Atradius
Managing risk, enabling trade

June 2021

Asia: Half of all credit sales overdue in pandemic recession

Atradius Payment Practices Barometer

Andreas Tesch

Chief Market Officer of Atradius N.V.
commented on the report

The next months present a critical time for businesses and industries across all major countries and regions worldwide.

We expect there to be an uptick in insolvencies during the second half of 2021. Businesses should take steps to protect their accounts receivable with a robust approach to credit management.

At the moment we are writing this report, the world economy looks set for a robust recovery in 2021, driven by the vaccines rollout in many of the advanced economies, and the massive fiscal stimulus of the United States. However, important risks remain. While Covid-19 cases are down in most countries, the recent resurgence of cases in Southeast Asia and Taiwan, alongside the steep increase in cases in India, pose a threat to short-term economic recovery in this region. They also show an important vulnerability: the still low vaccination rate in Asia. Any prediction over the future developments of the business and trade environments in the major economies is still quite challenging. There are, however, some bright spots that help us understand that the next coming months may be brighter than the current ones.

Indeed, positive signs come from Asia, where China's strong economy contributes to place the region at the driver's seat of a rebound of the global economy. However, in individual countries across Asia both the business environment and confidence appear to diverge greatly across countries. This is the reason why we wanted to hear directly from businesses and industries in the economies we polled, namely China, Hong Kong, Indonesia, Singapore, Taiwan and the United Arab Emirates, how businesses are coping with these challenging times, which are transitional towards a sought-after normalization of the economic conditions. Our Payment Practices Barometer this year gives us the opportunity to get insight into these economies across Asia. One year into the pandemic, businesses told us they experienced serious setbacks to growth and needed to take several measures to face the changed economic and trade circumstances.

With the support of the measures adopted by governments, some businesses found it easier to adapt to new ways of operating and some had more challenges to face. The next months present a critical time for many across all major economies and regions worldwide. The flood of insolvencies that were only to be expected during the rapid and intense global recession did not materialise in 2020, thanks to fiscal packages and insolvency law amendments introduced by many countries to prop up domestic economies during the pandemic.

However, many governments are now withdrawing these temporary measures and we expect there to be an uptick in insolvencies during the second half of 2021. Against this backdrop, it is paramount that businesses adopt a strategic approach to customer credit risk management, take all necessary steps to protect their business from the adverse impact of late payments and bad debts in these challenging times.

Key takeaways

Late payments and DSO increase on last year

40% of businesses in Asia told us that their customers' payment practices deteriorated over the past year. Late payments affected an average of 50% of the total value of all B2B credit sales. The hardest hit were businesses in the United Arab Emirates (60% of the total value of all credit sales were overdue), followed by Hong Kong and Singapore (both at 52%). Late payments can lead to operational difficulties for businesses as, with a reduction in cash flow, it can be difficult to pay creditors and invest in the materials or services needed to complete new orders.

Supply chain challenges cause businesses to favour domestic customer credit

An average of 56% of all sales to domestic B2B customers in Asia was made on credit over the last 12 months. This contrasts with the regional average of just 44% to foreign customers. There may be several reasons for this discrepancy. One reason could be that most businesses find it easier to access local information for credit assessments, and the vast majority of businesses in Asia told us that they used their customers' financial statements as their primary source of credit information.

A second reason could be linked to the business's perception of credit risk; many told us that the risks associated with selling on credit have intensified since the onset of the pandemic. Most businesses in Asia anticipate seeing growth in their domestic economies before global trade picks up, and therefore may associate a greater credit risk through trading with foreign customers.

Despite pandemic recession, businesses express confidence over coming months

More than half of the respondents surveyed in Asia are confident their business will grow next year, with the majority telling us they expect improvements in profitability to come from a rebound in their domestic economies. Large manufacturers across all industries tended to be the most optimistic. However, the coming months also represent a time of high uncertainty, due to the different pace of heightened risk for businesses. As governments begin the vaccination roll-out per country, withdraw fiscal stimulus and support packages, there is likely to be an increase in the rate of insolvencies. Businesses should take steps to protect their accounts receivable from the impact of late payments and bad debts. Care should be taken to monitor the health of supply chains and, in particular, for signs of an insolvency that could lead to other bankruptcies through a type of domino effect.

