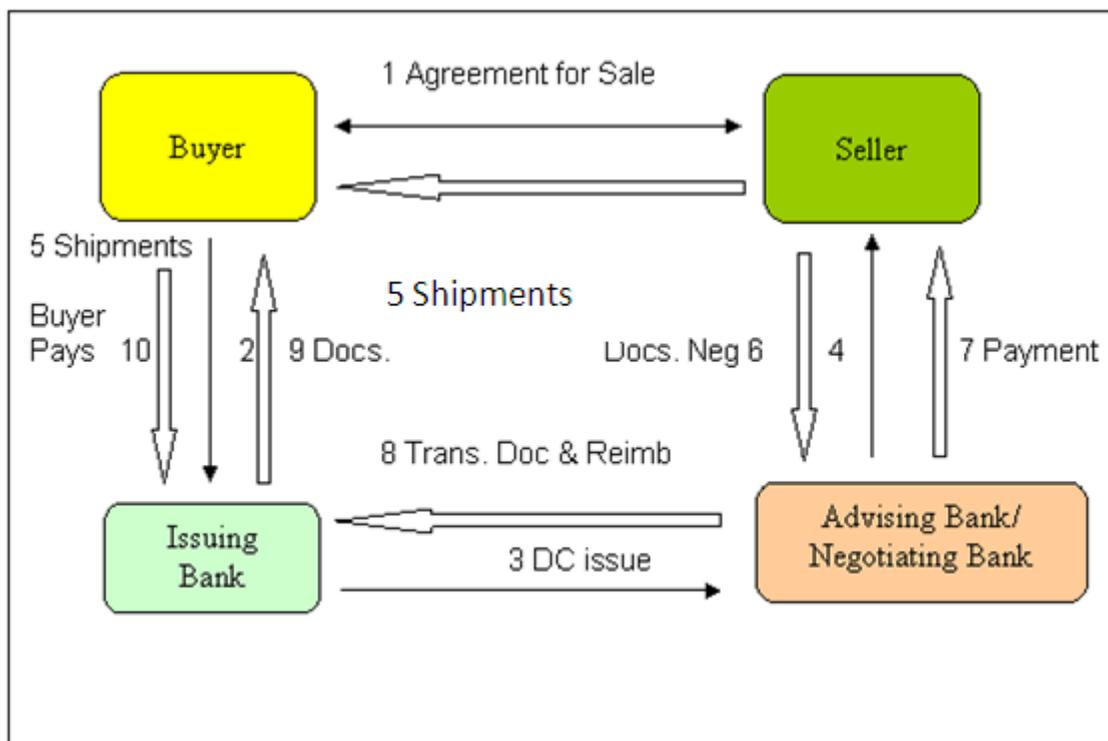
atas permintaan importer langganan Bank tersebut yang ditujukan kepada eksportir di luar negeri yang menjadi relasi importer itu, yang memberi HAK kepada eksportir itu untuk menarik wesel-wesel atas importir bersangkutan untuk sejumlah uang yang disebutkan dalam surat itu.

Letters of Credit or also called documentary credit are used primarily in international trade transactions of significant value, for deals between an exporter in one country and an importer in other country. Letter of Credit is a document which is issued by issuing bank with all kinds of type and character, such as revocable and irrevocable L/C, sight and usance L/C, transferable L/C, back to back L/C, revolving L/C, red clause L/C, and many others. Common kind of Letter of Credit mostly used is irrevocable L/C, because it is the safest method for an importer and an exporter. Irrevocable means that the Letter of Credit cannot be amended or cancelled by issuing bank without prior agreement of all parties. Letters of Credit used in international transactions are governed by the International Chamber of Commerce publication called Uniform Customs and Practice for Documentary Credits (UCPDC). It is a kind of a rule used in banking practice all over the world.

Letter of Credit Mechanism

In doing export and import activities using payment method Letter of Credit, the parties involved (a buyer, a seller, and banks) should understand a Letter of Credit mechanism. It can help the parties in doing transaction in export and import activities and also can reduce the occurrence of a fault.

FIGURE 1
LETTER OF CREDIT MECHANISM



Source: coonline.co.in/trd_fin_manual/4_afilc.htm

The steps in issuing Letter of Credit (L/C) :

1. Buyer and seller make an agreement which forms the basis for opening a documentary letter of credit.
2. Based on the agreement buyer requests his banker to issue the documentary letter of credit.
3. Issuing bank (buyer's bank) issues and transmits the documentary credit through SWIFT (Society for World-wide Interbank Financial Telecommunications) to its correspondent bank who advises the credit to the beneficiary. The bank advising the Documentary credit is known as 'Advising Bank'.
4. Advising bank on receipt of the Documentary Credit validates the authenticity of the DC, records the content in its books and transmits the content to the beneficiary.
5. The beneficiary (seller) on receipt of the documentary credit meets the terms and conditions of the documentary credit and once satisfied with his ability to comply with the terms and conditions of the L/C, he/she ships the goods to the buyer (applicant).
6. Seller (beneficiary) prepares the documents strictly in compliance with the terms of the letter of credit and hands over the documents to his banker (negotiating bank) for negotiation.
7. Negotiating bank will check the documents based on the terms and conditions of the documentary credit for compliance and makes payment to the beneficiary.
8. The negotiating bank transmits the negotiated documents under letter of credit and claims reimbursement of the value of documents negotiated.
9. Issuing bank on receipt of the documents checks those documents for compliance to terms and conditions subject to which the DC was issued. It reimburses the negotiating bank. For the drafts drawn on usance basis the reimbursement is made at

the time of maturity of the drafts. Issuing bank submits the documents to the applicant (buyer).

