



# Journal of Accounting Research and Finance

Journal homepage: <https://ejournal.upi.edu/index.php/JRAK/>



## Analysis of Letter of Credit (L/C) Payment Methods Amid Payment System Disruption

*Chrisian, Reikman D.P. Aritonang*

Postgraduate Masters in Management, Sahid University Jakarta, Indonesia

\*Correspondence E-mail: [Chrisian2807@gmail.com](mailto:Chrisian2807@gmail.com)

ABSTRACT	INFOARTICLES
<p>Businesses strive for efficiency in their payment methods, often considering switching from L/C to open account financing. However, L/C remains unique due to its adherence to internationally recognized rules, making it irreplaceable. The decision to use L/C involves assessing its strengths and weaknesses. The research aims to analyze the impact of bank's undertaking, access to bank financing, performance risks, L/C costs and the L/C process on corporate decisions. Data from 50 respondents, analyzed via multiple regression and classic assumption tests reveal that bank's undertaking, access to bank financing, performance risks partially have a positive effect on the decision to use L/C. However, L/C costs and the L/C process partially did not have a positive effect on the decision to use L/C. When considered together, these factors significantly impact the decision to use L/C. To enhance L/C usability, integrating Blockchain to cut L/C costs and expedite the L/C process is suggested.</p> <p>© 2024UPI Journals and Publications Office</p>	<p><b>Article History:</b> <i>Submitted/Received January 2024</i> <i>First Revised February 2023</i> <i>Accepted March 2023</i> <i>First Available online March 2023</i> <i>Publication Date March 2023</i></p> <hr/> <p><b>Keywords:</b> <i>access to bank financing,</i> <i>bank's undertaking,</i> <i>decision to use L/C,</i> <i>L/C process,</i> <i>L/C transaction costs,</i> <i>performance risks,</i></p>

## 1. INTRODUCTION

Letter of Credit (L/C) is a payment method in international trade involves a bank that guarantees that the seller can deliver the goods and the buyer can carry out his obligations (tradefinanceglobal.com, 2022). In practice, L/Cs help mitigate risks and ensure the security of international settlements. In theory, with the benefits of L/C, many international traders should use L/C. However, in reality it was found that the use of L/C had dropped significantly. Business actors will always carry out efficiency and look for the most efficient payment methods so that switch to open account.

The following table presents L/C transactions as a payment method in international and local transactions between Buyers and Sellers which tends to continue to decline so that in 2017 it was only 10%.

**Table 1 Open Account as a payment method 1999-2017**

Payment method	Year			
	1999	2005	2013	2017
<i>Open account</i>	55%	75%	81%	90%
<i>Letter of Credit (L/C)</i>	45%	25%	19%	10%

Source : ICC Banking Commission GSCFF (2018)

Related to the explanation above, researchers want to measure the strength of the variables that influence the decision to use L/C in international trade, among others *bank's undertaking* (guarantee of payment from the bank), access to bank financing, performance risks (risk of default), L/C transaction costs, and L/C process. Several previous studies have identified factors that influence the decision to use L/C, such as the bank's undertaking (guaranteed payment from the bank), access to bank financing, performance risks (risk of default), L/C transaction costs, and the complexity of the L/C process which influence entrepreneurs to use L/C but tend to focus on one or two factors, such as: L/C transaction costs and the L/C process, without considering other factors simultaneously.

To increase the efficiency and reliability of L/C use, researchers propose the use of blockchain technology which is new to this research. The use of blockchain in international trade transactions can increase efficiency, speed, security, transparency and reduce costs. This can be a solution to overcome the complexity of the L/C process and develop a more modern payment method in international trade as well as contribute to a deeper understanding of the factors that influence the decision to use L/C and provide a more comprehensive understanding of the benefits and risks involved in International trade.

*Bank's undertaking* is a commitment given by the issuing bank to make payments to the beneficiary if the required documents have been fulfilled. Access to bank financing is a company's ability to obtain financing from banks via L/C. Performance risks are the possibility of a mismatch between the promised goods or services and goods or services that are not actually received by the L/C recipient. L/C transaction costs are the amount of money that must be paid by the importer to the bank to open and manage the L/C, and ensure that the exporter receives payment after fulfilling the requirements in the L/C. The L/C process is the time required for the process of using the L/C, starting from submitting the L/C to the repayment process.

Based on the problem formulation stated above, the aim of this research is to analyze whether the bank's undertaking (guarantee of payment from the bank), access to bank financing,

performance risks (risk of default), L/C transaction costs, and the L/C process partially influence on the decision to use L/C and to analyze whether the bank's undertaking (guarantee of payment from the bank), access to bank financing, performance risks (risk of default), L/C transaction costs, and the L/C process together influence the decision to use L/C.

