

7 Red Flags

Protecting Against Fraud
in Trade Finance

Protecting Against Finance Fraud

Fraudulent collection scams come in many different forms. One of the biggest claims ever experienced by the trade credit insurance industry was the result of internal fraud leading to bankruptcy. The financial collapse of OW Bunker in 2014 sent financial shock waves across both the shipping fuel and trade credit insurance industries. OW Bunker was a leading shipping company controlling about seven percent of the world market for shipping fuel. Losses stemming from large scale internal fraud triggered a quick and unexpected bankruptcy. This led to a large number of trade credit insurance claims as many fuel traders and producers are traditional buyers of trade credit insurance. What the OW Bunker incident demonstrated was the value of being protected against nonpayment risk. All those suppliers with effective commercial insurance coverage in place were protected against financial loss. This paper will show you how you can safeguard your receivables by;

- » Protecting against internal and external threats
- » Recognizing early detection of the warning signs of fraud
- » Using export credit insurance as an indispensable tool

Fraud perpetrated on a small, almost undetectable scale is the more common form. Buying goods or services on open account with no intention of ever paying is a very common way of committing trade fraud. A recent article in *Global Trade Review* provides a run-down of some common means of defrauding the exporter and, by extension, the underwriter, if the exporter is prudent enough to have export credit insurance in place.



MO of a Fraudster

Initially the first delivery is cash in advance to gain trust. On the next delivery, with credit terms of 30 or 60 days offered, the buyer has ample time to take receipt of the goods, sell them, and be off. Oftentimes goods may be ordered in the name of a credit worthy third buyer but shipped to a fraudulent address. Alternately, the fraudster may order multiple small deliveries that total a much larger amount.

Sometimes the buyer plays the long-game. They gain the aura of authenticity by establishing a legitimate company in their respective country and executing several transactions on a relatively small scale over a period of one year. A year is usually enough time to form a payment history and get a credit risk assessment establishing the perception that the company is reliable and verifiable. Then comes the very large order followed by unanswered emails and phone calls. Most cases concern small invoice amounts at first, well within your company's credit limits, so they stay below the radar.

Fraudsters have technology on their side. It is easy and inexpensive to create a fake website, fake documents with convincing logos and even such specific documentation as bills of lading. The impression of a legitimate company or trade transaction can readily be made requiring both insurers and insured to remain vigilant.

Sometimes the buyer and seller will work together on all of the above with the intent to commit insurance fraud. Typical examples include where fraudulent policyholders misstate overdue payments, establish fraudulent payment schemes, or present audited financial statements based on false information.



Protecting Against Fraud

As the OW Bunker case made clear, the first thing you should do to protect yourself against nonpayment risk is speak with an EXIM Bank Regional Specialist on obtaining one of our affordable [export credit insurance](#) policies. The second thing you should do is recognize we have probably seen it all and then some. EXIM has been in the business of protecting exporters for over 82 years.

Below are seven red flag identifiers outlined by [U.S. EXIM's office of Inspector General](#):

1. Application Process

Borrowers, exporters, and foreign agents will misrepresent or omit the identity of parties involved, monies transferred, or authenticity of business operations to cover up fraud.

- » No clear disclosures of commissions or fees. Foreign agents or finders are not identified.
- » Identification documents of borrowers or guarantors appear altered or have expired.
- » Multiple changes in the financed amount requested, description of goods needed, or suppliers and exporters.

2. Suspicious Financial Statements

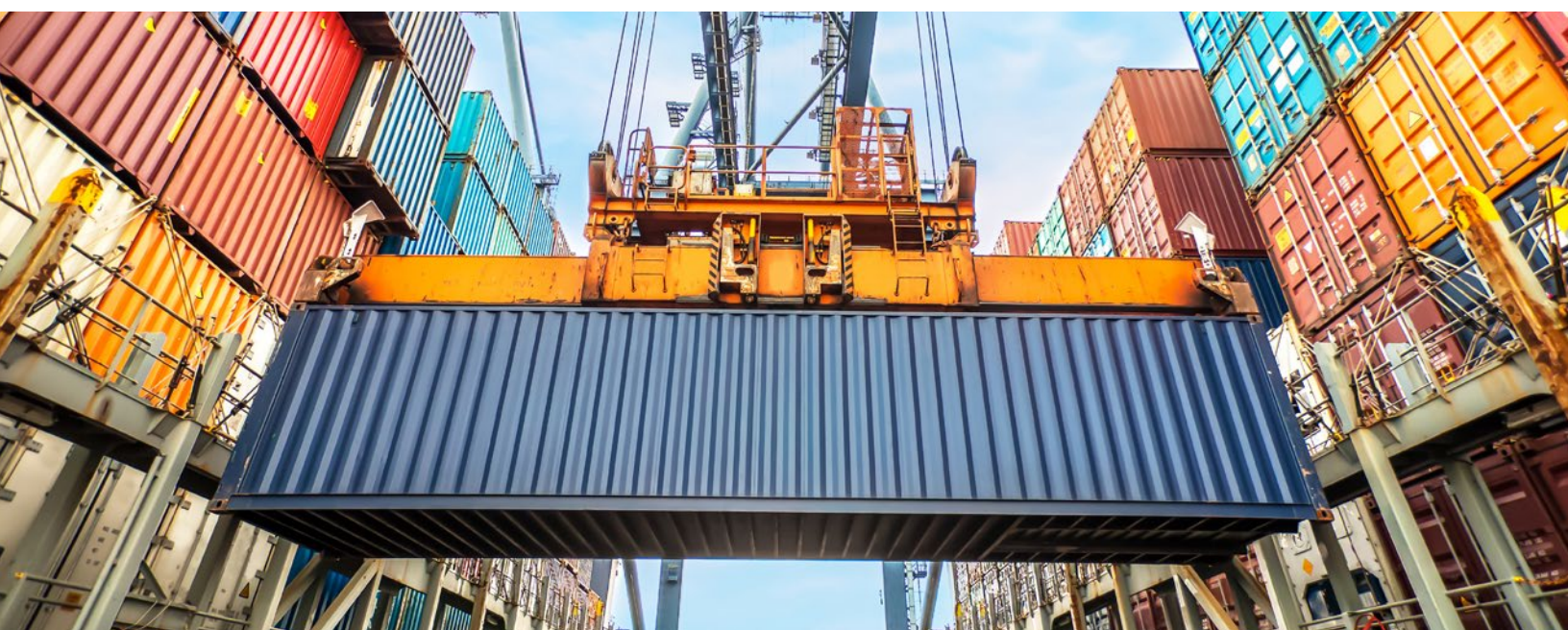
Financial statements are falsified to improve cash flow, increase sales or accounts receivable, or meet EXIM Bank published credit ratios.

