

China: More businesses plan to use trade credit insurance compared to the rest of Asia

Atradius Payment Practices Barometer





Hong Lin

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commented on the report

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In 2020 the Chinese economy grew 2.3%, marking it out from most other economies in the world that have experienced recession. The Atradius Country Report for China published in March 2021, noted that real GDP rose by 6.3% year-on-year and predicted that global recovery would support Chinese exports, in addition to the uptick anticipated by an expected shift from goods to services consumption. This largely positive economic assessment is reflected in the results of the Payment Practices Barometer. Widespread business confidence can, in particular, be seen in the low percentage of write-offs and the high percentage of businesses prepared to offer B2B payment terms of above 90 days as part of their sales strategies.

More than half of all business-to-business transactions were made on credit last year. Although this slowed a little after the outbreak of the pandemic, the majority of businesses that already sold on credit continued to do so.

The widespread adoption of trade credit will be a factor influencing the strong take-up of credit insurance seen in China.

Indeed, 40% of the businesses we polled told us that they plan to mitigate the risks of offering trade credit through a more frequent use of trade credit insurance during the next 12 months.

The Atradius Payment Practices Barometer provides us with the valuable opportunity to hear directly from businesses and gives us insight into how they are coping with changed trading and economic circumstances caused by the pandemic.

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Key takeaways

Businesses in China plan to employ credit insurance more often over the coming months

Compared to peers across Asia, more businesses in China anticipate using trade credit insurance over the coming months. This is likely to be a reflection of an increased appetite for trading on credit with B2B customers over the coming months, and for enhanced credit management practices seeking to minimise trade credit risk, protect cash flow and profit, as well as create potential for business growth.

China offers longer invoice payment terms than regional average

The average invoice payment terms offered by the businesses we polled in China was 67 days, far longer than the 54-day average for Asia as a whole. This preference for offering longer payment terms could also be seen in invoice payments of 90 days and longer. The longer an invoice remains unpaid, the greater the risk that it won't be paid at all. Although liberal invoice payment terms may give businesses a competitive edge, care should be taken to protect accounts receivable from this increased risk of non-payment.

Businesses offer trade credit in a bid to win repeat businesses and new customers

The willingness of Chinese businesses to offer credit as part of their invoice payment terms is a reflection of sales strategies that actively seek to retain repeat business and attract new customers. Credit terms can be a powerful sales tool as long as businesses have the liquidity or insurance in place to protect them from the risk of customer default or bankruptcy.

DSO trends show optimism among businesses in China

Over half of the respondents to the Payment Practices Barometer told us they planned to use credit insurance to help them keep DSO (Days Sales Outstanding) levels stable. In general, the businesses we spoke to were more optimistic than their peers in Asia about DSO levels over the coming months. DSO is a good indicator of business health and efficiency in collection of long-term outstanding trade debts of high value. A high DSO may suggest cash flow problems, poor credit collections or operational issues. It is therefore paramount to enhance credit management procedures that help reduce DSO.



Survey results for China

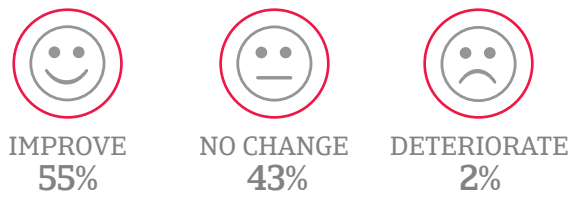
Respondents anticipate improvement in business performance due to domestic economic rebound

More businesses polled in China (31%) than in Asia (26%) told us they consider maintaining adequate cash flow levels to be the greatest challenge that they will be facing over the coming months. In addition, the containment of credit management costs will challenge businesses over the same period. This challenge presents more concern to Chinese business, compared to Asian peers.