### **Literature Review**

*Risk Management Theory.* Organizational risk management is the implementation of management functions in managing risks, especially the risks faced by an organization or company in achieving organizational goals. In other words, risk management includes the activities of planning, organizing, compiling, leading/coordinating and supervising (including evaluating) risk management programs.

*Transaction cost theory.* Economic theory that investigates the costs that arise when economic actors carry out economic transactions. In the L/C context, transaction cost theory applies as a way to analyze the costs involved in international payment processes involving parties who do not know each other and the potential for high transaction risk. Transaction cost theory can help explain the importance of L/Cs in reducing risks and transaction costs in international trade.

*Decision Choice Theory.* Theory is a way of thinking and the results of actions are called decision making (Syamsi, Ibnu: 2007). This theory refers to the study of decision making in uncertain and risky situations. In this case, the L/C payment method can be analyzed from a business decision perspective by choosing the payment method that best suits the company's business objectives and risk characteristics. Decisions are the result of solving problems faced with certainty. In the "Dictionary of Science", decision making is defined as choosing a decision or policy based on certain criteria. This process involves two or more alternatives, because if there is only one, no decision can be taken.

*Understanding Bank's Undertaking.* According to ICC (International Chamber of Commerce) Publication no. 600 - Uniform Customs and Practice for Documentary Credits (UCP) 2007, Bank's undertaking is "the irrevocable obligation of an issuing bank to the beneficiary to honor a complying presentation". This means that bank undertaking is an irrevocable obligation from the L/C issuing bank to the beneficiary to fulfill payments in accordance with the presentation of appropriate documents (complying presentation). Research conducted by Crozet et al. (2022) shows that the bank's undertaking has a positive and significant effect on the decision to use L/C.

*Understanding Access to Bank Financing.* According to Antonio, M. Syafi'i (2001), the definition of access to bank financing is the ability to obtain financing from a bank through an L/C based on a binding agreement or agreement between the bank and another party. Ermakov (2018) states that access to bank financing has a positive effect on the decision to use LC,

*Understanding Performance Risks.* According to Lestari (2019), the definition of performance risks is the risk that arises as a result of performance that is not in accordance with the standards or targets set. Performance risks in an L/C can be defined as the possibility of a mismatch between the promised goods or services and goods or services that are not actually received by the L/C recipient. Research conducted by Crozet et al. (2022) shows that performance risks have a positive and significant effect on the decision to use L/C.

*Understanding L/C Transaction Fees.* Monroe (2009) states that costs are the amount that customers must pay to obtain the service. Customers will purchase bank services if the investment (cost and time) is in line with the expected results. Therefore, it can be concluded that the price suggested by the bank can be a factor for customers to obtain bank products and services. Research conducted by Widyastuti (2019) states that L/C transaction costs have a positive and significant effect on the decision to use L/C. The results are different from research

conducted by Ruslan (2022) which states that L/C transaction costs have no significant effect on the decision to use L/C.

Understanding L/C process. Kotler (2012:142), office environment is an atmosphere that is created in accordance with the target and which can attract consumers to buy. According to Berman & Evan (2007:215), environmental design has elements that influence the office atmosphere that you want to create. In this case, the office environment is assumed to be a fast L/C process. Research conducted by Purnama (2017) states that the L/C process has a positive and significant effect on the decision to use L/C. The results are different from research conducted by Utami (2016) stating that the L/C process is greater than the additional processes that must be carried out, and transactions with L/C provide overall bank cost savings.

Decision to Use L/C. Kotler and Ketler (2008: 181) say, customer purchasing decisions change their experience in learning, choosing, using, or even disposing of a product. Durianto and Liana (2004: 44) say purchasing preferences are related to consumers' plans to buy certain products and the number of services needed within a certain time period.

### **Relationship between Variables**

*Bank's Undertaking* with the Decision to Use L/C. Bank payment guarantees can provide greater guarantees to the parties involved in transactions, thereby increasing their trust and confidence in using L/C. Research conducted by Crozet (2022) concluded that the bank's undertaking has a positive and significant influence on the decision to use L/C. The research results of Kamaluddin et al. (2021) also revealed that the bank's undertaking has a positive and significant effect on the decision to use L/C.

