



# Hong Kong: Nearly half of businesses report increase in cost of credit management

Atradius Payment Practices Barometer





## Vincent Ku

CEO for Atradius in Hong Kong, South Korea and Taiwan commented on the report

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This year's Payment Practices Barometer results paint a clear picture of the challenges facing Hong Kong businesses as they begin to emerge from a tough period of economic contraction. In a bid to retain customer loyalty and grow their market share, Hong Kong's businesses continued to offer trade credit throughout last year and, indeed, were second only to Singapore in the percentage of total sales offered on credit throughout Asia. However, this proactive and dynamic approach to credit is counterbalanced by a more risk averse application of payment terms that sees Hong Kong offer the shortest terms throughout all of Asia.

Taken together these results show a business community working hard to generate trade amid the limitations of an uneven economic recovery, where although the export sector is showing signs of picking up, domestic spending remains subdued.

Looking ahead there is cause for cautious optimism. A global economic rebound will further support the territory's export sales.

Downside risks include a potential resurgence of Covid-19 and increased insolvencies. The territory has been managing the pandemic crisis relatively well, and there is no evidence to suggest this will change significantly. However, insolvencies are to be expected. Many businesses throughout the world have been propped up by temporary fiscal support introduced by different governments. Some businesses will struggle to survive the removal of such support programmes and export businesses, in particular, should be alert to this heightened risk.

The widespread use of risk management protocols, such as factoring and credit insurance, will help cushion many Hong Kong businesses from the predicted H2 2021 surge in bankruptcies. Those without cash reserves big enough to absorb large write-offs would be well-advised to explore outsourced risk management options to protect their accounts receivable moving forward.



# Key takeaways

## Large numbers report increase in credit administration costs

A significant number of businesses saw the administration costs associated with offering trade credit increase in the year after the outbreak of the pandemic. This needs to be carefully managed as the cost of offering credit can reach a point where it outweighs sales revenue, thus jeopardising the profitability of the business especially if profit margins are tight.

## Gradual withdrawal of fiscal support presents potential threat to all businesses

Looking ahead there is an increased risk of insolvencies towards the end of 2021. This is because many countries throughout the world enacted business support measures last year. These are now beginning to be withdrawn presenting additional risks for all businesses in the supply chain. Businesses along the supply chain trading on credit should take steps to protect their accounts receivable from this heightened credit risk.

## Customer retention and desire to grow market share drive credit sales

Hong Kong businesses are almost as likely as their peers in Asia to offer trade credit to B2B customers to retain customer loyalty, and are far more likely than the regional average to offer trade credit to increase their market share. At the same time, businesses told us that staying competitive and providing financial support to their customers are less important to them as drivers for offering trade credit.

## Trade credit widely used by Hong Kong businesses

Trading on credit with B2B customers is a very common business practice among Hong Kong respondents, with more than half of all sales conducted on credit. Although this dipped slightly in the year following the onset of the pandemic, its widespread use, signifies its importance as a tool to support sales and customer relationships.



# Survey results for Hong Kong

## Hong Kong ranks second in Asia for use of B2B credit

Credit sales comprise 57% of all B2B sales in the consumer durables, ICT/electronics and textiles/clothing industries in Hong Kong. And with a year-on-year contraction of just 5%, credit has largely maintained a high level of popularity despite economic challenges presented by the pandemic. Hong Kong ranks second across the economies surveyed in Asia for the use of credit, after the 59% average for Singapore. Its use of trade credit is higher than the 55% seen in both China and Taiwan and higher than the 54% average for Asia.

The proportion of credit sales in Hong Kong's ICT/electronics industry is in line with that of peers in Asia, whereas the Hong Kong consumer durables (61%) and textiles/clothing (66%) industries are higher than the regional averages across Asia (58% consumer durables and 57% textiles/clothing). Credit sales to domestic customers average 54% of the total value of sales (regional average: 56%) Credit sales to foreign customers average 46% (regional average: 44%). This percentage split does not vary significantly compared to last year. The proportion of credit sales in the consumer durables and ICT/electronics industries is equal to that of Hong Kong's peers at regional level. Conversely, the textiles/clothing industry sells on credit far more often than its peer industry in Asia.

