

# **Asia Pacific: growing number of businesses taking more strategic approach to credit management**

**Atradius Payment Practices Barometer**





For many years, the economies in Asia have been the main growth engine of the world economy. Next to the big economies of China and India, the Southeast Asian countries have made strong contributions to global GDP growth. Although domestic demand continues to be strong in these economies, this year several downside risks appear to cloud the growth outlook for the region.



**Andreas Tesch,**  
**Member of the Management Board and**  
**Chief Market Officer of Atradius, commented**  
**on the report**



*Despite the positive outlook for global GDP growth, which is forecast to expand 2.8% this year, the level of risk, instability and volatility in the economic climate is increasing daily. The escalating protectionism, import tariffs and political embargos, represent a troublesome trend and new risks in global trade. Payment defaults across the globe are rising and with them, we anticipate a steady rise in insolvencies in the coming years.*

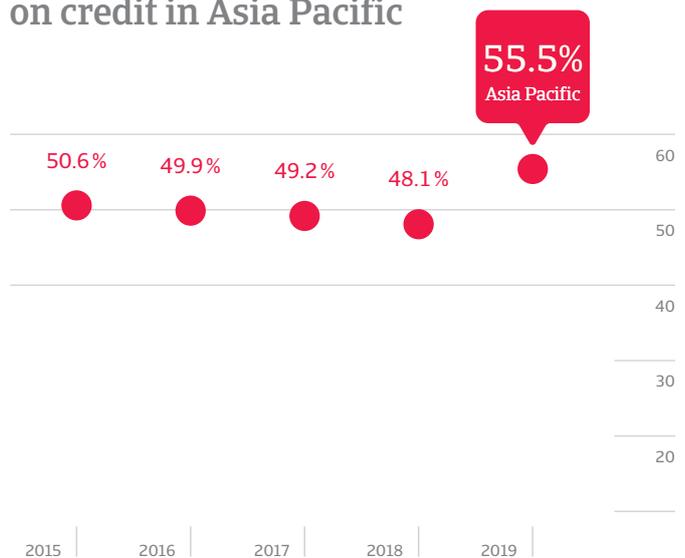
*Asia-Pacific economies are not immune to this, because they are an integral part of the global supply chain. This makes them vulnerable to the oncoming headwinds of weaker global trade. The economic slowdown in China, the main export destination for many economies in the region, being the most significant risk. Even if Chinese GDP grows 6%, corporate bankruptcies have increased, and concern remains about systemic risks that could derail the country's economic ascent. In this scenario, it becomes imperative for businesses to perform a solid assessment of the risks connected with trading on credit. This is becoming much more complex than it was in the past.*



### **Increase in use of trade credit in transactions with B2B customers helps maintain competitiveness**

Survey findings highlight that respondents place more emphasis on the use of trade credit to maintain their competitiveness and gain market share than one year ago. This is a logical reaction to the current more challenging business and trade environment. With 71.5% of the total value of sales to B2B customers made on credit (up from 47.7% last year), Australia lead the way in Asia Pacific in terms of the use of trade credit in B2B transactions. Japan (67.2%) and Singapore (65.7%) follow. At the lower end of the scale, the 42.8% average recorded in Taiwan, stands out as the lowest in Asia Pacific. It is worth highlighting the growing trend in using trade credit in B2B transactions in China, where 44.3% of the total value of respondents' B2B sales was on credit terms (up from 43.0% in 2018 and from 41.9% in 2017).

### **Proportion of total B2B sales made on credit in Asia Pacific**



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



## Payment duration in Asia Pacific



d = average days

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

### Perception of payment default risk is high due to the more challenging trade environment

Despite being more inclined to offer trade credit to B2B customers than in the past, respondents in Asia Pacific do not appear similarly inclined to extend looser payment terms. This reflects clear recognition of the risks associated with credit sales and the more challenging trade environment. Survey findings reveal that respondents from Australia set the shortest payment terms (averaging 24 days from the invoice date). Longer payment terms are seen from respondents in the region averaging 26 days in China to 45 days in Taiwan. Taiwan's average is well above the 32 days average for the region. Of note, Indonesia stands out as the country where average payment terms (at 34 days) are markedly longer this year than in last year's survey (on average 11 days longer). This may reflect a need to loosen terms on export sales, to limit the fall off in export demand.

### Checking buyer's financials and reserving against bad debt are most often used credit management practices in Asia Pacific

Survey findings in Asia Pacific reveal that, in addition to the short payment terms commented on earlier, businesses' credit management policies include a mix of credit management tools and activities. The assessment of the creditworthiness

of the buyer, prior to making any trade credit decision, plays a key role in the credit policies of respondents. Survey data highlight that respondents from Singapore (53%) and China (51%) do this significantly more often than their Asia Pacific peers do (39%). Reserving against bad debts, whose purpose is to offset potentially inaccurate screening of the buyer's financial position, is the second most often used credit management tool in Asia Pacific. Respondents from Taiwan (42%) and Indonesia (41%) are notably more active on this front than their peers (33%). While there appears to be a strong focus on credit management in Asia Pacific, it is striking that a sizeable proportion of respondents in the region stated they do not have a strategic approach to credit management. This is the case in Australia (26% of respondents) and Japan (20%), compared to 10% at a regional level.