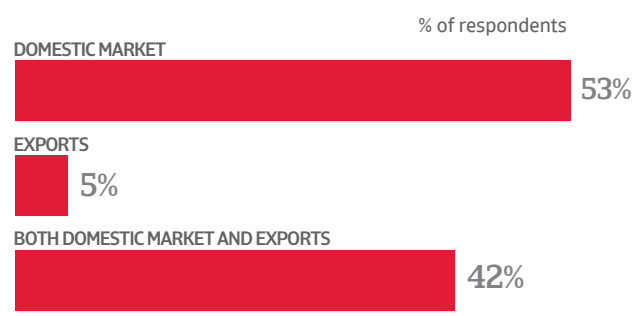
Improvement in business performance (sales and profits) is expected by more businesses in China (55%) than in Asia (52%). Only 2% in China (5% in Asia) anticipate worsening business performance, and the remainder expect their performance to continue unchanged.

More businesses polled in China (53%) than in Asia (48%) are of the opinion that the improvement in business performance will be mainly due to the consolidation of the domestic economic recovery.

China: 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

40%

of the businesses polled in China anticipate using trade credit insurance more often over the coming months.

(regional average: 37%)

Interestingly, only 5% of businesses polled in China (in contrast to one third of those polled in Asia) anticipate that the improvement in their business performance will come exclusively from exports. Offering trade credit to B2B customers will continue to be an established business practice among businesses polled in China. In particular, more Chinese businesses (44%) than their peers in Asia (36%) believe that sales on credit will be even more common going forward to allow customers time to pay invoices.

Use of trade credit insurance on the rise over the coming months

More businesses in China (40%) than in Asia (37%) anticipate using trade credit insurance more often over

the coming months. 53% of businesses told us they believe this approach should help keep DSO levels stable (regional average: 48%). Fewer businesses polled in China (32%) than in Asia (38%) believe that DSO will deteriorate over the coming months, and more businesses in China (14%) than in Asia (10%) anticipate improvement in cash flow over the coming months.

To mitigate the impact of customer credit risk associated with the increased extension of trade credit over the coming months, more business polled in China (45%) than in Asia (42%) said they plan to request guarantees of payment from their B2B customers. In addition, more businesses in China (43%) than in Asia (38%) anticipate performing frequent adjustments of credit terms, to account for fluctuations in the credit risk profile of their customers.

More than half of all sales were made on credit last year

An average of 55% of all B2B sales were made on credit in the year following the outbreak of the pandemic. This is largely in line with regional peers in the ICT/electronics and agri-food industries, although the Chinese chemicals/pharma industry reported higher use of trade credit than at a regional level. Domestic trade drove much of the use of trade credit, with the total value of credit sales to domestic customers averaging 60% and foreign customers 40%. The use of trade credit on the Chinese market is part of a wider trend showing signs of its increased adoption, alongside a rebalancing of its economy from investment-led growth to household consumption.

Although a majority of Chinese businesses (45%, regional average: 41%) told us that their use of trade credit remained consistent with last year, an increase in the use of trade credit in the months following the outbreak of the pandemic was reported by 42% of businesses (average for Asia: 44%). Only a minority of business polled in China reported turning down credit requests, and of these, this was usually due to deterioration in the credit quality of the customer.

A preference for cash sales was reported by 47% of the poll's respondents, a similar proportion to the numbers favouring credit sales. However, this is notably lower than the 58% average in Asia as a whole. In terms of the total value of credit sales, 55% of Chinese businesses (regional average: 45%) reported no change. When looking at the reasons for offering trade credit, the majority of the businesses reported using credit to encourage repeat business with established customers, although significant numbers also cited the desire to win new customers and to compete in their markets.

