Atradius Payment Practices Barometer
June 2022

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Managing risk, enabling trade

Hong Kong: trade credit risk trends upward

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About the Atradius Payment Practices Barometer

The Atradius Payment Practices Barometer is an annual survey of business-to-business (B2B) payment practices in markets across the world.

It contains direct feedback from businesses in a given market or region about how they manage payment default risks related to selling on credit to B2B customers. Topics covered include: payment terms, the time it takes to collect invoices, managing payment delays, the impact of payment delays on business, and expected business trends.

We believe these survey results will offer compelling insights into the markets and regions where you do business.

This is the report for Hong Kong.

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Hong Kong: overview of key survey findings

6% write off

(up 50% from 2021 survey)

Unpaid invoices a serious concern, write-offs trend upward

- Businesses in Hong Kong face a rising level of trade credit risk, with 48% of the total value of B2B invoices reported as overdue, and 6% of outstanding payment being declared as bad debt and written off (up 50% from 2021 survey). This has sparked increased awareness among most businesses polled about the importance of strategic credit risk management in B2B trade. Most companies told us they opted to either purchase specific trade finance solutions or outsource the problem to a credit insurer. A quarter of the businesses polled said they retained and managed customer credit risk in-house.

- A strong focus on minimising year-on-year swings of Days-Sales-Outstanding (DSO) was reported by businesses, who said they took a variety of actions to protect cash flow and profitability. A significant number of companies polled told us that having a credit insurance cover helped them improve DSO and thus free up working capital.

Impact of pandemic adds further strain on businesses

- Hong Kong companies told us they have several concerns for the year ahead, the primary issue being protection of their business against the ongoing impact of the pandemic. Amid expectations of a significant decrease in insolvencies this year, due to the government's strong fiscal support, Hong Kong businesses express concern over the ability to safeguard liquidity levels to meet their operational needs. Adding to this is the worry about effective management of the costs involved with managing trade receivables in such a challenging economic environment.

- Despite this uncertain outlook, most companies expect some improvement in B2B payment practices during the next 12 months, and believe this may encourage sales growth with new B2B customers going forward. However, seeing a tough trading environment ahead, many companies told us that the adoption of a more liberal credit policy towards B2B customers will require a properly conceived credit management to protect the viability of the business.

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Hong Kong: credit sales and payment terms (B2B)

B2B sales on credit drop amid concerns over payment default by customers

- 39% of companies polled in Hong Kong, many of whom are in the construction materials industry, told us they traded on credit with B2B customers more often than previously. 54% said they made no change to their usual trade credit policy, while significant numbers across the industries polled requested cash payments more often, anticipating a higher risk of payment default by customers. This accounted for a drop in the average total value of all B2B sales on credit to 49%, down from last survey's 57%.

- However, the overall figures show B2B trade credit still plays a great role in the Hong Kong market. A large number of companies polled (38%), particularly in the electronics/ICT industry, said trading on credit with B2B customers was necessary to attract new business. Offering B2B trade credit to protect current sales from competitive pressures was seen most often in the consumer durables industry. Far fewer companies across the industries polled, except for the chemicals sector, said they offered credit to retain B2B customers.

Cost of capital to finance credit sales key criteria in setting payment terms

- An increasing number of companies in Hong Kong, 42% up from last survey's 26% they offered more liberal payment terms to B2B customers during the past months. These now average 39 days from invoicing compared to last survey's 37%. More than half of the companies that relaxed their credit standards did so to allow B2B customers more time to pay in case they needed, for example, to obtain bank finance or sell on goods prior to settling invoices. This was most commonly reported by businesses in the electronics/ICT industry.

- Almost 40% of businesses cited the most common criteria for setting payment terms remains the availability and cost of funds to finance credit sales. An interesting change in this area was the significant rise in companies (36%, up from last survey's' 24%) who said that whether or not they have credit insurance cover heavily influences decision-making about length of payment terms. This is most often reported by the construction materials industry.

36%

(2021: 24%)

of companies polled said that whether or not they have credit insurance cover heavily influences decision-making about length of payment terms. This is most often reported by the construction materials industry.

