COFACE ECONOMIC PUBLICATIONS

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PAYMENT SURVEY

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Asia Payment Survey 2018: Regional giants grapple with rising credit risks

Coface's 2018 Asia Payment Survey covers nine economies. Data collection took place during the fourth quarter of 2017, and valid responses were collected from almost 3,000 companies. Respondents in Asia were under pressure to further extend their payment terms. Average payment terms increased to 64 days in 2017, up from 59 days in 2016. This is in line with the trend observed in Asia since 2015. Payment delays also increased in 2017, according to our survey. The proportion of respondents who experienced payment delays exceeding 120 days increased to 16.5% in 2017, from 12.5% in 2016. Payment delays were longest in China and India; shortest in Malaysia, Taiwan, and Japan. Divergences were also apparent among sectors: the energy and construction sectors featured the highest proportion of respondents reporting payment delays of 90 days or above.

The main reason behind longer payment delays in 2017 was customers' financial difficulties, which were due to due to fierce competition impacting margins, as well as lack of financial resources.

In terms of cash flow risks, we examine the ratio of ultra-long payment delays (exceeding 180 days) as a percentage of total annual turnover. When these constitute more than 2% of a company's annual turnover, its cash flow may be at risk. The proportion of respondents experiencing ultra-long payment delays exceeding 2% of annual turnover increased from 26% in 2016 to 33% in 2017. More worryingly, the number of companies with more than 10% of their annual turnover tied up in ultra-long payment delays increased to 10% in 2017, compared to 5% in 2016.

There is a positive correlation between the proportion of respondents reporting ultra-long payment delays exceeding 2% of their annual and the proportion of respondents stating that cash flows will deteriorate in 2018. The situation was worse in China, India, and Singapore, as well as the energy, construction and transport sectors of the region.

However, economic expectations remain buoyant: 68% of respondents stated that they expect economic growth to continue to improve in 2018. This confirms an improved macroeconomic outlook that coincides with pending vulnerabilities and high risks at company level. For instance, 48% of respondents admitted that they do not use credit management tools to mitigate credit risks. In particular, credit managers in China, Singapore, India, and Hong Kong ought to be more proactive about managing risks in the context of longer payment delays and tougher economic conditions.

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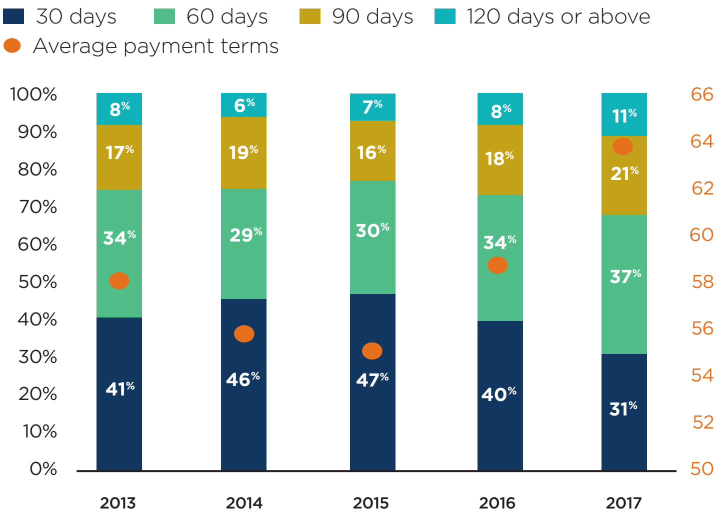
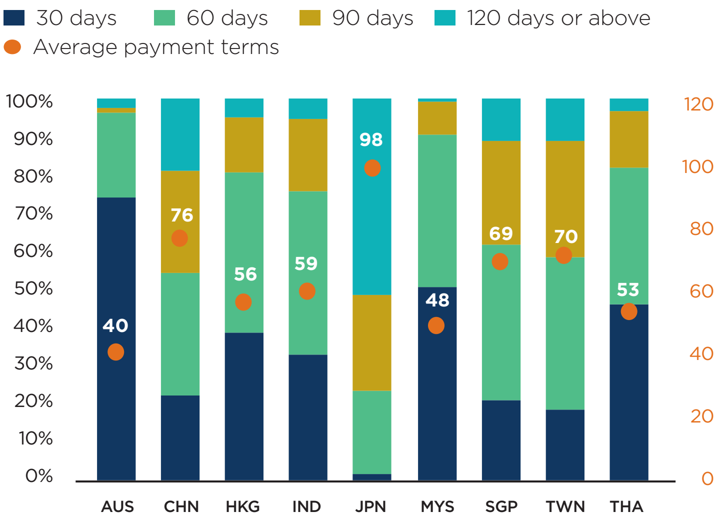
1 PAYMENT TERMS: COMPANIES UNDER PRESSURE TO EXTEND LONGER PAYMENT TERMS

Chart 1:
Payment terms in Asia Pacific



Source: Coface

Chart 2:
Average payment terms by economy



Source: Coface

- Coface's annual Asia Payment Survey covers nine economies in Asia (See **Appendix**). Data collection took place during the fourth quarter of 2017 (October-December) and we received valid responses from almost 3,000 companies in the region.