*Access to Bank Financing* with the Decision to Use L/C. In general, access to bank financing can expand payment options using L/C which can help speed up the payment process and reduce the risk of failed payments, increasing the credibility of parties using L/C because the bank will verify their eligibility and ability to pay which can help parties who use L/C gain trust from other parties in business transactions, and increase flexibility in conducting business transactions where they can use L/C as a payment method in situations where cash payments are not possible or difficult to make. Ermakov et al. (2018) conducted research that tested the effect of Access to Bank Financing on Decisions to Use L/C and revealed that Access to Bank Financing had a positive and significant effect on Decisions to Use L/C. Then the results of Tobing's research (2020) also revealed that Access to Bank Financing has a positive and significant influence on the Decision to Use L/C.

*Performance Risks* with the Decision to Use L/C. *Performance risks* may increase the need for payment guarantees, if there are significant performance risks, the party making the purchase may require an L/C payment guarantee. L/C can be used as a guarantee that payment will be made after goods or services are received with predetermined conditions. Subagja (2020) conducted research that tested the influence of Performance Risks on the Decision to Use L/C and revealed that Performance Risks had a positive and significant effect on the Decision to Use L/C. Then the research results Toorajipour (2022) also revealed that Performance Risks have a positive and significant influence on L/C Use Decisions.

*L/C Transaction fees* with Decision to Use L/C. L/C transaction fees refer to the fees that must be paid to facilitate a transaction. The effect can increase overall transaction costs, apart from the costs that must be paid to purchase goods or services, the party making the purchase must also pay L/C transaction costs. If L/C transaction costs are very high, it may be more profitable to choose another, cheaper payment method. Research conducted Ruslan (2022), Cheng & Huang (2020) concluded that L/C transaction costs have a negative and significant influence on the

decision to use L/C. However, Widyastuti's (2019) research results reveal that L/C transaction costs have a significant influence on the decision to use L/C.

L/C process with Decision to Use L/C. Process L/C can influence the decision to use L/C in several ways: The L/C process can take significant time and resources, especially if the transaction involves parties from different countries or has different regulations for the use of L/C to guarantee security of payment, after goods or services are received with predetermined conditions. This can help reduce the risk of failed payments. Therefore, if the transaction involves a large payment risk, using L/C may be the right choice. Toorajipour (2022) & Sawashe (2019) shows that a complicated or time-consuming L/C process has a negative and significant effect on the decision to use L/C. However, the results of research conducted by Purnama (2017) found that there was a significant influence of the LC process on the decision to use LC.

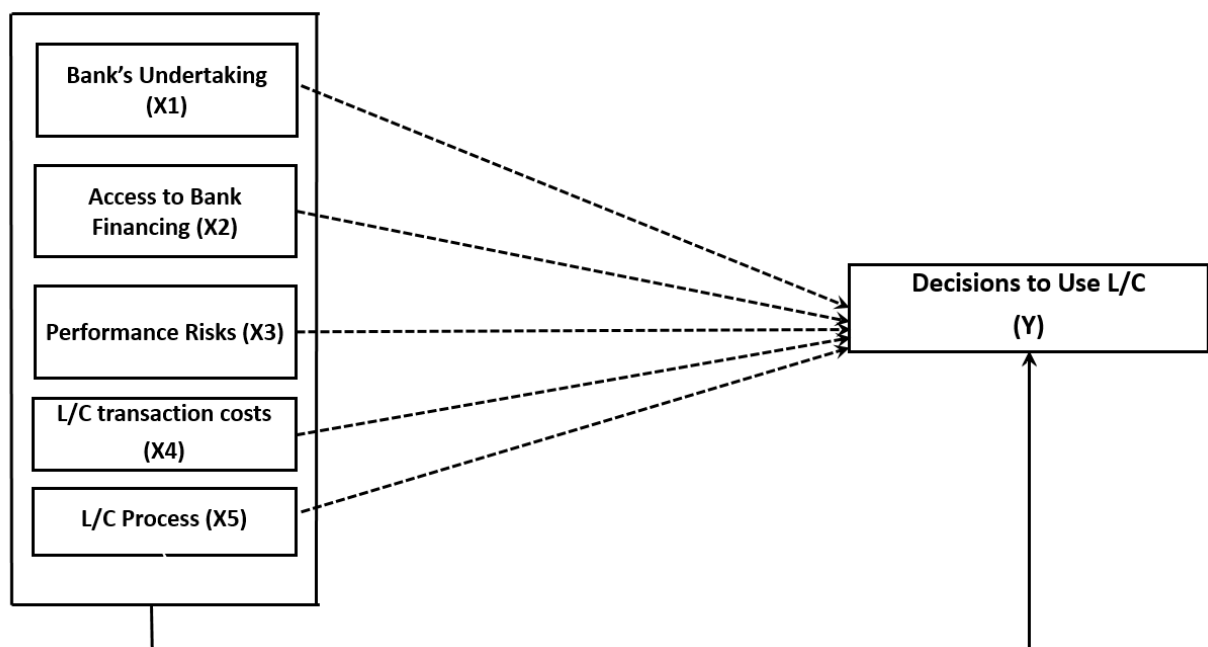
### Hypothesis Development

According to previous research, the bank's undertaking has significant influence on entrepreneurs' decisions to use L/C (Crozet, 2022), (Kamaluddin et al. 2021), (Andani, 2016). According to previous research, access to bank financing has significant influence on entrepreneurs' decisions to use L/C (Crozet, 2022), (Topcu, 2021), (Tobing, 2020), (Ermakov et al. 2018).