Trade credit used as key sales and loyalty tool

Most businesses in Asia use trade credit to encourage repeat business with established customers, and to attract new business. Favourable credit terms can make the difference between winning a new contract (or retaining a customer) and losing the trade to a competitor. However, trade credit inevitably carries risks that can place a strain on business operations. Before agreeing to offer credit, a business should make sure it has enough liquidity to support the period of credit, and ideally, longer. When creating an invoice, businesses should consider the cost of offering the credit. This will include the cost of managing the debt, the tools and employees needed to manage the terms and to collect on the invoice when it becomes due.

Eric den Boogert
Managing Director Asia Atradius
commented on the report

"Despite concerns over the pandemic and vaccination roll-out, ongoing supply chain disruptions, containment of credit management costs and liquidity issues, business confidence across the region is mainly upbeat. This is driven by an anticipation in a domestic rebound, and by the belief that the use of trade credit will increase over the coming months to stimulate demand.

While this may not fully accord with economic forecasts, it suggests that businesses in Asia recognise the value of credit as an effective trading tool and its potential to contribute to the recovery of the global economy."

The 2021 Asia Payment Practices Barometer survey provides a well-timed opportunity to hear directly from businesses about their experiences of trading during the pandemic. Did the economic downturn and havoc in international supply chains cause businesses to modify the way they offered credit and managed their receivables? What steps were businesses taking to protect their sales ledgers from the risk of non-payment? Interestingly, despite a heightened credit risk environment, pressure to sell led many businesses to increase their appetite for credit sales, indicating its importance as a sales and loyalty tool.

Offering customer credit has cost implications. Indeed, businesses told us they spent time and resources on protecting their profitability and viability against payment defaults. Many businesses reported that their DSO has become worse, due to a deterioration of customer payment behaviours and challenges in collecting long overdue high value invoices.

Interestingly, many businesses with robust credit management processes are emerging stronger from the pandemic downturn, while those who were not flexible enough to adapt to the changing trading scenarios, or to effectively manage the escalating trading risks, have suffered most.

Despite concerns over a variable international vaccine roll-out, ongoing supply chain disruptions, containment of credit management costs and liquidity issues, business confidence across the region is mainly upbeat. This is driven by an anticipation in a domestic rebound, and by the belief that the use of trade credit will increase over the coming months to stimulate demand. While this may not fully accord with economic forecasts, it suggests that businesses in Asia recognise the value of credit as an effective trading tool and its potential to contribute to the recovery of the global economy.

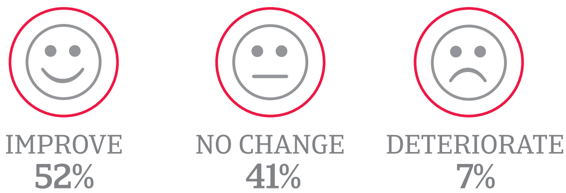
Survey results for Asia

A cautious approach to trade credit favours domestic over foreign transactions

An average of 56% of all sales to domestic B2B customers in Asia was made on credit over the last 12 months. This percentage is highest in China (60%) followed by Singapore (59%) and lowest in Taiwan (51%). SMEs in the agri-food industry's distribution sector recorded the highest levels of credit sales to domestic customers. Sales on credit to foreign customers average 44% of all B2B sales across the economies surveyed in Asia. This percentage rises to 49% in Taiwan and is lowest in China with 40%. Large businesses in the manufacturing sector from the chemicals/pharma industry showed the highest levels of credit sales to foreign customers over the past year.

Despite the economic constraints of the pandemic downturn, and perhaps in recognition of the value of trading on credit, 44% of survey respondents told us they increased their appetite for trading on credit over the past year. This was especially true of SMEs in the wholesale sector of the agri-food industry. This was most often the case for businesses in Indonesia (60% of respondents) and China (42%). Only a small minority of respondents (fewer than 10%) told us they reduced the amount of sales made on credit (mainly due to higher risk of customer payment default).

Asia: how do you expect your business performance to change over the coming months?



