FRAUD IN LETTER OF CREDIT – MALAYSIAN BANKS’ PERSPECTIVE
Rosmawani Che Hashim,1 Ahmad Azam Othman2 & Akhtarzaite Abdul Aziz3

ABSTRACT

Letter of credit is a method of payment in international trade which is claimed to provide utmost safety to the contracting parties compared to other methods of payment. However, security provided by this mechanism will not extend to cover the fraud risk. The nature of LC transaction which is mainly based on documents together with the rampant development in technology in international trade has opened a leeway for fraudster to play their role. LC documents are easily perpetrated by fraudsters and it was for a long time admitted that the existence of fraud may destroy the smooth flow of LC procedure of payment. Moreover, the survival of fraud in LC will not only disturb the LC flow but it will end up as a disaster to the whole transaction. Consequently, fraud in LC transaction will frustrate the contracting parties such as buyer, seller as well as banker. Evidently, it is admitted that similar kind of modus operandi in LC transaction by fraudsters is not excluded in Malaysia. Thus, this paper aims to study fraud in LC transaction in Malaysia from the perspective of Malaysian banks. Due to lack of published materials and written information of this issue in Malaysia, interview was conducted with LC’s key person and experts to explore the real situation. The finding of this study established that the occurrence of fraud in LC is marginal and not negligible.

1 Senior lecturer, Faculty of Business & Accountancy, University of Malaya.
2 Assistant Professor, Ahmad Ibrahim Kuliyyah of Laws, International Islamic University Malaysia.
3 Assistant Professor, Kuliyyah of Islamic Revealed Knowledge and Human Sciences, International Islamic University Malaysia.