According to previous research, performance risks have significant influence on entrepreneurs' decisions to use L/C (Crozet, 2022), (Toorajipour, 2022), (Kamaluddin et al, 2021), (Tobing, 2021), (Subagja, 2020), (Utami et al. 2016). According to previous research, L/C transaction costs have significant influence on entrepreneurs decisions to use L/C (Toorajipour, 2022), (Tobing, 2021) (Subagja, 2020) (Amaren, 2020), (Widyastuti, 2019) (Sawashe, 2019) (Andani, 2016). However, according to (Ermakov et al. 2018) (Wu et al. 2014) partial L/C transaction costs do not have a positive influence on the decision to use L/C.

According to previous research, the L/C process has significant influence on entrepreneurs decisions to use L/C (Purnama, 2017) (Ermakov et al. 2018). However, according to (Ruslan, 2022), Cheng & Huang (2020), (Sawashe, 2019), (Toorajipour et al. 2022) the L/C process partially has no influence on the decision to use the L/C.

### Framework



**Figure 1 Framework of Thought**

Source: 2023 Theoretical Study

Information :

(-----) = Suspected partial influence

.(  ) = Suspected joint influence

## 2. RESEARCH METHODOLOGY

This research method uses quantitative research with primary data obtained from distributing questionnaires in June 2023. The sampling method used was the purposive judgment sampling method (a method for determining samples with certain considerations, Sugiyono, 2017) of 50 company data whose contact numbers were available, all taken from the total population. The research objects are the bank's undertaking (Payment Guarantee from the Bank), (X1), access to bank financing (X2), performance risks (risk of default) (X3), L/C transaction costs (X4) and L/C process (X5 ) as the independent variable and the decision to use L/C (Y) as the dependent variable.

The characteristics of respondents used in determining the research sample are corporate companies that are officially registered with the Ministry of Trade (Kemendag) and the Ministry of Industry (Kemenperin) that carry out international trade in the manufacturing and trading sectors from available databases that have been established approximately (+/-) 5 years and have loan facilities at the bank during the observation period of June 2023. The total number of valid data samples is 50 companies.

The data collection method is by survey, by taking samples from the population and using questionnaires as a data collection tool. A questionnaire is a number of written questions that will be answered by research respondents so that researchers obtain field/empirical data to solve research problems to test predetermined hypotheses (Supardi in Hapsari, 2011). The questionnaire in this research was adopted from several studies by distributing the Google Form link via Whatsapp group in a chain to staff who handle export-import transactions, which contained the same questions as the offline distribution.

This research uses validity and reliability tests, classical assumption tests, multiple linear regression analysis and is equipped with partial hypothesis testing with the t test and simultaneous testing using the F test (Anova).

## 3. RESULTS AND DISCUSSION

### Respondent Description

**Table 2 Percentage of respondents based on position in the company**

Position in the company	Number of Respondents	Percentage
Purchasing staff	15	30%
Finance staff	20	40%
Marketing staff	15	30%
Total	50	100%

Source : Data processed 2023

**Table 3 Number of years of experience working using L/C**

Number of years of experience working with L/C	Number of Respondents	Percentage
>5 years	25	50%
3-5 years	15	30%
<3 years	10	20%
Total	50	100%

Source : Data processed 2023

**Table 4 Payment Methods used**

Current payment methods used	Number of Respondents	Percentage
L/C	15	30%
Collection	5	10%
Telegraphic Transfer	30	60%
Total	50	100%