10. After receiving documents drawn under DC issued, the applicant settles payment. Discrepancies, if any, are notified to the importer as well as negotiating bank within stipulated period.

The Parties Involved in Letter of Credit

According to Joga and Silitonga (2001:16-17), there are seven parties involved in Letter of Credit.

- a. The applicant is the party who requests the issuing bank to open a Letter of Credit. The applicant is usually the Importer or the buyer or the Account Party.
- b. Beneficiary is the party who receives a Letter of Credit and gets a payment for transfer documents which agree with terms of Letter of Credit. The beneficiary is usually the seller or the exporter or the shipper or the vendor.
- c. Opening Bank opens a Letter of Credit in favor of the beneficiary, at the request and on the instructions of the applicant. The opening bank is known as the issuing bank.
- d. Advising Bank advises Letter of Credit to the beneficiary, as well as the notice that Letter of Credit is available to him/her. The Letter of Credit also mentions terms and conditions.
- e. Negotiating Bank purchases export documents from beneficiary as the presenter of the documents.
- f. Reimbursing Bank is the one which is given authority by Issuing Bank to make payment for a claim from Negotiating Bank.
- g. Confirming Bank is the one which is also instructed to give guarantee of payment for Letter of Credit which is issued by Issuing Bank.

Types of Letter of Credit

According to Susilo (2008:68-71), there are seven types of Letter of Credit.

- a. Revocable Letter of Credit is an L/C which may be amended or cancelled by issuing bank at any time and without prior notice to the beneficiary at the request of an applicant.
- b. Irrevocable Letter of Credit is an L/C which cannot be amended or cancelled by issuing bank without prior agreement of all parties.
- c. Confirmed Letter of Credit is the one to which the advising bank adds its confirmation, make its own independent undertaking to make a payment, negotiation or acceptance, providing documents are presented which comply with the terms of the letter of credit.
- d. Unconfirmed Letter of Credit is equal to Irrevocable L/C. Most L/C which is opened by the reputable banks is advised by foreign banks without a confirmed (unconfirmed).
- e. Back to Back Letter of Credit is a Letter of Credit which is different but when it is used simultaneously can be an alternative such as transferable letter of credit.
- f. Transferable Letter of Credit is an L/C whose right is given to the beneficiary to divert part or all of the acceptance rights of the payment to other party. The diversion of these rights can be done only once.
- g. Standby Letter of Credit is the one which is issued as a form of guarantee if the buyer fails to make payment at the agreed period.

Red Clause Letter of Credit

Red Clause Letter of Credit is a specific type of letter of credit in which a buyer extends an unsecured loan to a seller. Red Clause Letters of Credit permit documentary credit beneficiaries to receive funds in advance for any merchandise outlined in the letter of credit. These letters are commonly used by beneficiaries who act as purchasing agents for

buyers in another country.
(www.investopedia.com)

The Documents required under Letter of Credit (L/C)

According to Hutabarat (1994:63-64) there are many documents required in letter of credit.

- a. Transport Documents: Bill of Lading, Air Waybill, Railway Consignment Note.
- b. Invoice, Proforma Invoice, Commercial Invoice, Consular Invoice.
- c. Insurance Documents :Insurance Policy, Insurance Certificate, Cover Note.
- d. Packing List
- e. Certificate of Origin
- f. Certificate of Inspection
- g. Certificate of Quality
- h. Manufacturer's quality certificate
- i. Certificate of Analysis
- j. Wight Certificate (Weight Note/List)
- k. Measurement List
- l. Sanitary, Health and Veterinary Certificate
- m. Draft / Bill of Exchange

Weakness and Benefits in using Letter of Credit

Each payment method definitely has weakness and benefits in its use. One of them is Letter of Credit. The Letter of Credit which is used in transaction has also weakness and benefits for the parties involved (buyer, seller, and bank)

According to Hutabarat (1995:26) the use of a Letter of Credit in international trade has weakness and benefits:

- a. Weakness in using Letter of Credit
 - 1) For a bank
 - a) The time is spent in processing the documents which are required through the banks channel.
 - b) The banks are only interested in documents and not in goods (UCP-DC 600, article 5).
 - 2) The buyer or the importer does not receive assurances that the ordered goods at a specific price are actually shipped.

b. Benefits in using Letter of Credit

- 1) The bank charges which are imposed to a seller in the handling of Letter of Credit .
- 2) For a seller
 - a) The seller will be more guaranteed concerning a payment of goods which is sent after presentation of the documents in accordance with the terms of L/C.
 - b) The seller receives a payment from the paying bank immediately, if all the documents are in accordance with the terms of L/C, even though the buyer has not received the documents.
 - c) The seller can use the L/C for further financing, such as back to back L/C and so on.
- 3) For a buyer
 - a) The buyer usually is not required to provide funds or sometimes just for a specific percentage of imported goods to be redeemed.
 - b) The buyer has rights to receive documents required in the L/C to obtain the further financing, that's a loans refinance and many others.
 - c) The buyer will be more assured because the bank will refuse a payment to the seller except the seller has complied with the terms which are demanded by the buyer in the L/C.

