

Abuse of documentary credit and the status of banks

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A documentary credit is a frequently used financial instrument in international business practice. It is regulated by the Uniform Customs and Practice for Documentary Credit Revision 500, issued by the ICC. The paper examines abuse of documentary credit as a payment instrument. The major cause of abuse is the separation of the credit-relation from the basic relation in documentary credit business. The development of modern technologies makes forgery even easier than in the past. The crucial question in the case of fraud or attempted fraud is the proper reaction of the issuing bank. The principles of documentary credit operations are very strict which, on the one hand, enable their functionality but on the other, this same strictness does not actually function in such a way as to eliminate abuses.

The abuse of documentary credit operation by only one party involved in business is a frequent mode of abuse in practice. The reaction of the responsible bank depends on when they determine that they are dealing with abuse, that is, before or after the pay-out of money.

However, nowadays the classical documentary credit is not in accordance with modern telecommunication technologies. In practice, new alternatives are being developed to complement paper documentary credit. However, no-paper variants of documentary credit nevertheless do not fully exclude abuse. A reduction in classical documentary frauds can be expected in the future but on the other hand, we could again be confronted with other security questions.

Key words: documentary credit, abuse, banks, economic crime

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