



# **Hong Kong: concerns over financial flexibility spark interest in trade credit insurance**

**Atradius Payment Practices Barometer**







exports

# Top 5

Electrical machinery, equipment  
 Machinery including computers  
 Gems, precious metals  
 Optical, technical, medical apparatus  
 Plastics

Source: WTEEx

trading partners

# Top 5

China  
 US  
 Japan  
 Singapore  
 South Korea

Source: Atradius

imports

# Top 5

Electrical machinery, equipment  
 Machinery including computers  
 Gems, precious metals  
 Optical, technical, medical apparatus  
 Mineral fuels including oil

Source: WTEEx

Hong Kong's economic growth is forecast to slow down this year, mainly due to weaker demand from China and increased uncertainties stemming from trade tensions between China and the US.



**Vincent Ku, Country Manager for Hong Kong and Taiwan commented on the report**



*The Asia-Pacific region is made of developed economies which are highly-integrated in the supply chain in Asia. Potential escalation of the Sino-American trade war exposes small trade-intensive economies like Hong Kong to spillover impacts. This translates into slower growth and weaker prospects for 2019.*

*Although a trade war is not expected to destabilise Hong Kong's economy, Hong Kong benefits from high buffers to mitigate the negative effects.*

*Businesses operating in the country express more concern over access to bank financing becoming more difficult due to the likely deterioration of the insolvency environment. This appears to be sparking interest in credit insurance as a tool to enhance financial flexibility.*

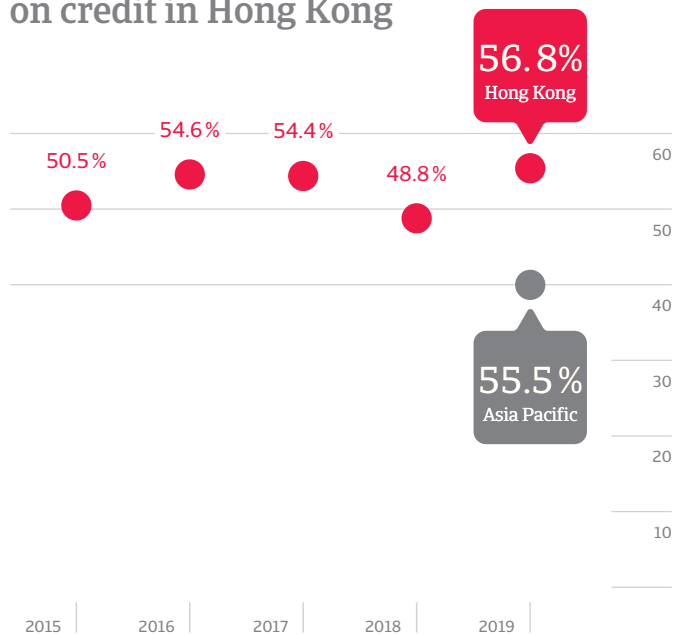


### Concerns over economic slowdown and financial market tightening increase use of trade credit in B2B transactions

Slower export growth, along with tighter credit conditions, are expected to cause a slight (2%) increase in insolvencies this year. 3 in 5 respondents in Hong Kong expressed concern about this, saying that more difficult access to bank financing would force them to delay investment in the business and to restrict growth due to lack of capital.

Compared to last year, survey respondents in Hong Kong appear more inclined to sell on credit terms than on a cash basis to their B2B customers. This year's survey findings show an increase of approximately 8% in the volume of B2B sales transacted on credit. 56.8% of the total value of Hong Kong respondents' B2B sales was transacted on credit (up from 48.8% last year) while 43.2% was made on a cash basis (down from 51.2% one year ago). With the domestic economy slowing, the financial market tightening and uncertainties surrounding global trade and tariffs, respondents in Hong Kong seem to be focusing on protecting their competitive position, both domestically and overseas, by adopting a more liberal trade credit policy.

### Proportion of total B2B sales made on credit in Hong Kong

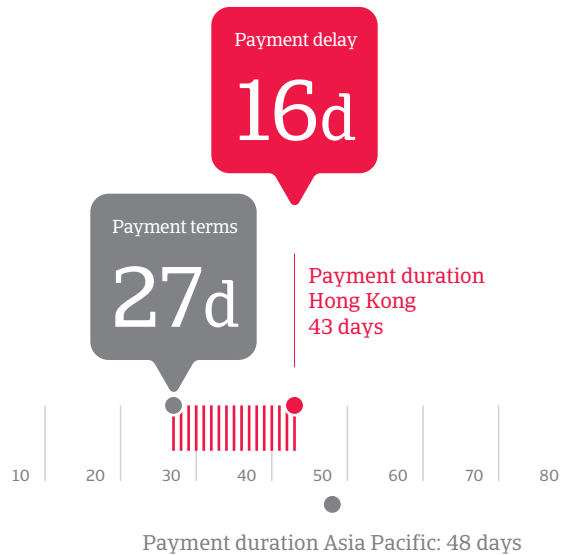


Sample: companies interviewed (active in domestic and foreign markets)  
Source: Atradius Payment Practices Barometer – May 2019