### India is the most, and Japan the least, impacted by late payment from B2B customers

Survey findings reveal that, on average, respondents in Asia Pacific are converting past due invoices into cash in 48 days this year (seven days earlier than last year). On average, overdue invoices are collected within two weeks of the invoice due date. Despite this notable improvement in invoice to cash turnaround, on average, 29.8% of the total value of B2B invoices issued by survey respondents in Asia Pacific is reported to be past due. This percentage ranges from a high of 39.0% in India, to a low of 13.2% in Japan.

### 2 in 5 respondents needed to delay payment to suppliers due to late payments by customers

In order to remain financially sound and avoid liquidity issues caused by payment defaults of customers, many respondents in Asia Pacific (41%) said they had to delay payment of invoices to their own suppliers. This was most often the case for respondents from India (51%), followed by those from Indonesia (46%), China (45%) and Hong Kong (44%). 39% of respondents in Asia Pacific took corrective measures to safeguard cash flow. This figure climbs to a high of 49% of respondents in India and 45% in both Singapore and Indonesia. On the negative side, receivables that were written off as uncollectable in Asia Pacific increased to an average of 2.1% of the total value of B2B sales on credit (up from 1.9% last year). This suggests that businesses are less successful in collecting invoices than last year, but also that the business environment is deteriorating.



**Eric den Boogert,  
Managing Director of Atradius Asia  
commented on the report**

### **More respondents anticipate deterioration in the payment behaviour of their customers than improvement**

Almost half of respondents in Asia Pacific (47%) do not expect payment practices of B2B customers to change over the coming months. 22% anticipate an improvement, while 31% expect a worsening in the form of an increase in late payments, particularly in long overdue invoices (more than 90 days overdue). This will negatively affect DSO. Most concerned about this are respondents from India (52%), followed by those from Indonesia (35%) Singapore (33%) and China (31%). To protect their business against the risk of payment default by their B2B customers, 46% of respondents in Asia Pacific will check their buyers' creditworthiness more regularly. This is particularly the case for respondents in Taiwan (60%) and China (57%). 44% of respondents in the region plan on increasing bad debt reserves, the highest percentage of which are in Hong Kong (49%) and Australia (47%). Respondents from China, Hong Kong (around 50% each) and Australia (47%) reported they will increase use of credit insurance to protect their business from the risk of payment defaults by customers.

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*Overall, economic conditions in 2019 are expected to be more challenging than last year.*

*But Atradius in Asia is well prepared to manage the downside risks that businesses are facing. Our understanding of the global economy, as well as of local markets across Asia, is central to helping our customers' grow their businesses. Our customers can be confident that we have the underwriting knowledge that can help them avoid unpaid invoices and steer them towards healthy businesses and opportunities.*

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31%

of respondents in Asia Pacific expect payment practices of B2B customers to deteriorate over the coming months.

## Overview of payment practices in Asia Pacific

By business sector

### Australia

Respondents from the manufacturing and consumer durables sectors gave the longest, and those from the services and agri-food sectors the shortest, average payment terms to their B2B customers. Based on survey findings, trade credit risk is high in the wholesale/retail/distribution and consumer durables sectors. The consumer durables sector, along with the agri-food sector, recorded the highest proportion of uncollectable receivables. By business size, large enterprises appear to be the hardest hit, and micro enterprises the least impacted, by payment defaults from B2B customers. Despite their short credit terms, SMEs recorded the highest proportion of uncollectable invoices.

### China

The services and ICT/electronics sectors, as well as SMEs set the longest average payment terms for their B2B customers. The shortest terms were recorded in the wholesale/retail/distribution and consumer durables sectors. Survey findings reveal that trade credit risk is highest in the manufacturing, machines and construction sectors. The proportion of uncollectable receivables is highest in the manufacturing and consumer durables sectors. SMEs took the longest to collect overdue invoices, also recording the highest rate of uncollectable B2B receivables.

### Hong Kong

Average payment terms are longest in the manufacturing and consumer durables sectors, shortest in the services and construction sectors. The financial impact of late payments is highest in the wholesale/retail/distribution and the consumer durables sectors. The percentage of bad debts written off as uncollectable is highest in the manufacturing and consumer durables sectors. SMEs extended the most relaxed average payment terms to B2B customers and waited the longest to turn overdue invoices into cash. Bad debts are written off at highest rate in large enterprises.