## Hong Kong: how do you expect your business performance to change over the coming months?



IMPROVE  
26%

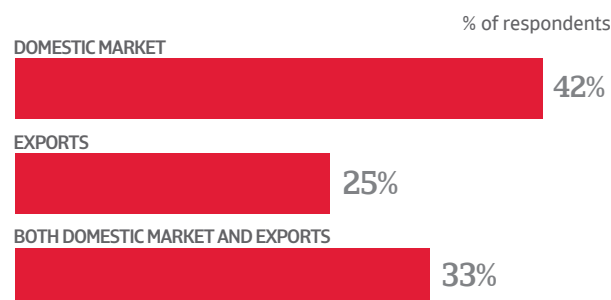


NO CHANGE  
60%



DETERIORATE  
14%

## Which key developments will drive your business improvement?



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

# 52%

of the total value of all B2B sales of the businesses polled in Hong Kong is overdue. This is higher than last year's 48% in Hong Kong and slightly above the current 50% average for Asia.

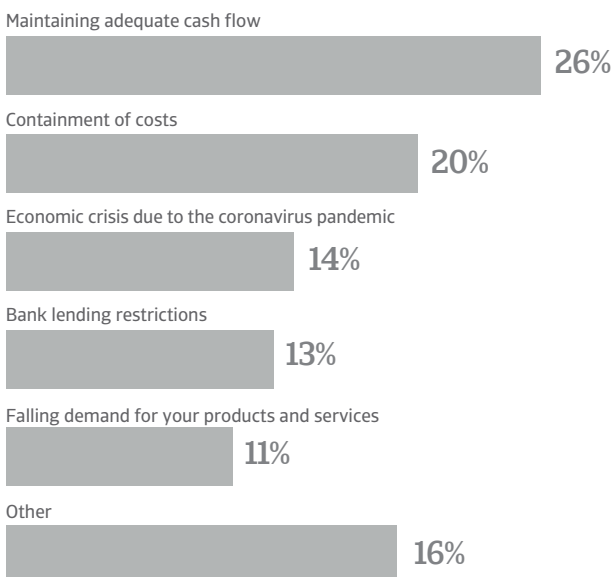
## Credit offered in a bid to retain customers

When we asked why they chose to trade on credit, over half of Hong Kong businesses (almost on par with their peers in Asia) told us they were encouraging repeat business with established customers. 35% told us they accepted credit requests to win new customers (regional average 26%). Protection of their competitive position and provision of financial support to financially distressed customers was cited as a reason for offering trade credit far less often than by their peers in Asia.

Although fewer businesses in Hong Kong (37%) than in Asia (44%) reported an increase in trading on credit in the months following the outbreak of the pandemic, a larger percentage (54%) than the regional average (45%) told us that they continued to use credit at the same pace as last year.

## Hong Kong: top 5 greatest challenges to business profitability in 2021

% of respondents



Sample: all interviewed companies

Source: Atradius Payment Practices Barometer - June 2021

Only 7% of businesses (9% in Asia) turned down more trade credit requests than last year. This was most often due to insufficient information on the customer's past payment performance.

## Credit administrative costs increase for nearly half of businesses

Nearly half of Hong Kong businesses (in line with the response rate for the region) told us their credit sales administrative costs increased in the year that followed the pandemic outbreak. This was most often reported by the businesses that opted to retain and manage customer credit risk themselves through self-insurance. Around 43% of respondents in both Hong Kong and Asia told us their capital costs (i.e. financing or interest costs paid during the time-lag between the credit sale and the invoice payment) increased following the pandemic outbreak.

This was most often reported by businesses that managed trade debts by sending invoice payment reminders. 39% of businesses spent more on debt collection in the year that followed the pandemic outbreak (regional average: 42%). Not surprisingly this was most often reported by businesses that largely outsourced trade debt collection. However, an equal percentage of businesses (39%) told us that they were unsuccessful at trade debt collection (a greater percentage than Asia's 33%). This was most common among businesses that did not use credit management techniques or tools.

When assessing customer creditworthiness, 65% of survey respondents rely most often on financial statements, and 60% on bank references. Least-common in Hong Kong is the use of credit reports from specialist agencies (cited by 28% of respondents compared to 40% in Asia).

## Hong Kong offers shortest payment terms in Asia

Hong Kong extends the shortest payment terms in Asia, namely 37 days compared to the regional average of 54 days. This is shorter than last year (43 days) and suggests local businesses are increasingly risk averse, especially in comparison to their peers in Asia. 65% request payment within 30 days, significantly more than last year's 49%, (regional average: 54%).