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Hong Kong: customer payment default (B2B)

Concerns about unpaid invoices prompts push for enhanced credit management

- 48% of the total value of sale on credit in the past 12 months were overdue. While it was less severe compared to 52% in our previous survey, businesses reported measures taken to avoid liquidity including seeking external financing (49%%) and bank overdraft extension (39%).

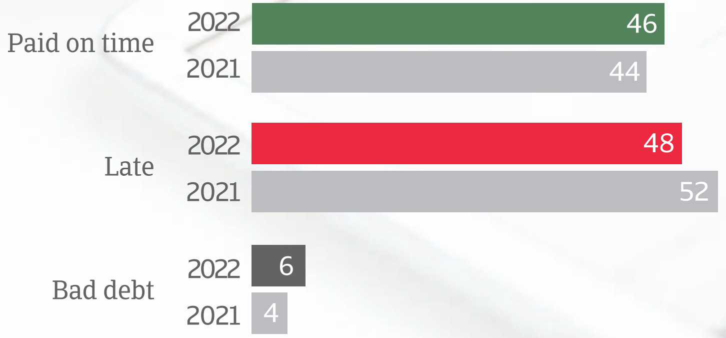
- The long-term overdue invoices (more than 90 days overdue) being written off as uncollectable continued to trend upward to 6% from 4%, underscoring an increasingly challenging business environment. This situation was particularly acute in the consumer durables industry where write-offs average 13% of all B2B invoices. This may also explain the high number of consumer durables companies (59%) who told us they blocked up working capital in extra reserves for bad debts.

Liquidity issues, admin troubles and customer disputes spark payment default

- Dealing with overdue invoices is becoming a real headache for a large number of Hong Kong companies, that reported a considerable amount of time, costs and resources spent on chasing overdues. 48% of businesses, many from the consumer durables industry, told us that invoices are paid late most often because of customers' liquidity issues. This may explain why numerous companies reported stronger credit control and more regular monitoring of customers' creditworthiness to anticipate warning signs of potential payment default.

- Several other factors for customer payment default were cited from Hong Kong companies polled, with 44% saying it was mainly due to administrative inefficiencies in the customer payment process. Almost as many companies (40%) said late payments were a consequence of disputes with customers.

Hong Kong: % of the total value of B2B invoices paid on time, overdue and bad debt as uncollectable (2022/2021)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - June 2022

Hong Kong: impact of customer payment default (B2B)

Strong focus on credit control and avoidance of credit risk concentration

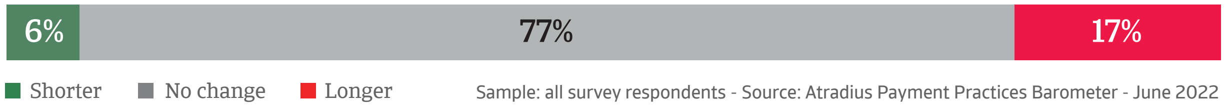
- A staggering 98% of companies polled in Hong Kong said they used a wide range of measures to reduce the impact of customer payment default on the business. The majority of these (54%), told us that a further strengthening of the credit control function was essential to their credit management process. Within this frame, bank references and customer financial statements remain the primary source of information they rely on to protect the business against customer payment default and bad debts.
- A significant number of companies polled (39%) applied techniques to avoid credit risk concentration on either a single customer or groups of customers with the same features. This was most common in the consumer durables industry. Another notable finding was that twice as many companies as in our previous survey, mainly in the chemicals sector (30%), said stronger credit checking prompted the rejection of new customers to avoid an increased impact of customer credit risk on the business.

Keeping DSO under control is crucial to protect cash flow

- Amidst a deterioration of cash flow, a higher number of Hong Kong businesses polled reported a stronger focus on lowering year-on-year volatility of their Days-Sales-Outstanding (DSO). Actions to achieve this included offering discounts for faster invoice payment, swifter resolution of customer disputes and shortening payment terms. This latter most often reported in the chemicals industry. An average of 40% of companies polled in Hong Kong, mainly in the construction materials industry, said having a credit insurance cover helped them improve DSO and free up working capital.

Average time it takes to convert overdue B2B invoices into cash (year-on-year change)

(% of respondents)



Sample: all survey respondents - Source: Atradius Payment Practices Barometer - June 2022

40%

of companies polled in Hong Kong, mainly in the construction materials industry, said having a credit insurance cover helped them improve DSO and free up working capital.