- According to our survey results, average payment terms in Asia increased to 64 days in 2017, up from 59 days in 2016. This is in line with the trend observed since 2015. The increase correlated with that of maturities, with the main decline being observed in payment terms of 30 days or under (-9% versus 2016). Correspondingly, 40% of respondents stated that the main reason for offering longer payment terms was increased market competition.

- Differences were apparent among countries. Payment terms were longest in Japan (98 days), with a majority of respondents offering payment terms of 120 days or above (52%). Payment terms were shortest in Malaysia (48 days), with a majority of respondents offering payment terms of 30 days or under (50%). Generally speaking, established markets in which trade credit insurance is more commonplace featured higher payment terms, and vice versa.

40%
OF RESPONDENTS said that the main reason for extending payment terms was more competition

Average credit terms were the longest for the ICT and chemical sectors; shortest for the wood sector.

Table 1:
Average payment terms by sector in the Asia Pacific region (2017)

	30 days	60 days	90 days	> 120 days	Average payment terms
Chemicals	17%	42%	26%	15%	72
ICT	20%	35%	29%	15%	72
Pharmaceuticals	20%	35%	35%	10%	71
Metals	30%	36%	23%	11%	65
Energy	31%	41%	14%	15%	64
Paper	28%	41%	24%	7%	63
Others	34%	35%	20%	11%	62
Construction	40%	29%	18%	13%	61
Textile	27%	48%	20%	4%	61
Retail	37%	37%	18%	8%	59
Agro-food	45%	25%	18%	11%	59
Automotive	39%	37%	16%	9%	58
Transport	32%	43%	22%	3%	58
Wood	43%	50%	7%	0%	49

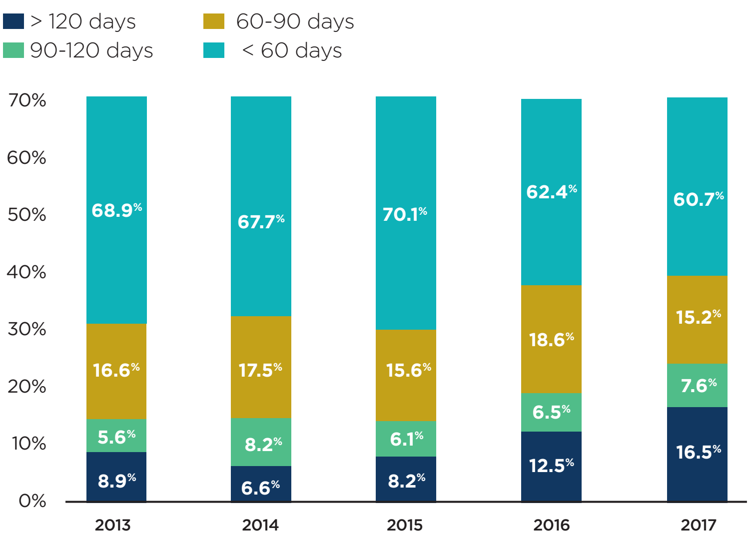
Source: Coface

- Differences were also apparent across sectors. Average credit terms were the longest for the Information & Communications Technology (ICT) and chemical sectors (72 days), followed by pharmaceuticals (71 days). On average, the majority of respondents across all sectors offered payment terms of 60 days (38%). Energy also featured a high proportion of respondents offering payment terms of 120 days or above (15%).

- On the other end of the spectrum, the wood sector offered the shortest credit terms (49 days), significantly below the second lowest sectors: transport and automotive (both 58 days). The agri-food sector featured the largest proportion of respondents offering payment terms of 30 days or less (45%).