China: top 5 greatest challenges to business profitability in 2021

% of respondents

Maintaining adequate cash flow



Containment of costs



Economic crisis due to the coronavirus pandemic



Bank lending restrictions



Falling demand for your products and services



Other



Sample: all interviewed companies

Source: Atradius Payment Practices Barometer - June 2021

Credit management costs increase during the pandemic

The central role played by credit in Chinese trade will incur costs, which need to be carefully managed. Poorly managed trade credit can outweigh revenue arising from sales, especially if profit margins are tight. As the survey data shows, 49% of the businesses polled reported an increase in trade credit administrative costs in the year that followed the pandemic outbreak.

This result is largely in line with those reported across the region. This was particularly due to cost of acquiring credit information to assess the creditworthiness of the customer. More business in China (44%) than in Asia (42%) reported an increase in the cost of collecting on invoices. Conversely, businesses reporting increased financing or interest costs in the year that followed the pandemic outbreak were 36% in China and 43% in Asia. Those reporting increased costs associated with bad debt were 23% in China and 33% in Asia.

China payment terms longer than Asia average, most often reflecting company standards

Businesses polled in China extended payment terms averaging 67 days from invoicing (regional average: 54). This pattern also extended to payment terms above 90 days (reported by 13% in China and 9% in Asia as a whole). Longer payments terms mean greater exposure to the risk of payment default from the customer. In the year following the outbreak of the pandemic, most of the businesses polled in China (60%) did not alter their average payment terms (regional average: 55%), while 32% told us that they granted longer terms (regional average: 35%), most often up to one month longer. Only a minority of the businesses we polled reduced payment terms over the past 12 months.



China: 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

Almost half of the survey respondents in China (49%, regional average: 53%) said payment terms were granted according to company standards. 46% of respondents chose to reflect the payment terms of their own suppliers (more than the regional average of 42%). In addition, 42% reported taking the credit capacity of the customer into account and 42% extended terms in line with industry standards (regional average: 39% for both). 18% set terms that were influenced by the bargaining power of the customer, a lower percentage than the regional average of 23%.

Time taken to settle invoices holds steady

58% of respondents saw no change in payment timings over the past 12 months (particularly among large ICT distributors). 36% (regional average: 40%) told us that customers delayed payments over the same time frame. No respondents reported a speeding up of invoice payments in China, although this was recorded by 6% of businesses across Asia.

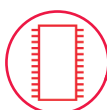
Trade debt in China represents an average of 46% of the total value of all B2B credit sales in the country (regional average: 50% average). 4% of long-term outstanding invoices (over 90 days) were written off as uncollectable (regional average: 5%).

64 days

average time for Chinese suppliers to collect overdue B2B invoices.

Overview of payment practices in China

By industry



ICT/ELECTRONICS



Overview

The Chinese ICT/electronics industry appears to have been hit by customer credit risk more severely than the domestic agri-food and chemicals/pharma industries, and reported more late payments than the industry average for Asia. The majority of industry respondents told us they resorted to taking and managing customer credit risk in house, rather than outsource it to credit insurance, which conversely appears to be more often used by their peers in Asia.

Their management of customer credit risk primarily involves a focus on cost containment and liquidity levels, in order to protect the financial flexibility of the business. In addition to these concerns, survey respondents told us they were worried about ongoing disruptions of international supply chains and a likely resurgence of geopolitical trade tensions affecting global trade flows. However, they are also more optimistic than their industry peers in Asia about an improvement in business performance, which they believe will come mainly from a rebound in the domestic economy.

ICT/electronics businesses more exposed to customer credit risk than Asia peers

Compared to the chemicals and agri-food industries, the ICT/electronics industry in China was the hardest hit by B2B late payments over the past 12 months. With an average of 49% overdue invoices, compared to a 47% average for Asia, businesses in the industry in China are more exposed to customer credit risk, and experience more pressure on cash flow.

To minimise the impact of customer payment default on their operations, more businesses in China (71%) than their industry peers in Asia (69%) resorted to retaining and managing customer credit risk internally through self-insurance.