Negotiation of shipping documents

In letter of credit, negotiation has a specific meaning, not just discussion. Negotiation means the purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) and/or documents under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which

reimbursement is due to the nominated bank. (UCP 600, article 2)

When credit availability is by negotiation, the beneficiary can receive payment before maturity by negotiating the documents with the nominated bank. The documents may be negotiated with or without recourse. However, if the L/C is a confirmed one, the nominated bank which has added its confirmation to an L/C must negotiate the documents without recourse.

Issuing Bank's Undertaking

Undertaking is related to an issuing bank activity concerning how to handle documents required by letter of credit.

According to Article 7 of UCP 600, issuing bank undertakes payment:

- a. Provided that the stipulated documents are presented to the nominated bank or to the issuing bank and that they constitute a complying presentation, the issuing bank must honour if the credit is available by:
 - 1) Sight payment, deferred payment or acceptance with the issuing bank.
 - 2) Sight payment with a nominated bank and that nominated bank does not pay.
 - 3) Deferred payment with a nominated bank and that nominated bank does not incur its deferred payment undertaking or, having incurred its deferred payment undertaking, does not pay at maturity.
 - 4) Acceptance with a nominated bank and that nominated bank does not accept a draft drawn on it or, having accepted a draft drawn on it, does not pay at maturity.
 - 5) Negotiating with a nominated bank and that nominated bank does not negotiate.
- b. An issuing bank is irrevocably bound to honour as of the time it issues the credit.

- c. An issuing bank undertakes to reimburse a nominated bank that has honoured or negotiated a complying presentation and forwarded the documents to the issuing bank. Reimbursement for the amount of a complying presentation under a credit available by acceptance or deferred payment is due at maturity, whether or not the nominated bank prepaid or purchased before maturity. An issuing bank undertaking to reimburse a nominated bank is independent of the issuing bank's undertaking to the beneficiary.

Confirming Bank's Undertaking

Undertaking is related to a confirming bank activity concerning how to handle documents required by letter of credit.

According to UCP 600 Article 8, confirming bank undertakes payment:

- a. Provided that the stipulated documents are presented to the confirming bank or to any other nominated bank and that they constitute a complying presentation, the confirming bank must:
 - 1) Honour, if the credit is available by:
 - a) Sight payment, deferred payment or acceptance with the confirming bank.
 - b) Sight payment with another nominated bank and that nominated bank does not pay.
 - c) Deferred payment with another nominated bank and that nominated bank does not incur its deferred payment undertaking or, having incurred its deferred payment undertaking, does not pay at maturity.
 - d) Acceptance with another nominated bank and that nominated bank does not accept a draft drawn on it or, having accepted a draft drawn on it, does not pay at maturity.

- e) Negotiating with another nominated bank and that nominated bank does not negotiate.
- 2) Negotiate, without recourse, if the credit is available by negotiation with the confirming bank.
- b. A confirming bank is irrevocably bound to honour or negotiate as of the time it adds its confirmation to the credit.
- c. A confirming bank undertakes to reimburse another nominated bank that has honoured or negotiated a complying presentation and forwarded the documents to the confirming bank. Reimbursement for the amount of a complying presentation under a credit available by acceptance or deferred payment is due at maturity, whether or not another nominated bank prepaid or purchased before maturity. A confirming bank's undertaking to reimburse another nominated bank is independent of the confirming bank's undertaking to the beneficiary.
- d. If a bank is authorized or requested by the issuing bank to confirm a credit but is not prepared to do so, it must inform the issuing bank without delay and may advise the credit without confirmation.

UCP-DC

The Uniform Customs and Practice for Documentary Credit (UCP-DC), ICC Publication No. 600 are rules that apply to any documentary credit (including, to the extent to which they may be applicable, any standby letter of credit) when the text of the credit expressly indicates that it is subject to these rules. They are binding on all parties thereto unless expressly modified or excluded by the credit. (UCP-DC 600, article 1)

The rules of L/C which refers to the prevailing international congress of the International Chamber of Commerce (ICC) since 1933 which was then revised in 1951, 1962, 1974, 1983 and finally 1993. The results obtained from the congress are

embodied in the Uniform Customs and practice for Documentary Credits (UCPDC), last revised (1994) known as UCP-DC 500.

The ICC has developed and established the UCP by regular versions, the current version being the UCP 600. It came into effect on 01 July 2007. The revision of the Uniform Customs and Practice for Documentary Credits (commonly called "UCP") is sixth revision of the rules since they were first promulgated in 1993. It is the fruit of more than three years of work by the International Chamber of Commerce's (ICC) Commission on Banking Technique and Practice.

The 39 articles of UCP 600 are a comprehensive and practical working aid to bankers, lawyers, importers, exporters, transport executives, educators, and everyone involved in Letter of Credit transactions worldwide.

Fraud Related to L/C

In case of negotiating documents, there might be some fraud cases. Fraud as a general term means a violation of a rule or local ordinance or regulation, promise or obligation. (www.wikipedia.org).