2 PAYMENT DELAYS: TIGHTER FINANCIAL CONDITIONS LEAD TO LONGER DELAYS

Chart 3:
Average payment delays



Source: Coface

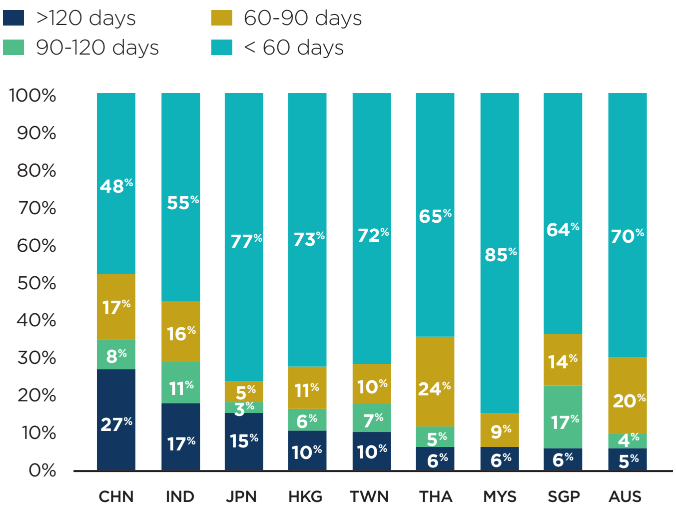
- Just 26% of respondents stated that they recorded an increase in payment delays in 2017, lower than the 33% registered in 2016. However, these payment delays were longer than in 2016. The proportion of respondents stating they experienced payment delays exceeding 120 days increased to 16.5% in 2017 from 12.5% in 2016.

- Payment delays were longest in China and India: the proportion of respondents reporting delays of 90 days or above was 35% and 27% respectively. The proportion of respondents reporting delays of 90 days or above was lowest in Malaysia (6%), Thailand (11%), Taiwan (17%) and Japan (18%).

- Divergences were also apparent across sectors. The energy and construction sectors featured the highest proportion of respondents reporting payment delays of 90 days or above (35% and 29% respectively). The metal, transport, and paper sectors featured the lowest proportion of respondents reporting payment delays of 90 days or above (16%, 17% and 18% respectively).

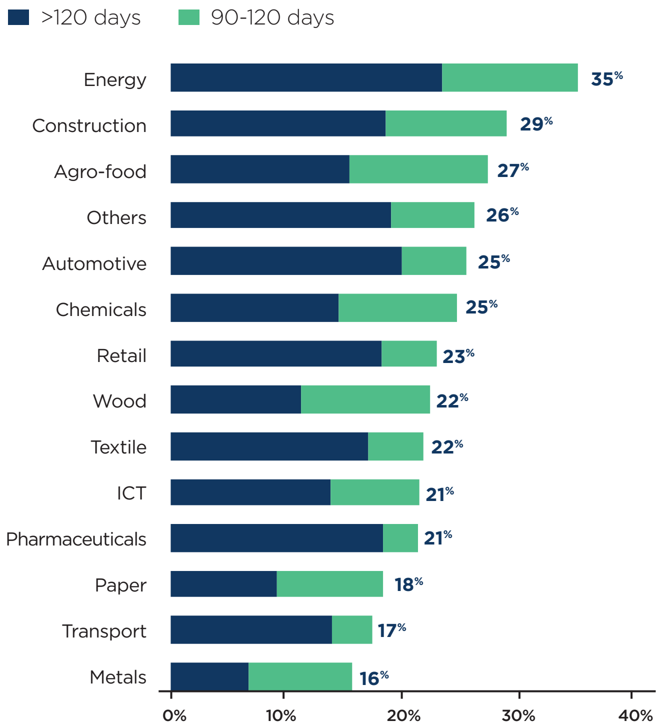
63% OF RESPONDENTS experienced payment delays