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## India

Average payment terms are longest in the services, consumer durables and construction sectors. The wholesale/retail/distribution, agri-food and ICT/electronics sectors recorded the shortest payment terms. The financial impact of late payments was most acutely felt in the services and ICT/electronics sectors, while the highest percentage of bad debts written off as uncollectable was observed in the services and ICT/electronics sectors. On average, SMEs extended the most relaxed payment terms to B2B customers, and micro-enterprises waited the longest to turn overdue invoices into cash. Bad debts are written off at the highest rate in large enterprises.

## Indonesia

The manufacturing and consumer durables sectors set the longest average payment terms. The shortest terms are in the services and construction sectors.

The consumer durables sector takes the longest to turn past due invoices into cash, while the rate of uncollectable receivables is highest in the construction and lowest in the services sector. Micro-enterprises extended the most relaxed payment terms to B2B customers, while large enterprises recorded an increase in invoices paid late from B2B customers and the largest proportion of uncollectable receivables.

## Japan

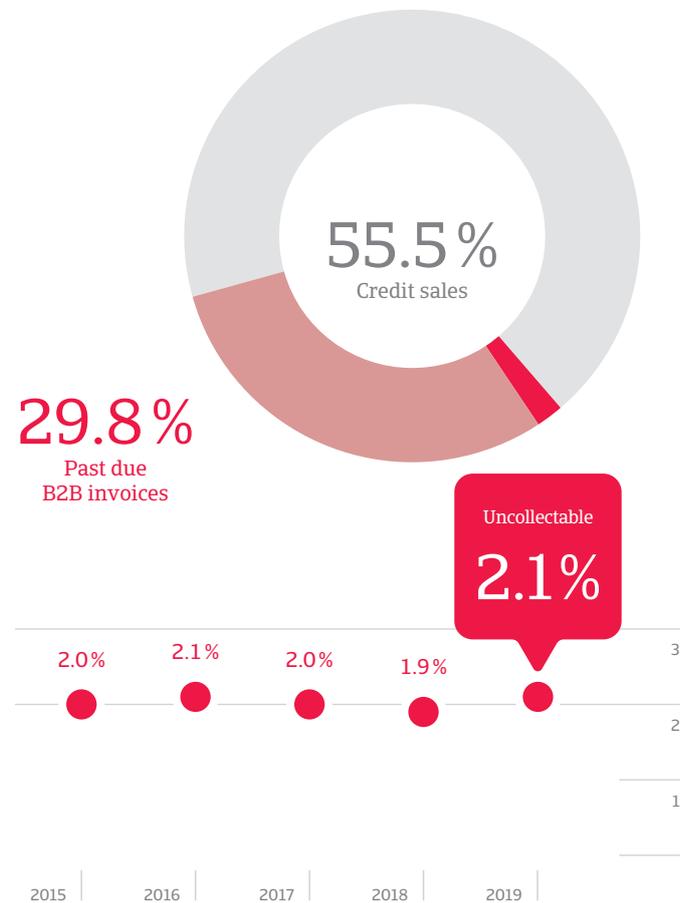
Respondents from the manufacturing and machines sectors extended the longest average payment terms to their B2B customers. The shortest terms are set in the wholesale/retail/distribution and consumer durables sectors. The financial impact of late payments is highest in the manufacturing and construction sectors, while the percentage of bad debts written off as uncollectable is highest in the wholesale/retail/distribution and ICT/electronics sectors. SMEs extended the most relaxed average payment terms to B2B customers, and recorded the longest invoice to cash turnaround. Large enterprises have the highest rate of bad debts written off as uncollectable.

## Singapore

Average payment terms are longest in the machines and ICT/electronics sectors, and shortest in the wholesale/retail/distribution and construction sectors. The ICT/electronics sector is hardest hit by late payments of B2B customers, while the rate of uncollectable B2B receivables is highest in the construction and lowest in the services sector. Micro-enterprises extended the most relaxed payment terms, while large enterprises recorded an increase in invoices paid late by B2B customers, and the highest rate of uncollectable receivables.

## Uncollectable B2B receivables in Asia Pacific

(% of total value of B2B receivables)



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

## Taiwan

Average payment terms are longest in the services and ICT/Electronics sectors, and shortest in the wholesale/retail/distribution and consumer durables sectors. Over the past year, the speed of payment from B2B customers of respondents improved the most in the services and the ICT/Electronics sectors. The wholesale/retail/distribution and consumer durables sectors have the highest proportion of uncollectable receivables. Large enterprises extended the longest, and micro-enterprises the shortest average payment terms. B2B customers of both large and micro-enterprises pay faster than last year. Large enterprises recorded the highest rate of uncollectable receivables.



# 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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SURVEY RESULTS

STATISTICAL APPENDIX

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For more **insights into the B2B receivables collection practices in Asia Pacific** 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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