Fraud is not a new fault. Kinds of Letter of credit frauds that is (1) a fake Letter of Credit, (2) the beneficiary providing false documentation to show that goods were shipped when in fact no goods were shipped at all to the bank, (3) red clause Letter of Credit.

If any fraud caused is found, the advising bank or paying bank or negotiating bank and or accepting bank will deny the documents, due to a possibility of fake documents of Letter of Credit.

Article 13 of the UCP 600 requires banks to apply reasonable care to ascertain whether documents, on their face, comply with the terms of the credit. In practice, this is only way that the documentary credit system will work.

It would be unreasonable to expect banks, for the purposes of the documentary credit, to go beyond the documents presented. Banks take

the view that they are merely financing the trade transaction. They do not assume responsibility for the existence or quality of the commodities traded. The system is based on documents.

Definition of the draft

When the exporters make a drawing under a letter of credit, the presented documents (bill of lading, invoice, packing list, certificate of origin, and any other) should usually be accompanied by a draft, which is basically a check, representing demand for payment. The draft or Bill of Exchange is drawn and signed by the exporter (seller). The terms of the draft are “at sight” or a number of days after sight or after the bill of lading date.

(www.creditmanagementworld.com)

“At sight” means that the draft is paid upon receipt of the documents which are found to be confirming. The terms which specify a number of days sight or after the B/L date, are commonly called “usance”, indicating that the issuing bank is obligated to pay the beneficiary (exporter) at some specific future date. For usance drafts, the obligation to pay begins when the drawee bank “accepts” the draft and a banker’s acceptance are created. The following Figure 2 is a sample of draft.

RESEARCH METHOD

Data for this article were obtained from a research in Bank Rakyat Indonesia Pattimura Semarang branch

- a. Primary Data were obtained through an deep interview with letter of Credit (L/C) department staff of PT Bank Rakyat Indonesia (*Persero*) Pattimura Semarang Branch. The interviews are held 6 (six) times, each interview took two hours. The questions asked were connected with negotiation and anticipation of fraud related to Letter of Credit (L/C).
- b. Secondary data were obtained from references of Letter of Credit from certain sources, such as: books, literature, articles, and website.

DISCUSSION

Company Business

PT Bank Rakyat Indonesia (*Persero*) *Terbuka* major activities are providing general banking services primarily to micro, small and medium enterprises. Its banking products include various types of deposits, loans and banking products. It also offers bank guarantees, bank clearance, Automated Teller Machine, safe deposit boxes, bill payments, online transactions, money transfers, credit cards and trade financing. The Group also carries out activities related to fund management, treasury and international banking such as cash management, custodian services and trustee services.

Segmentation, Targeting, and positioning

Bank Rakyat Indonesia (BRI) is one of the financial institutions with micro retail market segments especially small and micro entrepreneurs in rural areas. BRI is not only successful in the domestic level, but also at a global level. Most of the customers are middle and low economic class people and they are the largest segment of Indonesian society. Savings products offered by the bank almost have the same features (generic), ranging from interest rates up to banking facilities. BRI has two types of savings that are marketed for different market segments, namely BRI Britama savings for the corporate and urban segment and *Simpedes* savings for the micro level unit and lower middle level segment. *Simpedes* target is to collect funds from the people to be more productive people, useful for economic development and business activities in rural areas. Since 1983 BRI has chosen the positioning strategy as a bank that provides microbanking services which serves lower middle customers so that BRI shall have more geographic coverage than the other bank.

An exporter and importer in doing transaction in export and import choose one safe payment. Usually payment method which is used by them is Letter of Credit. Letter of

Credit terms and conditions must be fulfilled by an exporter, so a fault can be anticipated. Every bank has a strategy in anticipating any fraud related to Letter of Credit. Nevertheless, there is still a bank which creates potential loss in handling Letter of Credit, such as bank burglary by fake Letter of Credit in 2003, causing loss about Rp. 1.7 trillion at Bank Negara Indonesia. (<http://korup5170.files.wordpress.com>). This case can be made as a discourse to all banks in handling services related to Letter of Credit.

Requirements for The Negotiation of Letter of Credit at Bank Rakyat Indonesia

In negotiating beneficiary's shipping documents, Bank Rakyat Indonesia implements requirements which must be met by beneficiary. Those requirements are:

- a. The beneficiary must have an account at Bank Rakyat Indonesia. They must have an account of minimum USD 1000 in Giro valas. Whereas, in Britama Dollar the beneficiary must have a minimum account of USD 10.
- b. The beneficiary must be a reliable customer and not included in the blacklist.
- c. The exported goods are not the prohibited ones.
- d. The destination country is not the prohibited nation.
- e. The documents of the exported goods must be clean and completed in accordance with Letter of Credit.
- f. The exporter fills out the submission form of negotiation facilities.
- g. The exporter fills out the general conditions of draft transfer form by Bank Rakyat Indonesia.
- h. The beneficiary meets the administrative requirements.