Chart 4:
Average payment delays by economy



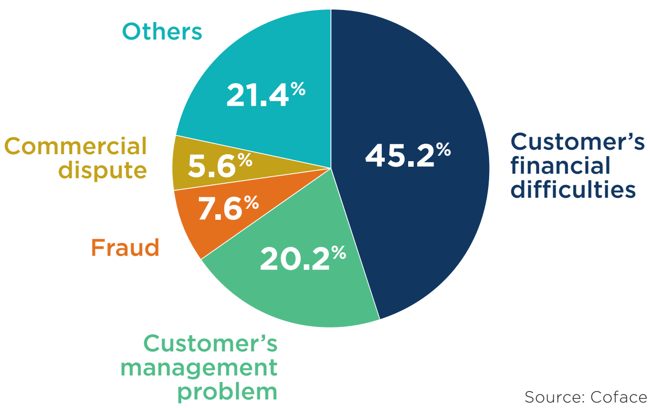
Source: Coface

Chart 5:
Average payment delays by sector



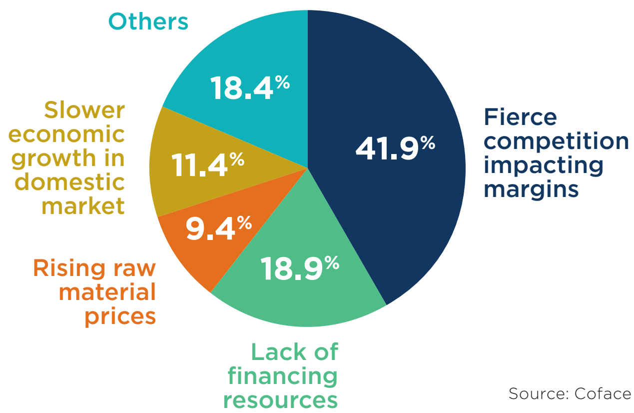
Source: Coface

Chart 6:
Main reason for payment delays



Source: Coface

Chart 7:
Main reason for financial difficulties



Source: Coface

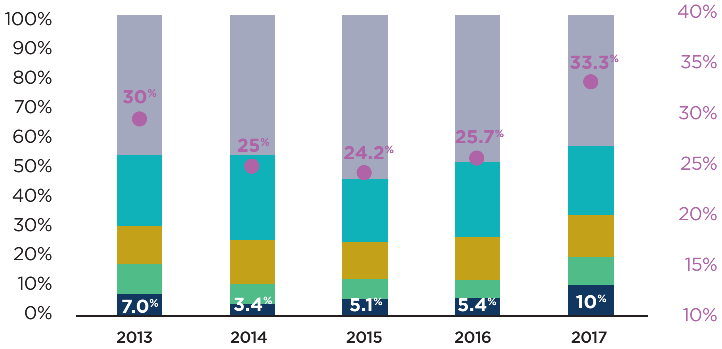
The main reason for customer financial difficulties was fierce competition impacting margins.

3 ULTRA-LONG PAYMENT DELAYS: CASH FLOW RISKS CONTINUED TO INCREASE

• Payment delays point to a deterioration in cash flow risks. According to our survey, the main reason behind longer payment delays in 2017 was customers' financial difficulties (45.2%), followed by customers' management problems (20.2%). The main reason for customers' financial difficulties was fierce competition impacting margins (41.9%), as well as lack of financial resources (18.9%).

Chart 8:
Ultra-long payment delays as a % of annual turnover

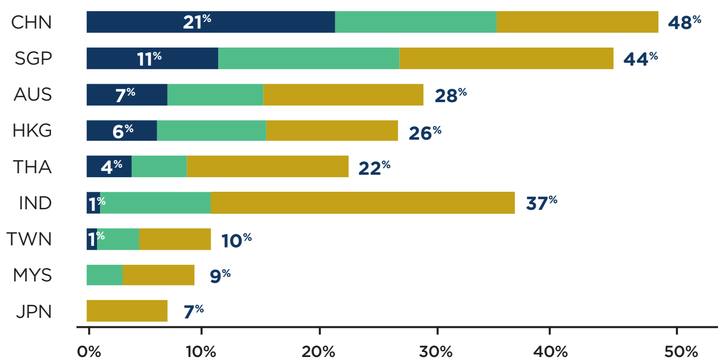
■ >10% ■ 5-10% ■ 2-5% ■ 0.5-2% ■ <0.5%
● % of respondents whose ultra-long payment delays are more than 2% of total annual turnover (right axis)



Source: Coface

Chart 9:
Ultra-long payment delays as a % of turnover by economy

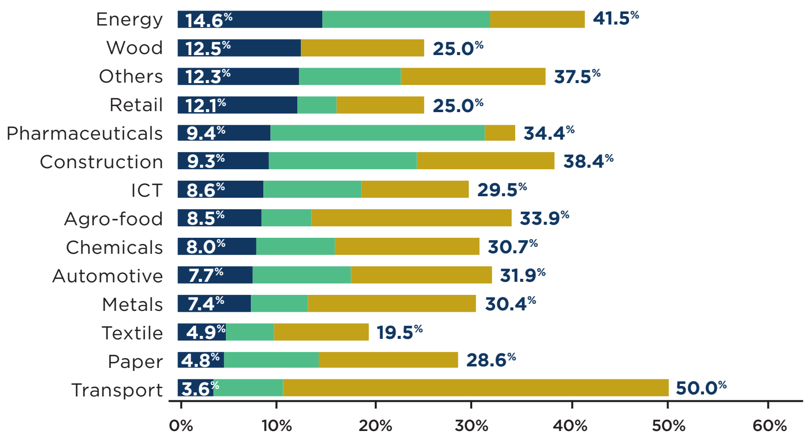
■ >10% ■ 5-10% ■ 2-5%



Source: Coface

Chart 10:
Ultra-long payment delays as a % of turnover by sector

■ >10% ■ 5-10% ■ 2-5%



Source: Coface

• In order to better assess cash flow risks, we examined the ratio of ultra-long payment delays (exceeding 180 days) as a percentage of total annual turnovers. According to Coface's experience around the world, 80% of these ultra-long payment delays don't get paid at all. When these constitute more than 2% of annual turnover, a company's cash flow may be at risk. The higher this ratio is, the higher the risk. We also look at the percentage of respondents that have ultra-long payment delays exceeding 10% of their annual turnover to take into account tail risks.

• The proportion of respondents experiencing ultra-long payment delays exceeding 2% of annual turnover increased from 26% in 2016 to 33% in 2017. Higher tail risks were also apparent. The proportion of respondents reporting that more than 10% of their annual turnover was tied up in ultra-long payment delays increased to 10% in 2017 compared to 5% in 2016.

