

SHIPPING DOCUMENTATION & TRADE FRAUDS

Managing Risks involved in Global Trade & Finance



PRUDENCE

Insurance & Risk Management Business School



Of +US\$ 31 Trillion
of Global Trade,
~85% is
transacted on
'Open Credit' or
'Open Account' or
'Unsecured' Terms.



TOPICS:

1. **Problem statement: 'Banks deal with documents only & not goods, services or performance'**
 - Article 5, UCP 600: Documents v. Goods, Services or Performance

2. **KYC: The start point**
 - Case Study: Dress to Impress ! Chapter 1 - Collapse of large commodities trader in APAC
 - Case Study: Dressed to Kill ! Chapter 2 - Collapse of large oil trader in APAC impacting 80% of World Trade
 - Key Learnings

3. **Overview of important Trade & Shipping Documents**
 - (1) Trade & shipping documentation: pre-shipment, post shipment, value-adds
 - (2) 4 key elements of Trade Finance
 - (3) Parties involved in the execution of a trade
 - (3) 7 Trade Finance Risks for a Bank
 - (4) Key check-points for a trade finance bank
 - (5) Trade Documents: Transaction documentation to evidence 7 key aspects of a trade: Product, Price, Tasks, Shipment, Delivery & Risk Transfer, Payment Terms, & Transfer of Title
 - (6) TASKS, COSTS, RISKS allocation in Trade: INCOTERMS 2020: 11 Rules
 - (7) Common mistakes in using INCOTERMS
 - (8) Why Banks need to understand INCOTERMS ?

4. **Key Trade Documents focused:**
 - (1) Commercial Invoice: Key check-points
 - Case Study: Cellphone distributor in UAE & GCC region
 - Case Study: Oilfield Pipes Trader - Project Cargo
 - Case Study: Agri Commodities Trader - Circular fraudulent trades
 - (2) Packing List
 - Case study: Pharma Trader - Vendor Financing Fraud
 - Case study: API Trader - Factoring Fraud
 - (3) Independent Survey / Inspection Report
 - Case study: US\$ 577 Million Nickel Trade Fraud
 - Case study: Inventory Fraud US\$ 10 Billion
 - Case study: Commodities Trader: Coal stock-loss
 - (4) Bill of Lading
 1. Vessel
 2. What is a Bill of Lading
 3. Functions of a Bill of Lading
 4. Types of Bill of Lading
 5. Frauds involving Bills of Lading

5. **Importance of 'Vessel' verification in Trade Finance:**
 - (1) Specific exclusion under ICC 'A' for Vessel factors: Solvency & Seaworthiness
 - (2) Vessel: 4 key factors of risk assessment
 - (3) Classification : International Association of Classification Societies (IACS)
 - (4) P&I entry (International Group of Protection & Indemnity Clubs)
 - (5) Cargo Insurance & Charterer's Liability Insurance

Commodities Traders make money thru:

- Geographic Arbitrage,
- Time Arbitrage,
- Quality Arbitrage,
- Trade Execution, &
- Speculation.

Managing such **Trade Risks** is a fundamental aspect of *Enterprise Risk Management*.



TOPICS:

6. **Bill of Lading (BL) Issues & Frauds**

- No Cargo
- Bogus Cargo
- Fraudulent Bill of Lading
- Misdemeanor Cargo
- Switch Bill of Lading
- Third Port Shipments or Triangular Trade
- Letter of Indemnity (LOI)

7. **Switch Bill of Lading**

- What is 'Switching'
- Concerns with Switching Bills of Lading
- Why Switch a Bill of Lading?
 1. Conceal identity of Original Seller
 2. Change to Discharge Port
 3. Splitting Bills of Lading
 4. Consolidating Bills of Lading
 5. Commingled or Blended Cargo
 6. Carrier's Liability: Commingled or Blended Cargo
 7. Lost Original Bills of Lading
 8. Do 'Dates' really matter on a Switch B/L?
 9. Switching: Minimizing the risk

8. **Letter of Indemnity (LOI) & Trade Finance Frauds**

- What is a Letter of Indemnity?
- Parties to a Letter of Indemnity
- When would LOI be required?
- What should LOI always include?
- Do IGP&I Clubs insurance cover LOI's?
- LOI: Potential concerns and liabilities
- Will a Cargo Insurance Policy respond to protect Bank's interest for LOI based wrongfully discharged cargo?
- LOI: What are the risks?
- Will the LOI be enforceable?
- LOI: Mitigating the risks

9. **Circular Trade Fraud**

- Case study: Global Trade in Phantom Cargoes: US\$ 1.16 Billion trade finance fraud
- Case study: UAE Commodities Trader: USD 200 million trade receivables financing fraud
- Case study: UAE Agri Commodities (mainly, Rice) Trader fraud cir. +US\$ 400 million



An estimated

\$3.1 trillion

in illicit funds flowed through the global financial system in 2023, representing the total amount associated with global trade fraud for that year.