Which key developments will drive your business improvement?

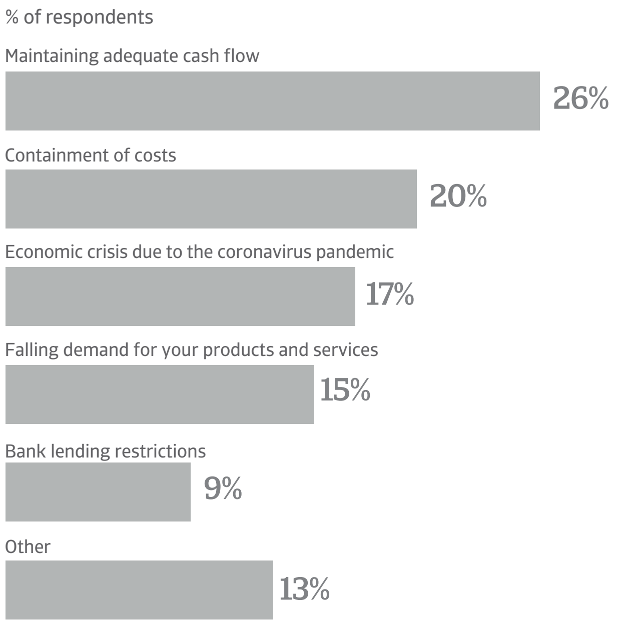
Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Businesses polled across Asia are more pessimistic about the outlook for DSO over the coming months. This expected deterioration will inevitably affect cash flow.

Trade credit considered more as an aid to sales than a source of short-term finance

Over half of the businesses surveyed across Asia (54%, mainly large businesses in the manufacturing sector of the agri-food industry) told us they offered trade credit to encourage repeat business with established customers. Again, this was reported most often by businesses in Indonesia (71% of respondents). 26% of survey respondents across Asia (mainly large businesses in the ICT/electronics wholesale sector) told us they offered trade credit to win new customers. The most active in this regard were businesses in the United Arab Emirates (37% of respondents) and Hong Kong (35%). A small minority (just over 10% across Asia on average, and highest in Singapore at 24%), offered trade credit in a bid to protect their competitive position over the past year. Using trade credit as short-term finance tool was reported by fewer than 10% of the businesses polled across Asia, with the highest percentage in Singapore (20%).

Asia: top 5 greatest challenges to business profitability in 2021



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Most businesses stick to same payment terms

Regardless of the reasons for offering trade credit, most of the businesses polled across Asia (55%) told us they offered the same payment terms they did one year ago. This was most often seen in Taiwan (73% of respondents) and amongst large providers of services in the ICT/electronics industry. Only 35% in Asia were willing to extend longer time to settle invoices than last year, with the majority coming from Indonesia (46% of respondents) and amongst SMEs in the wholesale sector from the agri-food industry.

Fewer than 10% of businesses across Asia said they extended shorter payment terms than last year. Although only a small proportion of businesses reported reducing payment terms, this combined with the widespread reluctance to extend longer terms, suggests a heightened perception of the risk of payment default or bad debt arising from trading on credit.

This perception is most often seen in Singapore (68% of respondents) and Hong Kong (65%), both of which told us they request invoice payment within 30 days of invoicing, compared to an average of 54% across Asia.

Company standards most often dictate payment terms

When looking at the main reasons for setting payment terms, businesses told us they most often use company standard payment terms (as reported by 53% of respondents in Asia, with the greatest percentage in Indonesia at 79%). This was most often reported by large manufacturers in the agri-food industry. In addition, businesses set payment terms according to the availability and cost of capital needed to finance credit sales (43% in Asia and most often in Indonesia with 79%), and also to align with the payment terms granted by their suppliers (42% in Asia). The latter was reported most frequently by large wholesalers in the agri-food industry.

In addition, when assessing the creditworthiness of their customers, 72% of businesses polled across Asia told us that they used their customers' financial statements as their primary source of credit information. This was most often seen in Indonesia (86% of respondents) and was most frequently reported by large manufacturers across all industries surveyed.

