June 2020

Singapore: companies face worsening B2B payment behavior

Atradius Payment Practices Barometer

The Payment Practices Barometer survey was completed by Singapore businesses during March 2020. The city-state was one of the earliest countries in Asia to report cases of the coronavirus COVID-19, and quickly put measures in place to contain the outbreak long before the World Health Organisation (WHO) characterised the disease as a pandemic on March 11th.

Maria Sandhu,
Country Manager for Singapore
commented on the report:

“Economic activity in Singapore contracted severely since the outbreak of the coronavirus pandemic, at the beginning of 2020. This affected exports, due to global supply chain disruptions and deteriorating external demand, and hit domestic demand, chiefly because of the standstill of tourism.

Now that Singapore is taking the first steps to reopen the economy, an assessment over the depth of the contraction will mainly depend on how long and how deep the domestic economy of Singapore, and the economies of its major trading partners, will be affected before a rebound starts.

As a small city-state, which is the main transport and financial service hub for Southeast Asia, Singapore’s economy is strongly dependent on international trade and highly integrated in the Asian supply chain. This makes it highly vulnerable to changes in the global trading environment.”

Key takeaways from the report

Although many more respondents to the Payment Practices Barometer survey in Singapore reported late payments than last year, and a significant percentage of these were long overdue, both performance indicators are better than the regional average. That said, Singapore businesses report a heightened perception of credit risk and almost all of the businesses surveyed are taking steps to minimise these.

Credit risk reduction techniques favoured by respondents to the Singapore survey include reducing single-buyer concentrations, letters of credit, payment guarantees, self-insurance and trade credit insurance. There was an increased preference for cash sales over trade credit, but the fact that as much as two thirds of the sales to B2B customers were made on credit, including within the domestic market, may suggest B2B buy-ers need suppliers’ help to provide short-term trade financing. Against this virus-tinged backdrop of reduced business confidence is the widely expressed opinion that the government stimulus packages will help support the economy and business liquidity.

Survey findings for Sigapore

Heightened perception of B2B trade credit risk, particularly in the domestic market

Singapore is highly dependent on international trade and fully integrated into the Asian supply chain. Last year its export-driven economy was impacted by lower global trade flows, ongoing trade policy uncertainty, a decrease in demand from China, and the global ICT down cycle. Economic growth slipped to 0.7%, causing a deterioration of the domestic insolvency environment. The global coronavirus pandemic added to this, leading to a severe contraction in economic activity since the beginning of this year.

Against this background, survey responses to the Atradius Payment Practices Barometer in Singapore point to an increase in respondents' B2B sales on a cash basis (at 39% of the total value of their B2B sales, up from 34% last year). Interestingly, this increase corresponds exactly with the decrease in sales transacted on credit (now at 61%, down from 66% last year), suggesting that many of last year's credit sales transacted have moved to transactions on a cash basis this year. This points to a heightened perception of customer credit risk in B2B trade in the current unfavourable business environment.

However, the fact that as much as two thirds of the sales to B2B customers were made on credit, including within the domestic market, may suggest B2B buyers need suppliers to help with filling a gap in their short-term trade financing.

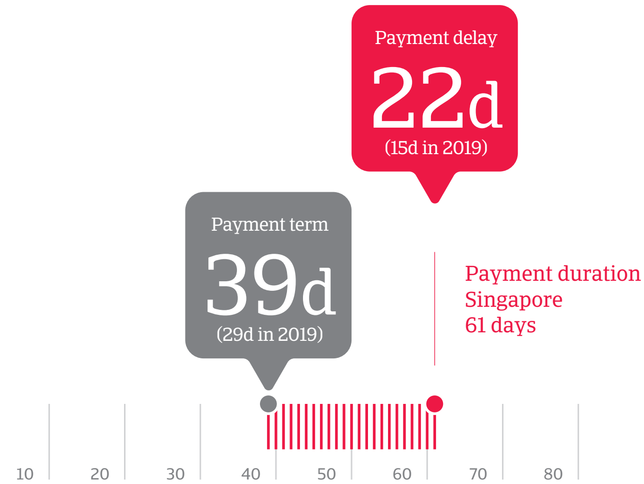
Longer payment terms reflect importance of trade credit as source of short-term finance

The survey findings highlight that B2B customers enjoy significantly longer payment terms than last year. These average 39 days from the invoice date, up from a 29-day average last year. This significant lengthening of payment terms corroborates the assumption that B2B buyers need suppliers to fill a gap in short-term trade financing in times of strained cash flow. When asked about the underlying criteria for setting payment terms in B2B trade, 59% of Singapore respondents reported that they set payment terms in accordance with their company standards and internal business practices. This was most often reported from respondents in large enterprises and from the services sector. For 31% of respondents, chiefly mid-sized businesses and from the wholesale trade sector, payment terms for B2B customers are established in accordance with industry standards, reflecting the competitive environment they trade in.

