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ATRADIUS WARNS INSOLVENCIES AHEAD AMID ASIA PAYMENT DELAYS



Trade in Asia underwent a positive growth stage, nevertheless, such growth goes hand in hand with an increasing risk of insolvency, as late payments and the withdrawal of government support packages have had a negative impact on the ability of companies in the region to maintain adequate cash flow.

Half of all B2B invoice payments in Asia are overdue, as shown by the latest edition of the Atradius Payment Practices Barometer for Asia, which polled 1,200 businesses across China, Hong Kong, Indonesia, Singapore, Taiwan and the United Arab Emirates during Q2 this year.

While this is a slight improvement from the 52% figure in last year's report, which was based on polls carried out at the peak of the Covid-19 pandemic in March, it proves that, although the post-pandemic recovery is underway, many businesses in Asia are still facing financial issues.

Andreas Tesch, chief market officer at Atradius, states that "Fiscal packages and insolvency law amendments, introduced by many countries as an aid to foster domestic economies during the pandemic, helped prevent the flood of insolvencies that were reasonably expected during the rapid and intense global recession did not materialise in 2020". He then continues "However, many governments are now withdrawing such temporary measures, and the second half of 2021 is expected to show an uptick in insolvencies."

Recent UN Conference on Trade and Development (UNCTAD) data shows that global trade bounced back to pre-pandemic levels in the first quarter of this year, led by a standout performance from economies in Asia.

However, Asian businesses polled by Atradius say they are experiencing "serious setbacks" to growth, and the figures confirm such statement. Two-fifths of respondents said that their customers' payment practices deteriorated over the past year, while only 10% said they had seen an improvement.

Late payments can lead to operational difficulties for businesses as, with a reduction in cash flow, it can be difficult to pay creditors and invest in the materials or services needed to complete new orders.

Almost half (48%) of respondents have had to take corrective actions to limit the impact of payment defaults on their business, with the top measure being delaying payments to their own suppliers – essentially pushing the problem further down the supply chain, potentially to more vulnerable firms. Meanwhile, a third of companies polled also said they had had to resort to additional external financing to pay their own creditors. As a result, a quarter of businesses polled in Asia expressed concern about maintaining enough working capital over the coming months.

The report shows that “The next months present a critical time for many across all major economies and regions worldwide. Against this backdrop, it is essential for businesses to adopt a strategic approach to customer credit risk management, take all necessary steps to protect their business from the negative impact of late payments and bad debts in these challenging times.”

These steps include diversification, with 40% of businesses saying they would seek to lower their commercial vulnerability by reducing their credit exposure on just one or a small number of customers.

A greater use of finance and insurance tools is also expected, with 36% of respondents across the region saying that they planned to extend trade credit to allow their customers more time to pay invoices. This is particularly acute in China, where, compared to other countries in Asia, more businesses anticipate using trade credit insurance over the coming months. This is likely to be a reflection of a grown appetite for trading on credit with B2B customers over the coming months, the report says, and for enhanced credit management practices seeking to minimise trade credit risk, protect cash flow and profit, as well as create potential for business growth.

“Businesses should take measures to protect their accounts receivable from the impact of late payments and bad debts,” says Tesch, adding that the health of supply chains should be monitored thoughtfully, with particular attention to signs of an insolvency that could lead to a domino effect of other bankruptcies.

Although challenges lie ahead, there are some signs that indicate that the coming months may be brighter. More than half (52%) of the respondents surveyed in Asia are confident their business will grow next year, with the majority saying that they expect improvements in profitability to come from a rebound in their domestic economies. However, with the recent resurgence of Covid cases in Southeast Asia and Taiwan, alongside the steep increase in cases in India, the pace of the short-term economic recovery of the region is still extremely unsure.

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