## Payment duration in Hong Kong



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – May 2019

### B2B customers are requested to pay invoices notably faster than one year ago

The increase in sales on credit observed in Hong Kong is not linked to the extension of more relaxed payment terms from respondents. Based on survey findings, payment of invoices is requested on average 5 days earlier than last year, namely within an average of 27 days from the invoice date (below the 32 days average for the region). These are the third shortest in Asia Pacific, after Australia (24 days) and China (26 days). The tight payment terms set by respondents in Hong Kong are indicative of a strong perception of the customers' payment default risk associated with credit sales and the more uncertain trading environment. As a consequence of more stringent credit terms, respondents in Hong Kong are now able to turn past due invoices into cash on average in 43 days, one week earlier than last year.

### 1 in 4 Hong Kong respondents will reduce their reliance on a single buyer over the next months to avoid risk concentration

Consistent with the heightened perception of the risk of payment default from customers, prior to any trade credit decision the attention of respondents in Hong Kong appears to be focused on the assessing the prospective buyer's financial profile. On average, respondents in Hong Kong (36%) check

their buyers' financials almost as often as their Asia Pacific peers do (39%). Once they make the B2B transaction, respondents in Hong Kong seem to use a balanced mix of credit management techniques. Reducing reliance on a single buyer was reported by nearly 25% of the respondents, compared to 20% at the regional level.

### Higher insolvencies in Hong Kong expected cause value of overdue invoices to rise

An average 35.0% of the total value of B2B invoices issued by survey respondents remained unpaid at the due date. This is well above the 29.8% average for Asia Pacific. In order to avoid cash shortfalls due to late payment from customers, many respondents in Hong Kong (44% vs. 41% at regional level) reported they needed to delay payment of invoices to their own suppliers and to take various measures to correct cash flow (31% vs. 39% in Asia Pacific). More respondents in Hong Kong (26%) than at regional level (23%) reported they had to request a bank overdraft extension to alleviate the financial pressure on the business. Given the sharp focus on regularly checking customers' creditworthiness, the proportion of bad debts written off as uncollectable (2.4%) remained almost in line with last year's rate (2.2%). This compares to a 2.1% regional average. As mentioned earlier, a slight 2% rise in insolvencies is expected in Hong Kong this year.

### 1 in 5 respondents in Hong Kong will insure their receivables over the coming months

Most respondents in Hong Kong (60%) do not expect payment practices of B2B customers to vary over the coming months. The percentage of respondents anticipating an improvement (17%) is significantly lower than that of respondents expecting a deterioration (26%) in late payments and DSO. To protect their business against the risk of payment default by their B2B customers, 49% of respondents in Hong Kong will check their buyers' creditworthiness more often and increase their bad debt reserves over the next 12 months. It is worth noting that 22% of respondents in Hong Kong reported that they are considering insuring their B2B receivables over the next months. This would increase the value of their trade receivables in negotiating finance terms with banks.



22%

of respondents in Hong Kong reported that they are considering insuring their B2B receivables over the next months.

## Overview of payment practices in Hong Kong

By business sector

**Average payment terms longest in the manufacturing and consumer durables sectors. Shortest in the services and construction sectors**

Respondents in Hong Kong from the manufacturing and the consumer durables sectors extended the longest average payment terms to their B2B customers (averaging 30 days and 32 days from the invoice date respectively). Respondents in the services and in the construction sectors extended the shortest average payment terms (averaging 24 days and 21 days respectively).

**Financial impact of late payments highest in the wholesale/retail/distribution and the consumer durables sectors**

The wholesale/retail/distribution and consumer durables sectors in Hong Kong are the most impacted by late payments. The value of overdue invoices in these sectors averages 39% of the total value of respondents' B2B invoices. This compares to an average of 33.0% for the manufacturing sector and 32.0% for the services sector. The agri-food sector recorded the highest average value (39.3%), while the ICT/electronics sector recorded the lowest value (32.6%).

**Percentage of bad debts written off as uncollectable highest in the manufacturing and consumer durables sectors**

With an average of 3.1% of B2B receivables written off as uncollectable, the manufacturing and consumer durables sectors appear to be the most impacted by bad debts. At the other end of the scale, 1.6% of construction sector invoices were written off as uncollectable. Closer to the 2.4% average for the country, the wholesale/retail/distribution and services sectors reported a 2.3% and 2.1% write off rates respectively.

