

Euler Hermes: 60% of Chinese companies reduced their payment terms

HONG KONG / SINGAPORE – 17 FEBRUARY 2014 – More than two-thirds of firms in China saw turnover increase in 2013 and six out of 10 managed to reduce their payment terms, according to the [Euler Hermes Payment Behaviour Survey](#) conducted in China by the world's leading provider of [trade credit insurance](#).

To learn more, view the full report, "[Economic Insight – China: 6 firms out of 10 managed to reduce their payment terms in 2013](#)".

Compared to 2012, almost seven out of 10 Chinese companies saw their turnover increase in 2013, while real GDP grew at a stable pace. This trend was particularly noticeable for companies in the agricultural and construction sectors, which benefited from robust domestic demand - up 8% in 2013 compared to the previous year.

Firms in the energy and retail/trade sectors faced more difficulties, however, with only a third seeing sales increase. Weak foreign demand, deceleration in private investment and tighter credit controls by the government underpinned these results.

Chinese firms pay quickly by international standards; give longer credit to foreign customers than domestic buyers

Compared to international standards, Chinese companies pay relatively quickly, the survey found. Average days sales outstanding (DSO) did not exceed two months in most sectors, and six out of 10 firms managed to reduce their DSO in 2013. However, firms in the energy and construction sectors stand out as having longer payment delays, with more than half the companies in these sectors having a DSO exceeding two months.

The survey also found that, even though domestic trade payment terms are generally relatively restrictive, Chinese corporates are more flexible when extending credit to overseas customers: while 75% of firms offered credit of less than two months to domestic customers in 2013, a much lower level (62%) did so for foreign customers.

Financial difficulties the overwhelming cause of delayed payments

For 90% of firms surveyed, the main cause of overdue payments was their customers' financial difficulties. These likely stemmed from the credit growth slowdown observed since the fourth quarter of 2012, caused by:

- weakened markets
- more measured lending resulting from the transformation of China's economic model, and
- tougher action by the government to rein in growing non-standard lending (*shadow banking*).

These factors made financing more difficult for many Chinese companies, especially in sectors that benefited greatly from the skyrocketing credit expansion phase in 2009. The most vulnerable companies were small-medium enterprises (SMEs), those in state-owned sectors, or sectors with overcapacity - notably real estate, solar energy and steel.

Chinese companies increasingly turn to credit insurance to protect against payment delay and default, but most companies still choose to self-insure

The survey found that the use of credit insurance as a tool to mitigate non-payment and default risk in the Chinese domestic arena remains low compared to the export trade. While an increasing number of Chinese companies employ credit insurance to protect their businesses, the majority still choose to self-insure for domestic trade. The most popular means of protection (70% of companies surveyed) relied



on checking and monitoring customer creditworthiness, followed by requesting secure terms of payment (60%).

“Historically, Chinese businesses tended to rely on secure payment terms,” said Xi Zhen Wang, head of Euler Hermes in China. “But as competition for profitable growth opportunities intensifies, they are under increasing pressure to offer open credit, even when they may not be fully comfortable doing so. As awareness and recognition of the risks across a number of sectors has risen, a growing number of Chinese companies are turning to credit insurance to secure safe and sustainable business growth.”

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Euler Hermes Asia Pacific

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In September 2013 Euler Hermes was named best credit service provider in China at the 10th *China International Credit and Risk Management Conference* in Beijing.

For more information visit www.cn.eulerhermes.com.

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