Increased credit management costs and subdued sales threaten profitability

Many of the businesses we polled across Asia acknowledged the value of offering trade credit as an essential part of trade during the altered commercial dynamics presented by the pandemic.

However they also said that the risks associated with selling on credit have intensified. In response they have had to increase the time and resources they spend on protecting their profitability against losses due to customer payment default or bad debts. Survey responses show that these costs increased for nearly half of the businesses polled across Asia. This was most often the case for respondents in the United Arab Emirates (56%) followed by Indonesia (52%) and for large businesses in the wholesale sector in the ICT/electronics industry.

Increase in capital costs were reported by 43% of respondents across Asia. This response rate rises to 47% in Indonesia. Large businesses in the wholesale sector and in the ICT/electronics industry experienced this more frequently that other sectors we polled. Overdue invoices inevitably lead to collection costs, firstly through sending invoice payment reminders and, possibly, through outsourcing to collection agencies. Businesses polled across Asia reported increases in these costs almost as often as increases in capital costs (42% of respondents). Indonesia reported this the most (52% of respondents) as did large businesses in the manufacturing sector in the chemicals/pharma industry. The greatest increase in bad debts was reported by businesses in Indonesia (43% of respondents) and was most frequent among large businesses in the wholesale sector in the chemicals/pharma industry.

Deteriorating payment practices and rising DSO reported more often than last year

Despite the fact that for the most part payment terms have not increased in the region, 40% of businesses told us that their customers' payment practices deteriorated over the past year. Improvement in payment practices was reported by slightly fewer than 10% of the respondents, while the remainder did not see any change.
Businesses in Indonesia most frequently reported deteriorating payments practices compared to others we surveyed across Asia, (52%); most often SMEs in the wholesale sector of the chemicals/pharma industry.

In terms of value, late payments affected an average of 50% of the total value of all B2B credit sales.
The hardest hit were businesses in the United Arab Emirates (60% of the total value of all B2B credit sales were overdue), followed by Hong Kong and Singapore (both at 52%).

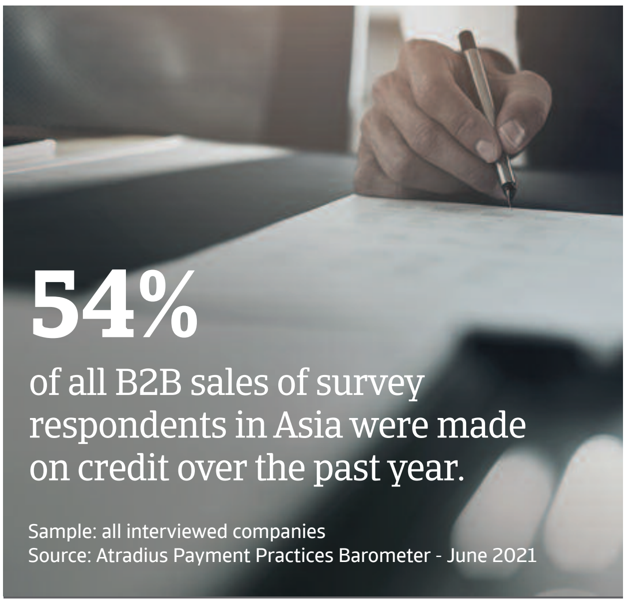
Asia: on average, within what time frame do your B2B customers pay their invoices?

% of respondents

Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

SMEs in the wholesale sector of the chemicals/pharma industry were also hardest hit. An average 5% of long-term overdue invoices (more than 90 days overdue) were written off as uncollectable. Such losses can put businesses' cash flow at-risk, increasing the likelihood of insolvency. Write-offs were highest in the United Arab Emirates, with an average of 8% and lowest in Taiwan (3%). The former due to less effective collection of long-term overdue invoices than last year.

The reported deterioration of payment practices is reflected in the lengthening of DSO, currently at a 103-day average for the region. Six times as many businesses polled across Asia (36%) reported deterioration than improvement in DSO over the past year. Across Asia, DSO deterioration was reported most often by large manufacturers in both the agri-food and chemicals/pharma industry, as well as by businesses in Indonesia.



