

The lessons

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The frauds of 2020 led banks and authorities to draw lessons, which Bloomberg summarised as follows: most banks chose to remain in an 18,000 billion dollar market and took steps to fight back. Singapore's lenders considered a central database to track collateral, ABN Amro stepped up its vigilance, while ING and HSBC turned to distributed ledger technology to limit fraud.¹ A former head of trade finance in Singapore observed that high staff turnover meant that the bankers approving financing often lacked expertise.²

The first lesson concerns the verification of documents. Banks must satisfy themselves of the authenticity of bills of lading and certificates with their issuers, and of their uniqueness, which electronic platforms make possible. The principle of autonomy of the documentary credit does not relieve the bank of the need to verify that the documents correspond to a reality.

The second lesson concerns the control of the goods. Physical inspections of stocks, surveillance of warehouses and tracking of vessels make it possible to verify that the goods being financed exist and remain pledged. Location and traceability technologies contribute to this.

The third lesson concerns knowledge of the trader. Banks must analyse the accounts, governance, real profitability and practices of their clients, and be wary of companies whose growth or profits appear too regular. Hin Leong's concealment of losses over several years could have been detected by a more thorough analysis.

The fourth lesson concerns coordination between banks. Multiple financing thrives in opacity. Collateral registers, exchanges of information in compliance with competition law and contractual clauses allowing the absence of multiple pledges to be verified reduce this risk.

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The fifth lesson concerns skills. Trade finance requires experienced specialists, whom banks must train and retain. Staff turnover and cost pressure, in a low-margin business, contributed to the failures.

Lesson	Measure
Verification of documents	checking authenticity and uniqueness with issuers, electronic platforms
Control of the goods	physical inspections, warehouse surveillance, vessel tracking
Knowledge of the trader	analysis of accounts, governance and real profitability
Coordination between banks	collateral registers, exchanges of information, contractual clauses
Skills	training and retention of specialists

1 Notes

1. Bloomberg via AJOT, 7 September 2020, cited above. ↩
2. Bloomberg via AJOT, 7 September 2020, cited above. ↩

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