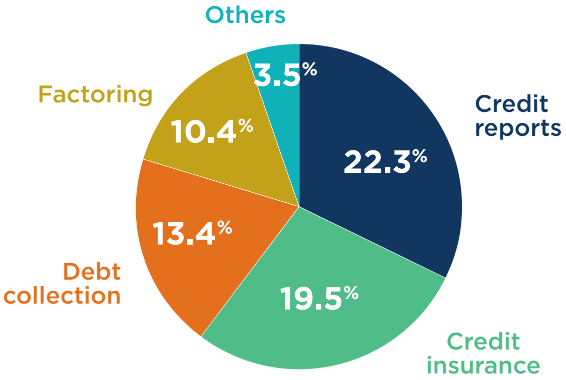
• The increase in respondents reporting they experienced ultra-long payment delays exceeding 2% of annual turnover was led by deteriorations in China. In particular, the proportion of Chinese respondents reporting that more than 10% of their annual turnover was tied up in ultra-long payment delays increased to 21% in 2017, compared to 11% in 2016. Singapore and India also reported a large number of respondents whose ultra-long payment delays exceeded 2% of annual turnover (44% and 37%, up from 25% and 30% respectively in 2016). Japan and Malaysia registered the lowest proportion of respondents with ultra-long payment delays that exceeded 2% of annual turnover (7% and 9% respectively).

• The proportion of respondents reporting that ultra-long payment delays exceeded 2% of annual turnover was highest for the transport (50%), energy (42%), and construction (38%) sectors. The textile (20%), retail (25%), and wood (25%) sectors recorded the lowest proportion of respondents registering ultra-long payment delays exceeding 2% of annual turnover. Tail risks were highest for the energy and wood sectors: these sectors featured the highest proportion of respondents reporting that ultra-long payment delays exceeded 10% of their annual turnover.

• Respondents with ultra-long payment delays exceeding 2% of annual turnover are facing higher cash flow risks. A number of these respondents may face difficulties in 2018: global financial conditions are set to tighten this year, which could worsen the access to financial resources. Moreover, a decoupling of global growth will translate into weaker demand, which will add to existing pressures on the competition front, further impacting profit margins. According to the findings of our survey, this is a factor that has been overlooked by many respondents.

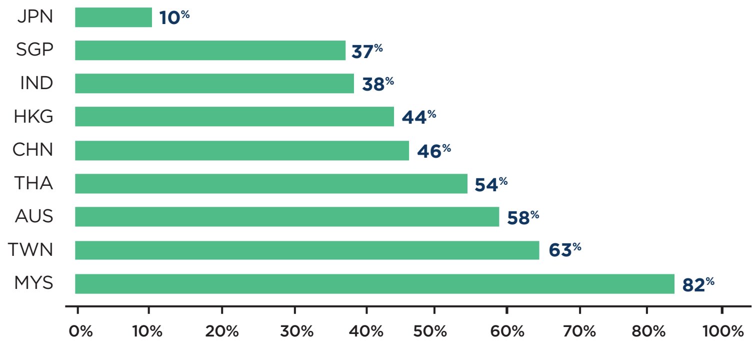
4 ECONOMIC EXPECTATIONS: COMPLACENCY AMID A BUOYANT OUTLOOK

Chart 11:
Use of credit management tools (% respondents)



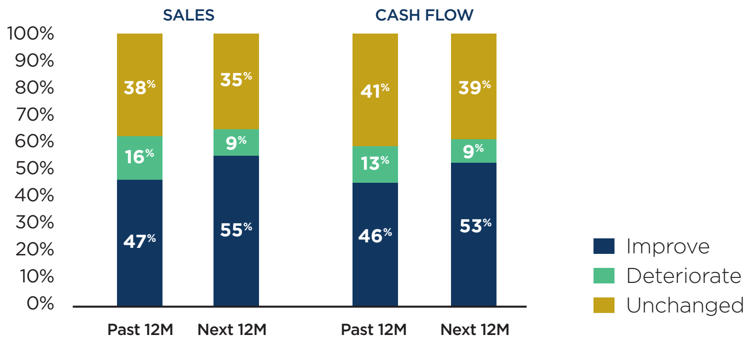
Source: Coface

Chart 12:
Respondents that do not use credit management tools by economy



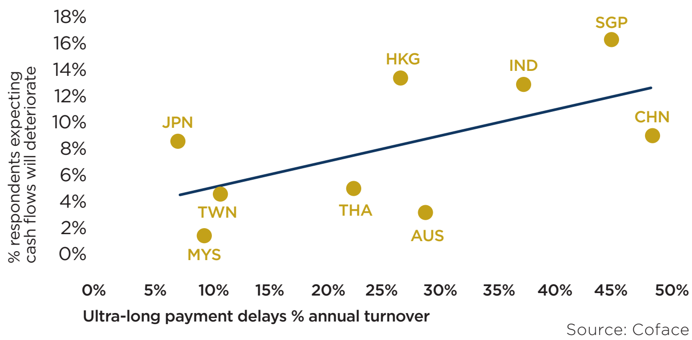
Source: Coface

Chart 13:
Economic expectations (% respondents)



Source: Coface

Chart 14:
Ultra-long payment delays and cash-flows



Source: Coface

- 2017 marked a turning point for the global economy, and so it is no surprise that an overwhelming majority of respondents (68%) stated that they expect economic growth to continue to improve in 2018.

