




# Hong Kong: businesses turn focus to credit management as recession looms

Atradius Payment Practices Barometer







The Atradius Payment Practices Barometer is an annual review of business-to-business payment behaviour. This year's survey explores a range of topics including payment terms, payment delays, credit sales, and DSO (Days Sales Outstanding), results of which provide a good indication of outlook for Hong Kong businesses.



## Vincent Ku, Country Manager for Atradius in Hong Kong and Taiwan comments on the report

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*Following hard on the heels of months of social unrest and trade tariff uncertainties, the downward impact of the coronavirus pandemic on Hong Kong's economy has been severe, affecting, in particular, its external trade. Hong Kong is currently expected to be heading for the worst recession on record. Export and travel services have been hit hard, and downward pressure on domestic demand has contributed to economic downturn, making the recovery heavily dependent on a large number of factors, including: the evolution of the pandemic, the efficacy of the measures aimed at containing the virus, the magnitude of the disruptions to the supply chains, and government policies aimed at giving some relief to the economy.*

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## Introduction

The survey was completed by Hong Kong businesses in March 2020 during a period of economic uncertainty framed by months of social unrest, disruptions to global trade caused in part by the US-China trade war and the coronavirus. The World Health Organisation (WHO) characterised COVID-19 as a pandemic on March 11. However, recognising its relative proximity to the location of the virus outbreak in Wuhan, China, Hong Kong responded quickly, and put measures such as social distancing and travel restrictions in place as early as the end of January.

## Key takeaways from the report

Despite an economy heading towards a severe downturn or recession, this year's survey revealed that an increased percentage of total B2B sales in Hong Kong were made on credit. Although modest, the increased use of trade credit may point towards a competitive economy responding to the squeeze of the downturn.

Against this backdrop dominated by a high degree of uncertainty over the economic recovery, Hong Kong businesses strengthened their credit risk management processes in order to better handle the risk of liquidity constraints. Amid concerns over a further deterioration of payment practices in B2B trade, as revealed in our survey, Hong Kong businesses have increasingly adopted or expressed an interest in credit insurance as the most comprehensive tool for securing accounts receivable while promoting growth. Indeed, as many as half of the businesses surveyed in several industries expressed optimism and said they expected to see some improvement in business performance over the next 12 months.

Amid such potentially turbulent economic conditions, businesses may need to act quickly and respond to developments as they unfold. To mitigate risk, businesses would benefit from a coherent credit management strategy with regular reviews and payment guarantee protections.





## Survey findings for Hong Kong

### Modest increase in B2B credit sales, particularly in the domestic market

Hong Kong has suffered from far fewer infections than many other territories, although industry – especially tourism and retail – have been hit hard. Responses to our survey reflect an economy that was already in recession, caused by many months of social unrests, increased US-China trade quotas, and the impact (albeit not yet fully realised) of the pandemic.

Despite such difficult times for the economy, responses to the survey point to a modest increase in the percentage of B2B sales made on credit. Interestingly, the 3% increase in credit sales (an average of 60% versus 57% last year), corresponds exactly with a 3% decrease in cash sales (40% vs 43% in 2019), suggesting that many B2B sales previously made in cash last year have moved to credit transactions this year.

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*Against this backdrop dominated by a high degree of uncertainty over the economic recovery, Hong Kong businesses strengthened their credit risk management processes in order to better handle the risk of liquidity constraints from customers. Amid concerns over a forthcoming deterioration of payment practices in B2B trade, as highlighted in our survey, Hong Kong businesses confirmed their interest in credit insurance as the most comprehensive tool for safe growth while pursuing the improvement in business performance they expect to reach over the next 12 months.*

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**Vincent Ku, Country Manager  
for Atradius in Hong Kong and Taiwan**

This move towards an increase in credit sales could be caused by cash flow issues in Hong Kong's economy with B2B buyers needing suppliers to fill a gap in short-term trade financing. However, the modest increase in the use of trade credit may be the result of Hong Kong respondents' strong focus on insurance and credit control (see below in this report). This is not surprising considering that this small, open economy is deeply intertwined in global supply chains and trade practices. In addition, this is consistent with the survey findings that show that as much as two thirds of credit-based transactions can be found in the domestic market.

### Far longer payment terms suggest key role of trade credit as source of short-term finance

Along with the increased use of trade credit in B2B sales, survey findings highlight that B2B customers of respondents in Hong Kong enjoy significantly longer payment terms than last year. These are on average two weeks longer, at 43 days from the invoice date. This corroborates the above-mentioned assumption that B2B buyers need suppliers to fill a gap in short-term trade financing in times of severe cash flow issues.