Payment terms are set according to the following main criteria: company standard payment terms (39% in Hong Kong, 53% in Asia); matching supplier's payment terms (37% in Hong Kong, 42% in Asia); and availability and cost of capital needed to finance credit sales (35% in Hong Kong, 43% in Asia). Despite being lower than the Asian averages, these results indicate that businesses in Hong Kong are focused on working capital management as a way to ensure the business has adequate funds to run their operations and meet their payment obligations.

## More than half of all payments are overdue

52% of the total value of all credit sales is overdue (higher than last year's 48% in Hong Kong and slightly above the current 50% average for Asia). Despite this increase affecting credit sales, just over half of the businesses polled (53%) recorded no change in payment timings over the past 12 months (regional average: 51%).

Fewer respondents in Hong Kong (35%) than in Asia (40%) told us that their customers delayed payments beyond due dates. Less than 10% of respondents in Hong Kong and Asia alike told us that customers sped up invoice payments. On average, 4% of long-term outstanding invoices (over 90 days) are written off (regional average: 5%).

## Business confidence dented by uneven economic recovery

Hong Kong businesses are significantly more pessimistic than their peers in Asia in regards to an improvement in their business performance over the next coming months (26% anticipate growth, compared to 52% in Asia). Indeed more than twice as many businesses in Hong Kong than Asia predict business deterioration (14%, compared to the regional average of 5%).

There is general agreement between businesses in Hong Kong and Asia, that any growth will be mainly due to a domestic economic rebound (42% of respondents in Hong Kong compared to 48% in Asia) and to a combination of both healthier export flows and domestic economic rebound (33% of respondents in Hong Kong compared to 36% in Asia). Where opinion across the region differs is when looking exclusively at exports. There is greater optimism amongst Hong Kong businesses (25%) than their peers in Asia (15%) about improvement in business performance stemming only from exports.



## Hong Kong: 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

Hong Kong businesses intend to continue offering trade credit to customers, with 42% planning to do so to allow their customers more time to pay invoices (regional average: 36%). Of course, in light of this, strong credit management is paramount.

To mitigate the impact of credit risk, more businesses in Hong Kong (47%) than in Asia (40%) said they plan to avoid concentrations of risk. 40% anticipates using letters of credit more frequently over the coming months (regional average: 37%). 36% anticipates outsourcing trade debt collection to specialists (regional average: 32%) and the same percentage anticipates wider usage of trade credit insurance (on par with the average for the region). 59% told us they believe this will help keep DSO levels stable (regional average: 48%).

However, businesses polled in Hong Kong are less optimistic about the outlook for DSO over the coming months than their peers in Asia. 32% of businesses in Hong Kong do not anticipate any improvement in DSO over the coming months, compared to 38% in Asia. 26% of businesses in both Hong Kong and Asia alike plan to focus on effective cash flow management and the containment of credit management costs to ensure adequate liquidity levels.

# 64 days

is the average time it takes suppliers in Hong Kong to collect overdue B2B invoices.



# Overview of payment practices in Hong Kong By industry



## CONSUMER DURABLES



### Overview

Weak household consumption is making economic recovery uneven and, mainly driven by export growth, the use of trade credit in B2B trade relationships is expected to increase. Cash flow issues and loss of revenue stemming from the pandemic downturn, has caused concern over the protection of financial flexibility and has led to greater outsourcing of credit risk management than is seen on average in Asia.

Against this backdrop, businesses in the industry tell us they plan to focus on customer credit risk management over the coming months and anticipate improvement in their business performance.

### More than half of all consumer durables credit sales are overdue

55% of the total value the industry's credit sales is overdue. This is significantly higher than the 43% average in Asia. Therefore, it may be not come as a surprise that businesses in the Hong Kong consumer durables industry spent more time, costs and resources than their peers in Asia to chase overdue invoices over the past year (reported by 61% of businesses in Hong Kong compared to 50% in Asia).

However, a comparison between credit management approaches, shows that Hong Kong focuses more on reducing credit risk concentrations (cited by 68% of respondents in Hong Kong compared to 59% in Asia) and by adjusting payment terms according to credit risk profiles (69% in Hong Kong compared to 60% in Asia).

In addition, their industry peers in Asia appear to favour tools aimed at accelerating cash inflows to avoid liquidity shortages, such as trade debt securitisation (50% of businesses in Hong Kong compared to 63% in Asia).