- The pick-up in economic activity in 2017 has also translated into more favourable expectations by risk managers. 47% of respondents reported that their sales increased in 2017, while 55% expect sales to improve further in 2018. The results were slightly more muted regarding cash flow: just 46% of respondents reported an improvement in 2017, while 53% expect cash flows to improve in 2017.

- However, better economic performance in 2017 led to complacency amongst risk managers. 48% of respondents admitted that they use no credit management tools to mitigate credit risks. For the remainder, credit agency reports and recommendations continue to be the most commonly-used credit management tool (22.3%), followed by credit insurance (19.5%), and debt collection (13.4%). Factoring remains niche in Asia, with only 10.4% of respondents using it.

- The proportion of respondents admitting that they do not use credit management tools was higher in markets where trade credit insurance is more common, led by Malaysia (82%). This is worrying in the context of a slowdown in economic activity expected for 2018. On the contrary, more established markets featured a lower proportion of respondents who admitted to not using credit management tools, led by Japan (10%).

- There is a positive correlation between the proportion of respondents reporting ultra-long payment delays exceeding 2% of their annual turnover and the proportion of respondents who believe that cash flows will deteriorate in 2018. It should not come as a surprise that risk managers were less optimistic in China, Singapore, and India, where cash flow risks are on the rise. Respondents were more optimistic in Japan, Malaysia and Taiwan, where the proportion of respondents registering ultra-long payment delays exceeding 2% of annual turnover is low.

- This helps explain why the use of credit management tools remains low in Malaysia and Taiwan. On the flip side, credit managers in China, Singapore, India, and Hong Kong ought to be more proactive about managing risks in the context of longer payment delays and tougher economic conditions.

68%
OF RESPONDENTS
said economic growth will pick up in 2018

PAYMENT SURVEY RESULTS BY ECONOMY

Australia

COFACE ASSESSMENT: A2

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	89.4%	86.5%	85.0%	↘	Above
Average payment terms (days)	35	39	40	↗	Below
Payment delays					
Overdue experience over the last 12 months	66.8%	59.5%	87.1%	↗	Above
Increase in overdue amounts over the last year	15.2%	9.1%	32.4%	↗	Above
Average overdue periods of more than 90 days	4.8%	6.8%	9.5%	↗	Below
Ultra long overdue amounts > 2% of turnover	9.7%	13.6%	28.4%	↗	Below
Overall				↗	**Below**

China

COFACE ASSESSMENT: B

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	89.2%	78.0%	73.6%	↘	Below
Average payment terms (days)	66	66	76	↗	Above
Payment delays					
Overdue experience over the last 12 months	80.6%	67.9%	63.8%	↘	Above
Increase in overdue amounts over the last year	58.1%	45.6%	28.6%	↘	Above
Average overdue periods of more than 90 days	21.0%	26.3%	34.4%	↗	Above
Ultra long overdue amounts > 2% of turnover	33.4%	35.7%	48.1%	↗	Above
Overall				↗	**Above**

Hong Kong

COFACE ASSESSMENT: A2

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	76.8%	69.4%	75.4%	↗	Below
Average payment terms (days)	50	49	56	↗	Below
Payment delays					
Overdue experience over the last 12 months	55.4%	53.6%	58.2%	↗	Below
Increase in overdue amounts over the last year	18.4%	20.6%	17.7%	↘	Below
Average overdue periods of more than 90 days	17.7%	15.8%	15.9%	↗	Below
Ultra long overdue amounts > 2% of turnover	32.9%	23.9%	26.2%	↗	Below
Overall				↗	**Below**

India

COFACE ASSESSMENT: B

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	91.2%	93.7%	94.1%	↗	Above
Average payment terms (days)	43	53	59	↗	Below
Payment delays					
Overdue experience over the last 12 months	84.0%	84.8%	86.8%	↗	Above
Increase in overdue amounts over the last year	10.0%	29.2%	35.7%	↗	Above
Average overdue periods of more than 90 days	8.0%	22.1%	28.6%	↗	Above
Ultra long overdue amounts > 2% of turnover	32.0%	29.8%	36.8%	↗	Above
Overall				↗	**Above**