The downsides of this approach include the potential to block-up liquidity in bad debt reserves, thus increasing administrative costs for credit management. 65% of businesses (regional average: 59%) reported offering discounts for early payment of invoices. 40% delayed payments to suppliers (regional average: 38%). Despite this strong focus on collection of overdue trade debts, the DSO average is 150 days, far longer than the regional average of 110 days. This appears to be the result of less effective trade debt collection, particularly of long-term overdue invoices (over 90 days overdue), which were experienced by far more businesses in in China (41%) than in Asia (31%).

Expectations of a rebound in the domestic economy fuels business confidence

Looking ahead, more businesses in China expressed concerns over maintaining adequate cash flow (28%) than their industry peers in Asia (23%). More ICT/electronics businesses in China than Asia are also worried about the potential for on-going disruption of international supply chains and a possible resurgence of geopolitical trade tensions. However, on a more positive note greater optimism is shown by businesses in the industry in China (63%) than in Asia (42%) when predicting an improvement in their business performance (sales and profits) over the coming months. Businesses in China and across Asia believe that improvement will come from a combination of increased exports and improved conditions of their domestic economies. However, far more businesses in China (55%) than in Asia (46%) believe that the improvement in their business performance will come mainly from the rebound of the domestic economy. Interestingly, far fewer businesses in the industry in China (4%) than in Asia (14%) believe that the expected improvement in business performance will be stemming from export trade flows. Against this backdrop, far more businesses in the industry in China (46%) than in the industry in Asia (42%) believe that trading on credit with B2B customers will play a greater role in B2B trade relationships as short-term financing tool, becoming more widespread over the coming months to allow B2B customers to pay invoices.



CHEMICALS/PHARMA



Overview

The chemicals/pharma industry ranks second in China in terms of the impact of late payments on businesses. Although survey respondents told us they resorted more often to taking and managing customer credit risk by themselves (through self-insurance) than to outsource it to credit insurance, both self-insurance and credit insurance are used more often in the industry in China than in Asia overall. This is likely to be the reason why more businesses in the industry in China than in Asia are able to keep DSO under control.

However, amidst concern over maintaining adequate cash flow levels and containing credit management costs to protect business profitability, businesses in this sector predict growth to come from more favourable conditions in the domestic economy and global trade. In this context, B2B credit sales are expected to play a greater role as a short-term financing for customers.

Chemicals/pharma businesses more effective at controlling DSO than peers in Asia

Businesses in the chemicals/pharma industry appear to be more comfortable at managing customer credit risk than their industry peers in Asia. An average of 47% of all B2B sales were made on credit in the industry in China compared to an average 54% in Asia. 5% of receivables were written off, compared to 7% in Asia.

These differences may indicate a different way of managing trade debt between the Chinese chemicals/pharma industry and their industry peers in Asia. One striking feature is the significant percentage of chemicals/pharma businesses in China (48%) that reported strengthening their credit control procedures, compared to 39% in Asia.

Most businesses chose at least two or more credit management tools to manage their credit risks. For 75% of businesses, this involved relying on their own internal resources (self-insurance) for the management of customer credit risk (regional average: 70%). 62% of businesses in China (regional average: 57%) outsourced the management of customer credit risk to a credit insurer over the past 12 months, as a more cost-effective way of protecting the business from the risk of payment default than retaining and managing it in-house. Whether employing self-insurance or a strategic tool such as trade credit insurance, businesses in China's chemicals/pharma



industry appear to be more effective at managing DSO than their counterparts in Asia.

A reflection of this is the 68-day average DSO recorded in China, compared to the 95-day average for Asia. Success in keeping DSO under control was reported by more businesses in the industry in China (67%) than by their industry peers in Asia (48%), and DSO deterioration was experienced by far fewer businesses in China (25%) than in Asia (39%).