“

*Credit insurance can provide protection against large concentrated exposures that might otherwise exacerbate bad debt reserves.*

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**Credit manager  
Large enterprise - Machines**



# Overview of payment practices in Hong Kong

## By business size

### SMEs extended the most relaxed average payment terms to B2B customers

Respondents from SMEs in Hong Kong extended the longest and from micro enterprises the shortest average payment terms to B2B customers (averaging 30 days and 21 days from the invoice date respectively).

### SMEs wait the longest to turn overdue invoices into cash

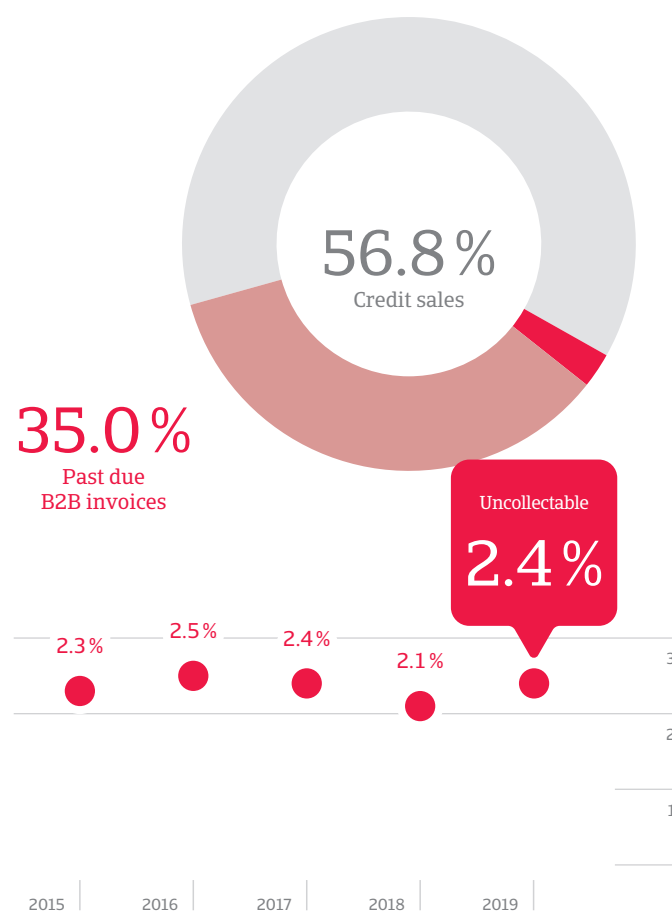
Over the past year, large enterprises in Hong Kong recorded the highest increase in the proportion of B2B invoices paid on time (+13% on average). Due to this improvement, overdue invoices in large enterprises now account for 35.6% of the total value of B2B invoices. This compares to an average 14.5% increase in on time payment of the B2B invoices of respondents from micro-enterprises, and an 11.4% increase in large enterprises. The average time it takes to convert invoices into cash is 46 days from the invoice date for SMEs, 39 days for large enterprises and 36 days for micro-enterprises.

### Bad debts written off at highest rate in large enterprises

Large enterprises in Hong Kong recorded the highest proportion of B2B receivables written off as uncollectable (2.9%). The average for SMEs is 2.5% and for micro-enterprises 1.7%.

## Uncollectable B2B receivables in Hong Kong

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)  
Source: Atradius Payment Practices Barometer – May 2019

**Atradius · Key Findings**

**1 in 4**  
Hong Kong respondents will reduce their reliance on a single buyer over the next months to avoid risk concentration.

Atradius Payment Practices Barometer – May 2019

# Survey design for Asia Pacific

## Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on Asia Pacific, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from eight countries (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan) have been surveyed. Due to a change in research methodology for this survey, for some of the presents results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 1,718 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

## Survey scope

- Basic population: companies from eight countries (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=1,718 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q1 of 2019.

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## Sample overview – Total interviews = 1,718

Country	n	%
Australia	219	12.7
China	218	12.7
Hong Kong	209	12.2
India	219	12.7
Indonesia	219	12.7
Japan	212	12.3
Singapore	210	12.4
Taiwan	212	12.3
Industry	n	%
Manufacturing	539	31.4
Wholesale trade/ Retail trade / Distribution	872	50.8
Services	307	17.8
Business size	n	%
Micro enterprises	701	40.8
SME (Small/Medium enterprises)	550	32.0
Large enterprises	467	27.2

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.





## Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia Pacific. This is part of the May 2019 Payment Practices Barometer of Atradius, available at [www.atradius.com/publications](http://www.atradius.com/publications)

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For more **insights into the B2B receivables collection practices in Hong Kong** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on [www.atradiuscollections.com](http://www.atradiuscollections.com)

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