When asked about the underlying criteria for setting payment terms, 38% of Hong Kong respondents reported that they set payment terms in accordance with their company standards and internal business practices, while 31% do so in accordance with industry standards. One quarter of the respondents set individual payment terms, customised according to credit risk and trade relationship with each B2B customer.

### Almost all businesses strengthen B2B credit risk management

96% of survey respondents in Hong Kong reported that they strengthened their credit risk management processes in order to better handle the risk of liquidity constraints caused by payment default from their B2B customers.

These most often include self-insurance and trade credit insurance (61% of respondents in each case). This is particularly the case for respondents from large businesses and in the wholesale trade sector. Additional credit risk management techniques cited by Hong Kong respondents include the request of guarantees of payment (reported by 60% of respondents) and of letters of credit (52%).



Atradius · Key Findings

# 96%

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SURVEY RESULTS

SURVEY DESIGN

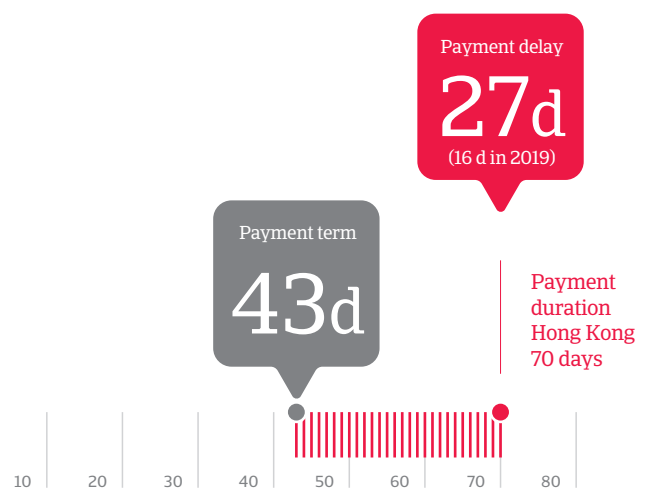
STATISTICAL APPENDIX

## Upswing in B2B late payments and delays in invoice-to-cash turnaround

According to survey findings, Hong Kong businesses experienced a significant increase in late payments. An average of 48% of the total value of B2B invoices issued by Hong Kong respondents were overdue (far above the 35% recorded last year). This compares to the 52% average for Asia. Long-term overdue invoices (still outstanding after 90 days past due, with a high likelihood of turning into bad debts) amount to 7% of the total value of B2B invoices issued by respondents (significantly above the nearly 3% average of last year). This is well below the 15% average for the region.

Overdue invoices are cashed in within 27 days of the invoice due date, significantly longer than the 16-day average of one year ago, but consistent with the current average for Asia. Hong Kong respondents reported having written off 1% of overdue receivables as uncollectable (below the 2% average of last year and the 3% current average for Asia). This indicates an improved efficiency in debt collection, which is consistent with the strong focus on credit management displayed by Hong Kong respondents. Of note, survey responses show that collecting outstanding debts was most difficult for the ICT/electronics, chemicals and consumer durables industries.

## Payment duration in Hong Kong



d = average days  
Sample: companies interviewed (active in domestic and foreign markets)  
Source: Atradius Payment Practices Barometer – June 2020



When asked about the reasons for payment delays from their B2B customers, 50% of Hong Kong respondents stated that B2B customers delay payments mainly due to inefficiencies of their internal payment process. A sizeable percentage of respondents (48%) said that B2B customers use outstanding invoices as a form of financing, while 41% that customers pay invoices late due to disputes over the quality of goods or services provided. In order to manage the risk of liquidity shortages caused by delayed B2B payments, 33% of the respondents said that they needed to increase time, resources and costs to chase overdue invoices, 31% postponed payment of invoices to their own suppliers, while one quarter of the respondents said they needed to request a bank overdraft extension.

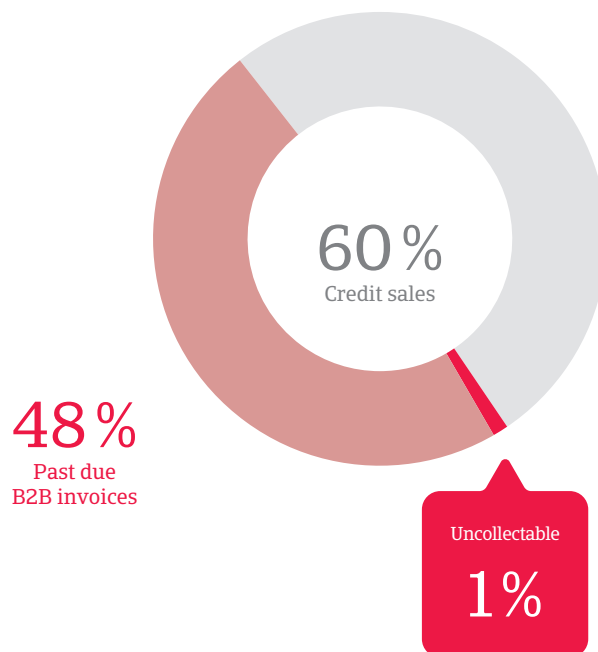
### B2B customers' payment practices are expected to deteriorate than to improve

