

Euler Hermes: China insolvencies to increase in 2015

Hong Kong and Taiwan companies will need more due diligence into business partners

HONG KONG – 26 JANUARY 2015 – Amid the high profile interest payment default by a property developer, global trade credit insurer Euler Hermes warns of heightened insolvency risk and deteriorating payment terms in China. In 2015, Euler Hermes Economic Research expects the number of Chinese companies filing for bankruptcy to grow +5% (representing an estimate total of 2,760 cases) as liquidity tightens due to the crackdown on shadow banking, overcapacity in the real estate sector and greater fiscal discipline by local governments.

However, because of the complex and costly procedures involved, insolvency cases in Chinese courts are still relatively rare in absolute terms. Euler Hermes notes that an increasing number of Chinese companies lacking access to bank financing must look for alternatives, with a growing number choosing to delay payments to suppliers or asking for extended credit terms to their business partners.

“Essentially, Chinese buyers are increasingly turning to local exporters for more credit,” explains Anil Berry, Asia Pacific commercial director at Euler Hermes. “They are also insisting on open account terms whereas traditionally they were happy to pay on letters of credit or even on advance payment terms.”

A crucial component of healthy cash-flows for any business is the speed with which buyers pay for goods and services received on credit terms. In China, this indicator has deteriorated significantly over the past three years, according to research by Euler Hermes. As measured by days sales outstanding (DSO), Chinese buyers on average take 90 days to settle invoices, much longer than the global average of 73 days.

In addition to these stretched credit terms, Euler Hermes notes that 25% of payments from Chinese companies are overdue while the rate of non-payment has increased +104% in 2014. Food (+450%), chemicals (+206%), commodities (+150%) and computer & telecom (+129%) are the sectors most severely affected. This creates a dilemma for many Hong Kong and Taiwanese businesses as China remains a key growth market for many exporters. Euler Hermes recent market survey of 100 Hong Kong exporters reveals that many plan to trade more with markets where they gauge payment default risk to be low – with one notable exception. Nearly 80% of Hong Kong exporters already or plan to supply products to China, yet 69% are concerned about payment risk there.

“For exporters, distinguishing true signals from noise has become an increasingly vital mandate,” says Edmond Lee, general manager of Euler Hermes Hong Kong. Euler Hermes Economic Research expects the Chinese economy to expand by +7.3% in 2015, which suggests that opportunities to participate in China’s growth story are still plentiful. “The key is to identify the real opportunities and select the right partners, which can be a challenge when potential customers do not always provide adequate levels of transparency on their state of their finances.”

Lee advises local companies to refrain from making business decisions based on news headlines. “There are always good risks even in tough times. Before trading with a potential new buyer in China, companies need to invest more time and effort into the due diligence process to gauge counterparty risk. This includes expert advice to see which clients warrant more credit lines and which to stay away from. Trade credit insurance offers practical solutions for exporters by protecting against non-payment, monitoring of buyers’ financial health and assistance in chasing overdue payments enabling companies to concentrate on their core business.”

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Attachment:

Euler Hermes China Insolvency Report

You can also download the full worldwide business insolvency analysis [Economic Outlook: A rotten apple can spoil the barrel](#) and our latest [China Economic Insights](#).

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Euler Hermes is also the market leader in Asia Pacific and Hong Kong. It is present in Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan and Thailand. In 2013 and again in 2014 Euler Hermes was named best trade credit insurer in Asia Pacific in the *GTR Asia Leaders in Trade* awards by GTR (Global Trade Review) magazine and in 2013 as best credit service provider in China at the 10th *China International Credit and Risk Management Conference* in Beijing. Further information: www.eulerhermes.hk

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