SURVEY RESULTS SURVEY DESIGN STATISTICAL APPENDIX

An average of 42% of businesses across Asia (highest in Indonesia at 64%) told us they needed to strengthen their internal credit management processes to mitigate the risk of non-payment associated with credit sales. Most of the businesses polled across Asia (68%) told us they relied on their own internal credit management resources (i.e. self-insurance). This was most often reported in Taiwan (70%) and by large manufacturers and wholesalers across all industries surveyed in Asia. The negotiation of more favourable payment terms (received by suppliers and/or extended to customers) was reported by 62% of respondent across Asia. Equally often, businesses across Asia requested letters of credit (seen most often in Taiwan). Less often, businesses told us they offered discounts for early payment of invoices to speed up cash inflows (60% of respondents) or outsourced credit management to a credit insurer over the past year (59%, most often in Taiwan and Indonesia at 65%).

Prospect of domestic rebound drives business confidence

When anticipating an improvement in their business performance over the coming months, most businesses across Asia are more optimistic (52%) than pessimistic (7%).

Large manufacturers across all industries surveyed in Asia tended to be the most optimistic. Although a significant number of businesses polled across Asia, most often in Taiwan, do not anticipate any significant change in their business performance over the same period, there is consensus across Asia that any growth in sales and improvement in profitability will be mainly due to a domestic economic rebound. However, businesses in Indonesia (59%) and China (53%) are more optimistic about this than their peers in Asia (48%).

There is more pessimism about business growth stemming chiefly from export flows (15% of businesses across Asia). The United Arab Emirates bucks this trend, with 32% of businesses expressing optimism about export sales driving growth. Businesses polled across the region told us they plan on increasing the use of trade credit over the coming months. 36% of businesses told us they plan to extend trade credit to allow their customers more time to pay invoices. This was reported most often by respondents in China (44%). An average of 32% of businesses plan to use trade credit to boost demand.

Regardless of the reason, this anticipated greater use of trade credit over the coming months will require effective management of trade receivables to mitigate the impact of credit risk on liquidity and, ultimately, the solvency position of the business.

The most favoured approach to planned receivables management reported by respondents is also the most risky: internal retention and management of customer credit risk (reported by an average of 43% of businesses in the region.

The next favoured approach - guarantees of payment - has an average of 42% of votes across Asia. Businesses seeking to lower their commercial vulnerability plan to diversify, reducing their credit exposure on just one or a small number of customers (as reported by 40% of respondents across Asia, and most often in Hong Kong, 47%).

Ongoing monitoring of customer credit risk will be paramount for businesses to assess whether a shift in payment practices has occurred affecting the amount of time invoices remain outstanding. In this regard, businesses polled across Asia are more pessimistic about the outlook for DSO over the coming months (38% expect it to lengthen) than optimistic (10% expect it to shorten). This expected deterioration will inevitably affect cash flow.

Concern about maintaining adequate cash flow levels over the coming months is most often seen in Singapore (32%) and China (31%). Concerns over the containment of credit management costs to ensure adequate liquidity levels was expressed by 32% of respondents in Taiwan.

40%

of the suppliers polled in Asia told us that it took longer to B2B customers to settle invoices than last year. It took Asian suppliers an average of 85 days to turn overdue invoices into cash.

Survey design for Asia

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, which is part of the 2021 edition of the Atradius Payment Practices Barometer, companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed.

Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results. Using a questionnaire, CSA Research conducted 1,200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and UAE) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of the market data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** 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=1,200 people were interviewed in total (approximately n=200 people per market). In each market, a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021.

Sample overview – Total interviews = 1,200

Economy	Interviews	%
China	200	16.7
Hong Kong	200	16.7
Indonesia	200	16.7
Singapore	200	16.7
Taiwan	200	16.7
UAE	200	16.7
Business sector (total Asia)	Interviews	%
Manufacturing	521	43.4
Wholesale trade/Retail trade/Distribution	464	38.7
Services	215	17.9
Business size (total Asia)		
Small enterprises	99	8.2
Medium-sized enterprises	896	74.7
Large enterprises	205	17.1

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.
This is part of the June 2021 Payment Practices Barometer of Atradius, available at
www.atradius.com/publications
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