35% of respondents in Hong Kong anticipate deterioration in the payment practices of their B2B customers over the next 12 months, while a notably lower percentage (22%) anticipate improvement. The remaining 43% anticipate no significant change. However, to strengthen their credit management going forward, Hong Kong respondents say they will either ask for guarantees of payment more often or start using credit insurance.

Pointing to current economic challenges, including the ongoing economic uncertainties associated with the coronavirus pandemic, survey respondents, particularly from mid-sized companies and in the manufacturing sector, expressed concern over their cash flow and working capital financing. For 53% of respondents, this will increase businesses' indebtedness consequently dependence on bank finance. However, half of the Hong Kong respondents believe that the banking system will inject liquidity in the economy in order to offset the impact of the economic crisis on the business community.

## 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 – June 2020

Although a sizeable percentage of respondents in Hong Kong (36%) see a growing threat to their profitability going forward caused by disruptions in global trade, on a positive note, more respondents (47%) anticipate an improvement in the business performance of their industry (in terms of sales and profits) over the next 12 months than those anticipating a worsening (26%).

**Atradius · Key Findings**

**48%**  
of respondents in Hong Kong said that B2B customers use outstanding invoices as a form of financing

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# Overview of payment practices in Hong Kong

## By industry



Consumer durables

### Late payment in the Hong Kong consumer durables industry affects nearly half of the B2B sales value

On average 48% of the total value of invoices issued to Hong Kong B2B customers in the consumer durables industry is overdue. This is in line with the territory's average. 6% of the value of invoices remains unpaid 90 days past the due date (territory's average: 7%), and 1% of the total value of B2B invoices is written off as uncollectable (again, this is in line with the overall HK's average). Most of the survey's respondents in the Hong Kong consumer durables sector say B2B customers delay payments as they use outstanding invoices as a form of financing, while 55% pay late due to inefficiencies of their internal payment process.

Based on survey findings, 41% of respondents in the industry reported Days Sales Outstanding (DSO) up to 30 days, 53% up to 90 days, and 6% of 90 days or more, resulting into a 57-day average (HK's average: 61 days). Although this is slightly better than the average in HK, this points to a relatively poor success rate in collecting receivables of high value, which deprives the business of funds that could be invested in its operations.

### 3 in 5 respondents in the industry manage customer credit risk through self-insurance

Consistent with the averages for the country (61%), most Hong Kong respondents in the consumer durables industry retain and manage customer credit risk internally (self-insurance) or use trade credit insurance. 58% of industry respondents reported they ask for guarantees of payment from their B2B customers. In order to remain financially sound and avoid liquidity constraints caused by customer payment defaults, many respondents from the industry (38%) said they needed to delay payment of invoices to their own suppliers. 33% reported they had to request a bank overdraft extension, while 30% had to increase time spent, resources and costs to chase overdue invoices.

### Risk of payment default expected to deteriorate over the coming months

Significantly more respondents from the Hong Kong consumer durables industry (43%) expect customer credit risk to worsen than to improve (9%) over the coming 12 months.

Most of the respondents expect this to lengthen their DSO and, ultimately, to have a negative impact on cash flow and the investment capacity of their businesses. To mitigate the risk of incurring liquidity shortages caused by payment default, respondents plan to ask for payment guarantees, or to sell on cash terms, substantially more often. 27% plan to offer discounts for early payment of invoices, while 23% plan to start using credit insurance over the coming months.

For 65% of respondents, dependence on bank finance will increase over the coming months due to the increased indebtedness of the industry. However, half of the respondents in the industry expect banks to provide more credit to businesses over the same period. When asked their opinion on the outlook for the consumer durables industry in Hong Kong, 58% of respondents said that they are confident that it will improve, while still a sizeable percentage (33%) anticipate a deterioration.



ICT / electronics

### Majority in the Hong Kong ICT/electronics industry experience payment delays due to customers' internal inefficiencies

For more than half of the respondents, B2B customers in Hong Kong's ICT/electronics industry delay payments because their internal payment system is inefficient. As the survey findings reveal, an average of 44% of the total value of the invoices issued by respondents to their B2B customers is overdue (HK's average: 48%). Long overdue receivables (more than 90 days overdue) average 6% of the total value of overdue payments (HK's average: 7%), while less than 1% of overdue receivables was written off as uncollectable.