Source : Data processed 2023

**Table 5 Validity Test**

Variable	Item	$r_{hitung}$	$r_{table}$	Description
Bank's Undertaking	1	0.604	0.27	Valid
	2	0.756	0.27	Valid
	3	0.657	0.27	Valid
	4	0.699	27%	Valid
Access to Financing Bank	5	0.597	0.27	Valid
	6	0.556	0.27	Valid
	7	0.655	0.27	Valid
	8	0.497	0.27	Valid
Performance Risk's	9	0.429	0.27	Valid
	10	0.584	0.27	Valid
	11	0.584	0.27	Valid
	12	0.528	0.27	Valid
L/C transaction costs	13	0.539	0.27	Valid
	14	0.683	0.27	Valid
	15	0.448	0.27	Valid
	16	0.595	0.27	Valid
L/C Process	17	0.541	0.27	Valid
	18	70%	0.27	Valid
	19	0.429	0.27	Valid
	20	0.695	0.27	Valid
Decision to use L/C	21	0.536	0.27	Valid
	22	0.519	0.27	Valid
	23	0.387	0.27	Valid
	24	0.556	0.27	Valid

Source : Data processed 2023

All statement items regarding the bank's undertaking, access to bank financing, performance risks, L/C transaction costs, L/C process and decisions on using L/C have a calculated r value  $\geq$  rtable 0.27 so that all statement results are said to be valid.

**Table 6 Reliability Test**

Variable	Cronbach's Alpha	Description
Bank's Undertaking	0.935	Reliable
Access to Bank Financing	0.637	Reliable
Performance Risk's	0.700	Reliable
L/C transaction costs	0.773	Reliable
L/C process	0.719	Reliable
Decision to use L/C	0.678	Reliable

Source : Data processed 2023

The Cronbach's Alpha value for each variable is above 0.60, so it can be interpreted that all the research instrument items are reliable.

**Table 7 Multiple Linear Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.848	1.030		2.766	.008
	Bank's Undertaking	.106	.049	.159	2.164	.036
	Akses terhadap Pembiayaan Bank	.188	.057	.220	3.294	.002
	Performance Risks	.565	.101	.688	5.613	.000
	Biaya Transaksi L/C	-.036	.097	-.045	-.375	.709
	Proses L/C	.051	.050	.055	1.023	.312

Source : Data processed 2023

Based on the results of SPSS data processing, the regression equation can be formulated as follows

$$Y = 2.848 + 0.106X_1 + 0.188 X_2 + 0.565 X_3 - 0.036 X_4 + 0.051 X_5$$

### Classic assumption test

#### Data Normality Test

Normality testing aims to check whether in the regression model, the confounding variables or residuals are normally distributed. Normality tests were carried out with unnormalized residuals from the regression model using the Kolmogorov-Smirnov one-sample test.



**Table 8 Normality Test Results**  
**One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		50
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.29486508
Most Extreme Differences	Absolute	.101
	Positive	.051
	Negative	-.101
Test Statistic		.101
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source : Data processed 2023

The results of testing one sample Kolmogorov-Smirnov Test produced an asymptotic significance  $\geq 0.05$  ( $0.2 \geq 0.05$ ). Based on these results, it can be concluded that the regression model has met the normality assumption.

**Multicollinearity Test**

This test was carried out to see whether in the regression model a correlation was found between the independent variables. If there is a strong correlation, it can be said that a multicollinearity problem has occurred in the regression model.

**Table 9 Multicollinearity Test Results**

Model		Collinearity Statistics	
		Tolerance	VIF
	(Constant)		
	Bank's Undertaking	0.433	2.307
	Akses terhadap Pembiayaan Bank	0.521	1.918
	Performance Risks	0.155	6.459
	Biaya Transaksi L/C	0.159	6.293
	Proses L/C	0.808	1.238

Source : Data processed 2023

The results of the Variance Inflation Factor (VIF) value using SPSS 25, obtained a VIF value  $< 10$  and a tolerance value  $> 0.10$ , so it can be concluded that there is no multicollinearity between the independent variables.

**Heteroscedasticity Test**

This test aims to test whether in the regression model there is a variance error from the residual of one observation to another.

**Table 10 Heteroscedasticity Test Results**

Model		t	Sig.
1	(Constant)	-0.313	0.756
	Bank's Undertaking	0.452	0.653
	Akses terhadap Pembiayaan Bank	-0.078	0.938
	Performance Risks	1.537	0.131
	Biaya Transaksi L/C	-1.149	0.257
	Proses L/C	-0.406	0.687
a. Dependent Variable: RES2			

Source : Data processed 2023

According to the results of the Glejser test, the significance value for each variable was greater than 0.05. Based on this explanation, it can be concluded that the regression model does not have heteroscedasticity problems.

**Table 11 Determination Test Results**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.947 <sup>a</sup>	.898	.886	.311

Source : Data processed 2023

In Table 11 it can be seen that the adj R square value is 0.898 or 89.8%. This shows that 89.8% of decisions on using L/C are determined by the bank's undertaking variables, access to bank financing, performance risks, L/C transaction costs and the L/C process. Meanwhile, 10.2% is determined by other variables not examined in this research model.