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Increase
- ↘ Decrease

Japan

COFACE ASSESSMENT: A2

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	87.5%	90.1%	67.8%	↘	Below
Average payment terms (days)	76	75	98	↗	Above
Payment delays					
Overdue experience over the last 12 months	45.4%	46.4%	50.0%	↗	Below
Increase in overdue amounts over the last year	21.7%	17.1%	16.4%	↘	Below
Average overdue periods of more than 90 days	10.1%	8.6%	17.8%	↗	Below
Ultra long overdue amounts > 2% of turnover	2.9%	8.7%	6.8%	↘	Below
Overall				↘	**Below**

Malaysia

COFACE ASSESSMENT: A3

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	--	--	80.6%	--	Above
Average payment terms (days)	--	--	48	--	Below
Payment delays					
Overdue experience over the last 12 months	--	--	20.6%	--	Below
Increase in overdue amounts over the last year	--	--	21.2%	--	Below
Average overdue periods of more than 90 days	--	--	6.1%	--	Below
Ultra long overdue amounts > 2% of turnover	--	--	9.1%	--	Below
Overall				--	**Below**

Singapore

COFACE ASSESSMENT: A2

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	94.3%	89.6%	90.4%	↗	Above
Average payment terms (days)	55	51	69	↗	Above
Payment delays					
Overdue experience over the last 12 months	80.7%	79.2%	72.0%	↘	Above
Increase in overdue amounts over the last year	49.3%	42.6%	29.2%	↘	Above
Average overdue periods of more than 90 days	14.1%	3.3%	22.2%	↗	Above
Ultra long overdue amounts > 2% of turnover	35.2%	25.0%	44.4%	↗	Above
Overall				↗	**Above**

Taiwan

COFACE ASSESSMENT: A2

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	75.5%	71.6%	77.8%	↗	Below
Average payment terms (days)	64	65	70	↗	Above
Payment delays					
Overdue experience over the last 12 months	48.6%	51.6%	60.7%	↗	Below
Increase in overdue amounts over the last year	18.3%	17.6%	14.0%	↘	Below
Average overdue periods of more than 90 days	11.8%	8.8%	17.5%	↗	Below
Ultra long overdue amounts > 2% of turnover	10.2%	9.3%	10.5%	↗	Below
Overall				↗	**Below**