Document Checking

The documents presented by beneficiary must comply with the terms and conditions stipulated in the L/C. The most interesting in L/C negotiation is that the required

documents must comply with terms and conditions in L/C. Bank Rakyat Indonesia refers to UCP 600 article 14 to examine documents:

1. A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank must examine a presentation to determine, on the basis of the documents alone, whether or not the documents appear on their face to constitute a complying presentation.
2. 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.
3. A presentation including one or more original transport documents subject to articles 19, 20, 21, 22, 23, 24 or 25 must be made by or on behalf of the beneficiary not later than 21 calendar days after the date of shipment as described in these rules, but in any event not later than the expiry date of the credit.
4. Data in a document, when read in context with the credit, the document itself and international standard banking practice, need not be identical to, but must not conflict with, data in that document, any other stipulated document or the credit.
5. In documents other than the commercial invoice, the description of the goods, services or performance, if stated, may be in general terms not conflicting with their description in the credit.
6. If a credit requires presentation of a document other than a transport document, insurance document or

- commercial invoice, without stipulating by whom the document is to be issued or its data content, banks will accept the document as presented if its content appears to fulfil the function of the required document and otherwise complies with sub-article 14 (d).
7. A document presented but not required by the credit will be disregarded and may be returned to the presenter.
 8. If a credit contains a condition without stipulating the document to indicate compliance with the condition, banks will deem such condition as not stated and will disregard it.
 9. A document may be dated prior to the issuance date of the credit, but must not be dated later than its date of presentation.
 10. When the addresses of the beneficiary and the applicant appear in any stipulated document, they need not be the same as those stated in the credit or in any other stipulated document, but must be within the same country as the respective addresses mentioned in the credit. Contact details (telefax, telephone, email and the like) stated as part of the beneficiary's and the applicant's address will be disregarded. However, when the address and contact details of the applicant appear as part of the consignee or notify party details on a transport document subject to articles 19, 20, 21, 22, 23, 24 or 25, they must be as stated in the credit.

11. The shipper or consignor of the goods indicated on any document need not be the beneficiary of the credit.
12. A transport document may be issued by any party other than a carrier, owner, master or charterer provided that the transport document meets the requirements of articles 19, 20, 21, 22, 23 or 24 of these rules.

Bank's Strategy to Anticipate Fraud Related to Letter of Credit (L/C)

Bank Rakyat Indonesia has some strategies to anticipate fraud related to Letter of Credit as follows:

a. Checking Letter of Credit Authenticity

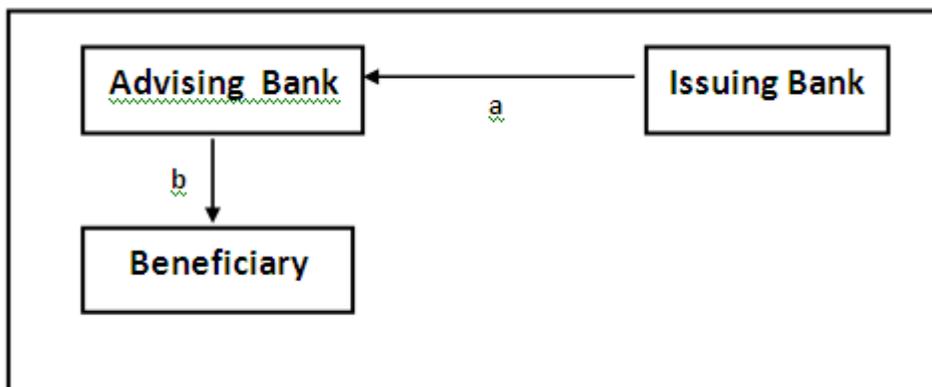
In checking the authenticity of Letter of Credit, PT Bank Rakyat Indonesia Pattimura Semarang Branch does not handle it alone, because Bank Rakyat Indonesia only has a role to check the documents whether appropriate or not with the requirements in Letter of Credit. Letter of Credit authenticity checking is handled directly by the "BRI" head office in Jakarta, because the head office has a standard and the system to check the authenticity of Letter of Credit. Checking Letter of Credit authenticity done by BRI Pattimura to anticipate a fake Letter of Credit.

There are two ways used by Bank Rakyat Indonesia to check Letter of Credit authenticity based on L/C received:

1) L/C received by SWIFT

Generally, issuing bank in foreign country sends Letter of Credit by swift, so it is definitely authentic. In this case, the bad risk in Bank Rakyat Indonesia can be minimized.

FIGURE 2
MECHANISM IN HANDLING L/C RECEIVED BY SWIFT



Source: Division of Foreign Exchange, 2012

The steps in handling L/C received by SWIFT:

- a) Letter of Credit is issued by issuing bank in foreign country. Advising bank receives Letter of Credit by SWIFT, because the issuing bank as a correspondent with advising bank.
- b) After BRI checks the documents whether appropriate or not with the requirements in Letter of Credit, then the bank gives information to beneficiary that the beneficiary has got Letter of Credit from an issuing bank at the request of a buyer / applicant. In this case, BRI Pattimura

does not send a copy of Letter of Credit to “BRI” head office in Jakarta, because L/C is received by SWIFT. Usually it is definitely authentic, so BRI can handle it directly without waiting for the information given by head office about L/C authenticity.