**t Test Results**

The t test is carried out by comparing the calculated t values obtained in the table above, with a significance rate of 0.05 and degrees of freedom (df) = nk-2 = 50-5-2=43. With these provisions, a ttable of 1.681 is obtained.

**Table 12 t Test Results**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.848	1.030		2.766	.008
	Bank's Undertaking	.106	.049	.159	2.164	.036
	Akses terhadap Pembiayaan Bank	.188	.057	.220	3.294	.002
	Performance Risks	.565	.101	.688	5.613	.000
	Biaya Transaksi L/C	-.036	.097	-.045	-.375	.709
	Proses L/C	.051	.050	.055	1.023	.312

a. Dependent variable : Decision to use L/C

Source : Data processed 2023

According to table 12, the bank's undertaking Ho is rejected, Ha is accepted, meaning that the bank's undertaking partially has a positive effect on the decision to use L/C. Access to bank

financing,  $H_0$  is rejected,  $H_a$  is accepted, meaning that access to bank financing partially has a positive effect on the decision to use L/C. Performance risks,  $H_0$  is rejected,  $H_a$  is accepted, meaning that performance risks partially have a positive effect on the decision to use L/C. L/C transaction costs,  $H_a$  rejected,  $H_0$  accepted, meaning that partial L/C transaction costs do not have a positive effect on the decision to use L/C. L/C process,  $H_a$  is rejected,  $H_0$  is accepted, meaning that the partial L/C process does not have a positive effect on the decision to use the L/C.

**Table 13 F Test Results**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.360	5	7.472	77.169	.000 <sup>b</sup>
	Residual	4.260	44	.097		
	Total	41.620	49			

a. Dependent Variable: Keputusan Penggunaan L/C  
 b. Predictors: (Constant), Proses L/C, Biaya Transaksi L/C, Akses terhadap Pembiayaan Bank, Bank's Undertaking , Performance Risks

Source : Data processed 2023

From the results of the ANOVA test above, the F count was 77.169. Based on table F with a significance level ( $\alpha$ ) = 5%, it is known that  $F_{table}$  with  $df_1 = k-1 = 5-1 = 4$  and  $df_2 = nk-2 = 50-5-2 = 43$ , then  $F_{table} (df_1) (df_2) = 2.588$ . According to the calculation results,  $F_{count} = 77.169$  while  $F_{table}$  is 2.588, so  $F_{count} > F_{table}$ . This proves that  $H_0$  is rejected,  $H_a$  is accepted. Based on this, it can be said that the bank's undertaking, access to bank financing, performance risks, L/C transaction costs and the L/C process influence the decision to use L/C.

#### 4. CONCLUSION

The characteristics of respondents are dominated by finance staff, namely 20 people (40%), The predominant number of years of work experience using L/C is > 5 years (50%), and the payment method currently used is dominated by telegraphic transfer (60%) followed by L/C (30%).

The t test results show that the bank's undertaking (X1) partially influences the decision to use L/C. This is proven by the t test process where  $t_{count}$  is 2.164 which is greater than  $t_{table}$  1.681. Access to bank financing (X2) partially influences the decision to use L/C. This is proven by the t test process where  $t_{count}$  is 3.294 which is greater than  $t_{table}$  1.681. Performance risks (X3) partially influence the decision to use L/C. This is proven by the t test process where  $t_{count}$  is 5.613 which is greater than  $t_{table}$  1.681 which is significant. L/C transaction costs (X4) partially do not have a positive effect on the decision to use L/C. This is proven by the t test process where  $t_{count}$  is -0.375 which is smaller than  $t_{table}$  1.681. The solution that entrepreneurs want is to reduce the costs involved in L/C transactions. Entrepreneurs realize that safer transactions certainly require more sacrifice, but not infrequently they feel that the costs and time sacrificed are very burdensome and not commensurate with the profits they obtained. This is because they do not know that the benefits obtained from L/C are greater than the transaction costs that must be incurred. The L/C process (X5) does not partially have a positive influence on the decision to use L/C. This is proven by the t test process where  $t_{count}$  is -1.023 which is smaller than  $t_{table}$  1.681. A complex process involving many parties is a weakness of L/C. The letter of credit (L/C) transaction procedure is longer compared to

simple non-letter of credit transactions. However, this lengthy procedure aims to ensure transaction security and L/C user satisfaction because they receive certainty in payment.

The results of the F test show that the bank's undertaking (X1), access to bank financing (X2), performance risks (X3), L/C transaction costs (X4) and the L/C process (X5) together influence the decision to use L /C, where the calculated F count is 77.169 with a significance level of 0.000.

