"Some of the trades are commercially questionable in the first place. As long as the music plays, no one is going to find out, but the problems happen when there is a break in the chain. Then, two or more banks show up with the same claim, that they haven't been paid."

What's next for banks

For banks caught between pressure from regulators to keep financing commodities trade and expectations from boardrooms to cut exposure to risk, there are steps that could be taken.

Eric Chen, investment director for trade finance at Singapore-based asset management firm EFA Group, says lenders should respond by "strengthening their due diligence, collateral monitoring and management practices so as to plug the loopholes that may have been exploited by these three commodity traders".

Chen suggests banks consider carrying out physical site visits or spot checks, for example when providing inventory finance for oil products in a tank terminal.

They could also ensure majority shareholders or management have "skin in the game" by requesting personal guarantees, such as private assets they hold. Chen adds that EFA's rigorous approach to underwriting helped it steer clear of any exposure to the Hin Leong, ZenRock and Agritrade defaults.

For Bhinder, banks should "start asking the difficult questions to their borrowers". He says lawyers investigating cases tend to probe whether trades are commercially justified, how reliable firms' balance sheets are, and if there is any likelihood of duplicate trades.

Those questions would be better served if raised while on-boarding new customers, rather than after wrongdoing has already emerged, the lawyer says. "I understand the pressure of a deal scenario, they have to do that quickly, but there must be a better way of testing balance sheets and understanding trade flows," Bhinder adds.

"That doesn't mean banks should stop carrying on financing; the world needs financing to go on. We just need to be a bit more sensible and sustainable about it. If you finance someone to the hilt by a checklist it's not really sustainable."

Looking further ahead, Jean-François Lambert, founding partner of consultancy firm Lambert Commodities, says it is too early to say whether banks are likely to hasten de-risking from Singapore's commodities market.

"Clearly Singapore needs the banks and especially international banks to keep financing commodity trades, which is a key sector for the city state," he tells **GTR**. "For now they are in the middle of the storm, and it is rather difficult to undertake pulls-out unless for compelling reason such as frauds.

"Banks should stand by their customers in these difficult moments – and they probably do."