Below are three samples of Letter of Credit authenticity in BRI Pattimura, each of which is received by SWIFT.

a) Sight Letter of Credit

```

    INSTANCE TYPE AND TRANSMISSION
    ORIGINAL RECEIVED FROM SWIFT
    PRIORITY : NORMAL
    MESSAGE OUTPUT REFERENCE : 2120
                                120321BRINIDJAA0835518423041
    CORRESPONDENT INPUT REFERENCE:152020321COBADEFFD29027817 56864

    MESSAGE READER
    SWIFT OUTPUT: FIN 700
    SENDER      : COBADEFF290 COMMERZBANK AG BREMEN
    RECEIVER   : BRINIDJA083 BANK RAKYAT INDONESIA SEMARANG
  
```

Source: Division of Foreign Exchange in BRI Pattimura Semarang Branch, 2012

In this L/C BRI immediately take over and if the documents are accordance with the requirements in L/C, then the bank will make

payment to the beneficiary directly. Sight means when shipping documents are examined.

b) Usance Letter of Credit

```

----- Instance Type and Transmission -----
Copy received from SWIFT
Priority           : Normal
Message Output Reference: 1648
                    100810BRINIDJAA0834972627806
Correspondent Input Reference: 1748 1008
                    10SCBLHKHHBXXX084680714
                    9
-----Message Header -----
Swift Output      : FIN 700 Issue of a Documentary  Credit
Sender           : SCBLHKHHXXX
                  STANDARD CHARTERED BANK
                  (HONGKONG) LIMITED HONG KONG HK
Receiver        : BRINIDJA083
                  BANK RAKYAT INDONESIA
                  (PATTIMURA BRANCH) SEMARANG ID
  
```

Source: Division of Foreign Exchange in BRI Pattimura Semarang Branch, 2012

Generally, in this L/C the payment will be done by the issuing bank after 90 days of the date of shipment of the goods. However, if the beneficiary needs the payment done immediately, the bank will bail out the payment in advance. In this case, the

beneficiary will be charged interest rate of 5% up to 8%. BRI has its own policy in giving interest rate. For the beneficiary who is conducting transactions at BRI, the interest will be smaller.

c) UPAS (Usance Payable at Sight) Letter of Credit

```

                INSTANCE TYPE AND TRANSMISSION
ORIGINAL RECEIVED FROM SWIFT
PRIORITY           : NORMAL
MESSAGE OUTPUT REFERENCE: 1222
100917BRINIDJAA0035009679618
COESSPONDENT INPUT REFERENCE: 1422 1009
                    17IINBNKRSEAXXX4581585699
                MESSAGE READER
SWIFT OUTPUT      : FIN 700
SENDER           : HBNBKRSEXXX
                  HANNA BANK
                  HANNA BANK ANNEX
                  FLOOR 09-10, 2-KA, ELUJIRO, CHUNG-KU
                  SEOUL
RECEIVER        : BRINDJA083
                  BANK RAKYAT INDONESIA
                  SEMARANG
  
```

Source: Division of Foreign Exchange in BRI Pattimura Semarang Branch, 2012

The payment in UPAS Letter of Credit is bailed out by Bank Rakyat Indonesia first. However, the beneficiary can not receive the full of the nominal value mentioned in the L/C, because 8% interest will be charged of the nominal value. For instance the nominal mentioned in this L/C is USD103,638.53, so

the beneficiary will receive a payment USD95,347.4476. Way the calculation is $USD103,638.53 - (8\% \times USD103,638,53) = USD95,347.4476$.

In the Table 1 the result of compliance of the documents with the Letter of Credit is shown.

TABLE 1
COMPLIANCE OF THE DOCUMENTS WITH THE LETTER OF CREDIT

No	L/C Number	Type	Sent via	Authenticity		Available
				Yes	No	
1	BBTIA400107222	Irrevocable	SWIFT	Yes	-	By Payment
2	579010260719-T	Irrevocable	SWIFT	Yes	-	By Negotiation
3	M12G9009RU00363	Irrevocable	SWIFT	Yes	-	By Negotiation

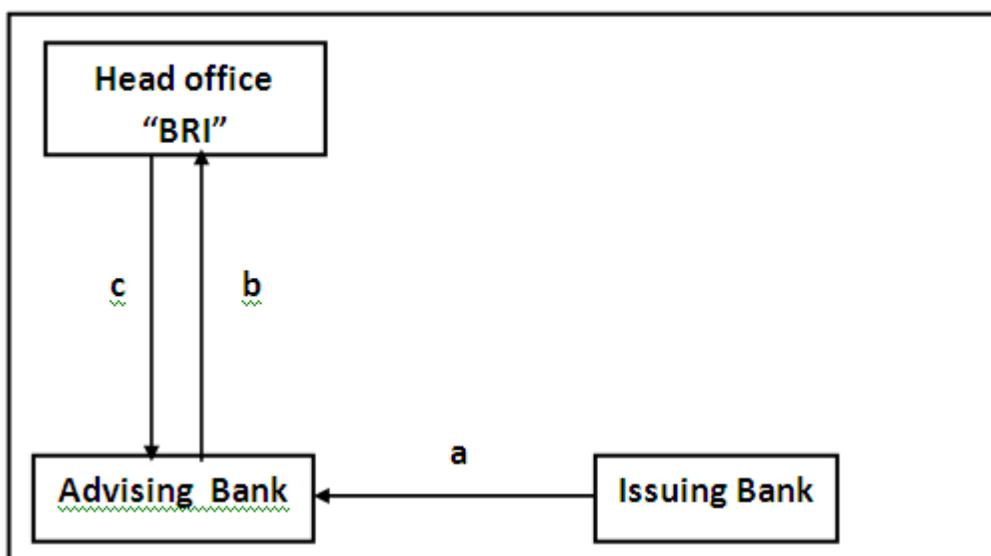
Source: Division of Foreign Exchange, 2012

Based on the data above Bank Rakyat Indonesia receives Letter of Credit through SWIFT. It means that Letter of Credit received by BRI Pattimura is authentic, so the bank does not need checking on L/C by BRI head office Jakarta. SWIFT stands for Society of Worldwide Interbankl Financial Telecommunication.