Significant focus on strengthening B2B credit risk management processes

95% of survey respondents in Singapore reported that they strengthened their customer credit risk management processes to minimise the risk of liquidity shortages caused by payment default from their B2B customers. The tools most frequently used by respondents include letters of credit (68%) and guarantees of payment (65%). 60% reported they managed customer credit risk internally (self-insurance) and almost the same percentage of respondents said they have insured their receivables with a credit insurer. This is particularly the case for respondents from large enterprises and in the wholesale trade sector. Additional credit risk management techniques cited by Singapore respondents include reducing reliance on a single buyer to avoid concentrating credit risk.

Payment duration in Singapore



d = average days
Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

Sharp increase in business insolvencies expected this year

According to survey findings, respondents in Singapore experienced a significant increase in late payments from B2B customers. An average of 40% of the total value of B2B invoices were overdue (far above the 31% recorded last year). However, this is notably below the 52% average for the region. Long-term overdue invoices (still outstanding after 90 days past due, with a high likelihood of turning into bad debts) amount to 11% of the total value of B2B invoices issued by respondents (over three times higher than the 3% average of last year). However, this is below the 15% average for the region.

Overdue invoices are turned into cash within 22 days of the invoice due date, significantly longer than the 15-day average of one year ago (regional average: 27 days). Singapore respondents reported having written off 5% of overdue receivables as uncollectable (over twice as much as the 2% average of last year, and above the 3% current average for the region). This indicates lower success in debt collection than last year. Survey responses reported that collecting outstanding debts was most difficult for the ICT industry.

When asked about the reasons for payment delays from their B2B customers, 44% of Singapore respondents stated that B2B customers delay payments mainly as they use outstanding invoices as a form of financing (regional average: 49%). For 42%

> “*To manage customer credit risk in these challenging times, it is essential that companies have a strategic approach to credit management. Protecting the business against payment defaults from B2B customers helps avoid liquidity shortfalls and ensures financial soundness, particularly when economic headwinds are strong and unpredictable.*”
>
> **Maria Sandhu, Country Manager for Singapore**

of respondents, late payments from B2B customers are attributable to inefficiencies of their internal payment process (42%, below the 50% regional average), while 40% said that customers pay invoices late due to disputes over the quality of goods or services provided. In order to manage the risk of liquidity constraints caused by delayed B2B payments, 38% of the respondents said they needed to increase time, resources and costs to chase overdue invoices, and 37% postponed payment of invoices to their own suppliers.

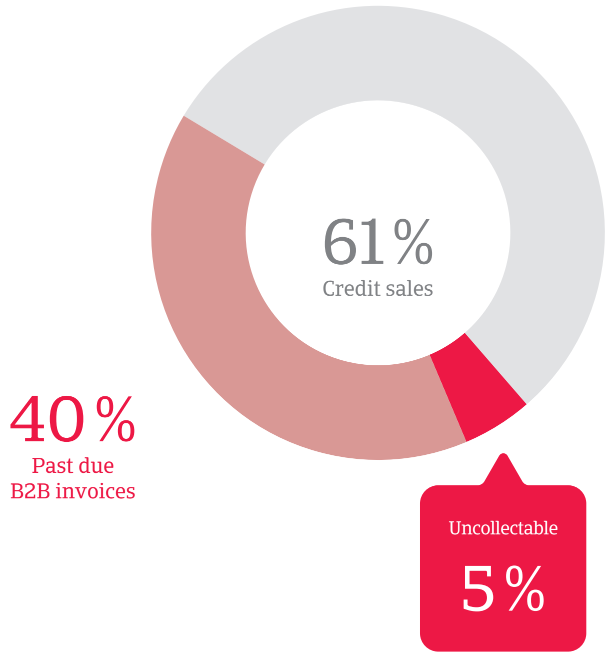
Half of Singapore businesses anticipate dependence on bank finance in coming month

Pointing to current economic challenges, including the uncertainties stemming from the impact of the coronavirus pandemic on Singapore's domestic economy, survey respondents (particularly from mid-sized and in the wholesale trade sector), expressed concern over their liquidity levels. For 49% of respondents, this will increase business dependence on bank finance.

