Banks and other creditors face about $9.26 billion in potential losses from these and other failures over the last six years, all of them involving some form of alleged fraud, forgery, multiple cargo pledges or questionable accounting, based on a Bloomberg News tally.

HSBC reported a $700 million increase in expected credit losses in April at its commercial banking division in Asia, primarily linked to Singapore. Standard Chartered Plc set aside $956 million against potential losses, partly due to the coronavirus pandemic and defaults by commodity traders. At ABN Amro, two client cases accounted for 460 million euros ($521 million) in provisions, including one tied to a "potential fraud case in Singapore."

Both banks are owed money by Hin Leong, whose financing scheme was among the biggest and most elaborate of all, a new report shows.

Some 60 letters of credit amounting to $1.5 billion were used to finance cargo that either didn't exist or was pledged to multiple buyers, according to an investigation by PricewaterhouseCoopers LLP, the court-appointed managers. In all, 273 letters of credit were spread among 23 banks, which have low chances of recovery with assets worth 7% of liabilities.

"The company fabricated documents on a massive scale," PwC wrote in the June report, adding that the company's transgressions were routine and pervasive, misleading banks into extending credit.

In the world of trade finance, exporters and importers rely on credit lines to protect themselves against risks such as currency fluctuations, non-payment and political instability. When it works, the short-term financing provides a relatively safe way for banks to generate a quick profit as the lending covers sea voyages lasting just a few weeks.

100% Illegal

The financing doesn't work when the same barrels of oil or other commodities are used to get financing from multiple lenders, or when the cargo used to back the loans doesn't exist.

"Double financing is 100% illegal because a borrower is wrongly representing to different banks that it has security over the same goods," said Baldev Bhinder, a commodities specialist and managing director of BlackStone & Gold Llc, a Singapore law firm. "But banks have challenges in on-boarding a live transaction quickly."

One of the reasons so many firms have duped the banks is there is little transparency in the trading process, said Kelvin Tan, a former deputy director at the Monetary Authority of Singapore, the city-state's central bank. As a result, banks can't determine if the oil backing a loan is being pledged to another lender at the same time.

"The reason double, or multiple pledging is a common problem in commodity trade finance is because there is no central database of such collateral," said Tan, chief investment officer of GTR Ventures, a trade finance technolo y firm. "This blow-up is exposing a structural flaw amongst not only banks, but also the ecosystem."

Paper Work

Banks have also suffered from old-school documentation. Transaction documents can run into the hundreds of pages, making copies and forgeries easier.

"The nature of this business means it's almost impossible for the banks to verify whether the goods pledged to them belong to them or if it's even there," said John Khaw, co-founder of Lucidity, a fintech startup that focuses on trade finance technology.

The banks also have to understand the risks of this sector, said Bhinder.

Margins on trade finance can be razor thin, as low as 0.25%, putting a premium on volume. Staff turnover is also high, meaning bankers signing off on financing often lack expertise, said Clara Hang, former head of trade finance at Singapore's Oversea-Chinese Banking Corp. As a result, big borrowers like Hin Leong, with revenue of $20 billion last year, face less scrutiny, she said.