Even though the L/C feature has advantages that cannot be replaced by other payment methods, due to the relatively high L/C transaction costs and the longer L/C process, entrepreneurs prefer not to use L/C. This is due to a lack of understanding of the benefits of L/C or because there is no possibility of problems occurring, so business people choose to take risks rather than definitely having to increase costs and increase processing time. When comparing the weaknesses and benefits of using a Letter of Credit, the benefits arising from using an L/C in mitigating risks in export-import practices are greater than the losses that would arise if export-import transactions did not use an LC.

Suggestions for Banks, implementing Blockchain technology which can reduce negative influencing variables such as L/C transaction costs and speed up L/C processing times and develop more modern payment methods in international trade, increase the frequency and quality of Letter of Credit (L/C) training to customers through courses, seminars, training, written instructions or continuous written and verbal information regarding the theoretical concepts and practice of Letter of Credit (L/C) transactions. This is so that Letter of Credit (L/C) actors and all parties related to the implementation of Letter of Credit (L/C) in Indonesia have the same conception and understanding regarding Letter of Credit (L/C) transactions and provide a clear understanding, more comprehensive information about the benefits and risks involved in international trade, adding references for the Bank in terms of increasing customer satisfaction and changing the customer experience in L/C transactions with international trading partners. In this study, only 5 independent variables were used which are thought to influence the decision to use L/C. This opens up opportunities for future researchers to add other variables which are thought to influence the decision to use L/C.

## 5. BIBLIOGRAPHY

- Astri Andani, Sri Fajar Ayu SP. MM. DBA, & Dr. Ir. Salmiah, MS. (2015, July). Factors that influence the decision of coffee exporters to use non-letter of credit transactions for North Sumatra coffee exports. *Journal of Agriculture and Agribusiness Socioeconomics*. Retrieved from <https://www.neliti.com/publications/94174/>
- Chang, S. E., , Luo, H. L., & Chen, Y. (2019). Blockchain-Enabled Trade Finance Innovation: A Potential Paradigm Shift on Using Letters of Credit. *Sustainability* (Vol. 12(1)). doi: <https://doi.org/10.3390/su12010188>
- Chang, S., Chen, Y.-C., & Wu. (2019). (D. Syst, Editor.) Exploring blockchain technology in international trade: business process re-engineering for letters of credit, 1712-1733. doi:<https://doi.org/10.1108/IMDS-12-2018-0568>
- Chang, S., Luo, H., & Chen, Y. (2020). Blockchain-enabled trade finance innovation: a potential paradigm shift on using letters of credit., 188. doi:<https://doi.org/10.3390/su12010188>. Scopus

- Crozet, M., Demir, B., & Javorcik, B. (2022, January 5). International Trade and Letters of Credit : A Double-Edged Sword in Times of Crises. *IMF Economic Review* (2022), 70, 185-211. doi:<https://doi.org/10.1057/s41308-021-00155-3>
- Domenico Del Sorbo. (2022, August). Trade Finance Global Articles. Retrieved from <https://www.tradefinanceglobal.com/posts/documentary-credit-deconstructing-a-complex-instrument/>
- Em Al Amaren, C Ismail, & M Nor. (2020, March). The Blockchain Revolution : A Game-Changing in Letters of Credit? *International Journal of Advanced Science and Technology, Research*, 29, No. 03, 6052-6058 . doi:10.20961/sersc.org/journals/index.php/IJAST/article/view/6747
- Ermakov V, Burmistrova E, Bodin N, & Chursin A, Shev. (2018, February). "A letter of credit as an instrument to mitigate risks and improve the efficiency of foreign trade transactions". Retrieved from <https://www.semanticscholar.org/paper/> Corpus ID : 54890620
- Fridgen, G., Urbach, N., Radszuwill, S, & Utz, L. (2018). Cross-Organizational Workflow Management Using Blockchain Technology – Towards Applicability, Auditability, and Automation. (Vol. 11).
- Imam Kamaluddin, Eka Risana Putri, Setiawan bin Lahuri, & Suyoto Arief. (2021, May). Maqashid Syariah Perception Toward Letter of Credit as Export-Import Risk Mitigation at Indonesian Fishery Trade Experience. 17, 187-206. doi:<https://dx.doi.org/10.21111/tsaqafah.v17i1.6704>
- International Chamber of Commerce. (2019). Rethinking Trade and Finance. International Chamber of Commerce.
- Kim, & Sohn. (2019). The certification effect of government R&D subsidies on innovation performance and bank financing: evidence from Korean SMEs. *Small Business Economics*, 52, 239-256.
- Mahayana. (2018). The Influence of Macroeconomic Variables on the Distribution of Export and Import Transactions using the Letter of Credit Payment Method. *Journal of Agribusiness and Rural Development Research*, 4. doi:<https://doi.org/10.18196/agr.4159>
- Matthieu Crozet, Bani Demir, & Beata Javorcik. (2022, January 5). International Trade and Letters of Credit: A Double\_Edged Sword in Times of Crises. *IMF Economic Review*, 185-211. doi:<https://doi.org/10.1057/s41308-021-00155-3>
- Paul, S., Adhikari, A., & Bose, I. . (2022). White knight in dark days? Supply chain finance firms, blockchain, and the COVID-19 pandemic. *Information & Management*, (Vol. 59(6)103661. ). doi:<https://doi.org/10.1016/j.im.2022.103661d>
- Rahmat Hidayat. (2019, October). The Influence of the Dollar Exchange Rate and Inflation on the Financing Value of Imported Sharia Bank Letters of Credit. Retrieved from [repository.umj.ac.id/4587/1/SKRIPSI.pdf](https://repository.umj.ac.id/4587/1/SKRIPSI.pdf)

