

LC vs TT

Letter of Credit vs Telegraphic Transfer — Which Payment Method is Right for Your Trade?

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01 Core Difference

Payment terms in international trade determine how and when money changes hands — and how much risk each party carries. The two most common methods are:

<p>LC — Letter of Credit</p> <p>Bank guarantees payment only after specified documents are verified as compliant. The bank acts as a trusted intermediary between buyer and seller.</p>	<p>TT — Telegraphic Transfer</p> <p>Direct bank-to-bank wire transfer with no third-party guarantee. Fast and simple — but relies entirely on trust between buyer and seller.</p>
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02 Head-to-Head Comparison

Factor	LC (Letter of Credit)	TT (Telegraphic Transfer)
Buyer Risk	Low — bank controls payment release	High to Medium — depends on trust & structure
Seller Risk	Low — guaranteed if documents comply	Medium — depends on advance percentage
Fraud / Non-delivery Risk	Very Low	High (especially with 100% advance)
Quality Protection	Moderate — documents checked, not goods	Weak — no control after payment is sent
Speed	Slow — 3 to 7 days setup + processing	Fast — 1 to 3 days transfer
Cost	Higher — bank fees typically 0.5–1.5%	Lower — standard wire transfer fees only
Complexity	High — strict documentation required	Very simple — minimal paperwork

03 Risk Breakdown in Depth

LC — How the Protection Works

Under an LC, the buyer's bank issues a guarantee to pay the seller's bank once the seller presents conforming documents (Bill of Lading, Commercial Invoice, Packing List, Certificate of Origin, etc.). This provides:

- Protection against non-shipment — the seller must prove goods were shipped
- Protection against missing or non-conforming documents
- Recourse if documents are fraudulent — bank has legal standing to refuse payment

Limitation: An LC verifies documents, not the physical quality of goods. A seller can present compliant documents while shipping substandard goods — due diligence on the supplier remains essential.

TT — Risk Structure by Advance Percentage

Structure	Risk Level	Notes
100% Advance	HIGHEST	Buyer has no leverage once money is sent. Only use with long-established, audited suppliers.
30% Advance + 70% on Documents	MODERATE	The most common practical split. Balance of speed and exposure.
Against Documents (CAD)	LOWER	Payment released only when shipping documents are presented to the bank.

04 Speed & Cost Comparison

<p>⚡ TT Speed</p> <ul style="list-style-type: none"> • Transfer completes in 1–3 business days • Minimal documentation required • Ideal for time-sensitive or repeat orders • Low transaction cost (flat wire fees) 	<p>🏛️ LC Timeline</p> <ul style="list-style-type: none"> • 3–7 days to set up and issue the LC • Additional 5–10 days for document handling • Bank charges: typically 0.5–1.5% of deal value • Document discrepancy delays can add further time
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05 Decision Guide — When to Use Which

Choose LC When:

- This is your first transaction with a new supplier
- The order value is large (typically above USD 50,000)
- The supplier's country carries elevated political or commercial risk
- Your financing requires bank-backed payment assurance
- You want the highest possible contractual protection

Choose TT When:


- You have an established, trusted relationship with the supplier
- This is a repeat order with a proven delivery track record
- The order value is relatively small

- Speed and lower transaction cost are the priority




Smart Hybrid Approach — Best of Both

The most practical structure for growing trade relationships:


Recommended Hybrid: 30% TT + 70% Against Documents

 Pay 30% by TT advance to confirm the order, with 70% released against shipping documents (Bill of Lading, etc.). This balances the supplier's need for advance payment, your cost of LC banking, and your protection against non-delivery. As trust builds, the TT advance can be reduced further.

06 Final Decision Framework

<p> Safety First</p> <p>LC</p> <p>Use when protection matters more than speed. Gold standard for risk control, especially for new or high-value relationships.</p>	<p> Speed & Cost</p> <p>TT</p> <p>Use for trusted, repeat suppliers where speed and lower fees are the priority. Structure carefully to limit exposure.</p>	<p> Balanced</p> <p>Hybrid 30/70</p> <p>The most practical everyday approach for growing import businesses. Balances risk, cost, and supplier relationships.</p>
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IRASHA Trade Finance Guidance

 IRASHA's verified exporter profiles include trade history, payment term preferences, and reference information to help you assess which payment structure is appropriate for each supplier relationship. Our policy intelligence layer also flags country-level payment risk indicators to guide your decision.