This different approach to credit management is also reflected in the lower percentage of write-offs reported by the industry in Hong Kong (just 1% of the total value of receivables compared to the 4% average in Asia). This wide difference may reflect the fact that more businesses in Hong Kong (60%) than in Asia (55%) outsourced the collection of longer-term outstanding invoices (more than 90 days overdue).

This may also explain why DSO in the consumer durables industry in Hong Kong averages 81 days, which is far shorter than the average 110 days for the same industry in Asia.

### Confidence is low among Hong Kong's consumer durables businesses

Amid concerns over weak household consumption, 27% of businesses in the industry are pessimistic about an improvement in business performance. This is much higher than their industry peers in Asia (16%). In the instances where businesses did predict improvement, 67% told us they believed this would come from a rebound of the domestic economy. Most respondents in Hong Kong (37%, far higher than the 24% average for the industry in Asia) do not expect to see changes in their business performance over the coming months.

20% of the industry is concerned about maintaining adequate cash flow levels over the coming months (equal to peers in Asia). However, Hong Kong businesses are more worried than the Asian average about potential bank lending restrictions that could hamper their ability to access cash to weather market fluctuations and contain credit management costs in the coming months.

When it comes to the outlook for the use of trade credit over the coming months, 30% of the industry in the Hong Kong believes that it will become more widespread over the coming months (regional average: 20%). In addition, the majority (47%) report this will primarily be aimed at supporting customers by allowing them more time to pay (regional average: 27%).



## TEXTILES/CLOTHING



### Overview

Business performance and customer credit risk in the Hong Kong textiles/clothing industry remain poor. Hong Kong serves as a middleman between mainland China factories and overseas end-buyers. In the domestic market, wholesalers and retailers are facing lower demand due to social distancing measures and decreased footfall, although online sales have increased. However, even though the industry experienced a harder impact than peers in Asia, it did well in managing write-offs and DSO fluctuations.

Concern over liquidity levels and containment of credit management costs do remain, but business confidence seems to be positive, particularly in anticipating an improvement in sales and profits stemming chiefly from healthier export flows over the coming months.

### Late payments hit Hong Kong harder than peers in Asia

Businesses in Hong Kong's textiles/clothing industry appear to be the most negatively impacted by late payments of all of the industries we surveyed in the territory over the past 12 months. Apart from write-offs, which they were relatively good at containing, local businesses also appear to have fared worse than the industry in Asia. 61% of the total value of all B2B sales on credit was reported overdue. This is higher than the 50% average for the industry in Asia and despite that fact that Hong Kong businesses reported requesting payment in cash more often than their peers in the same industry in Asia (56% in Hong Kong, 49% in Asia). This can largely be explained by different approaches to credit management. The exception is the use of letters of credit, which was reported by a similar percentage in both geographies (64% in Hong Kong and 63% in Asia). 62% of clothing/textiles business in Hong Kong reported resorting to self-insurance, fewer than the regional average of 78%. However, within the self-insurance frame, 56% of businesses polled in Hong Kong reported offering discounts for early payment of invoices over the past 12 months (fewer than the regional average of 66%).

Moreover, significantly fewer businesses polled in textiles/clothing in Hong Kong (49%) than in Asia (63%) reported they adjusted payment terms to reflect the credit risk profile of their customers, choosing most often set payment terms in accordance with their company standards. Given the above scenario, it may not come as a surprise to find that the Hong Kong textiles/clothing industry has to work harder than their peers in Asia to chase overdue invoices. Indeed, more businesses polled in Hong Kong (40%) than in Asia (36%) reported spending more time, money and resources on resolving unpaid invoices over the past 12 months. This led to positive results in terms of minimising the impact of customer credit risk



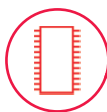
on the business. For example Hong Kong's textiles/clothing industry wrote off 4% of the total value of B2B receivables. This is much lower than the 7% average for the same industry at regional level.

DSO in Hong Kong is far shorter than the industry average for Asia, averaging 49 days, compared to 81 days for the region. This pattern was also evident in the percentages of businesses reporting average DSO in the 60-90 day and more bracket (44% in Asia compared to just 11% in Hong Kong). 59% of the industry in Hong Kong reported no change in DSO over the past 12 months (regional average: 42%). Correspondingly, far fewer businesses in Hong Kong (26%) than in Asia (48%) reported increased DSO over the past 12 months; and 5% in Hong Kong (3% Asia) reported shorter DSO than one year ago.