*Nasdaq Global Financial
Crime Report*

TOPICS:

10. **Cargo Insurance**

- Insurance Clause in a Letter of Credit - "One Size Fits All" Approach
- Reality Check
- Misappropriation & Fraud Risk in Inventory Financing
- Is a Trade Finance Bank financially secured by Cargo Insurance arranged by clients?
- Red Sea Transits risk: Is a trade finance bank insured against War & Allied Perils; Confiscation Risk?
- Case Study: MV Rubymar - fertilizer cargo exported by Ma'aden
- Case Study: MSC Aries
- Case Study: Advantage Sweet - Crude Oil Tanker confiscated by Iran; USD 57,000,000 claim
- Key learnings

11. **Factoring or Supply Chain Finance (SCF) Survey & Due Diligence**

- 3 key objectives
- Key check-points to audit
- Disclosures for Trade Credit Insurance
- Case study: Mobile phones trader: Factoring fraud involving fabricated accounting system
- Case study: REI Agro - Ammalaya Commodities JLT

12. **Why Bank's should control Trade Insurance:**

- Why should a Bank control **Cargo Insurance**
- Risks faced by Trade Finance Banks in 'Assigned' Cargo Insurance Policy
- Case Study: Mercury Energy Group Ltd. - Copper fraud & painted rocks USD 36,000,000
- Case Study: USD 57,000,000 oil cargo confiscation claim denial
- Case Study: Engelhart CTP (US) LLC: Fraudulent documents for a non-existent cargo
- Bank Master Cargo Insurance Policy - a brief introduction

- **Trade Credit Insurance:** Risk Mitigant & Credit Enhancement tool
- Scope of Credit Insurance Cover
- How a Credit Insurer underwrites a risk?
- Why should Bank control Trade Credit Insurance?
- Difference between 'Bank-Controlled' TCI Policy vs Client Controlled & Assigned TCI policies
- Assignment of Trade Credit Insurance Policy to Bank: Loss Payee vs Trade Finance Endorsements
- Importance of Trade Transactions Due Diligence
- Credit Insurance Decision: What must a Bank check?
- Non-Payment Insurance (NPI) - a brief introduction
- Bank Master Factoring Policy - a brief introduction
- Case Study: US\$ 10 Billion collapse of Credit Suisse SCF Fund: Greensill Capital

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Core Topics

22

Case-studies

Practical
Insights & Dialogue
Exchange

Duration:

3 Hours

Delivered:

On-Line Session

In person dialogue sessions for Corporates Groups & Associations

WHO SHOULD ATTEND

- Executives working in Corporates, Trading, Supply Chain, Shipping & Logistics Industry.
- Banking and Insurance Industry executives providing Corporate & Trade Finance and Business Insurance Solutions.
- Graduate & Master's Level Students pursuing education in Risk Management, Insurance, Supply Chain, Shipping, Logistics, Business, Finance and Economics.

Program Director



H.C. Barke

President & Chief Executive Officer

*CPCU(USA), AMIM(USA), AIC(USA), ARe(USA),
ACII(London), Chartered Insurer(London), AIRM(London),
FIII, AIII(General), AIII(Marine), B.Com (Finance), LLB
PGDM(Marketing), MIWWHS(USA), MCPCUS(USA),
Dipl. Da Vinci's Vitruvian Man (IBC – Cambridge)
Dipl. King's College (IBC – Cambridge), Dipl. Pi (IBC – Cambridge)
Certificate of Distinction (Insurance & Risk Management), IBC – Cambridge
'2000 Outstanding Intellectuals of 21st Century' – IBC, Cambridge
HARVARD Business School - Disruptive Strategy
WHARTON Entrepreneurship Acceleration Program –Scaling Your Business
CORNELL - CXO Leadership Program
HARVARD Business Review Advisory Council Member*

H.C. Barke is an expert in Global Insurance, Corporate & Supply Chain Risk Management and Trade Finance industry with 30 years of experience in specialized areas of Insurance Underwriting, Broking, Consulting and Risk Collateralized Trade Finance. He continues to advise and service clientele across the U.S., U.K., APAC and MEA regions in diversified industries and business segments. Barke is actively involved in several industry associations promoting trade and supporting business growth by contributing and sharing best practices in the areas of corporate risk management, insurance and innovative trade finance. He extensively imparts professional training and seminars for Corporates, Banks, and Trade Associations in aforementioned specialized areas.

He is the :

- Founder President & CEO of Prudence Insurance & Risk Management Academy LLC, U.S.
- President & CEO of Prudence Insurance Brokers LLC, U.S.
- President & CEO of Prudence Insurance Brokers LLC, U.A.E.
- President & CEO of Prudence Brokers UK Ltd. - Lloyds of London Broker
- President & CEO of Barke Capital LLC, U.S. which specializes in Risk Collateralized Trade Finance and Securitization,
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