2) L/C received by mail

Letter of Credit received by mail or facsimile may lead to fraud. For instance the issuing bank is not bona fide and the requirement in Letter of Credit is not in accordance with the provisions of the UCP 600.

FIGURE 3
MECHANISM IN HANDLING L/C RECEIVED BY MAIL OR FACSIMILE



Source: Division of Foreign Exchange, 2012

The procedures done by Bank Rakyat Indonesia in handling Letter of Credit received by mail are as follows:

- a) Letter of Credit is issued by issuing bank in foreign country, and Advising bank or BRI receives L/C by mail.
- b) Before Bank Rakyat Indonesia Pattimura follows up the Letter of Credit to the beneficiary, the bank proposes the copy of Letter of Credit to head office in Jakarta about L/C authenticity and contact the party of the head office to give information that the bank has sent via facsimile. Then, head office will immediately check the authenticity of Letter of Credit, and gives a reply to BRI Pattimura no later than one day.
- c) After Letter of Credit is declared authentic by the head office in

Jakarta, BRI Pattimura follow up Letter of Credit to the beneficiary.

- d) However, if not authentic, then the bank will not process it.

b. Verification of the Documents Compliance with the Goods

Before payment done by Bank Rakyat Indonesia, the bank must verify the documents to be comply with the goods. This is done by BRI in order to reduce the incidence of fraud from the beneficiary and minimize the loss not expected by the bank. In the Tables 2 the result of synchronization documents with the Letter of Credit and the documents with the goods is shown.

**TABLE 2
VERIFICATION OF THE DOCUMENTS COMPLIANCE WITH THE GOODS**

No.	L/C Number	Type	Synchronization	
			Documents	Goods
1	BBTIA400107222	Irrevocable	Not fake	On board
2	579010260719-T	Irrevocable	Not fake	On board
3	M12G9009RU00363	Irrevocable	Not fake	On board

Source: Division of Foreign Exchange, 2012

From the data above it can be concluded that the documents comply with the goods. In checking whether the documents comply with the goods or not, the bank only makes Bill of Lading as a proof. This case fictitiousness can be happened, because the bank does not have an informant to check the actual conditions at the port. In anticipating fraud related to the goods will be send, the writer has a suggestion that the bank should have an informant to check the actual conditions at the port directly.

c. The Way in Handling Red Clause Letter of Credit

In foreign transactions, some buyers request red clause Letter of Credit to be allowed under an L/C. Red clause Letter of Credit is a payment in advance before the goods are

shipped. Bank Rakyat Indonesia never handles and accepts the red clause Letter of Credit, because the risks in this type of Letter of Credit are high for the advising bank and the buyer. However, if one day customers want to have transaction using red clause Letter of Credit, the bank will help them to do transaction. BRI is strict to anticipate the loss caused by red clause Letter of Credit. The strictness is as follows:

1) Collection

The collection reserved to a new customer and buyer in a relationship with Bank Rakyat Indonesia. In this case, the bank only has role to help the beneficiary to charge the payment in Issuing Bank. The payment will be received by beneficiary after the issuing bank pays to the Bank Rakyat Indonesia.

2) Negotiating

Bank Rakyat Indonesia will help customers have relationship with the bank early. However, there are several requirements that must be met by the beneficiary, those are:

- a. The goods must be shipped by the beneficiary proven by Bill of Lading.
- b. The beneficiary must present documents stipulated in the L/C.
- c. After the documents are presented in accordance with the terms of Letter of Credit, then the bank will pay to the beneficiary. Payment will be done by BRI as sight L/C.

Application of UCPDC 600 in Handling Letter of Credit at Bank Rakyat Indonesia

In dealing with shipping document related to Letter of Credit, Bank Rakyat Indonesia uses Uniform Customs and Practice for Documentary credits (UCPDC 600) to examine the documents. UCPDC is international standard banking provision used in banking practice in relation to documentary credit. One of the implementation of UCPDC 600 used by Bank Rakyat Indonesia is based on article 5 that Bank deals with documents and not with goods, services or performance to which the documents may relate. In practice when dealing with Letter of Credit, the bank has no contact with the goods. It just checks whether the documents presented by beneficiaries are comply with the terms of the Letter of Credit.