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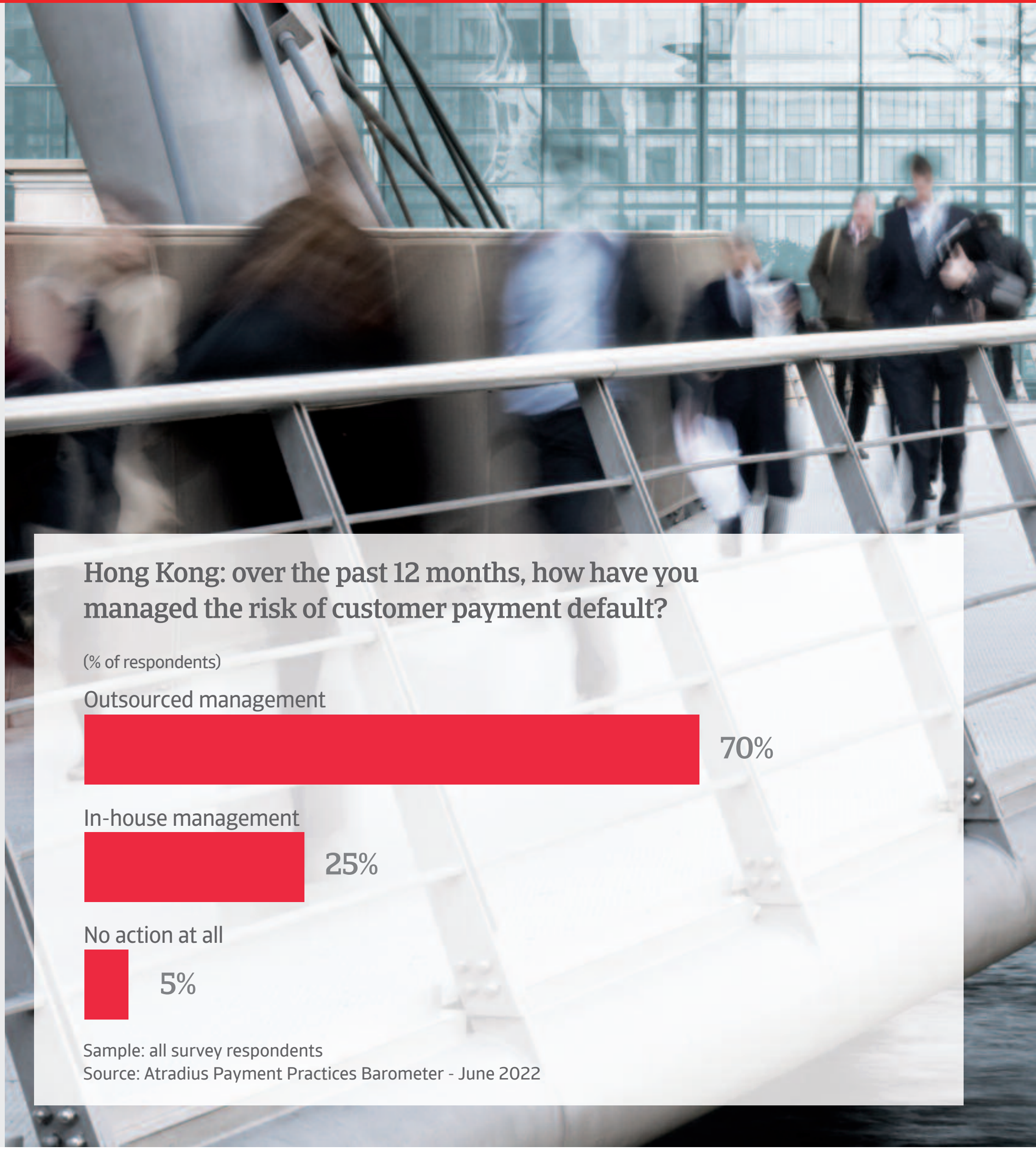
Hong Kong: management of customer payment default (B2B)

