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Marked improvement in the way Australian companies are managing credit and payment terms: Coface research

- **However, Coface warns Australian companies to avoid overextending themselves in a bid to win business in Asia**
- **In China, companies payment experiences are deteriorating**
- **As a result, more Chinese businesses seeking improved protection and better risk management of customers' non-payment of invoices – a strong signal for Australian companies wishing to export to do the same**

While there has been an overall deterioration in the payment experience of corporations in the Asia Pacific region, Australian companies have been adopting a more prudent and disciplined approach in the credit and payment terms they are offering their customers according to the latest Survey of Corporate Payment Trends in Asia Pacific conducted by Coface, one of the world's leading international credit insurance.

The report, which surveyed 2,695 companies in eight Asia Pacific countries, states two years ago 92.9% of Australian companies offered credit terms to their customers. Interestingly, this figure has now fallen to 81.9%. In addition, there has been 12.6% percentage drop in the number of companies experiencing overdue payments from their customers to 74% of those surveyed.

Of those Australian companies that provided credit terms to their customers, 82.6% of them offered average credit terms of 30 days and 16.4% offer between 60 and 90 days. No company offered average credit terms of 120 day and just 1.03% offered average credit terms of more than 120 days.

Mr Chris Little, Coface Commercial Director in Australia, said the trend of Australian companies taking tighter control of their credit management was encouraging.

"Coface's latest research indicates that the number of Australian companies experiencing ultra-long overdue payments of more than 120 days that account for more than 2% of turnover – the point as which this would hurt a company's liquidity – has fallen from 23% in the previous year to 17%," he said.

In China things have moved in the opposite direction. Two years ago 86.4% of Chinese companies offered credit to customers. This has now risen to 89.6%. Only 30.1% of the Chinese businesses surveyed offer 30-day average credit terms with the majority (58.3%) offering between 60- and 90-day average credit terms. More than 7.5% of Chinese companies surveyed provided average credit terms of 120 or more days.

Also, 79.8% of China-based companies surveyed said they were dealing with overdues compared with 77.1% two years earlier. What is more, 56.4% of Chinese companies confirmed the US dollar value of overdues had increased this compares with 23.4% of Australian companies experiencing higher US dollar values of overdues. What is most concerning, however, for Chinese businesses is that 30% of those that offer credit terms said they were experiencing ultra-long overdue payments of more than 120 days that account for more than 2% of turnover, which is unsustainable.

The main reasons cited by China-based businesses for overdue payments was customers' financial difficulties and management problems (76.2%), and fraud or lack of morality in customers trying to delay payments (12.2%) as well as commercial disputes (1.7%). In Australia, 68.5% of respondents said overdues were a result of customers' financial difficulties and management problems while just 4.0% said overdues were due to customer fraud or lack of morality, however 10.3% claimed it was due to commercial disputes.

Mr Little said, "In speaking with Coface clients in Australia that have traditionally focused on conducting business just in the Australian market, I'd say 70% of those looking to expand into offshore exporting are now looking to Asia. As tempting as may seem to pursue business in the considerably larger Asian markets, it's important Australian businesses do not relax their credit management controls with extended payment terms in an attempt to be seen as competitive to win new orders as it could actually weaken their business and stunt future growth," he said

Coface research indicates the payment experience in China is getting worse, with a rising ratio of non-performing loans, which are up 97% since 2011, and a corporate sector overleveraged by high-cost debt. As a result, earlier this month, Coface issued a downgraded on China, placing an A4 rating which deems the risk of businesses defaulting as "acceptable". Other countries in the region with similar ratings include India, Indonesia and Thailand.

Coface's rating for Australia is A2, which rates the risk of businesses defaulting as "low". Other countries in the region with this rating include Singapore, Malaysia, New Zealand and South Korea. Countries with an A1 "very low" risk ratings are Japan, Hong Kong and Taiwan.

Mr Little added, “Australian businesses wishing to expand overseas need to do more to protect their businesses from the non-payment of debts. The need to take more credit protection measures is something Australian companies should all take note of if they are going to conduct or extend their businesses in China,” he said.

The Coface survey shows 31.5% do not use any form of credit management tool. This is up from 23.6% from the year before. In China, the figure for the non-use of credit management tools is similar at just below 30%. However, with extended credit terms and escalating overdue levels, the figure for the non-use of credit management tools is down from 36.5% the year before and 41.7% in 2012.

From a geographic standpoint, Australia is ideally place to export goods and services to its regional neighbours. In addition, with the lower Australian dollar, free trade agreements signed late last year with China, Japan and South Korea and technological improvements made in e-tailing, as well as the rising number of middle class citizens in China, these companies want to seize the opportunity to grow.

Coface’s top 10 tips for companies wishing to expand into China and other Asian countries includes:

- Clearly identify the entity you are dealing with but this can be challenging as there is no requirement in China for companies to lodge their financials with a regulatory authority
- Do not rely, as many companies do, on three trade references conducted over the phone or via email
- Instead use a credit reference agency to gain deeper insight on the trade history of a potential customer
- Take out credit risk insurance to protect you against payment arrears or non-payment of invoices
- As part of this, use an experienced risk underwriter to advise on setting of credit amounts for customers in different countries and stick to them
- Use an on-the ground agent to manage the relationship with partners as they will have a clear view of the local market and can pinpoint any existing or potential issues
- If a long-term client is suddenly delaying payment this could signal a cashflow problem in their business; it’s important to be in regular communications to ensure payment is not further delayed
- Instil discipline with credit terms (30 or 90 days) and the level of credit you are prepared to offer and do not be tempted to overtrade or offer extended credit terms
- By having a Trade Credit Risk insurance policy, companies can avoid letters of credit as they impact their cashflow
- Operate within your means.

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About the survey:

The survey was conducted in 4Q2014 across eight economies – Hong Kong, Australia, India, Japan, Thailand, Singapore, Taiwan and China – among 2.695 companies. Around 33% of the companies were located in China, 19% were in Hong Kong, 11% from India and 9% from Australia. They represented half the sample size, while Thailand, Japan and Singapore accounted for the remaining survey respondents.

The survey respondents represented a wide-range of company sizes. Among the respondents, 34% had estimated sales revenues of lower than €5m in 2014, while 23% expected sales revenues to be between €5m to €10m. 27% of companies had revenues between €10m and €100m, while 16% had annual revenues of over €100m.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2014, the Group, supported by its 4,406 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 99 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French State.

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