Thailand

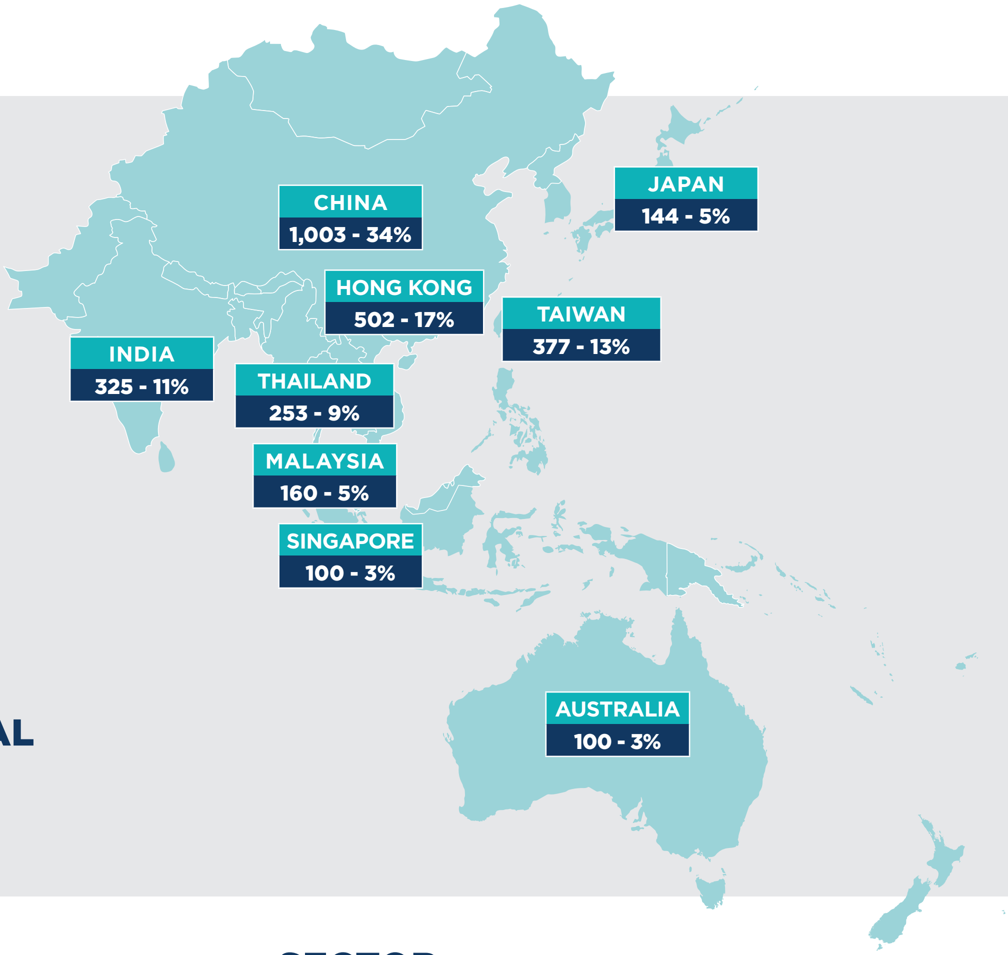
COFACE ASSESSMENT: A4

	2015	2016	2017	2017 vs. 2016	vs. APAC
Payment terms					
% of respondents offering payment terms	97.6%	75.1%	82.2%	↗	Above
Average payment terms (days)	35	44	53	↗	Below
Payment delays					
Overdue experience over the last 12 months	96.6%	66.7%	51.8%	↘	Below
Increase in overdue amounts over the last year	34.3%	31.6%	31.3%	↘	Above
Average overdue periods of more than 90 days	2.0%	14.5%	11.5%	↘	Below
Ultra long overdue amounts > 2% of turnover	7.0%	16.6%	22.1%	↗	Below
Overall				↗	**Below**

BUSINESS DEFAULT RISK

A1 Very Low
A2 Low
A3 Satisfactory
A4 Reasonable
B Fairly High
C High
D Very High
E Extreme
↗ Increase
↘ Decrease

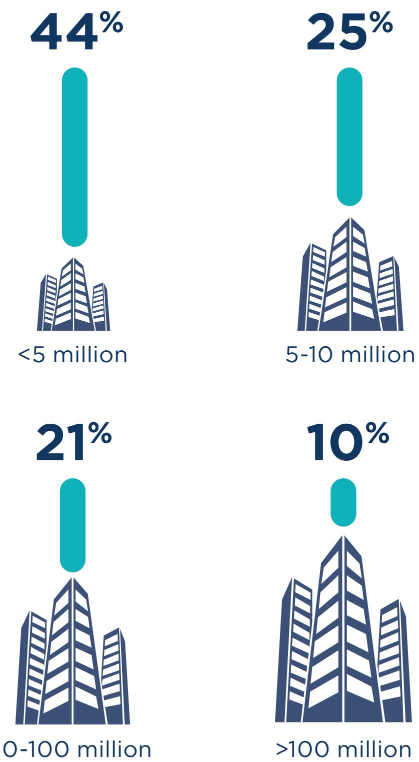
APPENDIX



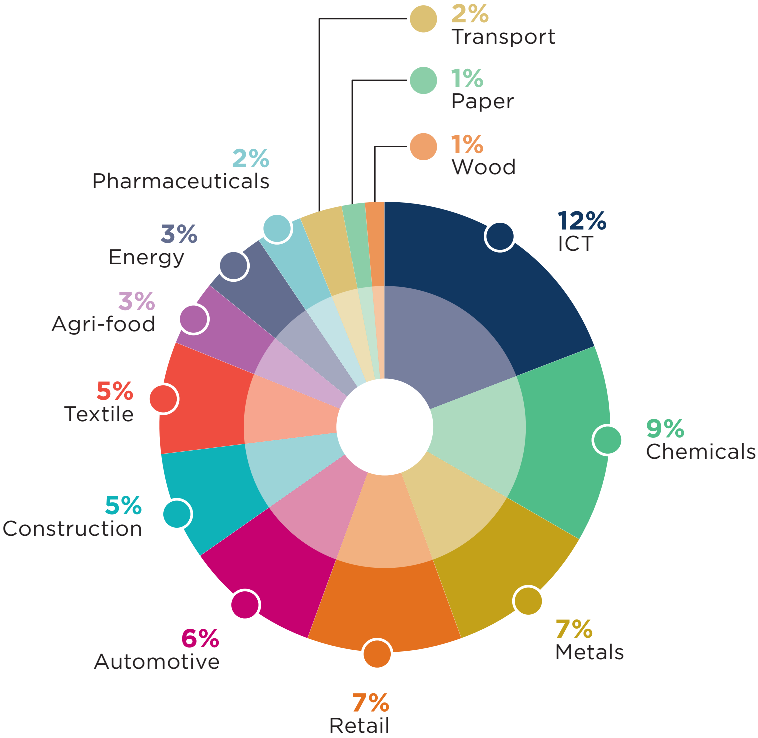
2,964
COMPANIES

GEOGRAPHICAL DISTRIBUTION

SIZE BY TURNOVER (euros)



SECTOR DISTRIBUTION



GLOSSARY

PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

TAIL RISK
The risk that an investment will change by more than three standard deviations from its mean.

Code	Country
AUS	Australia
CHN	China
HKG	Hong Kong
IND	India
JPN	Japan
MYS	Malaysia
SGP	Singapore
TWN	Taiwan
THA	Thailand

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