Sharp rise in grasping need for strategic credit management

- A key finding of our survey is that the number of companies opting to manage customer credit risk in-house halved over the past last year. 70% of the businesses polled said they either purchased specific trade finance solutions or outsourced the issue to a credit insurer. A quarter of the businesses polled opted to retain and manage customer credit risk in-house, while the remaining few took no credit management action at all.
- Trade debt securitisation ranks highest among the specific finance solutions purchased by companies polled in Hong Kong, 57% opting for it, up from last survey's. Using letters of credit within their B2B trade on credit was cited by 47% of businesses polled. An equal proportion of companies (40%) reported using a credit insurance cover (mainly in the construction material industry) or the use of factoring to accelerate cash inflows in the business (mainly in the consumer durables industry). They were used to complement each other.



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Hong Kong: the business outlook (B2B)

Trading on credit expected to increase, chiefly to win new business

- The majority of Hong Kong companies (66%) expect payment practices of their B2B customers to improve during the coming months, a verdict most often reported in the consumer durables industry. Another positive finding is that 56% of companies, mainly from the ICT/electronics industry, anticipate expansion of trading on credit terms with B2B customers. Almost 40% told us this will be aimed at winning new customers, while 23% expect it to increase market share by encouraging repeat business from established B2B customers.

DSO worsening, impact of pandemic on cash flow and profits worry businesses

- Despite the expected improvement in B2B payment practices, 62% of businesses polled in Hong Kong expressed concern about a likely deterioration of their DSO triggered by the adoption of a more liberal credit policy in the current challenging trading environment. This may explain why significant numbers of the companies interviewed told us they would continue using or take up credit insurance during the coming months. This was particularly evident in the construction materials industry.

- The primary concern looking forward for most Hong Kong companies polled (42%) is to protect themselves against the ongoing impact of the pandemic. This was expressed strongly across all industries surveyed except for the chemicals sector. Nearly 30% of businesses, mainly in the construction materials industry, said the greatest challenge ahead would be to ensure sufficient liquidity levels. Another 25% of companies across all industries polled were worried about a likely shrinking of profit margins posing a threat to their future viability.

Hong Kong: top 5 greatest challenges to business profitability in 2022

Sample: all survey respondents (multiple choice survey question)
Source: Atradius Payment Practices Barometer - June 2022

Hong Kong: overview of key survey findings by industry

Chemicals

Data not available for 2021

Sales on credit (% of all B2B sales)	46%
Payment term (d=average days)	42d
Payment duration* (d=average days)	64d
Late payment (% of all B2B invoices)	50%
Write offs (% of all B2B invoices)	6%
% of businesses anticipating longer payment duration	58%
% of businesses managing credit risk in-house	29%
Keeping pace with rising demand: greatest challenge ahead	33% (businesses reporting it)

* payment term on the invoice plus any delay.

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Hong Kong: overview of key survey findings by industry

Consumer Durables

Sales on credit (% of all B2B sales): 51% (2021: 61%)

Payment term (d=average days): 32d (2021: 50d)

Payment duration* (d=average days): 53d (2021: 79d)

Late payment (% of all B2B invoices): 60% (2021: 55%)

Write offs (% of all B2B invoices): 13% (2021: <1%)

% of businesses anticipating longer payment duration: 67% (2021: 37%)

% of businesses managing credit risk in-house: 33% (2021: 67%)

Ongoing pandemic: greatest challenge ahead: 42% (businesses reporting it)

* payment term on the invoice plus any delay.

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Hong Kong: overview of key survey findings by industry

Construction materials

Data not available for 2021

Sales on credit (% of all B2B sales)	44%
Payment term (d=average days)	41d
Payment duration* (d=average days)	69d
Late payment (% of all B2B invoices)	47%
Write offs (% of all B2B invoices)	5%
% of businesses anticipating longer payment duration	67%
% of businesses managing credit risk in-house	37%
Ongoing pandemic: greatest challenge ahead	42% (businesses reporting it)

* payment term on the invoice plus any delay.