- » Financial statements on multiple transactions are similar in style, type, font, format . . . and errors!
- » Financial statements are updated, modified, or submitted by third parties and agents on behalf of the borrower.
- » Discrepancies exist between tax statements, credit references, sales receipts, or in discussions with parties.



Did You Know:

EXIM has been in the business of protecting exporters for over 82 years. Speaking with an EXIM Bank Regional Specialist could protect you from nonpayment risk.



INVOICE

BILL TO

Name :

Company Address :

Street Address :

DISCRIPTION

3. Pro forma Invoices

Requests for quotes or product descriptions are made to obtain and misuse a legitimate supplier's letterhead or business logo.

- » Product description is not within a supplier's line of business.
- » Heavy equipment without Vehicle Identification Numbers or serial numbers.
- » Supplier address or phone number cannot be publicly verified.

4. Commercial Invoices

Commercial invoices are inflated to generate cash back for the borrower, cover the lack of any required down payment received by the exporter, or create a disparity between lesser valued goods shipped and cash for all parties.

- » Product description is inflated and not within market value.
- » Product is readily available to borrower in-country, at lesser cost.
- » Invoice does not describe type or quantity of goods, or product descriptions are vague and conflict with bills of lading.



5. Bills of Lading

Bills of Lading may be altered or falsified by exporters or freight forwarders or may otherwise reflect the legitimate shipment of products

- » Product descriptions conflict with commercial invoice, or products cannot fit inside a container (i.e. heavy equipment, etc.).
- » Discrepancies exist in weights, serial numbers, quantities, voyage numbers, ports of service, or shipment dates compared to invoices, export certificates and customs records.
- » Bills of Lading contain no number, or multiple forms appear identical despite being from different carriers, or are missing information.

6. Customs & Export Certificates

Exporters and customs brokers may falsify Shipper's Export Declarations and foreign customs documents by altering the value or descriptions of goods

- » Shipper's Export Declaration may reflect actual goods and true market value, in conflict with the Commercial Invoice.
- » Foreign customs documents may reflect other consignees, product descriptions, or value than reported on freight customs documents.

- » Exporter's Certificate may inaccurately identify content, down payment received, or goods shipped when compared to independent export records.

7. Finance Documents

Discrepancy waivers, reassignment of proceeds, or requests for reimbursement may be warning signs within Letters of Credit.

- » Buyers and exporters often collude, claiming that goods have been shipped and received providing documentary "proof" and requesting reimbursement under the Letter of Credit leaving the buyers bank eventually responsible for reimbursing the exporters bank.
- » Too many or unusual discrepancies found within the export documents or invoices are "waived" by the borrower.
- » Assignment of proceeds granted to third-parties not previously mentioned in the application.

Is fraud on the rise? Perhaps, perhaps not, it's definitely not a new phenomenon as the GTR article illustrates. More to the point is that new markets present new challenges for all parties. It's better to embrace the challenge of exporting with an ounce of caution.



"...new markets present new challenges for all parties. It's better to embrace the challenge of exporting with an ounce of caution."

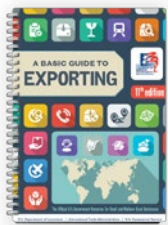
Additional Information

If you would like to learn more about how EXIM can help you grow your international sales safely while still offering competitive terms, contact EXIM today to request your free consultation with a EXIM Bank Regional Specialist.

Let's get started:

Request a free consultation with an EXIM Bank Regional Specialist.

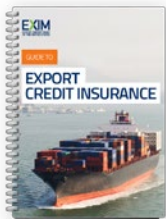
grow.exim.gov/contact-a-trade-finance-specialist



Basic Guide to Exporting

Learn the basic fundamentals of exporting and turn export opportunities into sales.

grow.exim.gov/basic-guide-to-exporting



Guide to Export Credit Insurance

Learn how to protect your foreign receivables from bad transactions.

grow.exim.gov/eci-ebook



EXIM.gov

For more in-depth information about EXIM, visit our website.

exim.gov



exim.gov