### Cash flow worries more businesses in Hong Kong than in Asia

Far more industry respondents in Hong Kong (31%) than in Asia (18%) told us they are concerned about maintaining adequate cash flow over the coming months. 21% (higher than 16% in Asia) are concerned about containing credit management costs over the same time frame. Amid concerns over the potential continuation of disruptions to global supply chains, rising pandemic risk due to an unexpected resurgence of cases, and a potential ramping up of geopolitical tensions over the coming months, far more industry respondents in Hong Kong (62%) than in Asia (36%) anticipate no change in their business performance over the coming months. For those local businesses anticipating improvement, the majority (62%, compared to 21% in Asia) believes that this will chiefly stem from improved export flows. 22% anticipate improvement will come from a combination of a rebound of the domestic economy and increased export trade flows (regional average: 32%), while just 11% in Hong Kong compared to 47% in Asia expect improved business performance to come from improved conditions of the domestic economy. 15% of industry respondents believe trade credit will be used as a sales tool more often over the coming months, significantly fewer than the industry average of 44%.





## ICT/ELECTRONICS



### Overview

The Hong Kong ICT/electronics industry plays a major role in this well-connected and open economy, acting both as a key ICT services provider as well as a re-export hub for electronic components sold to/by Chinese factories. After disruptions in H1 of 2020, the industry supply chains resumed normal practice in the second half of last year. However, the industry has endured many challenges over the past two years, due in particular to the fallout of the ongoing US-China trade war and the pandemic.

This may explain why the industry has favoured a strategic approach to credit management, more frequently favouring outsourcing over in-house retention and management. Looking ahead, Hong Kong ICT/electronics businesses appear more confident than their Asian peers about anticipating improvement in business performance and largely predict this will come from a combination of increased exports and improved conditions of their domestic economy. However, they agree with their peers in Asia that B2B credit trade will increase over the coming months, in particular as a short-term financing tool for customers.

### Half of Hong Kong's ICT/electronics invoices are overdue

An average of 50% of the total value of Hong Kong's B2B ICT/electronics credit sales are overdue. This compares to a 47% average for the same industry in Asia. Write-offs in both Hong Kong and Asia amount to an average of 4% of the total value of B2B receivables.

When it comes to managing customer credit risk, 40% of respondents in both Hong Kong and Asia alike told us they had strengthened their credit management processes over the past year, spending more time, costs and resources on resolving overdue invoices. A strong focus was applied to avoiding customer credit risk concentrations.

This was seen more often among businesses in Hong Kong (68%) than in Asia (59%), where industry consolidation has increased strongly over the past few years often resulting in a single customer representing a high proportion of the credit sales. So businesses that are able to set sufficient bad-debt reserves to cover a payment default told us that they do so within the frame of self-insurance (reported by 66% in the Hong Kong industry, compared to 69% in Asia). A significant percentage of respondents employ trade credit insurance, helping to reduce the risk of trade debt concentration (63% of respondents in both Hong Kong and Asia).

In addition, the survey respondents reported a fairly widespread use of factoring (53% in Hong Kong, 61% in Asia) and trade debt securitisation (50% in Hong Kong, 58% in Asia).

When it comes to the collection of long-term overdue invoices (more than 90 days overdue), more industry respondents in Hong Kong (60%) than in Asia (54%) told us that they outsourced debt collection to external agencies as a complement to their own internal trade debt collection processes. This helped many to reduce DSO, resulting in a 90-day average for Hong Kong, which is shorter than the 110-day for the same industry in Asia.

### Business confidence weak in face of uneven rebound of domestic economy

Hong Kong's ICT/electronics industry told us that when looking ahead its primary concerns are protecting liquidity levels and the likely introduction of restrictions to bank lending. Although local demand for electronic products has increased largely due to increased remote working, business confidence in the industry appears to be dented by an ongoing weakness of private consumption on the domestic market which appear to be a holding-back factor for economic growth. This may explain why far more businesses in Hong Kong (62%) than in the industry in Asia (53%) express pessimism about improvement in business performance over the coming months.

Businesses that appear to be more confident about the future expect business growth to come from a combination of increased exports and improved conditions of their domestic economy. There are fewer survey respondents citing a rebound in the domestic economy as the sole driver of business improvement than on average in Asia. Conversely, there is agreement between the industry in Hong Kong and Asia (with an average of 43% of respondents) that trading on credit will be increasingly used as a short-term financing tool for customers.



# 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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For more insights into the B2B receivables collection practices in Hong Kong and worldwide, please go to

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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](http://www.atradius.com/publications)  
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