Based on survey findings, 25% of respondents in the industry reported Days Sales Outstanding (DSO) up to 30 days, 68% up to 90 days, and 7% of 90 days or more, resulting into a 63-day average (country average: 61 days). This DSO figure points to a relatively poor success rate in collecting receivables of high value, negatively affecting businesses' working capital and liquidity position.



## Industry's most often used credit management techniques: self-insurance and credit insurance

To mitigate the risk of payment default and improve cash flow, respondents from the Hong Kong ICT/electronics industry most often retain and manage customer credit risk internally (65%) or use trade credit insurance (61%). 53% of respondents request guarantees of payment. Additionally, to avoid liquidity constraints caused by customer payment defaults and strengthen their credit control systems, 31% of the ICT/electronics industry respondents (country average: 33%) said they needed to increase time, costs and resources to chase overdue payments.

## Upswing in write-offs of uncollectable receivables expected

More respondents in the Hong Kong ICT/electronics industry (33%) expect customer credit risk to worsen than expect it to improve (20%) in the near term. 47% do not expect any change. Of note, the deterioration in B2B customers' payment practices is expected to cause write-offs of uncollectable receivables to rise, further weighing on businesses' cash flow.

However, customer credit management in the industry will see an increased use of payment guarantees, as well as sales on a cash basis, over the next 12 months. According to 57% of the Hong Kong respondents, indebtedness of the industry will increase over the same period and with that, businesses will become more dependent on bank finance. This latter is expected to further increase support for the industry (as stated by 50% of respondents). When asked about the outlook for the ICT/electronics industry, 49% of Hong Kong respondents believe that business performance (sales and profits) will improve over the next 12 months.



Textiles

## Hong Kong's textiles industry experiences far more late payments than country average

Survey findings show that, on average, 60% of the total value of the B2B invoices issued by Hong Kong respondents in the textile industry remains outstanding at the due date (far more than the country average of 48%). Long-overdue receivables (more than 90 days overdue) average 11% of the total value of overdue invoices (country average: 7%). 50% of the survey respondents state their B2B customers delay payments most often as a form of financing.

Based on survey findings, 31% of respondents in the industry reported Days Sales Outstanding (DSO) up to 30 days, 56% up

to 90 days, and 13% of 90 days or more, resulting into a 61-day average (in line with the country average). As stated earlier in this report, DSO figure points to a relatively poor success rate in collecting receivables of high value, negatively affecting businesses' working capital and liquidity position. This finding tallies with the finding highlighting the proportion of receivables written off as uncollectable averages 3%, namely three times higher than the country average.

## Rise in the costs, time and resources needed to chase late payments

To minimise the impact of poor cash flow, 33% of respondents increased their costs, time and resources to chase late payments. 30% reported that they needed to strengthen their internal credit control procedures, while an almost equal percentage reported that they needed to delay payments to their own suppliers, or requested a bank overdraft extension.

## Dependence of industry on bank finance expected to grow in the near term

Four times as many respondents in the Hong Kong textile industry (39%) expect customer credit risk to deteriorate than expect it to improve (9%) in the near term. 51% do not expect any change. Most respondents do not plan to change their mix of credit management techniques, which prioritises the use of letters of credit (78% of respondents) and of guarantees of payment (75%). However, 1 in 4 respondents foresee an increasing use of trade credit insurance, and more frequent use of securitisation. For 45% of respondents, cash flow constraints for many businesses in the Hong Kong textile industry will cause dependence on bank finance to increase. 28% of Hong Kong respondents believe that business performance of the textile industry (sales and profits) will improve over the next 12 months (55% expressed the opinion that it will remain the same).

**Atradius · Key Findings**

**53%**  
of Hong Kong respondents are concerned about an increase in dependence on bank finance due to higher intendedness

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# 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 2020 edition of the Atradius Payment Practices Barometer, companies from seven economies (China, Hong Kong, India, 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 1,413 interviews in total. All interviews were conducted exclusively for Atradius.

## Survey scope

- **Basic population:** companies from seven economies (China, Hong Kong, India, 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 country 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=1,413 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:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: March 2020.

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## Sample overview – Total interviews = 1,413

Economy	n	%
China	209	14.8
Hong Kong	200	14.2
India	204	14.4
Indonesia	200	14.2
Singapore	200	14.2
Taiwan	200	14.2
UAE	212	12.3
Sector (total Asia)		
Manufacturing	593	42.0
Wholesale trade/ Retail trade / Distribution	598	42.3
Services	222	15.7
Business size (total Asia)		
Small enterprises	140	9.9
Medium-sized enterprises	949	67.2
Large enterprises	324	22.9

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 2020 Payment Practices Barometer of Atradius, available at

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