

Technology

After \$9 Billion Credit Hit, Banks Seek Trade Finance Revamp

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When Credit Agricole SA and HSBC Holdings Plc issued a payment guarantee for a \$76.5 million fuel purchase from a Singapore trader in March, they unwittingly became the latest victims in a series of trade finance scandals that have led to more than \$9 billion in potential losses for global lenders.

At the same time that Hin Leong Trading Pte. was pledging the fuel to back the loan, it allegedly agreed to sell the same cargo to another trader, who sought letters of credit from three banks including Credit Agricole.

This line of credit merry-go-round was among many allegedly fraudulent tools used by Hin Leong, one of Singapore's biggest oil traders before its spectacular collapse in April that left 23 banks on the hook for \$3.5 billion, according to a report from court-appointed managers.

For banks financing the opaque world of commodities trading in Singapore, Hin Leong isn't an isolated case. The trading hub has seen a clutch of failures in the past year with lenders struggling to reclaim loans, alleging they were tricked by forged documents and by traders pledging cargoes to multiple banks. The two latest lawsuits show lenders including HSBC and CIMB of Malaysia exposed to about \$640 million in potential losses.

"It's tumbling down like a house of cards - everybody is caught in the whirlwind," said Robson Lee, a corporate finance law partner at Gibson, Dunn & Crutcher LLP's Singapore office.



Lim Oon Kuin Source: Yen Meng Jjin/The Business Times

In a June 25 statement, Hin Leong founder Lim Oon Kuin said he was unfit to respond to the allegations in the report from the judicial managers. HSBC and Credit Agricole declined to comment.

Fight Back

Rather than flee the \$18 trillion trade finance business, most banks are now taking steps to fight back. Singapore lenders are considering a central database to track collateral, according to a person familiar with the matter, while banks including ABN Amro Bank NV are stepping up vigilance. ING Groep NV and HSBC, two of the biggest players in the space, are turning to technology such as blockchain to limit fraud.

The losses are mounting, with Hin Leong just the latest case of trade finance gone awry:

- ING accused Agritrade International Pte. in a lawsuit of "overlapping" shipping lists to get financing from several banks for the same cargo. About 18 banks face combined losses of \$670 million.
- HSBC accused Zenrock Commodities Trading Pte. of carrying out "highly dishonest transactions" by using the same cargo for various loans. Banks are owed \$166 million.
- CIMB Group Holdings Bhd said in a filing last week that Hontop Energy conducted "suspicious" oil deals. The trader owes \$473 million.
- Hontop, Zenrock, Agritrade didn't return calls seeking comment.