Besides, using UCP 600 as reference in handling Letter of Credit, Bank Rakyat Indonesia also refers to ISBP (International Standard Banking Practice for the Examination of Documents Under Documentary Credits) and URR (Uniform Rule for Bank to Bank Reimbursement). ISBP is an additional guidance to banks. The ISBP is originally created to help reduce the large percentage of documents refused for discrepancies on first presentation. Anecdotal evidence suggests that this objective has been partially attained. Though refusals remain a

serious problem with letters of credit, their numbers appear to be declining, in part because of the effectiveness of the checklist contained in the ISBP. Practitioners are urged to refer to this publication whenever doubts arise as to how to structure and check documents in Credits utilizing UCP 600. Whereas, according to article 1 application of URR, the Uniform Rules for Bank to Bank Reimbursement under Documentary Credits, ICC Publication No. 525, shall apply to all Bank to Bank Reimbursement where they are incorporated into the text of the Reimbursement Authorization. They are binding all parties thereto, unless otherwise expressly stipulated in the Reimbursement Authorization. The issuing bank is responsible for indicating in the Documentary Credit ("Credit") that Reimbursement Claims are subject to these Rules. In a Bank to Bank Reimbursement subject to these Rules, the Reimbursement bank acts on the instructions and/ or under the authority of the Issuing Bank. These rules are not intended to override or change the provisions of the Uniform Custom and Practices for Documentary Credit.

The Obligation of PT Bank Rakyat Indonesia Pattimura Semarang Branch

In dealing with export Letter of Credit Bank Rakyat Indonesia Semarang Pattimura Branch has a role as advising bank and negotiating bank. Its obligation is to advise or forward Letter of Credit to beneficiaries. Bank Rakyat Indonesia has strict rules in negotiating a Letter of Credit so that frauds and errors can be minimized. As an advising bank, Bank Rakyat Indonesia will verify the test key if the L/C is notified by Telex/Fax and checking signatures on the L/C if the L/C is opened by mail. Besides, BRI also ask the company profile and annual report of the importer if necessary.

The procedures implemented by the Bank Rakyat Indonesia as negotiating bank are:

- a. Beneficiary presents the required documents first to the bank.

- b. Bank verifies Letter of Credit in vertical and horizontal. Vertical checking is to check the compliance of documents with Letter of Credit. Whereas, horizontal checking is the bank checking for the suitability of the document with other documents.
- c. If beneficiary meets the terms and conditions stipulated in Letter of Credit, the bank directly negotiates.
- d. Bank has to be sure that the issuing bank is bona fide, in order that negotiation documents will be paid. Bank Rakyat Indonesia has a rule to ensure the bona fide of Issuing bank that is the issuing bank must already have commercial line or often refers to as correspondent bank.
- e. Subsequently, Bank Rakyat Indonesia examines the shipping documents which have been submitted by the beneficiary and ensure that all documents are in accordance with the terms and conditions of Letter of Credit.
- f. The negotiating bank should ask acceptance from the issuing bank, if the submitted documents are against usance Letter of credit. Acceptance is a statement from the issuing bank that they accept draft and promise to pay at maturity date, for example 180 days after the date of Bill of Lading.

Types of Letter of Credit which are handled by Bank Rakyat Indonesia are sight L/C, usance L/C, and Upas L/C. Sight is cash payment and usance is payment at maturity date. Whereas, Upas is combination between sight and usance, where in sight there is in exporter and in usance there is in importer.

All Letters of Credit advised by Bank Rakyat Indonesia Semarang Pattimura Branch will be examined by BRI head office in Jakarta, and then submitted again to the branch office as the giver of negotiation facility.

CONCLUSION

To anticipate any fraudulence related to letter of credit which may cause potential financial loss, Bank Rakyat Indonesia Semarang

Pattimura Branch has several strategies as follows:

Firstly, checking the authenticity of the L/C received. There are two ways used by Bank Rakyat Indonesia to check Letter of Credit based on L/C received:

1. When an L/C is received through SWIFT, Bank Rakyat Indonesia Semarang Pattimura Branch trusts that issuing bank in foreign country sends a definitely authentic Letter of Credit.
2. When an L/C is received via email, the bank applies several procedures in handling the Letter of Credit received as follows:
 - a. Letter of Credit is issued by issuing bank in foreign country, and Advising bank or BRI receives L/C by mail.
 - b. Before *Bank Rakyat Indonesia Pattimura* follows up the Letter of Credit to the beneficiary, the bank proposes the copy of Letter of Credit to head office in Jakarta about L/C authenticity and contact the party of the head office to give information that the bank has sent via facsimile. Then, head office will immediately check the authenticity of Letter of Credit, and gives a reply to BRI Pattimura no later than one day.
 - c. After Letter of Credit is declared authentic by the head office in Jakarta, BRI Pattimura follow up Letter of Credit to the beneficiary.
 - d. However, if the L/C is not authentic, then the bank will not process it.
3. During the shipment of goods to destination port, the BRI Bank conducts a verification of the documents which have been decided to comply with the goods before payment is given to beneficiary. This is done by BRI in order to reduce the incidence of fraud from the beneficiary and minimize the loss not expected by the bank.
4. In dealing with shipping document related to Letter of Credit, Bank Rakyat Indonesia

uses Uniform Customs and Practice for Documentary credits (UCPDC 600) to examine the documents. UCPDC is international standard banking provision used in banking practice in relation to documentary credit. One of the implementation of UCPDC 600 used by Bank Rakyat Indonesia is based on article 5 that Bank deals with documents and not with goods, services or performance to which the documents may relate. In practice when dealing with Letter of Credit, the bank has no contact with the goods. It just checks whether the documents presented by beneficiaries are comply with the terms of the Letter of Credit

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