However, most of the respondents in Singapore expressed a positive opinion that the several massive stimulus packages introduced by the government will help sustain the economy and support businesses with cash flow problems. Moreover, 7 in 10 respondents believe that their business will benefit from the impact of the fiscal stimulus this year. On a positive note, more respondents (52%) anticipate an improvement in the business performance of their industry over the next 12 months than those expecting a decline in performance (26%).

Uncollectable B2B receivables in Singapore

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

43% of respondents in Singapore anticipate no significant change in the payment practices of their B2B customers over the next 12 months, 22% anticipate improvement, while 37% believe payment practices will deteriorate, severely affecting their DSO.

However, to further strengthen their credit management going forward, 27% of survey respondents said their will either increase measures aimed at reducing reliance on a single buyer, or ask for guarantees of payment more often. Nearly one quarter of respondents said that they offer discounts for early settlement of invoices, or increase their dunning activities (sending of outstanding invoice reminders).

Overview of payment practices in Singapore

By industry

Chemicals

DSO far worse than the country average

Days Sales Outstanding (DSO) in the Singapore chemicals industry averages 89 days (country average: 57 days). Not only does this finding suggest that quite a few of the respondents' B2B customers paid invoices very late, but it also points to a relatively poor success rate in collecting long-term outstanding receivables, particularly invoices of high value.

Late payments in the Singapore chemicals industry affect an average of 42% of the total value of invoices issued to B2B customers. This is slightly above the country average (40%). 8% of the value of invoices remains unpaid 90 days past the due date (country average: 11%). 3% of the total value of B2B invoices is written off as uncollectable (country average: 5%). For nearly half of the respondents in the Singapore chemicals industry, B2B customers delay payments due to inefficiencies of their internal payment process. Invoices are paid late most often due to liquidity constraints or as outstanding invoices are used as a form of financing (as reported by 46% of respondents in each case).

Nearly 4 in 5 survey respondents ask B2B customers for guarantees of payment before selling on credit

Most Singapore respondents in the chemicals industry (78%, compared to a 65% average for the country) reported they ask for guarantees of payment from their B2B customers, while 75% request a letter of credit (country average: 68%). Credit insurance is used by 74% of respondents (country average: 59%).

In order to avoid liquidity constraints caused by customer payment defaults and remain financially sound, many respondents from the industry (40%) said they needed to increase resources, time and costs to chase overdue invoices, while 37% reported they delayed payment of invoices to their own suppliers.

Customer credit risk in B2B trade expected to deteriorate over the coming months

Far fewer respondents from the Singapore chemicals industry (13%) expect customer credit risk to improve than to worsen (37%) over the coming 12 months. This deterioration is expect-ed to cause an upswing in outstanding receivables written off as uncollectable, negatively impacting cash flow.

To mitigate the risk of incurring liquidity constraints caused by payment default, respondents plan to ask for payment guarantees or to letters of credit, substantially more often. Over one quarter of the respondents (27%) plan to use trade debts securitisation, or to sell more often on a cash basis over the coming months.

For nearly half of the Singapore respondents from the chemi-cals industry, dependence on bank finance will increase over the coming months due to the increased indebtedness of the industry. When asked their opinion on the outlook for the chemicals industry in Singapore, 52% of respondents said it will improve, while 26% anticipate a deterioration.

Agri-food

DSO in the industry is significantly below the country average

75% of respondents in the industry reported Days Sales Outstanding (DSO) up to 30 days, resulting in a 28-day average (country average: 57 days). This is in line with the industry's average payment terms evidenced in our survey. This points to a relatively high success rate in collecting long-term outstanding receivables, particularly invoices of high value. As the survey findings highlight, an average of 34% of the to-tal value of the invoices issued by respondents to their B2B customers is overdue (country average: 40%). Long overdue receivables (more than 90 days overdue) average 8% of the total value of overdue payments (country average: 11%). The proportion of receivables written off as uncollectable averages 5% (consistent with the country average). B2B customers of Singapore respondents in the agri-food industry delay pay-ment of invoices most often due to disputes over the quality of goods and services provided, or because of inefficiencies in their internal payment processes (42% of respondents each).