- Sachin Sawashe. (2019, August 24). Blockchain for Letters of Credit. (TC Platform, Editor.) Retrieved from <https://medium.com/the-capital/blockchain-for-letter-of-credit-319436c63bc1>
- Subagja A. (2020). Letter of Credit (L/C) as the Safest Payment Method in International Trade/Export-Import Payment Transactions (Case Study at PT. San San Saudaratex Jaya). 2, 78-89. doi:10.37950/ijd.v2il.38
- tradefinanceglobal.com. (2022). Letters of Credit. Retrieved from <https://www.tradefinanceglobal.com/letters-of-credit/>.
- Tobing, RP (2021, December). Risk Analysis of International Trade Payment Transactions. Journal of Risk Management, 2. doi:<https://doi.org/10.33541/mr.v2il.3439>
- Toorajipour, R, Oghazi, P, Sohrabpour, V, & Patel. (2022). A Blockchain-based peer to peer business transaction for international trade. doi:<https://doi.org/10.1016/j.techfore.2022.121714>
- Uniform Customs and Practice for Documentary Credits 2007 Revision. (1993 Revised). International Chamber of Commerce (ICC) Publication No. 600.* Paris: ICC Services.
- Utami, IPA, Djuwityastuti, D., & Adiastruti, A. (2016, June). LC as a method of payment for international trade transactions within the framework of the ASEAN Economic Community. Private Law, 4(1), 63-71. Retrieved from <https://www.neliti.com/publications/164496/letter-of-credit-lc-as-cara-pembayaran-transaksi-perdagangan-internasional>
- Widyastuti, S. (2019, June). Accounting for Sharia-based Letter of Credit (L/C) Products: Case Study at PT Bank XYZ. Accounting Scientific Journal, Faculty of Economics, 5, 65-78. Retrieved from <https://journal.unpak.ac.id/index.php/jiafe>
- Wu, LY, Chen, KY, Chen, PY, & Cheng, S.L. (2014). Perceived Value, Transaction Cost and Repurchase-Intention in Online Shopping: A Relational Exchange Perspective. Journal of Business Research, 67(1), 2768–2776 . . . doi:<https://doi.org/10.1016/j.jbusres.2012.09.00>
- Yunus Emre Topcu. (2021, December). Use of Blockchain Technology in Letter of Credit Payment Method, 37-58. Retrieved from [https://www.researchgate.net/publication/35700297\\_Use\\_Of\\_Blockchain\\_Technology\\_In\\_Letter\\_Of\\_Credit\\_Payment\\_Method](https://www.researchgate.net/publication/35700297_Use_Of_Blockchain_Technology_In_Letter_Of_Credit_Payment_Method)
- Zhang Cheng, & Nanni Huang. (2020). Risk assessment and decision making of a listed enterprise's L/C Settlement based on fuzzy probability and bayesian game theory. Journal of Information Processing Systems, 16, 318-328. doi:10.3745/JIPS.04.0156
- Zuhri, R. (2022, August). Blockchain Letter of Credit : A Systematic Literature Review. Fair Value: Scientific Journal of Accounting and Finance, 11. Retrieved from [https://www.researchgate.net/publication/363252493\\_BLOCKCHAIN\\_LETTER\\_OF\\_CREDIT\\_A\\_SYSTEMATIC\\_LITERATURE\\_REVIEW\\_zuhri](https://www.researchgate.net/publication/363252493_BLOCKCHAIN_LETTER_OF_CREDIT_A_SYSTEMATIC_LITERATURE_REVIEW_zuhri)