Global trade and a rebound in the domestic economy expected to drive business growth

Maintaining adequate cash flow over the coming months is paramount for the Chinese chemicals/pharma industry, as reported by 32% of businesses, compared to 25% in Asia. Containment of credit management costs is a common cause for concern for businesses in both in China and in Asia, although this is most often seen among businesses that opted self-insure. Continued disruptions of international supply chains and concerns over restriction to bank lending over the coming months appear to worry industry businesses in China more than their peers in Asia. A 52% majority of chemicals/pharma businesses in China (regional average: 57%) anticipate improvement in their business performance (sales and profits).

Businesses in both China and Asia share the opinion that this improvement will be chiefly due to improved conditions of their domestic economies. However, far more businesses in China (52%) than in Asia (41%) believe that the combination of more benign conditions in the domestic economy and of international trade will trigger improvement in their business performance over the coming months. 45% of industry respondents in China (35% in Asia) believe that offering B2B credit terms as short-term finance will become far more widespread over the coming months to give B2B customers more time to pay invoices.



Overview

Late payments are less common in the agri-food industry than in the other industries surveyed in China. The industry favours the use of credit insurance to minimise the risk of unpaid invoices, improve cash flow and keep DSO under control. Backed up by the protection offered by credit insurance, businesses told us they expect credit sales to increase over the coming months, mainly to give B2B customers more time to pay invoices, rather than to boost demand from customers.

Majority of agri-food industry favour credit insurance

In contrast to the survey results for the ICT/electronics and chemicals/pharma industries, (both of which favoured in-house retention and management of customer credit risk through self-insurance), most businesses in China's agri-food industry use credit insurance. This includes 65% of the businesses polled, and compares to 63% in the industry in Asia. Factoring is employed by 60% of the Chinese agri-food industry and used almost as often as their industry peers in Asia (57%). The adjustment of payment terms to reflect the credit risk profile of the customer was cited by 62% of businesses in China, compared to 51% in the industry in Asia. 60% use an in-house management of B2B trade debts collection (53% in Asia).

The frequent use of credit insurance may explain why the agri-food industry shows a lower impact of customer payment default (43% of the total value of credit sales are overdue) than the industry in Asia (49%). The same goes for the total value of B2B receivables that was written off as uncollectable. These amount to 5% in China, lower than the 6% of write-offs in the industry in Asia.

As survey findings reveal, the frequent use of credit insurance among businesses in the agri-food industry improved cash-flow and helped keep DSO under control. More businesses in the industry in China (68%) than in the industry in Asia (52%) reported stable DSO (now at a 116-day average in China and 119-day average in Asia) over the past 12 months, with increases reported more often in Asia (37% of respondents) than in China (28%). Unsurprisingly, businesses with credit insurance reported more stable DSO than those resorting to self-insurance.

Domestic economy predicated to foster improvement in business performance

Although one third of the businesses polled in both China and Asia agree that maintaining adequate cash flow will be one of the greatest challenges they will be facing over the coming months, the containment of credit management costs appears to worry more businesses in the industry in China (23%) than in Asia (17%). Likewise, more businesses in China expressed concern over a potential introduction of restrictions to bank lending over the coming months, than in Asia. 48% of industry respondents in China expect no significant change to business performance. That said, fewer businesses in China expect an improvement to businesses performance than their industry peers in Asia.

However, more businesses in the industry in China (63%) than in Asia (57%) are of the opinion that any improvement in business performance will be chiefly due to improved conditions of the domestic economy. Interestingly, only a very limited number of businesses in China (4% of the respondents, compared to 14% in Asia) anticipate improvement to come from international trade.

In this landscape, the outlook for trading on credit terms with B2B customers over the coming months is positive. Nearly 40% of agri-food businesses in China, believe that offering B2B customer credit, will become increasingly frequent over the coming months to allow B2B customers additional time to pay invoices. This contrasts with the picture for the industry in Asia where businesses are more likely to believe that B2B trade credit will be more widely used as a sales tool to boost customer demand.



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.

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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)	Interviews	%
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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