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Hong Kong: overview of key survey findings by industry

Electronics/ICT

Sales on credit
(% of all B2B sales)
54%
(2021: 57%)

Payment term
(d=average days)
43d
(2021: 33d)

Payment duration*
(d=average days)
62d
(2021: 58d)

Late payment
(% of all B2B invoices)
34%
(2021: 50%)

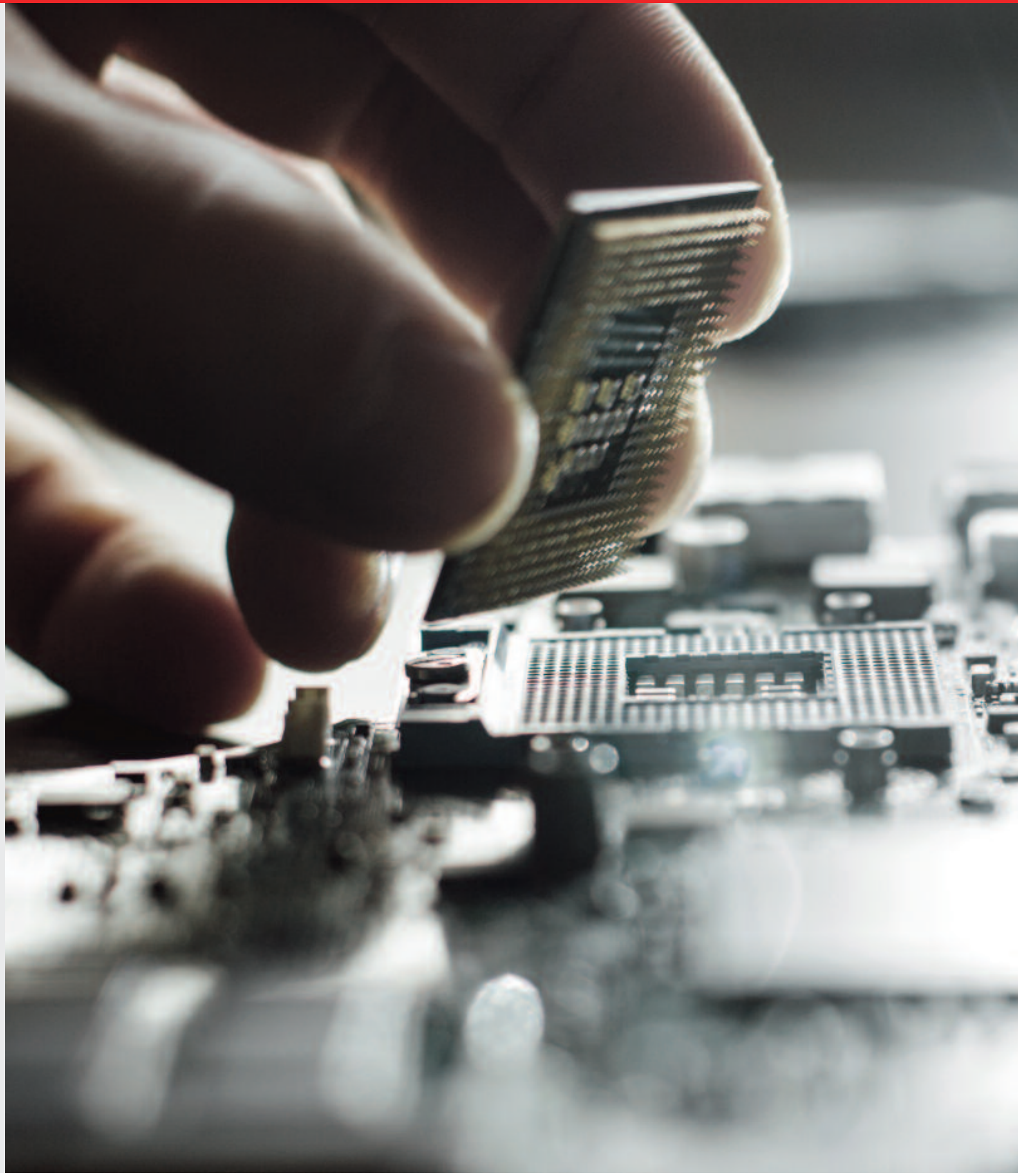
Write offs
(% of all B2B invoices)
<1%
(2021: 4%)

% of businesses anticipating longer payment duration
53%
(2021: 28%)

% of businesses managing credit risk in-house
20%
(2021: 66%)

Ongoing pandemic: greatest challenge ahead
51%
(businesses reporting it)

* payment term on the invoice plus any delay.