Industry's most often used credit management technique: letter of credit

To keep the risk of payment default under control and improve cash flow, respondents from the Singapore agri-food industry most often ask B2B customers to provide a letter of credit (62%). 58% of respondents request goods and services to be paid in cash, while 52% request guarantees of payment. Additionally, to avoid liquidity shortages caused by customer payment defaults and strengthen their credit control systems, 36% of the agri-food industry respondents (in line with the country average) said they needed to increase time, costs and resources to chase overdue payments, while 33% started to delay payments to their own suppliers.

Stronger focus on avoidance of trade credit risk concentration

More respondents in the Singapore agri-food industry (31%) expect customer credit risk to worsen than improve (14%) in the near term. 55%, however, do not expect any change. To manage customer credit in the coming months, respondents in the Singapore agri-food industry will increasingly focus on avoiding credit risk concentration by reducing reliance on a single buyer. They also plan on selling on a cash basis or sending dunning letters (invoice reminders) more often.

For 42% of Singapore agri-food respondents, indebtedness of the industry will increase, causing businesses to become more dependent on bank finance. Banks are expected to keep financial support for the industry stable (as stated by 52% of respondents), or to increase it (30% of respondents). When asked about the outlook for the industry, 46% of Singapore respondents said that business performance (sales and profits) will improve, and 27% said it will worsen, over the next 12 months.

Construction

Long-overdue payments are three times higher than country average

As survey findings highlight, on average 60% of the total value of construction industry B2B invoices issued by Singapore respondents remains outstanding at the due date (far above the country average of 40%). Long-overdue receivables (more than 90 days overdue) average 33% of the total value of overdue invoices (three times higher than the 11% average for the country). The proportion of receivables written off as uncollectable averages 13%, compared to a 5% country average. This reflects an insolvency environment that had already deteriorated last year, as residential and commercial construction output decreased. Although late payments in the construction industry in Singapore most often occur due to disputed invoices, nearly 3 in 5 respondents said that their B2B customers delay payments as a form of financing. When asked to indicate their average annual DSO, 63% of respondents reported DSOs up to 30 days, and 31% up to 60 days, resulting in a 36-day average.

B2B customers paid suppliers late to avoid cash flow shortages

To minimise the impact of poor cash flow on the viability of their business, respondents from the Singapore construction industry most often needed to delay payment to their own suppliers and to increase time, costs and resources to chase overdue payments (62% of respondents in each case). 38% of respondents needed to request a bank overdraft extension. The credit management tools and techniques most often used by respondents include self-insurance (71%), letters of credit, and guarantees of payment (64% each).

Overall industry indebtedness expected to grow in the near term

Over four times as many respondents in the Singapore construction industry (44%) expect customer credit risk to deteriorate than expect it to improve (10%) in the near term. 46% do not expect any change. Although most respondents do not plan to change their mix of credit management techniques, 2 in 5 respondents foresee either an increased avoidance of reliance on a single buyer, or a more frequent use discount incentives for early payment of invoices.

Over half of Singapore respondents in the construction industry anticipate an increase in the overall indebtedness of the industry in the near term, because of the contraction of business chiefly due to the coronavirus pandemic. This will cause dependence on bank finance to increase. On a positive note, however, 67% of respondents believe that business performance in the construction industry (sales and profits) will improve over the next 12 months.

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 2020 edition of the Atradius Payment Practices Barometer, companies from seven economies (China, Hong Kong, India, 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 1,413 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (China, Hong Kong, India, 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 country 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=1,413 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: March 2020.

Sample overview – Total interviews = 1,413

Economy	n	%
China	209	14.8
Hong Kong	200	14.2
India	204	14.4
Indonesia	200	14.2
Singapore	200	14.2
Taiwan	200	14.2
UAE	212	12.3
Sector (total Asia)	**n**	**%**
Manufacturing	593	42.0
Wholesale trade/ Retail trade / Distribution	598	42.3
Services	222	15.7
Business size (total Asia)	**n**	**%**
Small enterprises	140	9.9
Medium-sized enterprises	949	67.2
Large enterprises	324	22.9

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 2020 Payment Practices Barometer of Atradius, available at www.atradius.com/publications

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