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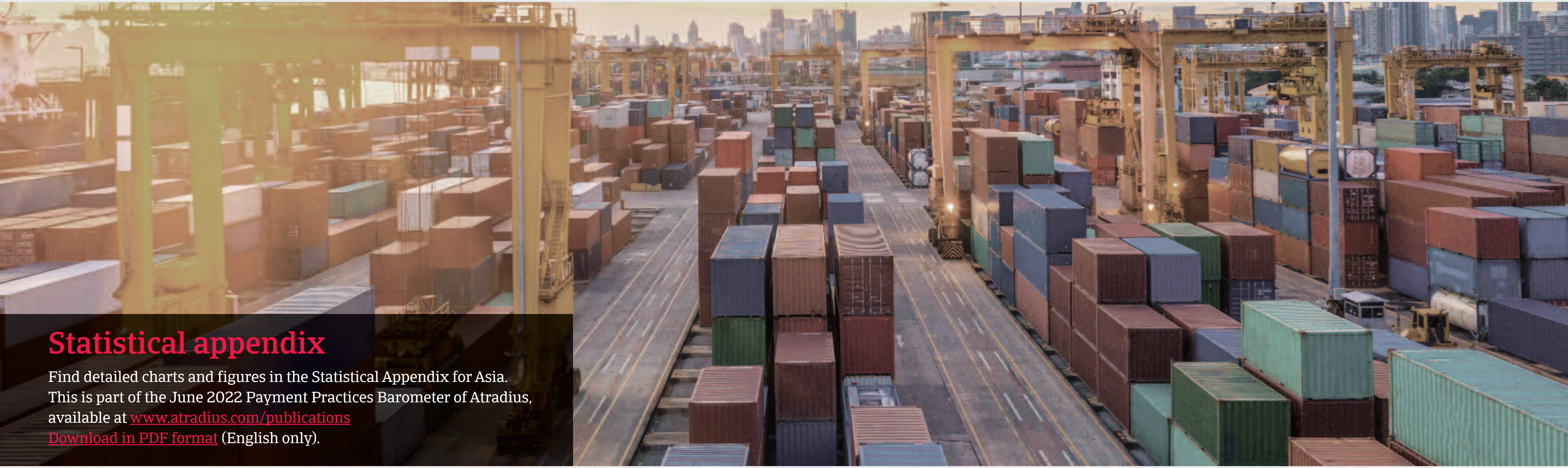
Glossary



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia.
This is part of the June 2022 Payment Practices Barometer of Atradius,
available at www.atradius.com/publications
Download in PDF format (English only).

Payment term (credit period, credit term)

The period after delivery or shipment of goods or after rendering of services at the expiry of which invoices are due to be paid.

Overdue invoice (past due invoice, defaulted invoice)

A customer's obligation that has not been paid by its due date.

Write-offs

Overdue invoices that cannot be collected and therefore are treated as bad debts and written off as uncollectable.

Days Sales Outstanding (DSO)

Average time (days) a company takes to convert its credit sales into cash or cash in the outstanding payments from its customers.

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. Hong Kong companies are the focus of this report, which forms part of the 2022 edition of the Atradius Payment Practices Barometer. A change in research methodology means year-on-year comparisons are not feasible for some of these survey results. Using a questionnaire, CSA Research conducted 200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** Companies from Hong Kong were surveyed, and the appropriate contacts for accounts receivable management were interviewed
- **Sample design:** The Strategic Sampling Plan enables us to perform an analysis of country data crossed by sector and company size. It also allows us 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=200 people were interviewed in total. 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 2022.

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Sample overview – Total interviews = 200

Business sector	Interviews	%
Manufacturing	72	36
Wholesale	45	23
Retail trade / Distribution	56	28
Services	27	13
TOTAL	200	100
Business size	**Interviews**	**%**
Micro enterprises	0	0
SME - Small enterprises	52	26
SME - Medium enterprises	102	51
Large enterprises	46	23
TOTAL	200	100
Industry	**Interviews**	**%**
Chemicals	45	22
Consumer Durables	52	26
Costruction materials	52	26
Electronics/ICT	51	26
TOTAL	200	100

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